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FINANCIAL REPORTING REGULATION AND PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVES IN KIAMBU TOWN SUB-COUNTY, KENYA

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Abstract

This study sought to establish the effect of prudential regulation standards on performance of deposit taking SACCOs operating in Kiambu Town Sub-County. The study centered on establishing the effects of Financial Reporting Regulation on performance of deposit taking Sacco's in Kiambu Town Sub-County, Kenya. The study was guided by Theory of Internal Controls, Agency Theory, Liquidity and Regulation of Financial Intermediation Theory. A descriptive survey research design was employed where the target population comprised of 14 Deposit taking SACCOs in Kiambu Town Sub-County. The unit of observation comprised of one branch manager, one credit officer, one investment officer, one operational manager and one liquidity officer from each of the Sacco. A census approach was adopted in the study. Questionnaires were employed in gathering primary data while a secondary data collection sheet was adopted in gathering secondary data from printed financial reports. A triangulation method was adopted in analyzing the collected data. Primary data was analyzed through both descriptive and inferential statistics. Statistical Package for Social Scientists (SPSS) and MS Excel was used in generating the statistics. A linear regression model was employed in assessing the relationship between the study variables. The results of the study were presented in form of tables. The study established that financial reporting regulation bear a positive *significant effect on performance of deposit taking SACCOs operating in Kiambu Town Sub-County. The study recommended the management of the deposit taking to focus on enhancing their financial reporting regulations since the practice leads to increased performances.*

Keywords: Savings and Credit Co-operatives, financial reporting regulation, Financial intermediation, Kenya

INTRODUCTION

Savings and Credit Co-operatives (SACCO's) is a comprehensive state of membership who come together in one accord so as to pull up resource to their economic development (Ahimbisibwe, 2007). After their formation, they tend to operate within two levels of such as which have different functions in their level of operations (Simiyu, 2012). When considering the aspect of bank office savings account, we term it as a state whereby they offer loans and repayment but they are not in any banking operational hall where such services are deemed to be in place as well as they do not offer direct cash to their clients as they are referred to a bank that the Sacco is entrusted to operate with. On the other hand Sacco brief report (2015) Stated front office saving accounts as a situation whereby the Sacco's operates in a banking hall where they offer their service in terms of financial assistance as well as any other related services.

The possibility of savings is halfway a misnomer, as they are not energy winning venture assets in the standard sense, which is starting at now not permitted by the Credit Union rules shows that change is to be inescapable. Stores made by people are in reality shares that increase a benefit, so when a section pays in speculation supports they are buying participates in that credit affiliation. A benefit is simply paid where the credit affiliation has sufficient overabundance at whatever year (Staschen, 2003). The significance of rule of budgetary associations concerning financial execution can't be over underscored since they build up the essential drivers for improvement and cash related unforeseen development. Rules can unbelievably enable the SACCO to part by saturating better cash related practices and prudential standards. Despite the way that SACCO Societies Regulatory Authority (SASRA) rules have been in action since 2009, precise examinations have clearly kept away from looking at unequivocal pieces of these rules on the Sacco's.

Statement of the Problem

Regulation of Sacco's movement enhances performance in all aspects. This consummates to the fact that through use of set guidelines, there is healthy competition which stipulates to the fact that there is conducive environment of operations (Simiyu, 2012). On other hand, when there is regulation in all perspective, the regulatory bodies are able to monitor the progress of the entity movement which signifies that there is a concept of productivity which is under control and in line with this there is increment in performance. Onguka, (2014) stated that through adhering to set guidelines of operations, there is tendency of controlled users manipulation and this critically enhances betterment of the overall clients flocking within an entity hence balance operations. However, strict regulations and policy acts as a threat to the diversification of Sacco's through their rigidity which is not prone to any change (Chumo, 2013). Regulations inhibits the adoption of adverse technology in Sacco's operation hindering their exposition to a new platform of going virtual and when daring to ignore certain policies of operations, they are deemed to having their licenses of operations being rendered unusable (Ndwiga, 2021).

