# Effect of Audit Committee Roles on Financial Performance of Sugar Milling Companies in Western Kenya

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**Abstract**
The purpose of the study was to establish the Effect of Audit Committee roles on financial performance of sugar milling companies in Western Kenya. Specific objective of the study was to examine the Effect of Audit Committee roles on financial performance of sugar milling companies in Western Kenya. The study would be significant for improvement of internal controls in the sugar industry and creating value for theory building. The study adopted Ex-Post Facto and descriptive survey as research design. Questionnaires were used as data collection instrument for primary data. Secondary data were derived from audited and published accounts of the sugar milling companies for the period of three years 2016-2018 of which were averaged. The target population was 37 members of Audit Committee in all the sugar milling companies in Western Kenya. Data was analyzed descriptively and inferentially. Statistical package for social sciences (SPSS) programme was used to summarize the data. The findings were that Audit Committee roles had significant effect on the financial performance of the sugar milling companies in Western Kenya as it found to be positive predictor on the financial performance which was up to 47.8%. The study recommended that, Audit Committee members to continue undergoing induction on new financial developments, and research be carried out on other factors that could be leading to poor financial performance of sugar milling companies in Western Kenya.

**Keywords**
Audit Committee, Audit Committee Roles, Financial Performance, Financial Performance Indicator.

## I. Introduction

### A. Background of the Study

Audit Committee (AC) is created at the highest level of the organization and is subordinate to the Board. Audit Committee plays major role in oversight of the governance and assurance of the soundness of the financial systems (Wong, 2012). The key note being oversight function on the financial performance with traditional responsibility to know what is in financial statements and to ensure they are accurate and properly reported (Adelopo,2010). (Wong, 2012), observes that at senior level of management Audit Committee is appointed to facilitate audit function with the frontline governance responsibilities that go beyond oversight of financial responsibilities and also include oversight of continuous disclosure. Sugar is derived from sugarcane which is grown in tropical areas in Kenya and the key ingredient derived is the sucrose. Sugarcane farming was introduced in Kenya in 1902 and the first factory was Miwani established in 1922 (Mumia, 2014). According to Kenya sugar directorate website, there are thirteen sugar milling companies in Kenya mainly producing brown sugar of which six are state owned, one public with remarkable poor financial performance.

### B. Statement of the Problem

State owned and public sugar milling companies make losses and are unable to pay farmers, pay taxation to government, fund operations, pay salaries and maintenance to the machines. As at July 2018, sugar firms had debts amounting to kshs.109billions of which the National Assembly was to provide a legal frame work on how it was to be written off to save sugar companies from collapse.The financial losses incurred can be attributed to old technologies, and relaxed corporate governance which involves the use of Audit Committee. The Audit Committee was introduced by the government of Kenya to do an oversight on financial performance but is only gaining full force after being made legislative requirement pursuant to section 73(5) and 155(5) of the Public Finance Management Act (2012), its Regulations (2015) and sugar Act (2001) laws of Kenya. Despite having Audit Committee with strong legal backing, state owned and public sugar milling companies continue to post poor financial performance. The researcher therefore sought to research on the effect of Audit committee roles on the financial performance of sugar milling companies in WesternKenya.

### C. Purpose of the Study

To determine the effect of Audit Committee roles on financial performance of sugar milling companies in Western Kenya.

### D. Objective of the Study

The study was guided by the following objective.
To determine the effect of Audit Committee roles on financial performance of sugar milling companies in western Kenya.

### E. Research Hypothesis

$H0_1$: There is no significant effect between Audit Committee role and financial performance of sugar milling companies in Western Kenya.

## II. Literature Review

### A. Theoretical Literature Review

The study was anchored on Agency theory.

