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Article

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Corporate governance and compliance with IFRSs: the case of Tanzanian Savings and Credit Cooperatives

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ABSTRACT

This study examined the influence of corporate governance characteristics: size, women on board, financial skills of members, frequency of meetings and financial skills of the supervisory committee on compliance with International Financial Reporting Standards (IFRSs). The study was premised on Savings and Credit Co-operatives (SACCOs) complying with IFRSs disclosures. Yet, evidence on the relationship between corporate governance and IFRSs compliance in Tanzania is limited. Therefore, this paper contributes to the body of knowledge by extending the application of agency theory to determine the relationship among variables. Specifically, the study used a quantitative panel data set of 202 SACCOs from the 2013–2020 period collected from annual financial reports and subjected to descriptive analysis and regression models. Descriptive statistics indicate that SACCOs in Tanzania are complying with 44% of IFRSs disclosures. Results show a positive significant relationship between the board members possessing financial skills, the inclusion of women on the board, supervisory committee financial expertise and IFRS compliance level. Moreover, the study found no evidence that board size and board meetings influence IFRSs compliance levels. To improve IFRS compliance level, SACCOs in Tanzania are called to elect board members with financial skills; besides, financially skilled women should be encouraged to be part of SACCOs boards.

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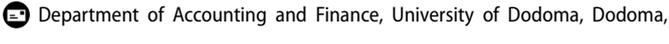
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1. Introduction

Substantial empirical studies across the globe are currently devoted to the analysis of compliance with International Financial Reporting Standards (IFRSs). The adoption of IFRSs has gained attention because they increase accountability and close the information gap between shareholders and management (Almujamed & Alfraih, 2020; Nalukenge, 2020). This necessitated the issuing of accounting standards intending to protect users of accounting information (Bushee & Miller, 2012; Nalukenge, 2020; Tawiah & Boolaky, 2019). As a result, many countries in the world including Tanzania adopted IFRSs disclosure requirements which mandate that reporting organizations use the IFRSs framework to prepare financial reports. As a publicly accountable entity, Savings and Credit Cooperatives (SACCOs) are no exception to applying full IFRSs requirements in their financial reporting processes. SACCOs are also known as Microfinance Co-operatives (MFCs), credit unions or credit co-operatives in Europe and North America.

SACCOs are financial organizations whose customers are both members and owners, SACCOs aim to meet the financial needs of all members by encouraging savings and granting loans to the members (Marwa & Aziakpono, 2015). SACCOs play a significant role in the expansion of financial services by reducing the financial exclusion gap created in many nations by formal financial institutions like banks (Mmari & Thinyane, 2019; Nyamsogoro, 2010; Omeke et al., 2019). According to the World Council of Credit Unions (WOCCU, 2020), registration of SACCOS worldwide increased by 65% from 2008 to 2019 registering over 88,000 SACCOs operating in 118 countries, serving a population of over 293 million

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people with a total asset above USD 2.5 trillion. In Africa, Tanzania is the third country after Ethiopia and Kenya with 3,707 registered SACCOs operating in the country. Also, they are the Leading Microfinance Institutions MFIs in terms of coverage and assets, with total assets of TZS 681 billion which are serving more than 5.4 million beneficiaries (TCDC, 2022). Thus, in Tanzania, the contribution of SACCOs in terms of access to finance cannot be underestimated. Given their potential, the reported contribution can be raised to benefit greater numbers of beneficiaries if the financial reports comply with IFRS requirements.

Globally, organizations in many countries have struggled to adequately comply with the IFRSs provisions (Tawiah & Boolaky, 2019; van den Heuvel et al., 2011). SACCOs are no exception to these annotations. Bananuka et al. (2019) and Nalukenge et al. (2018) report that the majority of SACCOs don't adhere to IFRSs provisions which makes the financial report unreliable and provides loopholes for fraud. Likewise, Msuya and Maleko (2015) find that SACCOs in Tanzania did not disclose all the information as per the relevant IFRSs provisions. In addition, the annual audit report of COASCO (2022) shows that the IFRSs compliance level of SACCOs in Tanzania is unsatisfactory. Consequently, most of the SACCOs provided qualified and adverse audit opinions for several financial years.

However, the most significant factor in deciding IFRSs compliance is legal and regulatory mechanisms (Christensen et al., 2013; Hellman et al., 2018). Tanzania in particular has taken various initiatives including formulating legislation such as the Co-operative Societies Act of 2013, Cooperative General Regulation of 2014, SACCOs Regulations of 2016, Microfinance Act of 2018 and SACCOs Regulations of 2019. The purpose of these formulations was to facilitate the legal basis for the preparation, audit and submission of annual financial statements of SACCOs. Despite these legal and regulatory efforts that have been taken by the government and other stakeholders, still, low compliance levels of IFRSs are reported (Msuya & Maleko, 2015; Nalukenge, 2020). All these prompted a study of IFRSs compliance levels other than legal and regulatory mechanisms. In light of this, the current study contributes to the knowledge by evaluating how SACCO corporate governance mechanisms (board size, board gender diversity, board skills, board meetings and supervisory committee skills) influence IFRSs compliance levels.