Brunnermeir (2009) stated that increase in unsafe lending and risky investments led to financial turmoil worldwide and was particularly severe in US and the European Union countries in 2007 and 2008, views shared by Knell and Stix (2009) and Guiso (2010). To avoid similar experiences in Kenya, credit management had to be addressed. Onguka (2014) recommended that administrative changes should target expanding more rivalry in the store taking Sacco-area, as opposed to dishearten passage and rivalry just as should audit and SASRA should review real and authoritative framework to ensure all Sacco's, both store taking and non-store taking Sacco's to be brought under one regulatory body. Karagu and Okibo (2014) conveyed an investigation to build up impact on SACCO budgetary execution of funs theft, choices on venture, enrollment withdrawals and loan defaulting. Thus, member's certainty and loyalty continued reducing and SACCO administrative changes which had a goal of ensuring part's stores and making trust in the SACCO Subsector spared the unfavorable circumstance.

Another study by Wanyama (2009) assessed whether the cooperative movement in Kenya had survived the liberalization and concluded that a fast examination of the circumstance uncovers that cooperatives have to a great extent endure the market powers and kept on developing in number, enrollment and pay. The above studies indicate that there exist differing opinions as to how cooperative societies have fared under different regulation regimes. A study on the regulation and performance of cooperative societies would therefore bridge the knowledge gap brought about by the lack of conclusiveness of reviewed literature. The current study attempts to adopt a micro analysis whereby the level of perceived effectiveness of regulations on each SACCO was measured against its performance, which renders the results of the current study more appropriate for informing policy at a micro level.

Research Objective

To examine the effect of financial reporting regulation on performance of deposit taking Sacco's in Kiambu Town Sub-County

LITERATURE REVIEW

Theoretical Review

A theory also known as hypothesis is a lot of deliberate interrelated ideas, definitions and suggestions that are progressed to clarify and foresee phenomena (Cooper & Schindler, 2011). This section distinguishes three sorts of theories related to the study variables, they include: theory of internal controls, agency theory, Liquidity and regulation of financial intermediation theory and public interest theory.

Theory of Internal Controls

The theory was proposed by Brown and Harvey in 1998. A powerful inward control framework is a basic part of an association's administration as it is the establishment of its free from any danger activity. A solid inside arrangement of control assists with guaranteeing that the objectives and goals of an association are met and that the association accomplishes its drawn-out targets and furthermore keep up dependable budgetary and administrative detailing. Such a framework can likewise assist with guaranteeing that the association agrees to laws and guidelines just as strategies, plans, interior standards and methodology, and lessen the danger of sudden misfortunes and harm to the association's notoriety (Salehi, 2016).

Agency Theory

The theory was proposed by Meckling and Jensen in 1976 as a theory of the firm explaining the endeavors of a firm in an agency arrangement. Valentine and Abdullah (2009) posits that the theory expounds on the association between principals who in this case comprise of members of the SACCOs and agents. The members, who the theory views as the owners hires individuals to act as board of management managing the affairs of the SACCOs. The theory refers the hired members as the agents. Principals in this case delegate the operations of the SACCOs to the managing board which consequently delegates the mandate to the managers.

Liquidity and Regulation Of Financial Intermediation Theory

The theory was proposed by Farhi, Tsyvinski and Golosov in 2009 and proposes existence of two informational frictions. The first friction posits that agents experience unseen disruptions when participating in various markets through taking part in trading activities that intermediaries cannot observe. In the event of non-existence of regulations, intermediaries dealing with finances have no mechanisms for mitigating risks due to externality propelled by arbitrage opportunities. In the presence of regulations, intermediaries dealing with finances provide mechanisms for sharing risks resulting from an externality born of arbitrage opportunities. Farhi *et al.,* (2009) identified a simple regulation that culminated to formulation of liquidity requirement bearing the potential of correcting any externality through prevailing market interest rates.

