

AN EVALUATION OF THE AUDIT COMMITTEES IN FOUR SELECTED
GOVERNMENT MINISTRIES IN NAMIBIA

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Abstract

This study evaluated audit committees in the government ministries in Namibia by assessing their composition, function and regulations governing them. The study used the qualitative method. A purposive sampling method was used as the researcher selected ministries with audit committees. Thematic and content analysis was used in this study. The researcher used primary and secondary data. On primary data, interviews were conducted and recorded with a voice recorder. Secondary data were used to review the existing literature.

The study found that from the 4 government ministries with audit committees, only one ministry consisted of independent members as well as an independent chairperson. The other 3 ministries are chaired by members within their organisation. The 2 ministries are chaired by the Permanent Secretary and one by a medical doctor and 1 ministry is chaired by an outsider. This is contrary to the best practice, which requires that the chairperson of the audit committee should be an independent member as well as the members of the audit committee. The majority of the audit committee members should preferably be non-executive directors

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Declaration

I, Angela Winnie Kandandu, declare hereby that this study **evaluation of audit committees in government ministries in Namibia** is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Abbreviations

AICPA : American Institute of Certified Public Accountants

ASX : Australian Stock Exchange

BAPEPAM : Badan Pengawas Pasar Modal

BRC : Blue Ribbon Committee

CAMA : Company and Allied Matter Act

CEO : Chief Executive Office

CFO : Chief Financial Officer

KNF : Komisji Nadzoru Finansowego (Polish Financial Supervision Authority).

MCCG : Malaysian Code on Corporate Governance

PAC : Public Accounts Committee

PFMA : Public Finance Management Act

SEBI : Securities and Exchange Bureau of India

SEC : Security and Exchange Commission

SOE : State Owned Enterprise

SOX : Sarbanes Oxley Act

US : United State of America

CHAPTER ONE: INTRODUCTION AND OVERVIEW OF THE STUDY

1.1 Background to the research problem

According to Enofe, Aaronmwana and Abadua (2013), the development of audit committees in the corporate environment can be divided into two periods, voluntarily establishment and mandatory establishment periods. Saurez, Garcia, Mendez and Guitierrez (2012) argue that voluntarily the setting up of an audit committee does not necessarily imply that there was a genuine intention on the part of the company to create an effective control mechanism to prevent the manipulation of accounting information. Moreover, Davies (2009) notes that in Spain, researchers found that voluntary audit committees did not lead to the improvement on the reliability of accounting information. However, such committees are merely the product of marketing campaign to improve the firm's public image. Saurez et al. (2012) found that, when a law was enforced in Spanish for listed firms, the audit committees that were established gained effectiveness.

Audit committees have become topical in the modern corporate governance world following the major scandals such as Enron in 2001 (BBC, 2002). The scandal saw the fall of 'Big Five' Accounting Firm, Arthur Anderson Firm in United States (Nguyen, 2009). These scandals that lead to the collapse of the firms brought up an awakening call to audit committees to improve the performance of their functions. (Enofe et al., 2013). Due to these scandals, authorities were forced to devise legislative instruments such as the King III report (Ferreira, 2008). Furthermore, this will be an increase on both regulation and guidance in order to improve corporate

governance mechanisms and to reinstate assurance on investors in financial reporting (Morgan, 2010); hence the mandatory establishment period. Sarbenes-Oxley Act (SOX) stipulates that the audit committees' responsibility is to assist in transparency on internal controls in reporting of financial matters in both the private and public sectors (Chien, Mayer & Sannettie, 2010). According to KPMG (2009), the King III requirement is that an audit committee should consist of independent and suitably qualified audit committee members who should be appointed by the shareholders. The South African Companies Act 71 of 2008, states that an audit committee is a governance control designed to oversee financial reporting, internal controls to assess risk and audit activities (Lin, Hutchinson & Percy, 2013). The main aim is to improve the organisational governance whether in the private or public sector. Thus the aim is to provide assurance on financial and compliance issues through thorough examinations, accountability and efficient use of resources. Audit committees also serve as an advisory function aimed to improve the performance of an organisation (Magrane & Malthus, 2010).