Though some scholars have devoted a great deal of empirical efforts investigating corporate governance and compliance with IFRSs, most of these studies focused on listed firms and ignored non-market participant firms including SACCOs (Gassen, 2017; Kaaya, 2019; Koppeschaar, 2012; Outa et al., 2017; Yan, 2020). Besides, they have concentrated in developed countries and little effort was given to emerging economies like Tanzania (Alfraih, 2016; Kaaya, 2019). Moreover, the level of significance of the corporate governance attributes influencing IFRSs compliance varies with studies. For instance Almujaed and Alfraih (2020) found that board size and board skills have a significant association with the IFRSs in Gulf countries using OLS. On the other hand, board meetings and board independence have no significant relationship with the IFRSs compliance level. This is different from Alade (2018) who found a significant relationship between IFRSs and board meetings, board diversity and board independence in Nigerian listed firms. Alnodel (2018) reveals that board skills and board diversity are the most significant factors in influencing the IFRSs compliance level than board size and board meetings in the Saudi stock market using LMRM. Bhatia and Mulenga (2019) found that board characteristics like board meetings and board skills have insignificant influence on IFRSs compliance while board independence and board diversity are the most significant factors in influencing IFRSs compliance for Indian listed firms. Bagudo (2016) reported similar results for Nigerian listed companies. Furthermore, Yan (2020) documented a significant influence of board size, board skills and board meetings on the IFRSs compliance level of listed firms in China using partial least squares confirmatory. This mixed and conflicting evidence may partly be explained by the varied and distinctive nature of entities and their operating economic characteristics (Al-Shammari, 2014; Bhatia & Mulenga, 2019; Tsegba et al., 2017). Moreover, there is limited empirical evidence on the influence of corporate governance on IFRSs compliance level, particularly on SACCOs in the Tanzania context.

The current research adds to the stock of literature by exploring how corporate governance attributes in SACCOs influence IFRS's compliance levels. The findings of this study are important to various stakeholders like government and private agencies responsible for creating enabling environments for the growth of SACCOs, policymakers, members, board managers and researchers. Specifically, the findings of the study provide input information to policymakers on various interventions and devising specific policies as a means toward improving the IFRSs compliance level in Tanzania. Moreover, the study adds to

the limited stock of literature on the influence of corporate governance on IFRSs compliance level, with specific reference to SACCOs operating in Tanzania.

The present article is structured as follows: [Section 2](#) explains the study literature, where concepts of SACCOs, IFRSs compliance and corporate governance have been explained. [Section 3](#) of the paper probes into the development of hypotheses based on theories and empirical review. [Section 4](#) includes the research methodology. The results and discussion are presented and analysed in [Section 5](#). The conclusion of the study is presented in [section 6](#).

2. Savings and Credit Cooperatives in Tanzania

Savings and Credit Cooperatives (SACCOs) are financial organizations whose customers are both members and owners (Omeke et al., 2019). SACCOs aim at meeting the financial needs of all members men/women, old/young, rich/poor in particular, by encouraging savings and granting loans to the members. It belongs to its members who manage it democratically (Kyazze et al., 2017; Marwa & Aziakpono, 2015; Semaw Henock, 2019). They play an important role in the socioeconomic development of members and communities in general. SACCOs enable easy access to financial services, encourage savings, create employment opportunities, and support directly community development efforts like helping the community to access social services, stimulating the growth of business, and improving members' income as well as living conditions (Sebhatu et al., 2013). If SACCOs are managed properly by providing relevant financial information to members, it becomes possible to play such social and economic roles to the members and have spiral effects on the community development process. As a result, they will be able to achieve the social and economic expectations of members (Gebremichael & Gessesse, 2016; Rixon & Lightstone, 2016).

Currently, the governance of SACCOs in Tanzania is guided by different cooperative legislations which has gone through various phases of reforms. The Tanzania Co-operative Societies Act of 1982 was enacted following the re-establishment of the co-operative movement. Following the shortcomings of the 1982 Act, the Co-operative Societies Act of 1991 was enacted in 1991 to provide more power to the members of the cooperatives. The Cooperative Development Policy was launched in 1997, however, it did not endure long. In 2002, another Co-operative Development Policy was established in response to the rising importance of co-operative businesses. As a result, the Co-operative Societies Act No. 20 of 2003 was created to give guidance on the formation and management of cooperatives. The government also enacted the Co-operative Societies Rules of 2004 to guide the Act's implementation. Because of the potential environment of SACCOs in the country, the Co-operative Societies Act of 2013 resulted in the development of the Savings and Credit Co-operatives Societies Regulations of 2016 and 2019. Undeniably, the Savings and Credit Co-operatives Societies Regulations stipulate the requirements and extent of SACCOs to provide reliable financial information to members.

As indicated in [Table 1](#), recently there have been several reforms in the legal framework related to SACCOs that happened in Tanzania. All those changes provide special emphasis on improving compliance with IFRSs to provide reliable financial information to SACCO members and the public at large.

Table 1. Tanzania SACCOs Legal and Regulatory Framework.

Legislation	Nature of Regulation	Specific issues to note in improving IFRSs Compliance
The Cooperative Audit and Supervision Act No. 15 of 1982, amended in 2005.	All cooperatives must be audited by COASCO. Private audit firm must be approved by registrar	Emphasis the compliance with IFRSs, SACCOs are audited based on accounting standards.
The Cooperative Societies Act, 2013 (Cap 112).	Registration of all types of cooperatives including SACCOs	It provides emphasis on preparations of financial reports based on IFRSs
The Savings and Credit Cooperative Societies Regulations of 2016	It regulates SACCOs licensing, inspection and supervision of product offered	It provides emphasis on compliance with standard on financial reporting
The Microfinance Act, No. 10 of 2018.	It regulates the licensing of all types of MFIs including SACCOs	The law requires the MFIs including SACCOs to provide financial reports based on accounting standards.
The Microfinance (SACCO) Regulations, 2019.	It regulates SACCOs licensing, inspection and supervision and consumer protection of SACCOs products	Appointment and outsourcing of internal auditor to improve financial reporting process.

Source: Author conception from different Tanzania cooperative laws.

Further to that, the regulators have also been directed through legislation to supervise the compliance of accounting standards in SACCOs and improve SACCOs governance mechanisms.

