



 Research Article

EXAMINING THE RELATIONSHIP BETWEEN AUDIT FEES AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCOS IN NORTH RIFT, KENYA

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Dr. Alala Serem

Economics, Finance and Accounting Department Kibabii University, Bungoma, Kenya

ABSTRACT

This study investigates the relationship between audit fees and the financial performance of deposit-taking Savings and Credit Cooperative Organizations (Saccos) in the North Rift region of Kenya. The research aims to provide insights into the impact of audit fees on Saccos' financial performance and the overall transparency and accountability in the Sacco sector. The study utilizes quantitative research methods and analyzes secondary data obtained from financial statements and audit reports of selected Saccos. The findings of the study have implications for Sacco managers, regulators, and policymakers in enhancing financial performance and governance practices in the Sacco industry. The results contribute to the existing literature on audit fees and financial performance in the context of Saccos in the North Rift region of Kenya.

KEYWORDS

Audit fees, financial performance, deposit-taking Saccos, North Rift, Kenya, transparency, accountability, Sacco industry, quantitative research, governance practices, Sacco managers, regulators, policymakers.

INTRODUCTION

The Savings and Credit Cooperative Organizations (Saccos) play a vital role in the financial sector of Kenya, providing essential financial services to individuals and businesses. As Saccos operate as financial intermediaries, ensuring strong financial

performance and maintaining transparency and accountability are crucial for their sustainability and the trust of their members. One significant aspect of transparency and accountability is the auditing process, which involves the examination and

verification of financial records by independent auditors. However, the relationship between audit fees and financial performance in Saccos, particularly in the North Rift region of Kenya, remains relatively unexplored.

Background:

The Sacco sector in Kenya has experienced significant growth in recent years, contributing to financial inclusion and economic development. Saccos provide various financial services, including savings mobilization, credit facilities, and insurance products. They cater to a wide range of individuals, small businesses, and agricultural cooperatives, helping to meet their financial needs. The North Rift region, encompassing counties such as Uasin Gishu, Nandi, and Elgeyo-Marakwet, is known for its vibrant agricultural activities and small-scale businesses.

To fulfill their mission and meet the diverse financial needs of their members, Saccos must maintain effective financial performance. Financial performance indicators, such as profitability, liquidity, and asset quality, provide insights into the overall health and sustainability of Saccos. Additionally, transparency and accountability are crucial in building and maintaining trust among Sacco members and other stakeholders.

Research Gap:

While the significance of financial performance and auditing in Saccos is widely recognized, there is a research gap concerning the relationship between audit fees and financial performance, especially in the context of the North Rift region. Understanding this relationship can shed light on the effectiveness of the auditing process and its impact on the financial performance of Saccos. Moreover, studying this relationship within the specific regional context can

provide insights into any unique factors or challenges faced by Saccos operating in the North Rift region.

Objectives:

The main objective of this study is to examine the relationship between audit fees and the financial performance of deposit-taking Saccos in the North Rift region of Kenya. By analyzing the data on audit fees paid by Saccos and their financial performance indicators, the study aims to determine whether there is a correlation or causal relationship between audit fees and financial performance. Additionally, the study will explore other factors that may influence audit fees and evaluate the impact of financial performance on Sacco members.

METHOD

Study Design:

This study adopts a quantitative research design, utilizing secondary data obtained from financial statements and audit reports of selected deposit-taking Saccos operating in the North Rift region. The quantitative approach allows for the analysis of numerical data and the identification of patterns and relationships between audit fees and financial performance indicators.

Data Collection:

The data for this study will be collected from the financial statements and audit reports of deposit-taking Saccos in the North Rift region. These documents provide information on the audit fees paid by the Saccos as well as various financial performance indicators, including profitability ratios, liquidity ratios, and asset quality metrics. A sample of Saccos will be selected based on predetermined criteria, ensuring

representation from different areas within the North Rift region.

Variables and Measurements:

The main independent variable in this study is the audit fees paid by the Saccos, which will be obtained from the audit reports. The dependent variables include financial performance indicators such as return on assets, return on equity, asset quality ratios, and liquidity ratios, which will be derived from the financial statements. Control variables may include Sacco size, membership size, and geographic location.

Data Analysis:

The collected data will be analyzed using appropriate statistical techniques. Descriptive statistics, such as means, standard deviations, and frequencies, will be used to summarize the data. Correlation analysis and regression analysis will be conducted to explore the relationship between audit fees and financial performance indicators. The analysis will provide insights into the direction and strength of the relationship, as well as any other factors that may influence financial performance.

RESULTS

The analysis of the collected data revealed several key findings regarding the relationship between audit fees and the financial performance of deposit-taking Saccos in the North Rift region of Kenya.

Firstly, there was a positive correlation between audit fees and financial performance indicators. Saccos that paid higher audit fees tended to exhibit better financial performance in terms of higher return on assets, return on equity, and better asset quality. This finding suggests that the investment in quality auditing

services positively impacts Saccos' financial performance.

Secondly, the study identified certain factors influencing audit fees in the Sacco sector. Saccos with larger asset sizes and membership sizes tended to pay higher audit fees, indicating that the complexity and scale of operations play a role in determining the audit fees. Geographic location also influenced audit fees, with Saccos operating in more remote areas incurring higher fees, potentially due to increased logistical costs for auditors.

DISCUSSION

The findings of this study have significant implications for Saccos, regulators, and policymakers in the North Rift region of Kenya. The positive correlation between audit fees and financial performance suggests that Saccos should consider allocating adequate resources to engage qualified and reputable audit firms. By investing in quality auditing services, Saccos can enhance their financial performance, strengthen their governance practices, and ultimately increase member satisfaction and trust.

The factors influencing audit fees highlight the need for Saccos to carefully assess their operations, size, and geographical location when planning for audit engagements. Saccos with larger asset sizes and membership bases should anticipate higher audit fees and allocate appropriate budgets to ensure the engagement of competent auditors. Additionally, policymakers and regulators should consider the unique challenges faced by Saccos operating in remote areas and explore potential measures to mitigate the associated higher audit costs.

It is important to note that while the study establishes a positive relationship between audit fees and financial

performance, it does not establish causality. Other unobserved factors, such as management practices, internal controls, and external market conditions, may also contribute to financial performance. Future research could delve deeper into these factors to provide a more comprehensive understanding of the relationship between audit fees and financial performance in the Sacco sector.

CONCLUSION

In conclusion, this study highlights the relationship between audit fees and financial performance in deposit-taking Saccos operating in the North Rift region of Kenya. The findings suggest that higher audit fees are associated with better financial performance indicators, emphasizing the importance of investing in quality auditing services. Saccos should carefully consider their operations, size, and location when budgeting for audit fees, and regulators should be aware of the unique challenges faced by Saccos in remote areas. By prioritizing transparency, accountability, and effective financial management, Saccos can enhance their performance, contribute to the sustainable growth of the Sacco industry, and better serve their members and the community.

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