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Effects of Audit Committee Practices on Service Delivery in Water and Sewerage Companies in Kenya

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Abstract. Prudent corporate governance requires an all-encompassing approach focused on democratic values, legitimate representation, and involvement while respecting and safeguarding the interests of all stakeholders. Corporate governance fosters successful organizations that impact society positively. A central concept in corporate governance is the effective execution of the oversight role, majorly accomplished through independent audit committees. Inconsistent or ambiguous audit scope often results in disputed financial reporting and audit processes, with boardroom wrangles that sometimes spill over to the performance of official tasks and the provision of services. The research aimed to answer the question "Does the presence of independent audit committees influence the quality of services provided by water and sewerage companies in Kenya?" Using a descriptive research design and stratified sampling approaches, the study sampled respondents from among management, employees, and customers. The research found that board diversity had a statistically positive effect on the quality of services, and audit committees held the management and staff accountable in their respective functional areas. The study concludes that audit committees should be sufficiently diversified for impartiality in exercising oversight on the firm; and recommends that management should uphold the audit committee's resolutions to guarantee efficient financial reporting practices.

Keywords: audit committee, board diversity, quality, performance, service delivery

Introduction

For decades, the principle of corporate governance has been used in finance, law, and administration; and has been interpreted to include contract compliance, property rights defense, and joint action (Mulili, 2018). The concept includes a framework of rules, regulations, and procedures that an organization is governed by and managed. Changes in corporate governance regulations are frequently prompted by organizational failure. Following the failure in many global corporations over the years, there is a growing recognition that improved corporate governance is critical for the overall growth and development of corporate entities (Dunphy, Griffiths, & Benn, 2018). In East Africa, even though regulatory policy remains largely uncoordinated, a sharper focus on corporate governance has resulted in increased public awareness, investigations, and enhancement of the implementation of legislation and policy (Saxena, 2018).

The concept of corporate governance is a top priority in Kenya. The Capital Markets Authority (CMA) presents corporate governance for all public firms as a matter of utmost importance as it is reflective of observance of ethical, legal and regulatory provisions, which ultimately affects the company's performance and impact to different stakeholders.

(CMA, 2018). This is confirmed by findings in a study involving Chief Executive Officers (CEOs) in East Africa, in which 79% of executives affirmed their intention to enhance company image through best practices in corporate governance (The East African, 2017). To achieve this, the board of directors in corporate entities must ensure that firms institute governance structures, including audit committees, to ensure major operating proposals in the entity are conducted to satisfy fiscal, legal, ethical, and philanthropic expectations (Dierkes et al., 2017).

Quality service delivery demands timely disclosure of all matters considered as relevant by various stakeholders including financial reports as well as efficiency, ownership, and governance issues. A central concept in delivery of quality services is the effective executive oversight and board transparency, majorly accomplished through independent audit committees. Saxena (2018) avers that service leaders or companies specializing in service efficiency have a range of characteristics. Top among them is the committed to the delivery high-quality service, and the emphasize on firms to target zero faults while constantly working to increase their service's reliability (Gronroos, 2018). Further, Corporate boards aspire to influence their workforce on coordinated assurance service and to build a self-driven team that shares a company's mission and vision; and the commonly shared valued of customer satisfaction. Organizations that are deliberate on assurance oversight role cultivates a culture of excellence and reap highly rated customer experience (Lovelock et al., 2018).

According to the Global Water Partnership (GWP), the water crisis across various countries in Sub-Saharan Africa primarily experience a governance crisis (GWP, 2018). Many global efforts targeting local firms focus on improving good governance to solve water issues, and this is mainly aimed at attaining adequate and sustainable progress toward meeting the Sustainable Development Goals (SDG). Governance in firms dealing with water has in the recent past emerged as a critical issue on the global stage. To address weak water governance, GWP has over the years championed adoption of the principle of "efficient water governance". This necessitate the creation of systems with suitable characteristics engineered to achieve the desired levels of efficiency.