The major player in the corporate governance mechanism of the SACCOs is the board, which is construed as the central point of the whole governance system (Jones et al., 2017). Corporate governance as documented by past studies refers to the mechanisms used to direct and control a firm to achieve its desired objectives. Good governance has been emphasized as critical for businesses, especially in transition and emerging economies (Serebour et al., 2013). According to Davidson et al. (2005), corporate governance is responsible for ensuring that a firm's financial affairs are reported per mandated international financial reporting standards. Disclosure incentives may be determined primarily by the corporate governance system or firm own factors. Thus, corporate governance in this study is grounded on recommendations by Jones et al. (2017) and Nalukenge et al. (2018) including the size of the board, gender diversity of the board, financial skills of the board, number of board meetings, and supervisory committee skills in measuring the association of corporate governance and SACCOs IFRSs compliance level. The governing board is assisted by a supervisory committee mandated with safeguarding crucial resources and provisions of reliable information to members through complying with IFRSs requirements.

IFRSs compliance as defined by IASB (2019) and Nalukenge (2020) is the extent to which firms comply with all issues required in the IFRSs. Due to the growing international trade and the need for expansion beyond one country's boundaries, users of financial information prefer financial information prepared according to IFRSs as this enhances comparability and improve the value relevance of financial reports (Abdul Rahman & Hamdan, 2017; Bushee & Miller, 2012; Degos et al., 2019; Mousa & Desoky, 2014). With 166 nations mandating reporting firms to prepare financial reports based on the IFRSs framework, compliance with International Financial Reporting Standards (IFRSs) disclosure requirements has become common (IASB, 2019). This study adopts the definition provided by IASB (2019) as it is relevant in the context of IFRSs compliance as all qualifying entities including SACCOs are required to follow the disclosure requirements of IFRSs.

Concerning the supervision and monitoring of SACCO operations. SACCOs in Tanzania are supervised by the Tanzania Co-operative Development Commission (TCDC) under the Co-operative Societies Act No. 6 of 2013. Also supervised by the Bank of Tanzania (BOT) under the Microfinance Regulations of 2019. Additionally, all SACCOs in the country are audited by the Co-operative Audit and Supervision Corporation (COASCO) under the Act of Parliament No. 15 of 1982, amended in 2005. Since SACCOs continue to get a lot of attention in the country, various policies have been put in place to ensure that correct and reliable information is provided to members and policymakers. One of the roles of TCDC, BOT and COASCO is to improve the value relevance of financial information provided to members of the cooperatives through reassuring compliance with accounting standards.

Yet, despite the superiority of regulating policies and financial reporting of SACCOs in Tanzania, still significant compliance gaps are reported (COASCO, 2020). Indicating that there might be other factors influencing compliance with IFRSs in the country other than legal and regulatory framework. COASCO report of 2020 shows that clean audit reports of SACCOs in the country are below 15%. This implies that although SACCOs are capable of providing financial reports to the members, they are questioned about complying with IFRSs and hence the relevant accounting information produced. All these suggest that there could be a corporate governance mechanism contributing to the IFRS compliance level in SACCOs. This study aims to investigate the influence of corporate governance mechanisms on IFRSs compliance level in SACCOs. Therefore, given the substantial expansion of the SACCOs and cooperatives movement in Tanzania, it may be argued that Tanzania presents an appropriate context for this empirical study.

3. Theoretical literature review

The agency theory is centred on the conflict of interest that exists between the principal and the agent due to the separation of ownership and control in the firms (Jensen & Meckling, 1976). The agency conflict arises due to differences in the interests or objectives between owners and agents. The agent's interests are commonly not the same as those of the principal (owners) and thus create an agency problem (Mori, 2014). The agency theory has been widely used by different corporate governance studies as revealed by Lu et al. (2022). The agency relationship also holds in SACCOs. SACCOs Members meet

only once in the annual general meeting; thus, they democratically elect the board and supervisory committee to govern the activities of the SACCOs.

SACCOs employ managers (agents) to work on their behalf to fulfil their objectives under the supervision of the board. Thus the boards have responsibilities of governing the SACCOs by dealing with issues of monitoring the SACCOs managers, providing resources through advice and strategic settings that financial institutions need, such as strategic planning and policies and making sure that SACCOs members' interests are protected (Bijman et al., 2014).

The board and supervisory committee members serve as a critical mechanism for SACCO members by monitoring and managing the managers' actions and can help to ensure the organisation's long-term success (Towo et al., 2019). If a manager engages in opportunistic behaviour, the board members are susceptible to sharing a portion of the SACCOs any damages because they are also members (owners), users of the services provided, and beneficiaries. Guerrero et al. (2017) contend that boards are accountable for the failure or success of SACCOs because they must monitor and control managers.

The literature indicates that the studies which used the agency theory to explain the relationship between corporate governance and compliance with IFRSs factors explaining them, provided contradictory evidence (Mnif & Znazen, 2020; Musleh Alstartawi, 2019). However, because this research employed data from various sorts of firms, their scope of operations and methods of service delivery may differ. Estimates may be biased as a result of this viewpoint. Two opposing viewpoints on how corporate governance influences IFRS compliance levels have been given. It is suggested that IFRSs can alleviate the agency problem by pushing managers to behave more in the best interests of shareholders while generating financial reports (Jensen & Meckling, 1976). Thus, IFRSs as a disciplinary mechanism can alter the manager's behaviour and decisions to act in the best interest of the shareholders. On the one hand, According to Jensen and Meckling (1976), with increasing levels of IFRSs compliance, the situation of better monitoring becomes more likely, resulting in increased agency costs owing to compliance facilitation. Due to this mixed view, the current study employs the agency theory to explain the relationship between corporate governance characteristics and IFRSs compliance level specifically for SACCOs in Tanzania.

Therefore, agency theorists provide the ground for examining the relationship between corporate governance mechanisms and compliance with accounting standards. Thus, a theory has been used to determine the influence of corporate governance characteristics which include board size, board meetings, board skills, board gender diversity and supervisory committee skills on IFRSs compliance level. It was used in result interpretation and discussion, which helped the researcher to draw sensible conclusions.