For the effectiveness of the audit committee, KPMG (2009) indicates that when appointing an audit committee, the composition should have members who are knowledgeable in financial accounting, auditing and corporate law. Furthermore, Barua, Rama and Sharma (2010) reiterate the same concept of the need for suitably qualified and experienced audit committee members with specific accounting expertise and auditing experience who are positively associated with internal control effectiveness and the quality of financial reporting. Contrary to this, Ferreira (2008) points out that a number of studies have shown that most of the audit committees are

composed of individuals who do not have the necessary skills, knowledge and experience to function as audit committee members. Ferreira (2008) further contends that the lack of skills, knowledge and appropriate experience hinders the members to perform their duties with due diligence. In addition, Ferreira (2008) also states that non-availability of experienced non-executive directors is another challenge faced by audit committees. Migrane and Malthus (2010) contend that in the later studies of the examination of the audit committees it was found that audit committees with less financial expertise are likely to be identified with internal control weaknesses.

In New Zealand it was found that 70 percent of audit committees in the Public Sector and 60 percent in the private sector have chief executive officers as members of the audit committee (Migrane & Malthus, 2010). According to Davies (2009), the corporate governance codes were written with the private sector in mind, but it is also important to consider the same corporate governance in the public sector.

There has been an emphasis that government ministries in Namibia should establish audit committees. The Public Accounts Committee (PAC) of Namibia recommended that the ministries and offices must establish audit committees (Ihuhua, 2012). To date only four ministries have established audit committees as per PAC recommendations. The four ministries are the Ministry of Health and Social Services, the Ministry of Justice, the Ministry of Information and Communication Technology and the Ministry of Youth, Sport and Culture.

Currently in Namibia, the only document that governs audit committees in the private sectors and State Owned entities is the Namcode. So far only the PAC recommendations regulate government ministries audit committees (Ihuhua, 2012).

Following the 1994 King Report on Corporate Governance for South Africa and its successors, King II and King III, Namibia established the Corporate Governance Code for Namibia (NamCode) based on King III report that provides guidance to all Namibian corporate entities with a list of best practice principles to assist and guide directors to make the right choice for their entities for good corporate governance (Deloitte, 2013). According to Deloitte (2013), the NamCode provides guidance to all Namibian corporate entities on various governance related aspects, including audit committees. It is against this background that this research evaluates the audit committees in government ministries in Namibia.

1.2 Statement of the research problem

Kauaria (2005) states that there is an absence of an effective internal audit function in the government ministries in Namibia. Therefore, there is no assurance of effective internal controls, processes and system in place. Furthermore, Masawi (2012) states that most Namibian companies do not have enough representation of qualified board members and audit committee members while public institutions are dominated by political appointees, a situation that compromises the efficiency within State-Owned Enterprises (SOEs) and government ministries are the most affected institutions. It is against this background that this research investigates the

composition, functioning and regulation of the audit committees in government ministries of Namibia.

1.3 Research objectives

The objectives of this study were to:

- assess the composition of the audit committees in selected government ministries in Namibia;
- evaluate the functions of the audit committees in the government ministries in Namibia;
- assess how audit committees in government ministries are regulated;

1.4 Significance of the study

The study fills the gap in the composition of the audit committees, function and expertise required by the Namibian government ministries in establishing audit committee as per best practice recommended by the NamCode and the King III report. Furthermore, the findings of this study might be useful for the government ministries in Namibia and Office of the Auditor general to ensure they achieve the intended objectives in forming up audit committees in the government ministries with the right qualifications, experience and expertise for best practice.

1.5 Research methodology used

The researcher used the qualitative phenomenological design. The sampling method which was employed for this research was purposive sampling as the researcher

focused on selected four ministries with audit committees. Both primary and secondary data were used in the research. Interviews were conducted and responses were recorded with a voice recorder and transcribed afterwards. Content and thematic analyses were used to analyse the data.

1.6 Ethical consideration

Appropriate ethical considerations were followed and participants were informed of the confidentiality of the interviews. The participants were informed that the transcripts were to be handled confidentially and names were not going to be used.

1.7 Limitations of the research

The study focused on Audit Committee in government ministries of Namibia and only in Windhoek. There is very limited literature around this topic. At the time of completion of this study there were changes in leadership in the Namibian government. The new government came up with new ministries and new audit committees. Due to time constraint the researcher could not go back to those ministries. The Chairperson and members of the audit committee for Ministry of Health and Social Services were not interviewed because the Deputy Director internal audit did not give the researcher an opportunity to interview them. It was understood that the audit committee never functioned since its establishment. The sample size was therefore reduced based on these reasons.

