DISCLOSURE REQUIREMENTS AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVES IN NAIROBI COUNTY, KENYA

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ABSTRACT

The disclosure requirement is gaining significant attention to users of financial information to enable them to make informed decisions. Such users include suppliers, shareholders, employees, Government and potential investors in DT-Saccos among others. Operationalization of the Sacco Societies Act, Cap. 490B was aimed at among other things deepening transparency and strengthening corporate governance in deposit-taking Saccos. Those charged with governance are required to make adequate disclosures on key regulatory standards in the financial statements. The study aimed at analyzing the influence of SASRA disclosure requirements on overall financial performance of deposit-taking SACCOs present in Kenya. Specific objective for the project were to determine how large risk exposures, insider lending, capital concentration and audit matters impact on deposit-taking SACCOs and their financial performance in Kenya. This research targeted all DT-Saccos operating in Nairobi County which were 41 in number. The data was collected through the use of questionnaires. After collection of data it was then analyzed using descriptive statistics and inferential methods. Descriptive methods involved the use of percentages, means, and standard deviation values. The study found out that capital limits had (β=0.206, t=12.034>1.96 and p=0.000<0.05), large risk exposures had (β=0.487, t=6.209>1.96 and p=0.000<0.05), insider loans had had (β=0.170, t=4.422>1.96 and p=0.000<0.05) and audit issues had (β=0.191, t=9.988>1.96 and p=0.000<0.05) an indication that the variables significantly influenced financial performance of deposit taking SACCOs in Kenya. The findings of regression analysis established that coefficient of correlation was 0.825 an indication of strong positive correlation between the study variables. Coefficient of adjusted determination R^2 was 0.672 which translates to 67.2% an indication that variations of dependent variables can be traced by the independent variables. The study concludes that External borrowing above 25% of total assets affected SACCO financial performance. Existence of a dividend policy protected Sacco capital. DT-SACCOs were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans exposed DT-SACCOs to risk exposure. Terms and conditions of the loans to insiders affected performance of DT-Saccos'. Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus of saccos. Adherence of code of conduct to streamline operations influenced net surplus of DT-deposit taking Saccos. Formulation of policies was in line with the Sacco regulations. The study recommends that external borrowing above 25% of total assets ought to affect SACCOs financial performance. Capital structure ought to affect the financial performance of DT-SACCOs. Financial disclosures ought to raise confidence and trust in DT- SACCOs. Risk profiling of members before issuance of loans ought to expose DT-SACCOs to large risk. Introduction of new loan products in line with regulatory provisions ought not to expose the DT-SACCOs to risk. Bi-monthly notification to SASRA upon insider loans issuance ought to affect the net surplus of saccos. Compliance on code of conduct regarding insider lending ought to affect performance of deposit taking saccos. Formulation of policies ought to be in line with the DT- Sacco regulations. Establishment of various board committees for oversight of key functions and direction ought to positively influence net surplus of deposit taking Saccos.

Key Words: *disclosure requirements, financial performance, deposit taking savings and credit co-operatives, Nairobi County, Kenya*

INTRODUCTION

Co-operative societies are described as independent association people unit at will to meet common economic, social, cultural needs and as well as cultural goals through interactive owned and managed enterprise (Lund, 2012). The International Co-operative Alliance, ICA traces origin of the Co-operative business model in the 17th Century in Scotland. The formation of the business was meant to solve poor artisan workers social needs relating to food and household goods which they could not afford through their meager earnings (Mori, 2014). The workers pooled their scarce resources together to enable them to access basic goods at affordable prices. Ownership of this type of business is limited to its owners or workers as defined by Co-operative Development Institute of Brazil (2006). Since their formation, co-operatives have played a crucial role in assisting people to improve their socio-economic status (Bwana & Mwakujonga, 2013). According to (Marvin, 2006), Co-operatives are very important as they have a crucial role in tackling inequality as well as abject poverty in the society.

The Savings and Credit Co-operative business is premised on the social model where members join together by deposit mobilization and availing of affordable credit (Olando et al., 2012). Co-operatives are formed by members with a similar objective. Their operations are guided by principles and values which have evolved over a period of time, and it is these principles and values that distinctively and uniquely identify a Co-operative from any other business organization to the extent that they have been termed fundamental and immutable doctrines or tenets.