#### 1. Agency Theory

The agency theory was proposed by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). In this context of study the government, the public and the private owners are the principal, while the Audit Board that is the Audit Committee, is the agent who is expected to work independently in trust for the benefit of theprincipal. In this theory it is suggested that employees or managers (agent) can be self- interested contrary to that of the principal (Abea, 2012). These are clear indication of loss of trust between the principal and the agent where the Audit Committee is required to play oversight (Namunane, 2015). This study will be modelled on the theory of agency as advanced by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). The theory has been used by Njagi (2012) while studying effect of corporate governance on financial performance of sugar firms in Kenya, Ruto (2016) while studying relationship between AC effectiveness and financial management in government ministries in Kenya, Bouziz (2012) while analysing impact of the presence of Audit committee on the financial performance of Tunisian companies.

## 2. Audit Committee Roles and Financial Performance

Board of Directors normally conducts its business through a well-organized committee structure that partitions the work of the Board and allow the Directors to make maximum use of their expertise. Some issues like oversight on financial performance may be so complicated to be dealt with by the entire Board who may not have enough time to analyze the issues. It now qualifies the constitution/ composition of the Audit Committee as required by corporate governance good practices (Colley, 2013).The corporate world and the public sector at large continue to experience scandals that have resulted in questions being asked about the existence and the role of Audit Committee with the public having the expectation gap that failure of an entity should be pegged on in adequate role played by Audit Committee and the internal/external Auditors. The recent scandals and allegations on corrupt deals have been reported in Kenya public organizations; Euro Bank, Imperial Bank, National Youth Service, CMC Motors, Nakumatt Holdings, Chase Bank, Mumias Sugar Company, with fingers being pointed at Audit Committee (Abea, 2016). Nuhu et al. , (2017) observes that the primary duty of Audit Committee is to review on behalf of the Board financial statements, oversee the firm's financial reporting process, including the integrity of the financial statements, the effectiveness of internal controls, robustness of the system and audit internal controls, effectiveness of anti-fraud, ethics and compliance systems, review of the functioning whistle blower mechanisms, and monitoring of both internal and external auditors. It enhances the Board of Director's capacity to act as a monitor of management by providing more detailed knowledge and understanding of the financial statements of the company.

They also act as arbitrator between management and the external Auditor when there is misunderstanding (Nuhu et al., 2017). In doing so the primary duty, the Audit Committee should report to the Board of Directors on how it has discharged its responsibilities. In case of disagreement between the Board and the Audit Committee findings through reporting, then time should be made available to discuss those issues with aim of resolving the disagreements. Jeff, (2010) observes that the roles of Audit Committee should be set out inwritten terms of reference and a separate section on the annual audit report describing the work of the Audit Committee in discharging their responsibilities including their names, qualifications, number of meetings attended and significant issues reviewed by them. Njagi, (2012) further states that for Audit Committee to effectively serve its purpose there should exist favorable condition between them ;executive management, internal audit, external audit and as asserted by Jeff (2010), having management who is cooperating to the Audit Committee ensures a strong , committed, independent committee with key essentials to effective corporate governance.

The role of Audit Committee has come under scrutiny in the recent years Copnel (2017). In response, both minimum qualification requirements for Audit Committee membership and required public disclosure over Audit Committee processes have increased. In light with Enron scandal in United States, there has been increased focus on the role of Audit Committee and the information disclosed by the companies. Audit Committee role has therefore been a challenge with increased expectation from the shareholders, regulators, and stakeholders over accurate and transparent disclosure (Njagi, 2012). This study focused on the role on financial statements, role on systems and controls, role on finances and role on reporting using a qualitative study.

## 3. Roles Under Financial Statements

Guidance on the overall structure of financial statements, including minimum requirements of each primary statement that is balance sheet, statement of profit or loss, statement of changes in equity and statement of cash flows and notes to financial statements is provided for in International Accounting Standard 1 PWC, (2013). It is emphasized the Audit Committee has oversight of providing the Board with assurance as to the procedures of the financial reporting process as reflected in financial statements (Copnel,2017).

Further Njagi (2012) adds that it should consider significant accounting policies and changes to them and any significant estimates and judgment. Audit committee should review the clarity and completeness of disclosure in financial statement and consider whether the disclosures made are set properly in the context. The Audit Committee can also review related information presented with financial statements including operating and financial review and corporate governance statement relating to audit and to risk management (Copnel,2017).