1.8 Organisation of the thesis

The remainder of the thesis proceeds as follows: Chapter Two gives an overview of the theories and literature concerning the evaluation of audit committees in government ministries in Namibia. Chapter Three presents the research methodology that was followed during the empirical phase. Chapter Four reports on the findings and focused on the data presentation, analysis and interpretation of findings. Finally, Chapter Five provides the conclusion and recommendations.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Chapter 2 discusses the secondary data on studies conducted by other researchers. It is of importance to benchmark these with various authors in order to obtain views and make comparisons to the current situation in Namibia.

This literature review aims to provide a meaningful discussion in evaluating the audit committees in the government ministries.

Before delving into the review of relevant literature, it is important to define terms that relate to the study.

2.2 Definition of terms

The following terms relate to the study and should be understood as such.

Audit Committee

Goodson, Mory and Lapointe (2012) defines an audit committee as the governance body that is charged with oversight of the organisation's audit and control functions.

On the other hand, Lexicon (2012) defines an audit committee as a group of members who are independent from the board of directors and whose responsibility is to ensure that auditors are independent from management. From the two definitions, it can be seen that an audit committee has a governance responsibility associated with the review and assessment of the performance of the organisation following the best practice principles.

Internal control

Jackson and Stent (2010) define internal control as a process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. There are three categories to be achieved in the internal control process, namely:

- Economy, efficiency and effectiveness of operations;
- Internal financial control and;
- Compliance with applicable laws and regulations.

Non-executive director

The King 11 report states that a non-executive director is an independent person who is not an employee of the company and does not participate in the operational activities of the company or its subsidiary. Such an individual is considered to be a non-executive director, unless his or her conduct or executive authority is understood to be performing the day to day activities of the company and is also part of the management (Ferreira, 2008). The report further states that an independent director is a non-executive director who:

- i) is not a shareholder of the company who has power to influence management.

- ii) did not work for the company or group for a period not exceeding three years.
- iii) is not related to any individual who is or has been in any of the past three financial years, employed by the company or group, other than a director capacity.
- iv) is not an advisor or legal secretary of the company.
- v) does not have any relationship with the company or subsidiary of the company.
- vi) does not have any conflict of interest or material interference with the individual's capacity and act in an independent manner.
- vii) is free from any business or other relationship, which could be seen to materially interfere with the individual's capacity to act in an independent manner (Ferreira, 2008).

Ministry

The Pocket Guide (2011) defines a ministry as the largest government institution headed by a minister. The minister is responsible to report on his/her ministry's business to Parliament.

Permanent Secretary

The State Finance Act (1991) defines a Permanent Secretary as the Permanent Secretary for any office, Ministry or agency. In this study, the meaning of Permanent Secretary should mean as defined.

2.3 Scarcity of skills

The issue of skills has been a problem in the audit committees. Ferreira (2008) asserts that most of South Africa's audit committee members in some instances lack the necessary skills, knowledge and experience that qualify them to be effective audit committee members. Wixley and Everingham (cited in Ferreira, 2008) state that there is lack of availability of non-executive directors who are willing to serve on audit committees. Ferreira (2008) further stresses that a professional director at Ernst and Young said that it is not easy to find people with the appropriate skills and experience and who can work effectively on an audit committee. Morgan (2010) states that the requirements that the audit committee has to meet, such as independence and financial literacy, causes candidates to hesitate to accept these positions.

Al-Saeed and Al-Mahamid (2011) state that audit committees cannot be effective if members do not have the necessary and properly qualified people. According to Beasley (cited in Al-Saeed & Al-Mahamid, 2011), companies with fewer outside independent directors are more vulnerable to financial fraud compared to companies with the majority of members who are executive directors. Al-Saeed and Al-Mahamid (2011) state that research that was done in the United State of America (USA) reveals that a large number of audit committee members lacked knowledge in accounting and auditing. Thus, many USA companies did not depend on these audit committees.

Davies (2009) states that in Wales, there was a problem in the recruitment of audit committee members, especially on small councils. It was difficult to identify members with suitable talents and know-how, especially when such members were serving on multiple committees as they tended not to be committed.

Munro and Buckby (2008) in their study found out that in Australia, the compliance on the independence of audit committee members was not in accordance with the stipulated practices and guidelines; it was much lower than recommended. This arose as a fact of lack of transparency in disclosing what independence means and not appointing independent audit committee members. Munro and Buckby (2008) further state that prior studies by Buck in 1994 reported that in Australia, 46% of audit committee chairpersons and 14.1% of other audit committee members had accounting and auditing experience; the rest did not have accounting knowledge. The results indicated that audit committee members were relatively lacking financial expertise during the first period of regulation.