The contribution of SACCOs is evident across the world. SACCOs are seen to create more job opportunities as compared to all multinational corporations collectively. According to ICA (2012), the largest 300 co-operatives create an average of one trillion USD annually. This underscores the significance that these forms of business entity impact on the population. In Nigeria, cooperative societies are seen to provide social protection, improved capital creation and accumulation as well as generate job opportunities among other social benefits (Ezekiel, 2014). According to (Kareem *et al*, 2012), the role of Co-operative Societies on member's social wellbeing and in poverty in Nigeria cannot be overlooked in the development process.

South Africa has also experienced a significant growth in the cooperative societies in the recent past. They have played and continue playing a significant role in the country's economic growth and development, employment creation, and poverty reduction (Twalo, 2012). They provide a replacement model to implement sustainable initiatives which are community-based in South Africa and are also important vehicles which help in meeting the economic goals of development, broad individual empowerment, and sustainable livelihoods for communities (Twalo, 2012). In Uganda, Cooperatives have contributed significantly to fighting poverty encouraging entrepreneurship. According to (Muchilwa, 2013), cooperative societies encourage individuals particularly the youth and women to take loans to engage in entrepreneurship.

STATEMENT OF THE PROBLEM

Audited Financial statements are the basis upon which users of financial information rely to make informed decisions. Such users include current and prospective members in a DTS. Preparers, therefore, must ensure that the information contained therein is reliable, sufficient and discloses all material transactions fairly. The responsibility of preparing and presenting those financial statements lies with the directors in a DTS. SSA requires DTS financial statements to comply with requirements of IFRS on disclosures. The fair presentation is achieved by providing more disclosures making it possible for their users to comprehend some particular transactions as well as events displayed on financial statements. SSA expounds the disclosures to be included in financial statements to include among others insider lending, large risk exposures, and capital limits. The underlying DT-Sacco business concept of savings mobilization on lending to solve societal problems was defeated due to mismanagement either through fraud or lack of professionalism which lacked in form of legislation (Ademba, 2011). Incomplete disclosures or failure thereof may lead to unsuspecting DTS members' place their savings in unfeasible business ventures exposing them to future losses. Despite Government's policy intervention through legislation to ensure adequate disclosures to deepen transparency and strengthen corporate governance, there's no evidence of improvement in disclosures by DTS. There have been instances where DTS fail to make full disclosures in the annual reports only for the DTS to fail in its core mandate of deposit mobilization for on-lending. According to (SASRA, 2014), Jijenge Sacco in Thika was placed under statutory management due to those charged with governance failure in making adequate disclosures to the members.

GENERAL OBJECTIVE

The study assessed the extent of corporate governance disclosure requirement on the financial performance of the Deposit Taking Saccos in Kenya.

SPECIFIC OBJECTIVES

1. To decide the level of disclosure requirement on members holding more than prescribed

limits of capital and financial shows of DT-Sacco’s in Kenya.

2. To ascertain the level of disclosure needed on large risk exposures and financial performance of DT-Sacco’s in Kenya.
3. To ascertain the level of disclosure requirement on insider lending and financial performance of DT-Sacco’s in Kenya.
4. To examine the level of disclosure on audit-related issues and financial performance of DT-Sacco’s in Kenya.

THEORETICAL LITERATURE REVIEW

Agency Theory

Limitations that facing relations between agents and principals and develop a framework for analyzing conflicts and providing a mechanism for resolving those conflicts between various stakeholders (Jensen and Meckling, 1976). According to (Padilla, 2002), management and employees could pursue self-interests to the detriment of owners and therefore, shareholders expect agents to act and make decisions in the best interests of the principal. Bhimani (2008) postulated that agency theory was introduced to separate ownership from control. Agents perform their duties from principal custom-made rules in pursuit of maximizing shareholders value.

Firms with weaker governance mechanisms to direct and manage face greater agency problems (Sanda, Mikailu, & Garba, 2010). Where an agency problem exists, it may lead to the manager pursuing self-interests to the detriment of the firm (Khan, 2011). Improved corporate governance is crucial for the long run survival and growth of an organization. This can be achieved through balancing between ownership and control and also among the interests of stakeholders of the firm.