In another rejoinder,(PWC, 2013) observes that Financial statement is to convey an understanding of some financial aspects of a business firm. It observes that the standard defines objective of financial statement as to provide information about financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Further it emphases that the results of management stewardship of the resources entrusted to it. Wong, (2012) contends that fair presentation requires faithful representation of the effects of transactions other events and conditions in accordance with definitions and recognitions criteria for assets, liabilities, incomes and expenses set out in the framework. Virtually in all circumstances fair presentation is achieved by compliance with applicable International Financial Reporting Standard (PWC,2013).

In his writing (Copnel, 2017) observes that financial statements before presented to the Board for adoption must first be scrutinized by the Audit Committee to guarantee their accuracy. Audit Committee is generally responsible for reviewing on behalf of the Board the significant financial reporting issues and judgment made in connection with the preparation of company financial statements, interim reports, preliminary arrangements and related formal statements.Webster, (2010) noted that, Audit Committee is a guardian of the integrity of the company's financial statement and performance and be satisfied that all figures presented to shareholders and the outside world will stand up to the scrutiny and can be relied upon. In view of (Wong, 2012) Audit Committee has a role to review the integrity of the financial reporting and oversee the financial performance of the entity. However, he stated that many professional bodies doubt whether Audit Committee can really ensure integrity of the firm's financial statements because they are outsiders and do not know enough to dig deeply. Chambers (2013) states that they are referred to as independent nonexecutive.

This in the view of (Webster 2010) are the Directors who rarely stay within the company. Wong, (2012) on the same note while studying the Audit Committee performance, noted that it has several oversight roles to playand builds his case by stating that there are several corporate collapses despite having the Audit Committee andfurther provided example of Enron collapse in United States. In Enron, Audit Committee members were said to be residing in other countries and the Head of the Committee was a Stanford University accounting professor.

Copnel, (2017) agrees that in financial reporting and disclosure matters, Audit Committee members must be prepared to query items such as the impact that a particular transaction will have on the company financial and income statement, and cash flow.Like (Chambers, 2013) view, adds that the AuditCommittee queries the quality and appropriateness of the financial accounting and reporting including the transparency of the disclosures. Chambers, (2013) who asserts thatthe Audit Committee is to; review the interim and the annual financial statements before their submission to the Board and as a basis for their approval. This is in concurrence with Copnel, (2017) who adds, the review of the accounting policy used and its appropriateness, and review the effect of any changes in the accounting standards and in company law and to report to the Board, to discuss with Auditors and management the accounting principles and policies and ensure financial statements comply with statutory requirements .

In conclusion (Malakwen, 2013) sums that Audit Committee should provide advice on whether the annual reports and accounts taken as a whole is fair, balanced, understandable and provides the information necessary for the shareholder to assess the company performance, business model and strategy.`

### 4. Role Under Systems and Control

IIA (2004) refers to Audit Committee as governance body charged with oversight on systems and controls. According to Chambers (2013), the Audit Committee is to ensure that the company operations are carried out in efficient manner, ensure adherence to the management policies and directives, safeguarding the assets as far as possible and completeness and accuracy of records. Similar to Wong,(2012) who observes that one of the key components of the audit work is ensuring that there is adequate internal control system in place, Chambers (2013) adds that guidelines on internal controls can be found in policy documents, procedures, regulations, manuals, circulars and company Act. Like Mumia (2014), contends that internal audit department in accompany measures and evaluates the effectiveness of internal controls that it can give an assurance to the Board that the system is satisfactory and is operating effectively. IIA (2004) adds that based on the results of the risks assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization governance, operations and information system which may include; reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance to laws, rules and regulations and contracts. Audit Committee plays oversight role to ensure that the controls were actually in place (Chambers,2013).