4. Literature review and hypotheses development

Numerous scholarly have identified the significance of corporate governance structures in influencing corporate outcomes and IFRSs compliance levels. Consequently, corporate governance structures such as board size, board meetings, board skills, board gender diversity and supervisory or audit committee skills affect compliance with IFRSs (see Houcine et al., 2022; Kabwe et al., 2021; Lu et al., 2022; Mbir et al., 2020; Mnif & Borgi, 2020; Mnif & Znazen, 2020; Nguyen et al., 2020; Ntim & Soobaroyen, 2013; Singh & Newberry, 2008; Verriest et al., 2013). In the next subsections, we will discuss the associations between different corporate governance models and IFRSs compliance levels.

4.1. Board size

Agency theory posits that the board of directors plays a role in addressing agency problems arising from the separation of ownership and control (Jensen & Meckling, 1976). Agency theory postulates that boards with a great number of members have a greater diversity of members who understand the business environment and are more active in monitoring; subsequently, they are more inclined to advocate IFRS compliance (Al-Shammari, 2014). On the other hand, Alade (2018) found a positive significant relationship between large boards and IFRSs compliance levels in Nigerian listed firms. The reasons behind this

are that the mixed experience and skills increase the efficiency of the board to monitor and oversee the management of the entity. Ntim and Soobaroyen (2013) posit that the board size has a strategic role in monitoring compliance with rules and standards. In Tanzania, the SACCOS Regulations of 2019 provide requirements for board size ranging from 5 up to 9 members who can oversee SACCOs in a sound and sensible manner, it is thought that their combined experience, skills, and qualifications will be beneficial to influence IFRS's compliance level. Therefore, the hypothesis tested was as follows:

H1. The size of the board is positively related to IFRSs compliance

4.2. Board skills

The agency theory viewpoint benefits skilled and knowledgeable board members since they can provide skills and experience for overseeing and monitoring management's actions (Kabwe et al., 2021; Tawiah & Boolaky, 2019). Skills improve board members' critical thinking, allowing them to accomplish their tasks of strategic formulation, advising, resource provision, monitoring, and control. Due to the nature of microfinance operations, SACCOs being one of them, the board requires members with financial skills and abilities who can successfully fulfil their tasks. Members with financial expertise may be able to keep a closer eye on management and respond appropriately to their verdicts. Previous studies by Favalli et al. (2020) and Mori (2014) argued that board members with skills have a substantial impact on monitoring which eventually improves compliance levels. As the monitoring role is enhanced, the high IFRSs compliance level is expected. Under this scenario, the study hypothesises that:

H2. Board skills are positively associated with IFRSs compliance

4.3. Board gender diversity

According to the agency theory, the availability of women on the board of directors offers more value in monitoring the management processes, which improves compliance with different disclosure requirements (Joecks et al., 2019; Périlleux & Szafarz, 2015). Marie et al. (2015) observe that women are sensitive to corporate disclosure. Consequently, are more likely to comply with IFRSs disclosure requirements. Nguyen et al. (2020) argued that the presence of women on corporate boards improves corporate performance due to their ability to monitor roles. The existing literature affirms that woman on governing boards has a positive impact. Moreover, Mbir et al. (2020) affirm that women on corporate boards improve reporting quality and a high sense of responsibility. Under this scenario, the study hypothesises that:

H3. There is a favourable relationship between women's representation on governing boards and IFRSs compliance

4.4. Board meeting

Agency theory provides insight that through board meetings, members have opportunities to raise relevant issues challenging the organisation's affairs and hence reduce information asymmetry. Compliance with different statutes including accounting standards may be among the matters of concern by the board. Therefore, regular meetings are an essential trait to overseeing institutional compliance (Hellman et al., 2018). From the agency theory philosophical lens, board meetings improve monitoring roles to save owners' interest. Board members communicate and address compliance concerns during meetings, hence minimise information asymmetry (Al-Sartawi et al., 2016). Some empirical studies stress that meetings have a greater influence on the monitoring role and improve IFRSs compliance (Alade, 2018; Bagudo, 2016; Mnif & Znazen, 2020). Therefore the following hypothesis is tested.

H4. Board meetings are positively associated with IFRSs compliance

4.5. Supervisory committee skills

Supervisory committees play an oversight role in the SACCO corporate governance perspective, supervisory committees' roles are the same as audit committees' roles in other organisations. The oversight role helps to improve the quality of corporate governance and hence reduces the risk of corporate failures by encouraging professionalism (Krisimaji & Surifah, 2020; Mnif & Borgi, 2020). The supervisory committees have the role of monitoring the activities of the board and the management on behalf of the members. Tawiah and Boolaky (2019) provide that skilful audit committees improve compliance with IFRSs. The SACCOS Regulations of 2019 stipulate that SACCOS should always have a supervisory committee. Further, it provides that a supervisory committee should have at least three persons. The supervisory committee has the power to review the financial affairs of the SACCOs and assess compliance with the relevant legal and regulations procedures. Bagudo (2016) and Sellami and Tahari (2017) find that oversight committee members with skills have a significant impact on the IFRSs compliance level. Therefore the following hypothesis is tested.

H5. Supervisory committee skills are positively associated with IFRSs compliance

5. Research design

5.1. Data sources and sample period

SACCOs from Mbeya, Dar es Salaam and Arusha regions in Tanzania provide study data for this current research. The selection was purposely based on the high concentration of the total number of SACCOs with submitted and audited financial statements (COASCO, 2022) Also, these are regions that dominate Tanzania's SACCO sub-sector (TCDC, 2022). This research spans eight years (2013–2020). While choosing this time frame the most current data available is taken into consideration while conducting this research. The year 2013 was chosen as the starting year because it was when the Cooperative Societies Act of 2013 became effective with an emphasis on preparing financial reports based on IFRSs. It was expected that the majority of SACCOs prepared their financial statements based on the IFRSs framework. Data were collected from SACCO's physical offices (currently SACCOs in Tanzania are not yet publishing their annual financial and other reports online). 220 annual audited financial statements of SACCOs were collected. Then, SACCOs with unavailable full information for the selected period were removed. After this screening, a total of 202 out of 220 which is 92% of SACCOs making 1616-year observations have been analysed.