In Co-operatives, Sacco board members are elected by members during the annual general meeting to develop their business including policy formulation and act as members agents. In turn, the management team is appointed by the board to implement policies and develop their business and act as the agents. Principals delegate the stewardship of the business to the board which in turn hires and bestows authority upon managers, (Clark, 2004). Interests of managers and board may differ, hence the need to develop a mechanism so that managers work for the owners. Davis *et al*, (1991) emphasize on control of managerial opportunism by having a board chair independent of the CEO and using incentives to bind the CEO interests to those of shareholders. Therefore, the agent may be required to undertake risky activities such as adhering to liquidity requirements, capital requirements, loan provisioning requirements and investment requirements oblivious of the imminent risk in terms of making losses, (Wanyoike, 2013).

Classical cooperative business model where the member is the owner and decision maker render the agency problem acute. Hence, in cooperatives there are inherent problems in who takes the entrepreneurial lead, is it management, board or members? The theory prompted the general objective of the study and the specific objective of resource allocation for liquidity and investments in the study and their impact on financial performance towards stable DT-Saccos post the transition period.

Shareholder Theory

Mwanja *et. al* (2014) defines shareholders in Saccos as the members who have supreme authority in their Saccos. Their continued involvement in DT-Saccos is important to ensure the decisions made are owned up. This involvement is legally provided under CSA (2004). "Shareholder theory defines the primary duty of a firm's managers as the maximization of shareholder wealth, (Cuñat, Gine, & Guadalupe, 2012). According to Friedman (1962), businesses do not have any moral obligations or social responsibilities at all, other than to their own profits. Donaldson *et al* (1995) stated that involvement of social groups in business is so that they are able to obtain profits.

Scholars that promote shareholder theory argue that shareholder value maximization is the most defensible approach to management (Heath, 2009). Maximization of shareholder value as the goal of the firm is the means to most efficiently achieve the best outcome for the society (Jensen, (2002). This approach asserts that it is the responsibility of managers (and those who oversee managers, such as boards of directors) to maximize returns to shareholders; consequently, unnecessary allocations of money, time or other resources to other stakeholders, such as employees, suppliers, or local communities, are discouraged (or even considered immoral (Jensen & Meckling, 1976).

Generally, the theory recognizes the only motive for business is profit generation and maximization of shareholders wealth. Advocates of modern shareholder theory draw three fundamental principles from Adam Smith's Wealth of Nations; namely the "invisible hand of self-regulation;" the importance of enlightened self-interest, and the importance of free markets (Wanyoike, 2013).

Shareholder theorists advocate for minimal Government regulations in the conduct of their business. They argue that if companies are allowed to operate in their self-interest of profit maximization, ultimately the society would benefit. The proponents postulate that market conduct would deter unethical behavior without necessarily being supervised. Hence, the theorists conclude that oversight and regulation is unnecessary. The theory is supported by the academic finance community and is crucial for corporate finance theory. However, this theory attracts critics as it encourages "short-term managerial thinking and condoning the unethical behavior as Critics consider shareholder theory as geared toward short-term profit maximization at the long-run expense (Smith, 2003). Freeman, Wicks, and Parmar (2004) emphasize that, shareholder theory involves using the ostensible rights claims of one group; shareholders, to excuse violating the rights of others.

Many proponents of shareholder theory, in a stylized version of the model, encourage managers to maximize the firm's current stock price (Lasher, 2008). Safeguarding of shareholders capital could only be guaranteed through regulation. Short term focus of current stock prices could be altered in the short run by dishonest managers. The theory assists the researcher understand the role of members, management and Board of Directors leading the role of making sure that infinite deposit taking Sacco business viability is sustained and that the interests of all the stakeholders are met.

Stewardship Theory

Stewardship theory by (Donaldson and Davis, 1991) was meant to comprehend organizational relationship between ownership and management. This theory states that, there is no intrinsic problem of executive control; hence organizational managers tend to be kind in their actions" (Donaldson, 2008). A steward protects and maximizes shareholders wealth through firm performance because by so doing, the steward's utility functions are maximized (Davis et al., 1997).

Management staff and officers working under them are entrusted with resources to make returns for their owners. The theory assumes that those entrusted with controlling an organization want to conduct the business affairs efficiently and effectively to realize objectives. Therefore, the theory postulates a partner-style model between the management and the board. Stewardship theory emphasizes the role of management being as stewards, integrating their goals as part of the organization, (Davis et al., 1997). The role of the board is policy formulation and strategic decision making to support management in their implementation.

The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust, (Donaldson & Davis, 1991). It stresses on the position of an employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behavior, (Davis et al., 1997).