It is the role of the Audit Committee to ensure that reliable information about processes and outcomes of management control and operation and their accountability are conveyed to the Board (Wong 2012). In concurrence with his view (Malakwen, 2013) acknowledges that the Audit Committee is to review the reliability of management information and act as a standing Committee of the Board with the object of giving additional assurance regarding the reliability of the financial information used by the Board. In brief these are some of the roles played by the Audit Committee over systems and controls according to Chambers (2013); to review the effectiveness of financial controls and internal check, review internal control system, examine and review the adequacy of the company accounting and operating control, to consider the external Auditor'srecommendations with respect to accounting, internal controls and other matters, andto monitor the extent of compliance.Malakwen, (2013) adds that the above roles under systems and control should be within established policies, plans, instructions and procedures of the organization.

### 5. Roles Under Finances

Chambers (2013) while analyzing Audit Committee stated that it has key responsibility in the field of finance. Consequently, Malakwen (2013) is of the view that it should be referred to as finance and Audit Committee. Wong (2012) reported that the Audit Committee assists the Board in fulfilling its oversight responsibilities for the finance reporting process. In agreeing with Njagi (2012) who observes that it is involved in monitoring financial management compliance issues particularly in the identification of risks areas and monitoring of associated rectification plans, Mumia (2014) alludes that therefore, the Audit Committee should be accommodated with sufficient resources to undertake its duties which is in agreement with Malakwen (2013).

Wong (2012) states that the Board should ensure that they give the Audit Committee enough funds to enable it take independent legal, accounting or other advice which the Committee believes it is necessary. Like Malakwen (2013), it is noted that a good part of the Committee member performance is determined by his or her ability to ask right questions at the right time in a number of key areas which entails having proper understanding in finances. Deloitte (2018) in his writing adds the typical responsibilities in this area; to over view the financial position of the group with reference to cash borrowing, recommending dividends and appropriations of profits.

### 6. Roles Under Reporting

Audit committee is the creation of the full Board, therefore they are mandated to report on their findings. The reporting role of the Audit Committee is important as was indicated by (Bouaziz 2012) that it plays crucial role in protecting the interests of the shareholders and stake holders. Audit Committee has direct relationship with the Board of Directors as it reports to the Board and Chief Executive Officer on quarterly or more on frequent basis on things as audit plans, audit findings and other items deemed significant. Public Finance Management Act (2015) Regulations under financial reporting Article, (3.3.1), provides that the Audit Committee should review, report to the Board and Executive Management on, the significant financial reporting issues and judgement made in connection with the preparation of the entity's financial statements. It goes further to state that if the Audit committee is not satisfied with the financial reporting, it will report its views to the Executive Management for further reviews.

### B. Financial Performance

Financial performance is the firm's overall financial health over a given period of time. Evaluating financial performance is critical to ascertain whether the business is viable or not. This requires analysis on the financial statements which is mainly diagnosis of profitability and focuses on the relationship between revenues and expenses (Njagi, 2012). Sugar firms are expected to make profits, create employment, generate revenue to government through taxation and accelerate economic growth. To ensure sugar firms performs adequately to realize the said aims, is the preserve of the Board (Malakwen, 2013). Kenya sugar board strategic plan (2010-2014) underlines financial challenges of the sugar industry and proposes that the industry requires profitability path. The financial statements of state owned and public sugar milling companies have been showing great losses. This in view of Bett, (2015) who was then the Agriculture Minister in Kenya, requires disposal of state owned sugar milling companies. This study has used profitability as a measure of financial performance and attempts to determine the role Audit Committee has played towards profitability.

### Conceptual Framework of Audit Committee roles and Financial Performance

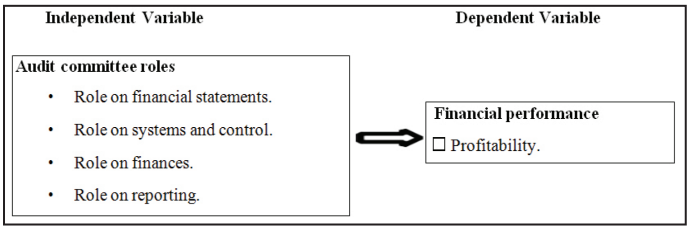


Fig. 1: Conceptual Framework
**Source:** Researcher's own concept (2020).