Conceptual Framework

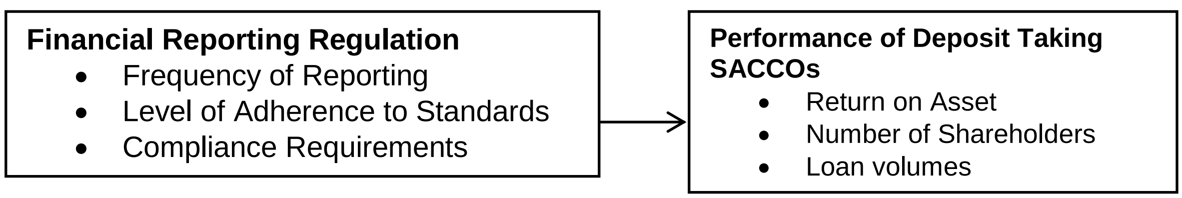

Figure 1: Conceptual Framework

Financial Reporting Regulation

Financial reporting regulation are a rule based arrangement of bookkeeping principles that set up expansive guidelines and furthermore direct explicit medicines of bookkeeping reports, for example, the monetary record, benefit and misfortune record and income explanation. IFRSs comprises of IFRSs gave after 2001; International Accounting Standards (IAS) gave before 2001; Interpretations beginning from the International Financial Reporting Interpretation Committee (IFRIC) gave after 2001; Standards Interpretation Committee (SIC) gave before 2001 and the Framework for the Preparation and Presentation of Financial Statements (Ikpefan, & Akande, 2012). The Framework for the Preparation and Presentation of Financial Statements, which is the establishment of IFRSs, portrays the standards subordinate IFRSs. IFRSs fiscal summaries comprise of explanation of monetary position; articulation of far reaching pay; statement of changes in equity (SOCE) or a statement of recognized income and expenses (SORIE); explanation of incomes; notes (counting an outline of the huge bookkeeping strategies) (Pope & McLeay, 2011).

IFRSs are given by the International Accounting Standards Board (IASB), some time ago known as International Accounting Standards Committee (IASC). The principle target of IASB is "to create, in the open premium, a solitary arrangement of high caliber, reasonable and enforceable worldwide bookkeeping guidelines that require high caliber, straightforward and equivalent data in fiscal summaries and other money related answering to help members on the planet's capital business sectors and different clients settle on monetary choices" (Camfferman & Zeff, 2015). The usage of IFRSs would lessen the data asymmetry among educated and ignorant speculators (Cellucci, 2010). The decrease of vulnerability and data asymmetry would smooth the correspondence among administrators and other related invested individuals, for example, investors, loan specialists, administrative and administrative specialists, monetary experts, and so on. This would along these lines in general lessens the related office costs that may some way or another emerge (Kirsch, 2012), and would thusly will in general lead to a gratefulness in stock returns, which may be inconsequential to firm current monetary execution (Morais, 2020, January).

The advantages of the execution of IFRSs incorporate the harmonization of bookkeeping practice across embracing nations, which thusly prompts higher equivalence, lower exchange expenses and upgrades worldwide speculation. IFRSs additionally help speculators in settling on educated budgetary choices and expectations regarding firm future money related execution (McPhail, Macdonald & Ferguson, 2016). IASB incorporates more than 140 bookkeeping bodies, speaking to more than 100 countries. The International Organization of Securities Commissions (IOSCO) has affirmed the utilization of IFRSs for cross-fringe stock trade postings. A few significant securities exchanges, for example, London, Frankfurt, Zurich, Hong Kong, Amsterdam and Rome, acknowledge the planning of fiscal reports of unfamiliar recorded organizations under IFRSs.

The arrangement of value bookkeeping divulgences would will in general decrease the open doors for profit control and improve the securities exchange productivity (Perry and Nöelke, 2005); give a positive sign to speculators as data asymmetry and organization costs in general lessen.

Other logical intermediaries of the reception of IFRSs identify with high productivity, the issuance of value or obligation capital in the selection time frame, obligation pledges, the contrasts between residential GAAP and IFRSs (Crawford, Helliar, Monk & Veneziani, 2014). The impacts of IFRSs would in general positively affect adopters' stock returns and other stock-related monetary execution measures, investment opportunity plans among others.