Statement of the Problem

Prudent corporate governance respects and safeguards the interests of all stakeholders, with a high consideration of key propositions of the agency theory; interests and projections proprietors of the firm are of paramount importance. Corporate governance has been scouted as an all-encompassing approach focused on democratic values, legitimate representation, and involvement (Mulili, 2018); and is essential in enhancing customer's trust and loyalty. However, despite the existence of well-structured governance structures in a majority of firms, inconsistent audit scopes results in disputed financial reporting and audit processes (Gronroos,2018); with the resultant boardroom wrangles and inconsistencies in the audit function operations blamed for the dissolution of some known companies across the globe (Pfeffer, 2017). This points to the need for consistent and intentional corporate governance aspects; highest amongst them a robust and independent audit committees for enhanced service delivery (K'Akumu, 2018). Against this backdrop, this research sought to investigate the composition, functional and operational aspects in the audit committee practices in corporate bodies in Kenya. The research aimed to answer the question, "Does the presence of independent audit committees influence the quality of services delivery in water and sewerage companies?

Scope and Research Methodology

The study adopted a descriptive research design which was deemed suitable to gather quantitative data for the projected further analysis using descriptive and inferential statistics (Saunders, Thornhill, & Lewis, 2017). A descriptive design enables findings to be extrapolated to a larger population sample size by focusing on identifying a phenomenon's what, where, and how (Cooper & Schindler, 2018). The study was conducted in Murang'a County, Central Kenya Region; adopting a case study stance with study subjects as the management, staff, and customers of MUWASCO, a water and sewerage company rated as the best managed water utility among thirty-two companies in the region (Annual Impact Report, 2021). The study sought to establish the effect of corporate practices, amongst them the functionality of audit committees a in the company on the provision of services in the wider water services sector.

Sampling Technique

A sample of 646 respondents was obtained from the total population of 6,087 using the Fisher formula and later adjusted for small-size populations of less than 10,000 subjects. A two-stage cluster sampling technique was applied to arrive at the members of the sample, The study used mixed methods to collect both qualitative and quantitative data, Questionnaires, interview schedules, and focus group techniques were used to enhance respondents' understanding of the questions on the data collection instrument.

Respondents' Demographics

Male respondents made up 56.9%, while female respondents made up 43.1% of the total. The study's conclusions were guaranteed to be free of gender bias because of the balanced representation of both genders. Research participants in the age bracket of between 40 and 49 were 34.9 percent. This suggested that most of the respondents were middle-aged individuals who could identify with the need of conscious of a corporate management practices (Saxena, 2018). In addition, most respondents (91.2%) were between the ages of 20 and 59, providing another an age-balance perspective amongst the respondents.

Customers constituted 83.1% of the sampled population; while 94.2% of population of staff were sampled. All of sampled board members responded, constituting 100% of the sampled population of the board of directors. Thus, the overall respondent's relationship with the target entity was representative as all passed the recommended 50% mark (Hancock et al., 2019; Nind et al., 2019). The responding staff worked various job carders other as senior management (46.9%), middle-level management (26.5%), and supervisors (18.0%). The findings further revealed that 44.9% of respondents had served for between two and five years, while those who had worked for ten or more years constituted 14.3%. Thus, sampled respondents had grounded experience hence well-versed in corporate governance and service delivery in water firms.

Data Analysis, Findings, and Discussion

The study sought to establish whether respondents were versed in audit committee activities. Respondents answered affirmatively, with a mean score of 2.6827 and a standard deviation of 0.68373. Additionally, with a mean score of 3.2857 and a standard deviation of 0.62033. A more significant proportion of respondents, 92.3 % thought inside directors make up the bulk of the audit committee membership in the company. Additionally, 91.4% of respondents agreed with the opinion that the audit committee uses outside auditors to carry out its oversight duties at the water and sewerage firm, with a mean score of 4.4000 and a standard deviation of 0.78661 in ascertainment of whether the audit committee is independent of undue influence when expressing their opinions, respondents agreed with the statement in 84.6 percent of cases with a mean score of 3.2769 and a standard deviation of 0.94386.