The conceptual framework in this study considered Audit Committee role as the independent variable, a key component in corporate governance, in influencing financial performance which is the dependent variable. In setting up an Audit Committee role, the Board should ensure that the Board members nominated in the committee have the capacity to analyze financial statements, determine the appropriate systems and control, and make financial decisions regarding profits and funding. The roles on financial statements, systems and control and finances as done by the Audit committee is expected to have effect on financial performance.

## III. Research Methodology

The study adopted both Ex-post Facto and descriptive research design. In Ex-post Facto secondary data was relied upon. Descriptive research design employed both primary and secondary data. Questionnaires were used to collect primary data from Audit Committee members followed with study of the recordings made then doing data analysis and reporting descriptively. For secondary data, financial records which were relevant were analyzed under prevailing level of financial performance under profit or loss statement and balance sheet for the period 2016-2018. The values were averaged then profitability measures were calculated. The measures included gross profit margin, net profit margin, return on assets and return on equity. The records used to calculate the said measures included sales, cost of sales, net profits before tax, net profits after tax, total assets and total equity. The target population was eleven sugar milling companies of 37 respondents that included, five Audit Committee members from state and public sugar milling companies each were selected as the respondents and gave a population of 25, while six privately owned sugar milling companies had two respondents and gave population of 12. Due to small population totaling to thirty seven, no sample was identified. Primary data was analyzed through descriptions, standard deviations, means, and percentages. Inferential statistics was also used. Statistical package for social sciences (SPSS) was used to summarize the data.

Data processed underwent regression analysis as shown in the model specification. Hypothesis was tested in which financial performance was regressed on Audit Committee roles. It was found that Audit Committee role positively predicts financial performance of up to 47.8%.

## IV. Study Findings

Descriptions were used to determine conformity of Audit Committee roles with expected requirements, and effectiveness in the oversight functions. Frequencies, means, standard deviations, and percentages were used. Means captured typical response scores while standard deviations indicated variations in the typical scores.

### A. Audit Committee Role on Financial Statements

Effectiveness of Audit Committee to perform their roles under financial statements was measured using six questionnaire items reflecting expected roles. Respondents were asked to indicate their level of agreement with the items. The overall mean response score and associated standard deviation **(M=4.08, SD=0.469)** indicated that Audit Committee members consistently agreed to performing their expected roles effectively **(Table 1)**. Among key roles that the respondents agreed to be performing effectively included; checking if accounts are true, fair and balanced, **(M=4.38, SD=0.647)**, ensuring adherence to IFRS standards and statutory requirements **(M=4.25, SD=0.608)**, ensuring accounting policies are adhered to **(M=4.08, SD=0.929)**, ensuring completeness and clarity of financial statements **(M=4.04, SD=0.69)**, ensuring financial procedures in the reporting process **(M=3.79, SD=1.215)**, and checking the accuracy and reliability of financial statements **(M=3.96, SD=0.908)**.

Table 1: Audit Committee Compliance with Roles on Financial Statements.

| | M | SD |
|---|---|---|
| Ensuring financial procedures in the reporting process. | 3.79 | 1.215 |
| Checking the accuracy and reliability of financial statements | 3.96 | .908 |
| Ensuring completeness and clarity of financial statements. | 4.04 | .690 |
| Ensuring accounting policies are adhered to. | 4.08 | .929 |
| Ensuring adherence to International Financial Reporting Standards (IFRS) and statutory requirements. | 4.25 | .608 |
| Checking if accounts are true fair and balanced. | 4.38 | .647 |
| **Overall Response** | **4.08** | **.469** |

**Source:** Field data (2020).

These results clearly point to the fact that Audit Committees in sugar milling firms in Western Kenya have effectively played their oversight roles. Effectiveness in handling roles such as checking the accuracy and reliability of financial statements, ensuring adherence to IFRS and the statutory requirements, checking if the accounts are true, fair, and balanced is a sure way of the committees to achieve their oversight roles on financial statements. As a matter of fact, Copnel (2010) argues that the responsibility of the Audit Committee is to review on behalf of the Board, financial reporting issues arising from financial statements, interim reports, and formal statements. Wong (2012) stated that the Audit Committee has the responsibility of reviewing the integrity of the financial reporting and overseeing financial performance of the entity.