Similar to Alfaraih (2016) and Bagudo (2016) the selection of standards to be included in the study was based on how the standard applies to the SACCOs context and the fiscal years accounting standards become effective. Therefore, 13 accounting standards were found relevant and were selected ("IAS1, IAS2, IAS7, IAS10, IAS16, IAS19, IAS23, IAS33, IAS40 and IFRS5, IFRS7, IFRS15, IFRS16"). In line with other compliance studies (Alnaas, 2017; Dobre et al., 2015; Kabwe et al., 2021; Okafor et al., 2016; Zango et al., 2015), a self-constructed IFRS compliance checklist was developed from the IFRS Foundation website, and the mandatory accounting standards were reviewed and selected on how they apply to the SACCOs perspective. To achieve content validity, the developed IFRS compliance checklist was compared with other previous studies to be included in the checklist agreed upon.

5.2. Variable definition and measurements

In line with previous studies (Alfaraih, 2009; Alnaas, 2017; Al-Shammari et al., 2008; Bagudo, 2016; Ezenwoke & Tion, 2020) Using a self-made checklist, each SACCO's *compliance index* (CINDEX) was calculated. Initially, a checklist was created utilising the dichotomous disclosure index, which yields more reliable and instructive findings, it was founded on the IASB's published standards. Each disclosure listed in the CINDEX has the same weight. If the appropriate disclosure has been made the code is one (1); if not, the code is zero (0). An item is removed from the scoring system if a disclosure does not apply to it. A total disclosure (TD) score for a SACCO is derived as follows:

$$TD = \sum_{i=1}^m d_i$$

where $d=1$ if item d_i is disclosed, $d=0$ if item d_i is not disclosed, and $m \leq n$.

An index may be created to measure SACCO's relative disclosure level once its total disclosure score (TD) has been determined. The index is calculated as the difference between a SACCO's actual disclosure score (TD) and the highest score (M) that it might obtain by completely adhering to the disclosure requirements of IFRS. Since a firm is not punished for leaving out a disclosure item that is irrelevant or unrelated to its business operations, maximum scores (M) can vary from one firm to another. A maximum score (M) for a SACCO is calculated as follows:

$$M = \sum_{i=1}^n d_i$$

where d is the expected disclosure item, and n is the number of items that the SACCO is required to disclose.

Therefore, the total number of total disclosures (TD) of the firm is divided by the total number of applicable mandatory disclosures (M) to get each SACCO's disclosure index for compliance (CINDEX), this was measured as follows

$$CINDEX = \frac{TD}{M} \quad (1)$$

It should be noted that before assigning a score for a given item, we carefully review the notes to the financial statements and the whole annual report to make sure the item is not applicable and to prevent penalising a company for not declaring it and hence, avoiding missing any relevant information. To improve the reliability of the coding process, observations were randomly selected to be scored by the qualified practitioner. When comparing the investigators' results, we did not find any significant differences in the scores.

5.3. Independent variables

To attain the objective of this research, five corporate governance variables were identified, which are the board size, board gender diversity, board meetings, board skills and supervisory committee expertise. Corporate governance data have been collected concerning the SACCOs' annual reports for the years 2013 to 2020. Table 2 describes the measurement of this variables.

5.4. Control variables

Other factors are likely to explain the level of IFRSs compliance by Tanzanian SACCOs. As a result, the study builds on earlier compliance studies that realise that the age and size of the firm might impact the level of IFRSs compliance (Alfraih, 2016; Bananuka et al., 2019; Houcine et al., 2022; Mbir et al., 2020). From an agency theory philosophical lens, agency costs related to information are huge for the aged and large firms. As a result, older and larger organisations are more inclined to reveal more information to lower agency costs by convincing stakeholders that their interests are safeguarded. Also, Abrar (2019) argued that size and age can affect the financial and social performance of microfinance. In line with Alfraih (2016) and Bagudo (2016), we expect that aged and large-sized SACCOs will positively influence compliance levels (Table 2).

5.5. Data analysis and model development

The association between corporate governance mechanisms and IFRSs compliance level was established using a panel regression model while controlling for the other independent variables. Normality tests were conducted by examining the values of skewness and kurtosis, as indicated in Table 3 before

Table 2. Operationalization of the study variables.

Variable	Measurement	Source of data	Literature source
<i>Dependent variables</i>			
IFRS Compliance Index (CINDEX)	Measured in percentage (extent) of total number of disclosed items divided by the total applicable presentation and disclosure requirements	Annual report of SACCOs (2013–2020)	Kaaya (2019), Alnaas (2017), Sellami and Tahari (2017), Alfraih (2016), Al-Sartawi et al. (2016), Okafor et al. (2016).
<i>Independent variables</i>			
Board size (BSZ)	Measured as the total number of board directors	Annual report of SACCOs (2013–2020)	Agyei-Mensah (2017), Alnaas and Rashid (2019), Alfraih (2016); Barbu et al. (2014); Matolcsy et al. (2012)
Board Skills (BSK)	Measured as the proportion of members with an accounting knowledge and skills to the total board members	Annual report of SACCOs (2013–2020)	Mnif and Znazen (2020), Fama and Jensen (2019), Juhmani (2017); Alfraih (2016), Al-Shammari (2014), Kent and Stewart (2008)
Board Gender Diversity (BGDIV)	The number of female members as a percentage (%) of the total number of members on the board	Annual report of SACCOs (2013–2020)	Kaaya (2019), Alnaas, (2017), Sellami and Tahari (2017), Agyei-Mensah (2017)
Board Meetings (BDM)	Measured by the number of board meetings per year	Annual report of SACCOs (2013–2020)	Alnaas and Rashid (2019), Alfraih (2016), Barbu et al.(2014); Matolcsy et al. (2012), Al-Shammari et al. (2008).
Supervisory Committee Skills (SCSK)	Measured as the proportion of members with an accounting knowledge and skills to the total board members	Annual report of SACCOs (2013–2020)	Mnif and Znazen (2020), Fama and Jensen (2019), Juhmani (2017), Alfraih (2016), Al-Shammari (2014), Kent and Stewart (2008)
<i>Control variables</i>			
SACCO Age (AGE)	Measured as the number of years since foundation to the end of 2020	Annual report of SACCOs (2013–2020)	Almujamed and Alfraih (2020), Alnaas and Rashid (2019), Al-Shammari et al. (2008)
SACCO Size (SIZ)	The natural log of total assets will be used to measure it.	Annual report of SACCOs (2013–2020)	Alnaas and Rashid (2019), Alfraih (2016), Barbu et al.(2014), Matolcsy et al. (2012), Al-Shammari et al. (2008).