The collapses of Barings, Enron, HIH insurance and many other companies around the world were the catastrophes of the monitoring systems. However, this was due to the limitation of information, not knowing what to do and lack of availability of information that limited their capability to be effective monitors (Lama, 2011).

Huang and Thiruvadi (2014) argue that the percentage of independent members and the average tenure of audit committee members have a significant negative impact related to the incident of misappropriation of assets in public held companies. Moreover, firms which operate in poor corporate environments with fewer outside

directors and who are overcommitted seem to fall into fraudulent activities. Bhasin (2012) argues that most of the roles of the audit committees have been limited due to the lack of expertise and time. Morgan (2010) argues that the highly experienced audit committee members do sit on too many audit committees and thus this affects their time to be committed.

Szezepanskowski (2012) in his study found that 40% of audit committee members gave the following reasons for slow audit practice: lack of financial accounting or audit experts on supervisory boards and audit committees, independency of committee members, lack of laws or other regulations and lack of proper cooperation from management.

Morgan (2010) states that audit committee members need to be educated on a continuous basis to stay abreast of the new changes as they might not have current knowledge on International Financial Reporting Standards.

In conclusion, it seems that most scholars have found that there is lack of financial expertise in audit committees and that other tasks besides being audit committee members hinder the committee members from performing their duties diligently. It also seems that time is a constraint.

2.4 The nature of the audit committee

It should be noted that governmental audit committees do not have anyone to appoint them. According to O’Riordan (2013), the Irish government departments do not have a board to either appoint an audit committee or to hold the secretary general

accountable. It is the responsibility of the secretary general to establish an advisory audit committee that reports to him/her. The secretary general supports the committees' work and independence to ensure that they have an impact on their departments. The secretary general appoints members who bring in their knowledge, skills and experience on issues such as audit, internal controls and risk management.

According to Ng (2013), the efficiency of audit committees is influenced by their structures and members and the governance characteristics such as independence, financial knowledge, knowledge about the industry of the company operate in, holding of meetings on regularly basis, size of the committee, and the presence of an audit committee charter.

According to DeZoort, Hermanson, Archambeault and Reed (cited in Ghazali, 2012), the effectiveness of audit committees is especially influenced by four elements which are composition, authority, resources and diligence as described below.

2.4.1 Composition of audit committees

There are requirements that guide the composition of the audit committee which are independence, capability, educational background and financial expertise. These requirements are important in that they enable the committee to make sound judgments.

2.4.1.1 Independence of audit committees

Al-Saeed and Al-Mahamid (2011) argue that one of the vital features of establishing an audit committee is the composition of an audit committee. The independence of

audit committee members is considered the most important feature that needs to be looked at. Moreover, the composition of an equal number of members who are non-executive directors enable the audit committee to effectively check the powers of the executive directors (Enofe et al., 2012).

The most critical success factor in the audit committee composition is to have non-executive directors who are considerate, diligent, with good morals and judgmental. The selection process of audit committee members is another factor that needs to be taken into consideration (Morgan, 2010).

Lexicon (2012) states that the UK Corporate Governance Code of 2010 necessitates that the “board should formulate an audit committee that consists of three members, and at least two in smaller companies.” The audit committee members should be independent from management. The need for three members is also supported by the Public Finance Management Act (PFMA) of South Africa which requires that the audit committee consists of three members, of whom one should not be a member of the public service. The majority of audit committee members should not be employees of the department. The decision to have the majority of members in the audit committee in South Africa can only be approved by the treasury (Ferreira, 2008).

Islam, Islam, Bhattacharjee and Islam (2010) believe that independent directors should meet certain features that will assist them in achieving their monitoring role. One of the characteristics that they bring in to the committee is the expertise and another one is independence. The expertise and independence are vital in order to

retain or enhance their reputation in the external labour market. Munro and Buckby (2008) maintain that the independence of audit committee members should be perceived as a crucial characteristic in ensuring that they accomplish their fiduciary duties on making good decisions that are in the best interest of a company's shareholders. Audit committees that consist of independent members are more effective and meet corporate governance requirements. Furthermore, there is an increase in financial expertise when the majority of audit committee members are independent.