Daily et al. (2003) states that, in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits. Thus the firm's performance is impacted directly by perceptions of the performance of an individual entity. Donaldson and Davis (1991) stated that stewardship theory stresses the beneficial consequences on shareholder returns of facilitative authority structures which unify command by having roles of CEO and chair held by the same person. This theory may guide the researcher on "the role of a management team and the Board of Directors making all the disclosure requirements for the running of DTS.

EMPIRICAL REVIEW

Best practices as issued by IFRS require that users of financial information are adequately informed to enable them to make guided decisions. Governance being a key ingredient to the success of any business venture must focus to assure investors of the risk undertaken and guarantee returns. The underlying motive of DT-Sacco regulations was aimed at making DT-Saccos governance mechanisms transparent, accountable and building members' confidence through offering efficient services (Ademba, 2011). DT-Sacco board members have a fiduciary responsibility to their current and prospective members and fiduciary duty as enshrined in the SSA requires that directors' act in honesty and high standard of care in making annual financial statements disclosures. They must ensure that information reported in the annual financial statements reflect true and fair position to adequately guide their members being the owners and principal users of audited financial statements.

Researchers explore the effect of financial disclosure on the company's performance. Ohl (2010) argued that it is necessary to disclose information as this helps to protect a portfolio from impromptu alterations of adequate long-term policy. This improves consistency, prudence and helps investors to make sound investment decisions as investors' expectations, guidelines and objectives can be counterchecked. Taimisto (2010) undertook a cross-sectional study on the impact of voluntary disclosure on investment and financial policy on the value of cash for the firm in the U.K. Using data gathered from 1193 listed companies for a duration of 12 years, the study established that both financial policy and investment policy lacked statistical significance effect on the value of firm's cash holdings position even though firms characterized by constrained by finances in times of good investment opportunities were found to value cash holding highly.

Hamrouni, et al., (2015) conducted a study on the signaling firm performance through voluntary disclosure by 179 firms quoted on Euro next Paris Stock Exchange in the duration of 5 years ending 2009. ROE and Tobin's Q were indicators for organizational performance while disclosure was indicated by the firm values that are widely used in corporate finance like the financial policy, R&D, operating profitability and sales growth. Using panel data and applying logit model, the study established a direct and statistically noticeable relations between disclosure indexes and firm's performance. Ojeka et al., (2015) sought to determine whether a financial reporting disclosure improves firm's performance of the Nigerian manufacturing sector between 2005 and 2009. Using secondary data and Panel Least Square Regression for the data analysis, the study established a significant relationship between financial reporting disclosures and financial performance whereby by a recommendation was made to the Nigerian Federal

Government to ensure more disclosures is made in the financial report as this is an important means of addressing liquidity problem in the manufacturing sector for financial performance, (Ojeka, 2015).

Locally, (Wangari, 2014) analyzed the effect of disclosure on the financial performance of commercial banks in Kenya. The study employed a descriptive research design with a study sample of 42 commercial banks where data was collected by developing a disclosure index consisting of 47 disclosure items and secondary data was collected from annual reports of the commercial banks for the duration of 6 years ending 2013 and analyzed using multiple linear regression models. From the analysis, the study established a statistically significant relationship between disclosure and financial performance of the banks.

Recently, related study by, (Musyoka, 2017) sought to determine the effect of voluntary disclosure on the financial performance of firms listed in at the Nairobi Securities Exchange. Purposive sampling technique was used to sample 41 firms which have been actively trading between 2006- 2015. From the analysis, it was established that disclosures on financial policy, investment policy, sales growth, financial liquidity, research, and development a positive had a statistical effect on the firm performance.

An earlier study, (Mutinda, 2016) analyzed the impact of the prudential regulatory framework on the financial performance of deposit-taking SACCOs in Kenya. This study adopted a descriptive survey design in addressing the research problem. It was based in Kenya aiming at deposit-taking SACCOs in the country with 181 of such SACCOs. The study used secondary data that was analyzed using quantitative data analysis techniques in form of the regression model. From the analysis, "the study established that the application of prudential regulatory requirement had a statistically significant effect on the financial performance of SACCOs in Kenya.

In another study, (Kilonzi, 2012) strived to establish the impact of SASRA regulations on the financial performance of SACCOs in Kenya. The study targeted the 98 SACCOs registered by SASRA. The study used purposive sampling method to select 30 SACCOs based in Nairobi. The study used secondary data that was collected from the financial statements of the SACCOs. Using a linear regression model, the study established that higher capital requirements and increase in management efficiency impacted positively to SACCO's profitability in the post-capital regulation period.