Empirical Review

Financial Reporting Regulations and financial performance of Sacco's

Sessional Paper No. 6 of 1997 on Cooperatives in a Liberalized Economic Environment, (Republic of Kenya, and 1997a) gives the current approach structure to agreeable improvement in Kenya. The approach was detailed after the advancement of the economy, which required the withdrawal of state command over the agreeable development. The point of the arrangement was to make cooperatives self-sufficient, confident, self-controlled and industrially suitable establishments. The job of the legislature was re-imagined from one that looked to control agreeable turn of events, to one that currently tries to manage and encourage their self-governance. By the by, the Ministry of Cooperative Development and Marketing has since understood a few irregularities and insufficiencies of the 1997 approach. For example, it has been noticed that this approach was to a great extent quiet on the administration's reactant and strong job in the advancement of cooperatives. It has likewise been seen that the strategy to a great extent stayed conflicted in relation to the Cooperative Societies (Amendment) Act of 2004, especially in arrangement of direction for cooperatives that try to wander into developing high development divisions of the economy; improve capitalization; and take part in mergers to exploit economies of scale. In particular, the approach doesn't accommodate the partition of the duties of chose the board panels from administrative staff obligations. Thusly, the executives choices are as yet made by chose pioneers that may not be qualified directors. In light of the deficiencies of the 1997 strategy, the Ministry has figured an amended arrangement system named "Kenya Cooperative Development Policy 2008". The primary subject of the new arrangement is „expanding the financial space for reasonable agreeable development in Kenya‟. Its fundamental spotlight is on rebuilding, reinforcing and changing cooperatives into energetic monetary substances that can go up against the difficulties of riches creation, work creation and neediness decrease as personal undertakings.

The Cooperative Societies (Amendment) Act of 2004 (Republic of Kenya, 2004a) is the current fundamental enactment that directs the arrangement and the board of cooperatives in Kenya. It has its birthplaces in the Cooperative Societies Act, Cap. 490 of 1966, which was overhauled in 1997 into the Cooperative Societies Act Chapter 12 of 1997 (Republic of Kenya, 1997b). The changes contained in the amended Act tried to diminish the exacting state oversight of cooperatives, so as to help the advancement of agreeable undertaking. The enactment specifies that the jobs to be attempted by government include: making the approach and lawful structure for improvement of cooperatives; improving the development and improvement of cooperatives by offering the imperative types of assistance for their association, enlistment, activity, headway and disintegration; and creating associations with cooperatives through consultative cycles that are centered around strategy, enactment and guideline. Notwithstanding this enactment, there is the SACCO Societies Act of 2008 (Republic of Kenya, 2008b) that accommodates the permitting, guideline, oversight and advancement of reserve funds and credit cooperatives by the SACCO Societies Regulatory Authority. Subsequently, this Act accommodates the foundation of the SACCO Societies Regulatory Authority whose capacities incorporates authorizing SACCOs to complete store accepting business just as directing and administering SACCOs.

Callao, Jarne, and Lainez (2007) did an investigation on the appropriation of IFRSs in Spain; they looked to set up the impact on the equivalence and pertinence of budgetary revealing. 20 They exhibited that the significance of the bookkeeping data of the Spanish organizations was not influenced by the selection of the IFRSs. Paananen (2008), breaking down an example of fiscal summaries from 2003 to 2006, distinguished that a decline happened in the worth importance of the numbers announced by the Swedish organizations. Oliveira, Rodrigues and Craig (2010) additionally show a decrease in the worth pertinence in Portuguese firms that embraced the IFRSs.

Horton and Serafeim (2010) found that the compulsory IFRSs selection adjusted the view of the financial specialists of the capital market of the United Kingdom. Barth *et al.* (2012) analyzed whether use of International Accounting Standards (IAS) is related with higher bookkeeping quality. The use of IAS reflects joined impacts of highlights of the monetary revealing framework, including principles, their understanding, authorization, and prosecution. Utilizing an example of outsider firms from 21 nations that arrange resources in the North American capital market, the investigation discovered that organizations applying IAS from 21 nations for the most part proof less profit the executives, all the more opportune misfortune acknowledgment, and more worth importance of bookkeeping sums than do coordinated example firms applying non-U.S. residential guidelines. Contrasts in bookkeeping quality between the two gatherings of firms in the period before the IAS firms receive IAS don't represent the post selection contrasts. Firms applying IAS for the most part proof an improvement in bookkeeping quality between the pre-and post-selection periods.