Islam et al. (2010) argues that independent directors can escalate the level of monitoring as they independently represent the shareholder's interest. However, misunderstanding can arise between executive and non-executive directors. Non-executive directors may not be aware of what is happening in the company which sometimes makes it a challenging aspect as management might only give selective information that suits them.

According to Ng (2013), in Australia, the composition of the audit committees should consists of members who are independent and objective, with sound financial literacy, professional skills and technical experience. In contrast, Poudel and Hovey (2013) argue that although executive directors have possible skills and experience and are more knowledgeable on the firm's operation polices and knowhow of the day to day activities, there is always a need to have independent directors on the board in order to add the value of their experience, expertise and knowledge obtained from their own fields. Poudel and Hovey (2013) say that independent audit committee

members from management are likely to prevent manipulation of financial results. Independent audit committee members are a good monitoring tool for managers as they have no economical or personal attachment or relationship with management. Salloum, Azzi and Gebrayel (2014) conclude that executive members can impair the effectiveness of audit committees in influencing decision-making. A higher percentage of executive directors have a limitation of information as the board might hold vital information. Independent audit committee members tend to strengthen the independence of external auditors. In contrast, Carcello, Neal, Palmrose and Scholz (2008) believe that the selection of audit committee members by the CEO reduces the effectiveness of directors' independence and expertise. It makes the mind-set of the nominated directors not to be completely independent. Audit committees need to be completely independent to be effective. Islam et al. (2010) state that the audit committees' legal environment has changed tremendously over time and outside directors are held liable.

2.4.1.2 Chairpersons of audit committees

Ng (2013) stresses that the independence of the chairperson is deemed to play a crucial role in enabling audit committee effectiveness. Ferreira (2008) asserts that in South Africa, the Corporate Laws Amendment Bill of 2006 stipulates that the chairperson may not be an employee of the department; this is included in the National Treasury of 1999 of South Africa. Ferreira (2008) also maintains that the chairperson of the audit committee should be a non-executive member and should not be chairperson of the board of directors. There should be a distinction between

the chairperson of the audit committee and the board of directors. Furthermore, Al-Saeed and Al-Mahamid (2011) point out that the success or failure of the operation of an audit committee depends on the chairman of the audit committee. Therefore, the chairman of the audit committee should be chosen with great care. In addition, Hegazy, Hegazy and Hegazy (2010) argue that combining the role of the chairman and the chief executive officer (CEO) reduces the effectiveness of audit committees. However, Hegazy et al. (2010) and Ng (2013) believe that there should be a difference between the CEO and the chairperson in terms of their positions. The chairperson of the audit committee should not be the CEO or chief financial officer (CFO) of the company. Also, he/she cannot be a board member. Ng (2013) also contends that the chairperson of the audit committee plays a crucial role in ensuring the effectiveness of the audit committee's operation in a company. The chairperson of the audit committee should have a financial background and should have knowledge of the operations of the company.

O'Riordan (2013) states that in the Irish governmental departments, the recruitment of the chairpersons and members of the audit committee are done by the secretaries. They also appoint internal members from their own departments and invite participation from external members from other departments from both private and public sectors. Secretaries view the chairperson as a critical key for the success of an audit committee and they look for a candidate with qualifications, integrity, externality, an independent mind-set and knowledge about public sector affairs. These are requirements considered by the secretaries when hiring both the chairperson and external members. When secretaries appoint committee members,

they make sure that external members have independence, credibility and experience to contribute to the committee. Bello (2014) states that it has been argued whether an audit committee should be chaired by the accounting officer or by an independent director. In addition to that, in the UK, the corporate governance in central government is very clear; it stipulates that a non-executive member should chair the audit committee as a means of increasing the objectivity of the audit committee.

Moreover, the chairperson's experience has a negative effect on accounting performance, and it also has a negative impact if he/she serves too long as he/she becomes less independent. The longer the audit committee chairperson serves on an audit committee the more the chairperson will behave like an inside director (Aldamen et al., 2012).

Turley and Zaman (cited in Sarens, 2013) provide evidence that the role of the chairperson of the audit committee plays a crucial role in affecting governance outcomes. The background of the chairperson of the audit committee plays a major role in financial reporting, risk management and control outcomes. There is also an interaction between the chairperson of the audit committee, internal auditors and external auditors and the interlink between them is the knowledge, experience in the business, business specific risks, corporate governance, risk management, internal control, accounting and financial expertise which they share. Thus, it allows the audit committee chairperson with knowledge and expertise to seek information from the internal audit function.