Table 3. Descriptive statistics for the dependent and independent variables.

Variable	Obs	Minimum	Maximum	Mean	SD	Skewness	Kurtosis
<i>Dependent variable</i>							
CINDEX	1616	0.3	0.711	0.442	0.108	1.19	2.61
<i>Independent variable</i>							
Board Size (#)	1616	3	10	6	1.511	0.46	2.58
Board Skills (%)	1616	0	0.6	0.286	0.153	0.48	2.83
Board Gender Diversity (%)	1616	0	87.5	34.61	17.72	0.81	2.93
Board Meetings (#)	1616	4	12	6	2.022	0.86	3.07
Supervisory Committee Skills (%)	1616	0	0.523	0.305	0.131	1.01	3
<i>Control variables</i>							
SACCOs Age (#)	1616	3	48	14	11	−0.94	3.06
SACCOs Size (#)	1616	7.216	12.072	9.651	1.328	0.96	3.14

Source: Field Data.

selecting which linear regression model specification to be used. Following Abdullah et al. (2023) and Pallant (2020), pre- and post-estimation linear regression assumptions, such as normality, multicollinearity, heteroskedasticity, and autocorrelation, were tested to comply with regression requirements on the pooled Ordinary Least Squared. Except for SACCOS size, the test revealed that the data were normally distributed. To address the normalcy issue and outliers, the SACCOS size was converted to the natural logarithm (Adams et al., 2019).

To choose between fixed and random effects estimates, as was commonly done in earlier research, the Hausman specification test was used (Abdullah et al., 2023; Wooldridge, 2013). According to the Hausman null hypothesis, there is no systematic difference in the coefficients. The random-effect estimates are suitable if the test is unable to reject the null hypothesis, which indicates that the p -value is more than 0.05 ($p > 0.05$). The alternative fixed-effect model becomes valid if the test rejects the null hypothesis, stating that the p -value is less than 0.05 ($p < 0.05$) (Gujarati & Porter, 2009; Wooldridge, 2013). Thus, it was determined that there is no correlation between firms' effects, supporting the Hausman null hypothesis. Hence, the random effect model was applied. To reduce bias in the results caused by autocorrelation and heteroskedasticity, we employed the robust standard error estimate.

To examine how corporate governance characteristics influence IFRSs compliance in SACCOs, we estimate the regression model based on prior studies (Bananuka et al., 2019; Kabwe et al., 2021; Mnif & Znazen, 2020). Panel regression analysis was performed to determine if corporate governance variables influence the level of IFRS compliance by Tanzanian SACCOs. IFRS compliance level (CINDEX score) is used as the dependent variable in the model. Corporate governance mechanisms (board size, board skills, board gender diversity, board meetings and supervisory committee skills) are used as independent variables. SACCO age and SACCO size are used as controls. The following is how the panel regression models formed:

$$\text{Compliance level (CINDEX)} = f \{ \text{board size, board skills, board gender diversity, board meeting, supervisory committee skills, age, size} \}$$

$$\text{CINDEX}_{it} = \beta_0 + \beta_1 \text{BSIZ}_{it} + \beta_2 \text{BSKLi}_{t} + \beta_3 \text{BGDIV}_{it} + \beta_4 \text{BMEET}_{it} + \beta_5 \text{SCSK}_{it} + \beta_6 \text{SAGE}_{it} + \beta_7 \text{SSIZ}_{it} + \varepsilon_i \quad (2)$$

where CINDEX=Compliance index score, BSIZ=Board size, BSKL=Board skills, BGDIV=Board Gender Diversity, BMEET=Board Meetings, SCSK=Supervisory Committee Skills, SAGE=SACCO's Age, and SSIZ=SACCOs' Size.

6. Empirical results and discussion

6.1. Descriptive statistics

The findings of the descriptive statistical tests for each of the study's variables are summarised in Table 3. The results show the average IFRS compliance level in Tanzanian SACCOs is 44.2%. The minimum score was 30% and the maximum was 71.1%. The findings indicate that no Tanzanian SACCO fully complied with all the IFRS-required disclosures. The IFRS score is considered a low compliance level by various disclosure scholars who consider at least 70% and above as a satisfactory IFRSs compliance level (Alfaraih, 2009; Al-Shammari, 2005; Bagudo, 2016; Ezenwoke & Tion, 2020; Sellami & Tahari, 2017). Furthermore, the compliance level is below 75% which is the minimum standard provided by the Tanzania National Board of Accountants and Auditors in evaluating best-presented financial statements (NBAA, 2023).

6.2. Correlation analysis results

The Pairwise correlation matrix correlations between the independent variables are shown in Table 4. The findings indicate that Pearson and Spearman's correlations are mostly consistent in size and significance. Table 4 shows the correlations between all of the independent variables. However, no pair-wise correlation value is more than 0.8, suggesting that multicollinearity is unlikely to be a significant issue when interpreting multiple regression findings (Gujarati & Porter, 2009).

The Variance Inflation Factor (VIF) is another test for multicollinearity among explanatory variables, with the rule of thumb that when the score is five (5) or above, there is multicollinearity among variables

Table 4. Correlations matrix.