RESEARCH METHODOLOGY

Research Design

Yin (2013) explains that a "research design was a conceptual structure within which research was conducted". This research used a descriptive survey study design. The researcher's choice for descriptive survey rested on the researcher's profound decision to base the study on the already existing state of affairs in the area of study. Therefore, the study contained no manipulated variable.

Target Population

The target population is the entire group of items or people having shared observable traits, (Mugenda and Mugenda, 2003). According to Ngechu (2004) "population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated". The targeted population consists the DT-Saccos licensed by SASRA. According to SASRA, (2015), Nairobi County has 41 licensed DT-Sacco's headquartered within it. A census study was used given the population of the 41 DT-Saccos (appendix 3) was considered small and selecting a sample from the small population was meaningless.

Sampling Design

This study targeted all the 41 licensed DTS in Nairobi. Kothari (2005) states that; where members of a target population were considered, it becomes more representative of the population of interest. It also accomplishes the requirements of reliability, efficiency and factors such as the overall nature of units in question, overall size of the population, size of the questionnaire and the time resource at hand for the completion of the research. Two respondents were to drawn from the Board chairman and Chief Executive Officers of each DT-Saccos. Therefore, the study used 86 respondents.

Instruments of Data Collection

The research encompassed the use primary and secondary information to complete the study. Primary data was collected through questionnaires with the assistance of a research assistant". The research assistant was guided on the proper ways of administering questionnaires to participants. A drop and pick later method was relied on for data collection processes. Secondary information was obtained from audited financial statements of the licensed DT-Saccos.

Data Analysis and Presentation

All information collected through questionnaires was coded and then edited with the aim of detecting any erroneous omissions thus accuracy of the data. Analysis of the data was accomplished through descriptive and inferential statistics so that the researcher was able to not only describe the relationship between variables but also examine them accordingly. The relationship model was represented by the linear equation given below:

$$Y = a + B1X1 + B2X2 + B3X3 + B4X4 + e$$

Where: Y= Profits of DT-Sacco; a = Constant term; B1= Beta Coefficient; X1=Capital Limits; X2=Large Risk Exposures; X3=Insider Loans; X4= Audit Issues; e= Error Term

RESEARCH RESULTS

The main purpose of the study was to assess the extent of corporate governance disclosure requirement on the financial performance of the DT-Saccos in Kenya. The study was guided by the following specific objectives; to decide the level of disclosure requirement on members holding more than prescribed limits of capital and financial shows of DT-Sacco's in Kenya. To ascertain the level of disclosure needed on large risk exposures and financial performance of DT-Sacco's in Kenya. To ascertain the level of disclosure requirement on insider lending and financial performance of DT-Sacco's in Kenya. To examine the level of disclosure on audit-related issues and financial performance of DT-Sacco's in Kenya.

The study adopted descriptive survey study design to establish the effect of disclosure requirements on financial performance. The study targeted 41 licensed DT-Sacco's licensed by SASRA. headquartered within it. The study relied on primary data collected by use of structured questionnaires. Primary data was collected through the assistance of a research assistant. Analysis of the data was accomplished through descriptive and inferential statistics. The findings of regression analysis established that the overall regression model was sufficient for the study.

Capital Requirements

The study showed that majority of the respondents agreed that external borrowing above 25% of total assets affected DT-Sacco financial performance. Majority of the respondents agreed that existence of a dividend policy protected DT-Sacco capital. Majority of the respondents agreed that total number of the members affected the financial shows of DT Sacco's. Majority of the respondents agreed that strict adherence to capital requirements facilitated expansion. Majority of the respondents agreed that the Capital structure affected the financial performance of DT-Sacco's. Majority of the respondents moderately agreed that financial disclosures raised confidence and trust in DT-Sacco's.

Large Risk Exposures

The study established that majority of the respondents agreed that they were exposed to large risk by maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning. Majority of the respondents agreed that DT-Sacco's were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans exposed DT-Saccos to risk exposure. Respondents agreed that introduction of new loan products in line with regulatory provisions exposed the DT-Saccos to risk. Majority of the respondents agreed that they were exposed to large risk exposures by having a credit policy that was consistent with the Sacco regulations.