### B. Audit Committee Role on Systems and Control

Determination on the effectiveness of Audit Committee to perform the oversight role under systems and control was also conducted. Five point questionnaire was developed and the response was as follows: the overall mean scores and the associated standard deviation was **(M = 3.558 ,SD=0.845)**.

Respondents were asked to state if they check the adequacy of financial controls within the firm, **(M=3.02 SD=1.231)**. Checking safeguards of the assets, **(M=4.01, SD=0.422)**, Checking adherence to management policies and directives, **(M=3.23,SD=0.960)**, Confirming effectiveness of system of internal controls during the reporting period, **(M=2.86, SD=1.687)**, and finally they were to state if they check the adequacy of system of internal control, **(M=4.67, SD=0.392)**.

Table 2: Audit Committee Compliance to Systems and Control

| | M | SD |
|---|---|---|
| Checking adequacy of system of internal control in place. | 4.67 | 0.392 |
| Confirming effectiveness of system of internal control during the reporting Period. | 2.86 | 1.687 |
| Checking adherence to management policies and directives. | 3.23 | 0.960 |
| Checking safeguards to assets. | 4.01 | 0.422 |
| Examining the adequacy of financial controls within the firm. | 3.02 | 1.231 |
| **Overall Response** | **3.558** | **0.845** |

**Source:** Field Data (2020).

Findings showing that Audit Committees in sugar milling firms in Western Kenya check adequacy of systems and controls put in place are consistent with views by Chambers (2013) that the Audit Committee should play the oversight role of ensuring that controls were actually in place. Wong (2012) contends that the Audit Committee should ensure reliability of processes and outcomes of management controls and operations.

### C. Audit Committee Roles on Finances.

Audit Committee roles was also conducted on oversight on finances. **Table (3)** reveals the outcome of the response based on the three point developed questionnaire. The overall response as indicated by both mean and standard deviation was **(M=3.72, SD= 0.540)**. Respondents were asked to state if they ensure prudent financial management and compliance in the firm, **(M=4.08, SD=0.781),** if they ensure risks assessment and mitigation, **(M=4.01, SD=0.823)** and finally their response was required on authorization to borrowing, **(M=3.07, SD=1.013)**.

Table 3: Audit Committee Compliance on Role to Finances

| | M | SD |
|---|---|---|
| Ensuring prudent financial management and compliance in the firm. | 4.08 | 0.781 |
| Ensuring risks assessment, identification and mitigation. | 4.01 | 0.823 |
| Authorizing borrowing. | 3.07 | 1.013 |
| **Overall Response** | **3.72** | **0.540** |

**Source:** Field Data (2020).

From the findings, it's clear that the Audit Committee have been doing their oversight role over finances. But, the level at which they do it is questionable. With mean score of 3.72 the Audit Committee authorizes borrowing, ensuring prudent financial management and compliance in the firm, and ensuring risks assessment, identification and mitigation, but it is clearly evident that sugar milling firms have been making great lossesand debts running into billions. Bett (2015), an agriculture Minister in Kenya by then stated that sugar firms have accumulated debts amounting to ksh. 89 billions and had requested the National Assembly to provide legal framework for write off. The finding that the Audit Committee ensures risks assessment, identification and mitigation was encouraging. It was a confirmation that based on the results of risks assessment, the internal audit activity should evaluate the adequacy and the effectiveness of controls encompassing the organization governance, operations and information system which include; reliability,integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance to laws rules and regulations as was indicated by (IIA 2004).