Variables	1	2	3	4	5	6	7	8	VIF
1 CINDEX	1								
2 Board Size	-0.0396	1							1.128
3 Board Skills	0.146***	0.0264	1						1.064
4 Board Gender Diversity	0.0992**	-0.00061	-0.0553	1					1.057
5 Board Meetings	-0.0192	0.110**	0.00544	-0.146***	1				1.029
6 Supervisory Committee Skills	0.0388	-0.0714**	0.0625	0.00345	0.0699	1			1.057
7 SACCOs Age	0.122***	0.0528	0.226	-0.0802*	-0.184***	0.0845*	1		1.108
8 SACCOs Size	0.174***	-0.0957**	0.0313	0.217***	-0.111**	-0.0127	0.106**	1	1.017

***, ** and * represents significance level at 1, 5 and 10%.

Table 5. Regression results Corporate Governance characteristics and CINDEK.

Variables	Predicted sign	Coefficient	p-value	VIF
Board Size	+	-0.005	0.1821	1.128
Board Skills	+	0.0749***	0.0012	1.064
Board Gender Diversity	+	0.2096***	0.0024	1.057
Board Meetings	+	-0.0131	0.1758	1.029
Supervisory Committee Skills	+	0.3393***	0.0033	1.057
Saccos AGE	+	0.0134	0.1234	1.108
Saccos SIZE	+	0.0874**	0.0014	1.017
Constant		1.8003***	0.0011	
Observations		1,605		
R-squared		0.1789		
Adjusted R ²		0.1497		
F- statistics		6.42		
Number of Unique_ID		201		
Mean VIF				1.066

Notes: ** and *** denote significance at the 5 and 1% levels, respectively.

(Wooldridge, 2013). The VIF findings in Table 4 show that none of the variables exceeds 5, indicating that there is no multicollinearity concern.

6.3. Regression results

To make sure the dataset complied with the regression analysis's presumptions, it was examined. After examining the normal curve, the normality test was found to be about normal. Additional validation was carried out using skewness and kurtosis. As can be seen in Table 4, there was no multi-collinearity issue because all values were below the suggested threshold. Additionally, as indicated in Table 4, the data were examined for multicollinearity using Pearson correlation and VIF. The robust standard error estimate was employed to account for bias in the context of heteroskedasticity and serial correlation. This estimate modifies the presumption that the errors are independent and uniformly distributed. The findings of the diagnostic assumption test show that the study's linear regression assumptions have been plausibly met. The results of multiple regression analysis are presented in Table 5.

Contrary to H1, results in Table 5 indicate that board size is negatively but insignificantly related to IFRSs compliance level ($\beta = -0.005$, $p > 0.1$). This indicates that the size of the SACCOs board does not have an impact on IFRSs compliance, due to the nature of SACCOs formed through a common bond. There are possibilities of electing board members with the same features with no mix of experience and skills. It was anticipated that the substantial number of board members would increase the ability to monitor and control operations and hence increase the disclosure of more information by the management (Al-Shammari, 2014). This finding is consistent with other prior studies. For instance, Kabwe et al. (2021) discovered a non-significant relationship between IFRS compliance and board size level in Zambian-listed firms. However, it contradicts the finding of Mnif and Borgi (2020) who affirm a positive and significant relationship between board size and IFRSs compliance in 12 African countries. It can be reasoned that boards with fewer members are more likely to operate efficiently than those with more members because they can make decisions quickly and communicate well (Juhmani, 2017). Due to SACCO's nature, the effectiveness of the board in monitoring the management and improving compliance level is not to just add more members to the board but it will depend on other factors such as academic qualifications and skills possessed.

Board skills are positively and significantly related to the IFRSs disclosure requirements as Table 5 reveals ($\beta = 0.0749$, $p < 0.01$). Thus, H2 is confirmed. Undeniably, the high accounting and financial qualifications/skills of the board members can resolve the problem of understanding the financial statements prepared by the management and hence improve compliance (Ezenwoke & Tion, 2020). This result is consistent with Kabwe et al. (2021) who reveal that board members with financial expertise improve compliance with IFRS requirements in Zambian listed firm. But contradicts the results of Alade (2018) and Bagudo (2016) who found an insignificant relationship between the skills of board members and IFRSs compliance level. Members of the board with financial knowledge arguably have a better understanding of the financial statements and related provisions which will influence the management to

comply with all IFRS disclosure requirements. Financial skilled board members may have a significant impact on SACCO IFRSs compliance than in other entities due to the nature of SACCOs where by common bond my bound members with limited financial skills. In this regard, few available financially skilled board members may have significant influence on IFRSs compliance and help other members on monitoring role and improve compliance level.

Consistent with H3, as indicated in Table 5, results provide that, there is a statistically significant positive correlation between the number of women on SACCO boards and the degree of IFRS compliance level at (β 0.2096, $p < 0.01$). This result is consistent with the previous studies examining the relationship between the board gender diversity and IFRS compliance levels such as Alfraih (2016), Agyei-Mensah (2017) and Kabwe et al. (2021). Women are assumed to be more independent in decision-making, more risk-averse in financial decision-making than men, and less tolerant of unethical behaviour (Adusei, 2019; Guerrero et al., 2017). Thus, including women on the board will reduce conflict levels among board members and improve the quality of financial statements through effective monitoring (Agyei-Mensah, 2017). Nevertheless, the good impact of women on the board will not just merely be increasing the numbers but it will depend on other factors such as their academic background and experience (Joecks et al., 2019). Due to SACCO's operational characteristics, having a woman on board with financial expertise will enhance compliance with IFRSs.