Insider Loans

The survey established that a higher number of those interviewed agreed that existence of a policy on insider lending influenced the net surplus of DT-Saccos. Terms and conditions of the loans to insiders affected performance of DT-Saccos. Respondents agreed that Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus of DT-Saccos. Majority of the respondents agreed that compliance on code of conduct regarding insider lending affected performance of DT-Saccos.

Audit

The survey also established that many of the ineterviewees were of the view that quarterly reviews of internal audit function and financial condition of the Sacco influenced net surplus of DT-Saccos. More interviewees agreed that adherence of code of conduct to streamline operations influenced net surplus of DT=Saccos. agreed higher number of interviewees agreed that formulation of policies was in line with the Sacco regulations. More of those interviewed agreed that establishment of various board committees for oversight of key functions and direction influenced net surplus of DT-Saccos. Respondents moderately agreed that governance rules affected the net surplus of DT-Saccos.

REGRESSION ANALYSIS

The researcher conducted regression analysis to establish the extent of corporate governance disclosure requirement on the financial performance of the DT-Saccos in Kenya. The findings for coefficient of correlation and coefficient of adjusted determination are indicated in Table 1.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.825[a]	.680	.672	1.57292

a. Predictors: (Constant), Capital Limits, Large Risk Exposures, Insider Loans, Audit Issues

From the findings, coefficient of correlation was 0.825 an indication of strong positive correlation between the study variables. Coefficient of adjusted determination R^2 was 0.672 which translates to 67.2%. This means that 67.2% variations of dependent variables can be traced by the independent variables. The residual of 32.8% can be attributed to other factors beyond the scope of the current study.

The study conducted an ANOVA at 95% confidence level. The finding of $F_{Calculated}$ and $F_{Critical}$ are indicated in Table 2.

Table 2: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	542.369	4	135.592	31.394	.000[b]
Residual	254.830	59	4.319		
Total	**797.199**	**63**			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Capital Limits, Large Risk Exposures, Insider Loans, Audit Issues

From the findings, Table 2 shows that $F_{Calculated}$ was 57.995 and $F_{Critical}$ was 2.5279. This indicates that $F_{Calculated} > F_{Critical}$ therefore, the overall regression model has significant influence on the research. The p value $p= 0.00 < 0.05$ an indication that at least one variable significantly influenced financial performance of deposit taking SACCOs.

The following coefficients were developed while establishing the individual factor affecting financial performance of DT-Sacco's. The results are as shown in Table 3.

Table 3: Coefficients of Regressions

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	3.439	0.246		13.979	.031
Capital Limit	.698	.058	.206	12.034	.000
Large Risk Exposure	.534	.086	.487	6.209	.000
Insider Loan	.283	.064	.170	4.422	.000
Audit Issues	.819	.082	.091	9.988	.000

a. Dependent Variable: Financial Performance

The resultant equation becomes;

$$\mathbf{Y= 3.439 + 0.698\ X_1+0.534\ X_2+0.283\ X_3+ 0.819X_4}$$

Where: Y= Profits of DT-Sacco; X_1=Capital Limits; X_2=Large Risk Exposures; X_3=Insider Loans; X_4= Audit Issues

From the findings, when all factors (capital limits, large risk exposures, insider loans and audit issues) were held constant, financial performance of DT-Sacco's in Kenya would be at 3.439. A unit increase in capital limits when holding all the other variables constant would lead to 0.698 increases in financial performance. A unit increase in large risk exposures when holding all the other variables constant would lead to 0.534 increases in financial performance. A unit increase in insider loans when holding all the other variables constant would lead to 0.283 increases in financial performance. A unit increase in audit issues when holding all the other variables constant would lead to 0.819 increases in financial performance.

The study established that capital limits had (β=0.206, t=12.034>1.96 and p=0.000<0.05) an indication that the variable significantly influenced financial performance of DT-Sacco's in Kenya. This is supported by (Vianney, 2013) who states that the higher minimum capital requirement could help to mitigate moral hazard behavior among shareholders. Similarly, (Musyoka, 2017) states that members play an important role in capital provision to their business being both owners and customers.

The study found out that large risk exposures had (β=0.487, t=6.209>1.96 and p=0.000<0.05) an indication that the variable significantly influenced financial performance of DT-Sacco's in Kenya. This agrees with (Magambo, 2014) who states that financing of member loans should be supported by member deposits. DT-Saccos play a significant role in financing their members to affordable housing compared to commercial bank mortgages (Mwaka, 2015).