### D. Audit Committee Roles on Reporting

Examination on effectiveness of Audit Committee to perform its roles was also conducted from a reporting perspective. First respondents were asked whether their roles and responsibilities in the Audit Committee charter were subjected to reviews. Results,(Table 4.3) indicated that respondents were overwhelming in agreement (91.7%). Next they were asked the frequency with which the Audit Committee reports to the Chief Executive Officer on the one hand, and to the Full Board on the other. On the frequency of reporting to the CEO, 62.5% of the respondents indicated that reporting was made after every meeting. However, 33.3% indicated that reporting to the CEO was after an investigation. On reporting to the full board, 79.2% indicated that it was done at the request of the Board while 20.8% argued that it was done at the direction of the CEO.

Table 4: Audit Committee Roles on Reporting.

| | | N | % |
|---|---|---|---|
| Review of roles of AC | Yes | 22 | 91.7% |
| | No | 2 | 8.3% |
| Frequency of reporting to CEO | After every meeting | 15 | 62.5% |
| | After investigation | 8 | 33.3% |
| | Immediately they feel the management is not in line with laid down ICS procedures | 1 | 4.2% |
| Frequency of reporting to Full Board | At direction of CEO | 5 | 20.8% |
| | At request of full Board | 19 | 79.2% |

**Source:** Field Data (2020)

The significance of these results is that despite variability in the manner of reporting, Audit Committees do file reports to the CEO's and full Board as per expectations. Indeed, Wong (2012) concedes that the Audit Committee is tasked with the responsibility of ensuring that reliable information about processes and outcomes of management control and operation and their accountability are conveyed to the Board.

### E. Prevailing Level of Financial Performance

Examination of prevailing level of performance among firms was conducted using extract from statement of profit or loss and balance sheet/statement of financial position for three years (2016-2018). The results in **(Table 5)** indicated that all firms operated at a loss throughout the period of study. The profitability measures computed were all negative. The results bring out the question about role of Audit Committee under oversight on financial performance of the sugar milling companies in Western Kenya. From the findings based on the role on financial statements, role on finances, role on systems and control and role on reporting, the Audit Committee have been doing their work. This fact is also boosted with inferential finding that Audit Committee roles positively predicted financial performance with an explanation of up to 47.8%.

Table 5: Summery/Averages of Key Financial Values.

| | Three Year Totals | Average |
|---|---|---|
| | '000' | '000' |
| Sales | 62,278,100 | 20,927,360 |
| Cost sales | 6,424,600 | 21,415,330 |
| Net Profits before tax | (27,623,400) | (9,207,800) |
| Net profits after tax | (27,423,400) | (9,207,800) |
| Total Assets | 11,236,200 | 3,745,400 |
| Total equity | (6,236,231) | (2,078,744) |
| **Source:** Field Data (2020). | | |

### F. Financial Performance Based on Above Average

Gross Profit Margin = Sales - Cost of Sales/Sales = -2.33%.

Net Profit Margin = Net Profit after taxes/Sales = -43.9%.

Return on Assets = Net profit after taxes/ total assets = -24.5%.

Return on equity = Net profits after taxes/ total equity = -44.2%.

### G. Inferential Analysis Results

Inferential analysis focused on examining the direct effects of Audit Committee roles on financial performance of sugar milling companies in Western Kenya. Simple linear regression was therefore used to test the conceptualized relationships. Hypothesis was formulated with respect to the relationships between Audit Committee roles and financial performance of sugar milling companies.

### H. Hypothesis Testing

**$H0_1$ :** Advanced that there was no significant effect of Audit Committee roles on financial performance of sugar milling companies in Western Kenya. Financial performance was therefore regressed on the Audit committee roles variable. The regression model summary **(Table 6)** revealed that Audit Committee roles explain upto 47.8% (Rsquare=0.478) of the variation in financial performance of sugar milling companies.

Table 6: Audit Committee Roles Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .692[a] | .478 | .455 | .05553 |

Source: SPSS output (2020).