Along these lines the discoveries showed that deliberate adopters display diminished pay smoothing and expanded practicality of misfortune acknowledgment after reception. Be that as it may, willful adopters decide to embrace IFRSs and subsequently are probably going to have more grounded motivators to report better bookkeeping numbers (Soderstrom and Sun 2007; Daske, Hail, Leuz, and Verdi 2008). Devalle, Onali and Magarini (2010) dissected the worth significance of 3721 organizations recorded in the Frankfurt, Madrid, Paris, London and Milan Stock Exchanges, in the period 2002 to 2007. The proof shows that an expansion happened in the worth importance of the bookkeeping pay and of the value for the German and French firms after the IFRSs appropriation. An abatement happened in the worth importance of the bookkeeping pay and an expansion in the value in the Italian firms' reports. In the example of the Spanish organizations, a critical increment happened in the worth pertinence of the book estimation of the value, while for firms of the United Kingdom there was a lessening.

RESEARCH METHODOLOGY

Research Design

This study employed a cross-sectional study in the form of a descriptive survey design. According to Olusola and Oluwaseun (2013)., the design describes the present situation, what people currently believe, what people are doing at the moment and so forth. Additionally, the design examines the population at a single point in time. The major purpose of the design is description of the state of affairs as it exists at present (Malhotra, *et al.,* 2014).). This research design is suitable in answering the what, which and when questions. Since the study was to determine the effects prudential regulations standards on performance of deposit taking savings and credit cooperatives in Kiambu Town Sub-County, the research design was suitable. A survey was also be suitable in order to focus on more than one manufacturing firm.

Target Population

The target population of the current study comprised all deposit taking SACCOs operating in Kiambu Town Sub-County. According to SASRA Supervision Report (2019), there are 14 deposit taking SACCOs in Kiambu Town Sub-County. The study however targeted 12 Deposit taking SACCOs. The unit of observation comprised of one branch manager, one credit officer, one investment officer, one operational manager and one liquidity officer from each of the Sacco involved in the study. The focus of the SACCOs in Kiambu Town Sub-County is informed by the fact that there exist limited studies focusing on prudential regulations specifically on deposit taking SACCOs and operating in Kiambu Town Sub-County. The population is presented in table 1.

Table 1: Target Population

Target Population	Population	Percentage
Branch Managers	12	20%
Credit Officer	12	20%
Investment Officer	12	20%
Operational Manager	12	20%
Liquidity Officer	12	20%
Total	60	100

Sampling Procedure and Sample Size

Sampling procedure refers to the method or the methodology the analyst receives in choosing things for the example (Kothari, 2004). The study adopted a census approach. The strategy was favored because of the populace being little and in this manner reasonable for simplicity of surveys conveyance and assortment angle. The testing plan depicted how the inspecting unit, examining outline, inspecting systems and the example size for the examination (Cooper and Schindler, 2011). Since a census approach was adopted, the study ruled out application of a sampling technique.

Data Collection and Analysis

A triangulation approach was adopted in analysing the corrected data. The adoption of the approach is informed by the fact that the study uses both primary and secondary data. The analysis of primary data entailed checking the filled questionnaires for culmination and consistency. SPSS was utilized for information examination; it has spellbinding insights includes that aided variable reaction correlation and give away from of reaction frequencies. ANOVA information examination technique was likewise applied to dissect the data using open-finished requests where the respondents offered their musings on the exploration subject. Various relapse examination were utilized to get a condition that summed up the exploration factors dependent on the relapse model. This helped in deciding the degree of impact on the factors. The various relapse condition for foreseeing viable material details was communicated as follows:

$Y_i = \alpha + \beta_1 X_1 + \varepsilon_i$

Where Y = Performance of Deposit Taking SACCOS, X_1 = Financial Reporting Regulation, α=constant, $\beta_1$coefficients of various independent variables, ε =error term

The analyzed data was presented in form of tables, and figures to enhance easier interpretation and understanding of the research findings. Trend analysis was adopted in analyzing secondary data. Trend analysis sought to examine the changes on the Return on Investment and the Value of NPLs from 2016-2020.