Table 1: Descriptive Statistics of the Audit Committee

Audit Committee Practices	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev.
There is an audit committee or its equivalent in MUWASCO.	73.8	16.2	0	5.8	4.2	2.6827	.68373
Inside directors form the majority of the audit committee membership in MUWASCO.	32.3	60.0	0	7.7	0	3.2857	.62033
Audit committee makes use of external auditors to perform their oversight role in MUWASCO.	58.3	33.1	0	4.3	4.3	4.4000	.78661
The audit committee is not influenced by any other person when they give their opinion.	32.3	52.3	0	6.2	9.2	3.2769	.94386
The audit committee meets as scheduled in the public sector guidelines to enhance maximum oversight role.	46.2	49.2	4.6	0	0	4.0154	.71790
Independence, qualification and the frequency of meetings by the audit committee determines the performance of MUWASCO.	34.6	50.8	0	11.5	3.1	3.5468	.76943

A significant majority of respondents (95.4%) opined the audit committee meets as planned in the public sector standards to improve full supervisory responsibility with a mean score of 4.0154 and a standard deviation of 0.71790. Finally, respondents opined that audit committee's independence, qualification, and frequency of meetings affect performance 85.4 percent of the time, with a mean score of 3.5468 and a standard deviation of 0.76943.

Table 2: Model Summary for Audit Committee Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861[a]	.7413	.7409	1.15043

a. Predictors: (Constant), audite committee practices

The values of R and R^2 for the model fitted were 0.7413 and 0.861 respectively. The audit committee procedures and service delivery were positively correlated linearly by the R-value of 0.861. The model $Y= \beta 0 + \beta_3 X_3$ explained 74.13 percent of the variance as per the R^2 value of 0.7413.

Table 3: ANOVA for Audit Committee Practices

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	125.43	14	8.9593	2.481	.046[b]
1	Residual	695.71	632	1.1008		
	Total	821.14	646			

a. Dependent Variable: Service Delivery

b. Predictors: (Constant), Audite Committee Practices

The results yielded a p-value of 0.046, as seen in the table above. The simple regression model fitted above suggests that audit committee procedures had a negligible effect on service delivery in the F- statistic, which had a p-value of less than 0.05.

Table 4: Coefficients for Audit Committee Practices

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
	(Constant)	3.298	.318	0	10.291	.000
1	Audit Committee Practices	.853	.119	.861	.720	.046

a. Dependent Variable: Service Delivery

Coefficient values for the model $Y= 3.298 + 0.851X_3$, show that audit committee procedures are statistically significant with observed P-value of $0.046 < 0.05$. The constant term suggested that service delivery at 3.298 with 0% consideration of audit committee procedures. Hence, improving audit committee practices would raise the Service Delivery by 0.851. The study's findings suggest that audit committees help lower the likelihood of management shortcomings and likely to contribute to better service quality. These findings are consistent with research by Smith (2018), which underscored the role of external audit function, with the research findings showing that whereas conduct of an external audit did not ensure its performance, it helped organizations to focus on the structure and functions of audit committees. Consistent with Smith (2018), responses derived from this findings show that audit committees' frequency of meetings; and the independence and skill of its members adds a critical element of corporate governance inside the operations of a corporation.

Conclusion and Recommendations

Analyzed data pointed to the fact that audit committees affect the delivery of services by a company, with findings supported by focus group discussions which opined that audit committees hold the board and the organization accountable in almost every area including financial and risk management, internal controls, and audits. To deliver to the expectations, focus group discussions averred that members of the audit committee must be current on all professional and regulatory developments. This stance is consistent with studies that independently implied a positive relationship between an independent audit committee and firm performance (Solomon, 2018; Nguyen, & Nagase, 2019).

The study thus concludes that a functioning audit committee should be sufficiently diversified for impartiality in exercising oversight on a firm.

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