- Predictors: (Constant), Committee roles.
- Dependent Variable: Financial performance.

Moreover, the regression coefficient **(Table 7)** indicates that Committee roles positively and significantly predicted financial performance of sugar milling companies **($\beta = 0.692, p < 0.05$)**. The implication is that increasing effectiveness of role performance by 1 standard deviation is likely to occasion an increase of 0.692 standard deviations in financial performance of sugar milling companies. The testing proved that there was significant effect of Audit Committee roles on financial performance of sugar milling companies in western Kenya.

Table 7: Audit Committee Roles and Financial Performance.

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| Model | B | Std. Error | Beta | t | Sig. |
| 1(Constant) | .052 | .069 | | .758 | .456 |
| Committee roles | .165 | .037 | .692 | 4.493 | .000 |
| **Dependent Variable:** Financial Performance. | | | | | |
| **Source:** SPSS Output (2020). | | | | | |

The finding that Audit Committee roles positively and significantly impact the financial performance of sugar milling companies lends credence to other findings in extant literature. Nuhu et al. (2017) argues that through their roles, committee members monitor financial management, and arbitrate any misunderstanding between management and external Auditor thereby, enhancing chances for improved financial performance. Wong (2012) contends that Audit Committee role of reviewing integrity of financial reporting provides the bedrock upon which to oversee improved financial performance. Copnel (2017) noted that through its roles, the Audit Committee queries the quality and appropriateness of financial accounting and reporting, as well as transparency in disclosures. Doubtlessly, this has potential to lead to improved financial performance.

## I. Linear Regression Model

The study conceptualized that financial performance of the sugar milling companies in Western Kenya was a function of Audit Committee role.The model was linear and therefore took the nature below.

$Y=\beta o + \beta 1X1 + \acute{\varepsilon}$……

Where;

Y=Dependent variable representing financial performance as measured by profitability.

$\beta o$ = Constantterm before introducing independent variable.

$\beta 1$ = Beta/ regression coefficient representing rate of change in the dependent variable for a unit change in independent variable.

X1 = Audit Committee roles.

$\acute{\varepsilon}$ = Error term/ Regression residual.

The confirmed simple linear regression model can therefore represented as;

$Y=0.052+0.692X1+\acute{\varepsilon}$.

## V. Discussions of Findings

The finding that Audit Committee in sugar milling companies in Western Kenya are effective in performing their roles is encouraging. Doubtlessly, this is sure way of dealing with an industry that is down on its knees. Indeed, Wong, (2012) identifies oversight over integrity of financial reporting as an important step in streamlining financial performance. Moreover, Chambers, (2013) recognizes oversight over controls, a one sure way to achieve reliability in processes and outcomes of controls and operations. There has always been expectation gap that failure of an entity should be pegged on Audit Committee oversight. The question that still begs for an answer is why sugar milling companies in Western Kenya perform poorly and Audit Committees have been doing their work. The bottom line is that this study has established that the poor financial performance with the companies may not solely be an issue of oversight. Granted, Audit Committees may be held culpable but with no concrete facts.

## VI. Summary, Conclusions Andrecommendations, Summery

Regressions analysis, established that Audit Committee roles positively predicts financial performance of sugar manufacturing companies in Western Kenya, and explains up to 47.8% of the variations in financial performance of the companies. Results of this study shows that there is significant effect between Audit Committee role and financial performance.

## VII. Conclusion

It is concluded that for Audit Committee to be more effective and efficient, more members with financial expertise especially accounting should sit in the Committee to enhance oversight on financial performance on the sugar milling firmsin Western Kenya.

Based on the findings, the Audit Committee have attempted to do their work of oversight. Regardless of their roles sugar milling companies continue to perform poorly, meaning there could be other factors influencing the poor financial performance.

## VIII. Recommendations

Research be carried out to determine other factors that could be leading to poor financial performance of sugar milling companies in Western Kenya.

Audit committee members to continue undergoing induction on new financial developments.

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