FINDINGS AND DISCUSSION

Regression Results

Table 2: Model Fit Statistics

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.645	0.416	0.392	0.57954

The model summary on table 2 results shows that Financial Reporting Regulation and performance of deposit taking SACCOS relates to a moderate level as shown by R value of

0.645. The table further shows that the R square value was 0.416 and Adjusted R Square 0.392 respectively implying that the independent variables accounts for 41.6 % or 39.9% in variations of performance of deposit taking SACCOS.

Table 3: Analysis Of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	108.374	1	108.374	44.2633	0.01849
Residual	112.626	46	2.448391		
Total	221	47			

The analysis of variance on table results shows that the model linking the independent variable Financial Reporting Regulation with the dependent variable Performance of Deposit Taking SACCOs was statistically significant as shown by the significance value of 0.01849 which is less than 0.05. The model is thus a good fit for assessing the relationships in the study.

Table 4: Coefficient Table

Variable	Coefficients	Std. Error	t-statistic	p-value
(Constant)	0.161	0.115	1.4	0.224
Financial Reporting Regulation	0.349	0.157	2.2229	0.007

Performance of Deposit Taking SACCOs = 0.161+0.349 (Financial Reporting Regulation)

Financial Reporting Regulation

The second hypothesis of the study stated that there is a positive significant effect of Financial Reporting Regulation and performance of deposit taking SACCOs in Kiambu Town Sub-County Kenya. The results from the model summary revealed that Financial Reporting Regulation accounts for 39% in the variations of performances in the deposit taking SACCOs while the other percentage is accounted by other factors not included in the study. The results from ANOVA revealed that the p value was 0<0.05 indicating a statistical significant of the model linking Financial Reporting Regulation to performance of deposit taking SACCOs in Kiambu Town Sub-County. The results from the regression coefficient established that Loan Provision Regulation positively and significantly affect performance of the deposit taking SACCOs in Kiambu Town Sub-County (beta = 0.349, sig value=0<0.007). The results implies that increasing Financial Reporting Regulation with one unit results to 0.349 units increase in the levels of performance of the deposit taking SACCOs.

CONCLUDING REMARKS

Summary of findings

The multiple regression analysis results revealed that financial reporting regulation affects performance of deposit taking SACCOs in operating in Kiambu Town Sub-County to a positive and significant level. This implies that enhancing financial reporting regulation practices leads to enhanced performance levels of the deposit taking SACCOs in Kiambu Town Sub-County.

Conclusion

The results of the study concluded that Financial Reporting Regulation positively and significantly affects performances of deposit taking SACCOs operating in Kiambu Town Sub-County. Additionally, financial reporting regulation practices such as providing accurate financial reports on a timely basis, adhering to stipulated financial reporting standards, and ensuring availability of financial reports at all times further enhances the performance level of the deposit taking SACCOs.

Recommendations

The study provides recommendations to the management of deposit taking SACCOs in Kiambu Town Sub-County to focus on enhancing their financial reporting regulations since the practice leads to increased performances. The SACCOs can achieve this through undertaking practices such as complying with loaning policies from the regulatory authority, setting up loaning policies for extending loans to customers to ensure track of issued loans, having loaning policies approved by SASRA prior implementation and having loaning policies and standards that aims at reducing the levels of non-performing loans.

Areas of Further Studies

The current study was conducted on deposit taking SACCOs operating in Kiambu Town Sub-County. There is a need for another study in other deposit taking and non-deposit taking SACCOs operating in other parts of the country. The study further recommend the employment of other factors such as; that prudential regulations standards (Loan provision regulation, Liquidity Management Regulation and Investment Requirement Regulation) which might also be relevant in variations of performance of deposit taking SACCOs.

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