The study pointed out that insider loans had had (β=0.170, t=4.422>1.96 and p=0.000<0.05) an indication that the variable significantly influenced financial performance of DT-Sacco's in Kenya. This is supported by (Dingwerth and Eichinger, 2010) who noted that financial disclosures play a key role to various stakeholders in reinforcing transparency and accountability. Similarly, (Yukl, 2013) states that the strength of any financial institution is determined by the integrity and capacity of board members.

The research established that audit issues had (β=0.191, t=9.988>1.96 and p=0.000<0.05) which shows that the variable has a significant influence on financial performance of DT-Sacco's in Kenya. This is supported by (Ademba, 2012) who states that composition of the committee should have three members with at least one having accounting or finance background. Similarly, (Stewart and Subramaniam, 2010) states that the modern practice of establishment and recognition of internal audit as a function of the board sought to offer quality assurance reviews on the performance of management.

CONCLUSIONS

The study concludes that capital requirements positively influenced performance of DT- Sacco's in Kenya. External borrowing above 25% of total assets affected DT-Sacco financial performance. Existence of a dividend policy protected DT-Sacco capital. The total number of the members on a Sacco affected the financial shows of DT Sacco. Strict adherence to capital requirements facilitated expansion in the DT-Sacco's. Capital structure affected the financial performance of DT-Sacco's. Financial disclosures raised confidence and trust in DT- Sacco's.

The study concludes that large risk exposures significantly influenced financial performance of DT-Sacco's. DT-Sacco's was exposed to large risk by maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning. DT-Sacco's were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans exposed DT-Sacco's to risk exposure. Introduction of new loan products in line with regulatory provisions exposed the DT-Sacco's to risk. DT-Sacco's were exposed to large risk exposures by having a credit policy that was consistent with the Sacco regulations.

The study concludes that insider loans positively influenced financial performance of DT-Sacco's. Existence of a policy on insider lending influenced the net surplus of DT-Saccos. Terms and conditions of the loans to insiders affected performance of DT-Saccos. Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus of DT-Saccos. Compliance on code of conduct regarding insider lending affected financial performance of DT-Saccos.

The study further concludes that audit significantly influenced financial performance of DT-Sacco's. Quarterly reviews of internal audit function and financial condition of the Sacco influenced net surplus of deposit taking saccos. Adherence of code of conduct to streamline operations influenced net surplus of deposit taking Saccos. Formulation of policies was in line with the Sacco regulations. Various board committees' establishment for oversight of key functions and direction influenced net surplus of DT-Saccos. Governance rules affected the net surplus of DT-Saccos.

RECOMMENDATIONS

The study recommends that external borrowing above 25% of total assets ought to affect DT-Sacco's financial performance. Existence of a dividend policy ought to protect Sacco capital. The total number of the members on a DT-Sacco ought to affect the financial shows of DT Sacco's. Strict adherence to capital requirements ought to facilitate expansion in the DT-Sacco's. Capital structure ought to affect the financial performance of DT-Sacco's. Financial disclosures ought to raise confidence and trust in DT- Sacco's.

The study recommends that DT-Sacco's ought to maintain delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning to avoid being exposed to large risk. DT-Sacco's ought to reduce the exposure to large risk due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans ought to expose DT-Saccos to large risk. Introduction of new loan products in line with regulatory provisions ought not to expose the DT-Sacco's to risk. DT-Sacco's ought not to be exposed to large risk by having a credit policy that is consistent with the Sacco regulations.

The study recommends that existence of a policy on insider lending ought to positively influence the net surplus of DT-Saccos. Terms and conditions of the loans to insiders ought not to affect performance of DT-Sacco's. Bi-monthly notification to SASRA upon insider loans issuance ought to affect the net surplus of DT-Saccos. Compliance on code of conduct regarding insider lending ought to affect performance of DT-Saccos.

The study further recommends that quarterly reviews of internal audit function and financial condition of the DT-Sacco ought to influence net surplus of DT-Saccos. Adherence of code of conduct to streamline operations ought to influence net surplus of DT-Saccos. Formulation of policies ought to be in line with the DT- Sacco regulations. Establishment of DT-Sacco various board committees for oversight of key functions and direction ought to positively influence net surplus of DT-Saccos. Governance rules ought to positively affect the net surplus of DT-Saccos.

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