Empirical results in Table 5 show that board meetings have a non-significant and negative coefficient ($\beta - 0.0131$, $p > 0.1$). Hence, H4 is not supported, this provides and indicates that the additional board meetings other than statutory quarter sessions do not affect the SACCOs IFRSs compliance level. Based on SACCO's operating characteristics, a few strategic board sessions are enough to monitor the management to comply with IFRSs requirements and other regulations. It was expected that the frequency of SACCO board meetings would improve the monitoring role of the board and regular follow-ups of the management activities (Mlay et al., 2022). Therefore, frequent meetings are predicted to influence compliance with IFRSs mandatory disclosure. This result is consistent with Fuente et al. (2017) who affirm an insignificant relationship between a higher number of meetings and mandatory disclosure in Spain. Also, Bagudo (2016) found frequent board meetings have no impact on the IFRSs compliance level in Nigerian listed firms. However, these results are contrary to Chen and Rezaee (2012) who found a positive significant influence of board meetings on the disclosure requirements of IFRSs across Chinese companies. The findings support the argument of Musleh Alsartawi (2019) who argued that meetings are not for strategic decisions other than sessions of protocols.

In line with this H5, Table 5 results reveal that there is a statistically significant positive relationship between supervisory committee skills and IFRS compliance level at (β 0.3393, $p < 0.01$). The high number of accounting, finance or auditing experts in the committee will increase the supervisory role of the committee concerning reporting and hence improve the quality of IFRS disclosure requirements. These findings are in line with other previous studies such as Mnif Sellami and Borgi Fendri, (2017) who find that audit committee expertise enhances "Related Party Disclosures" in South Africa. Accordingly, Mnif and Borgi (2020) found a positive and significant influence of audit committee financial expertise on the compliance for 12 African countries. However, these results are contrary to Kabwe et al. (2021) who found insignificant influence of financially skilled audit committee members in Zambia. Based on the formation of SACCO governance, the supervisory committee is quite more autonomous and different from other audit committees. All their members are not part of the SACCOs board, are elected independently and are responsible for the general meeting. This independence provides more freedom to oversee the management and the board. Thus, having financially skilled committee members enhances adherence to IFRS requirements and raises the standard of financial information sent to SACCO members.

6.4. Sensitivity analysis

Several robustness tests were carried out on CINDEX and corporate governance mechanisms to make sure the regression findings were insensitive to different measurements of the dependent and independent variables. Following previous literatures, two robustness tests were performed to confirm that the regression findings were not sensitive to alternate dependent variable measurements (Alfraih, 2016;

Houcine et al., 2022; Mbir et al., 2020). The first test included substituting the dependent variable (CINDEX) with its logarithm. The second robustness test entailed re-estimating the principal regression by dividing the CINDEX scores (the dependent variable) into three sub-groups (high, medium, and low). Nothing appreciable changed when the dependent variable was swapped out for its logarithm in the main model. Furthermore, the findings demonstrate that the explanatory variable coefficients' size and significance were unaffected by the CINDEX's collapse into three subgroups. Untabulated results also show that the results remain unchanged by using these robustness tests.

Additionally, the robustness test was conducted on corporate governance characteristics, including board size, board skills, board gender diversity, board meetings, and supervisory committee skills were employed as independent variables to influence the IFRS compliance level. Alternative assessments of these variables have been employed based on previous studies (Kyazze et al., 2017; Mahadeo et al., 2012; Mbir et al., 2020). Although the coefficients are not reported the outcomes of the baseline model were validated by every robustness test.

7. Summary and conclusion

Finding out how corporate governance practises influence IFRSs compliance levels in SACCOs was the aim of this research. Using a sample of 202 Tanzanian SACCOs over the 2013–2020 period. Regarding the extent of compliance, descriptive statistics indicate that SACCOs in Tanzania are complying with 44.2 per cent of IFRSs disclosures. This level of disclosure is considered a low compliance level.

The findings offer empirical evidence of a positive and significant association between the number of women on the board, the financial skills of the board and supervisory committee members, and the IFRSs compliance level. It is beyond question that the degree of IFRS compliance will be raised by having board members with expertise in accounting, finance, or auditing. This is because board members and supervisory committee members with finance expertise are likely to demand more accountability from management to prepare quality financial reports in line with IFRSs requirements. The study did not, however, find any indication that board size or meetings had an impact on IFRSs compliance levels, suggesting that neither of these factors add value in increasing SACCO IFRSs compliance levels. The results validate agency theory's perspective that a board with financially skilled members and the inclusion of women on the board provide a good mix of governance to monitor the management and enhance quality financial reports adhering to IFRSs requirements. Moreover, the results confirm the agency theory perspective that financial reports disseminated to the public will be of high quality observing the requirement of IFRSs if the board and the supervisory committee possess financial expertise.

The study has implications for regulators, standard-setters, and future researchers in terms of both policy and practice. The study's findings about the impact of corporate governance on IFRS compliance should serve as a signal to Tanzanian officials, who should oversee the enforcement of IFRS compliance and enhance the quality of SACCO financial reports. According to the report, SACCO members ought to consider choosing board members with backgrounds in finance, accounting, or auditing. Moreover, the study suggests that financially skilled women should be encouraged to be part of SACCO boards.

From a policy standpoint, best practices must be directed by the government through the Tanzania Cooperative Development Commission (TCDC), which serves as a cooperative policy maker and regulator, to ensure SACCO financial reports comply with all IFRSs requirements through reviewing existing regulations and considering reform of SACCOs board setup. This research provides proof that the non-compliance issue is important in emerging economies by demonstrating a low degree of IFRSs compliance. Unquestionably, regulators, standard-setters, and other stakeholders must be concerned about the non-compliance of IFRS requirements. The move towards the Harmonization of accounting practices for member-based institutions such as SACCOs is also another implication yielded from the findings of this current study.

This research focused on how SACCO corporate governance attributes influence compliance with IFRSs requirements, future research should empirically examine the influence of another variable on how it can influence compliance with IAS/IFRS standards in the SACCO context.

Authors' contributions

DAM developed the idea and carried out this study as a first author under the supervision of Dr. CSM and Dr. SN. All authors read and approved the final manuscript and agree to be accountable for all aspects of the work.

Disclosure statement

No relevant financial or non-financial competing interests to report.

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Ethical clearance

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Data availability statement

The data set for this study will be available upon reasonable request.

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