Goodson, Mory and Lapointe (2012) state that an audit committee should not be chaired by a person to whom the Head of internal audit reports to administratively. The chairperson of the audit committee should not be the person to whom the chief audit executive reports to administratively. This means that the CEO cannot be the chairperson of the board, as the chief audit executive reports to him/her.

2.4.1.3 Size of audit committees

Stewart (2012) states that Malaysia follows the best practice and adheres to recommendations stated in the listing requirements of Bursa Malaysia of 2011, which is mandatory for the listed companies. The audit committee should consist of at least three members, of whom the majority should be independent members and an independent chairperson. Munro and Buckby (2008) reiterate that audit committees should have three members who are financially literate. Prior studies have shown that financial knowledge is critical for audit committee members to have the ability to read and understand financial statements.

Ng (2014) is also in agreement with other authors that audit committees should consist of three members who will be responsible for performing the committees' roles. The Australian Stock Exchange (ASX) does not stipulate as to the number of members of the audit committee and it is also not stated whether larger committees can contribute to the efficacy of the monitoring tool. Ferreira (2008) further states that the number of the audit committee members might depend on the size of the company.

Poudel and Hovey (2013) conclude that it is likely that larger audit committees have better resources than smaller audit committees when it comes to the evaluation of financial statements and decision making. The decision making literature argues that when there is an increase in the number of people on the audit committee there is an increase in performance, and this decreases the chances for wrongdoing because collusion becomes more difficult. In contrast Bedard, Choitorous and Courteau (cited in Li, Magena & Pike, 2011) argue that the more the audit committee members, the less effective they become. This leads to an ineffective audit committee that will not be able to resolve possible problems when reporting. The audit committee will be unable to render essential advice and guidance. Karamanou and Vefas (cited in Li et al., 2011) also argue that a committee is weaker if it has a large number of members, as other members will have a tendency to hide behind other members; some will be comforted by the presence of others. In this regard, it means that other members will not contribute ideas, but will rely on other members. Therefore, the audit committee should be of a minimal size. The larger the audit committee, the more the members tend to lose focus and concentration on their responsibilities.

Poudel and Hovey (2013) also argue that there is a mixed result regarding the audit committee size and its firm's performance. Some studies revealed that there is a positive relationship between audit committee size and a firm's performance, while other studies are in contrast stating that there is no correlation between audit committee's size and performance. Larger committees have a tendency of losing concentration and becoming less participative than small audit committees. Salloum et al. (2014) found that smaller boards are better monitors than larger boards. In

contrast, it is further stated that large audit committees are more efficient in monitoring financial reporting processes.

Moreover, Huang and Thiruvadi (2014) found that fraud frequently dropped to 14% in groups with three audit committee members, and to 1% in groups with five to six members. Larger audit committees are less associated with fraudulent activities.

DeZoort et al. (cited in Ghazali, 2012) state that in order for an audit committee to be effective, it should have a small number of committee members to perform the work. Some regulation documents such as the Blue Ribbon Committee (BRC, 1999), the Sarbanes-Oxley Act (2002), and BAPEPAM (2004) suggest that the audit committee should consist of at least three persons.

In Namibia, the composition of the audit committee is prescribed in the NamCode, which states that the audit committee should be appointed by the shareholders and should consist of at least three independent non-executive directors (Deloitte, 2014).

2.4.1.4 Experience of audit committee members

Stewart (2012) investigated whether the experience of audit committee members affects decisions to side with auditors or management. Furthermore, other studies found that audit committee members working with independent directors are more experienced and render support to auditors as opposed to members who are executive directors. In Malaysia, one member should be a member of an accounting board and, if not, should have three years' working experience in accounting. Bhasin (2012) states that audit committees that consist of qualified independent directors contribute

better towards the auditor's independence. Independent audit committees and independent auditors have a significant advantage of enhancing the quality of disclosures in reducing unrestricted earnings of management and this generally enhances the value of the firm.

Al-Saeed and Al-Mahamid (2011) say that the audit committee should have independent and competent members with necessary skills to be able to monitor external communication, the external auditor and internal controls. Al-Saeed and Al-Mahamid (2011) state that there are six dimensions in determining the role of formal or informal processes that affect audit committees' effectiveness such as the agenda of the meetings, audit committee meetings, questioning of management, relationship, power and leadership skills. Audit committees that have a majority of non-executive directors as members indicate a high level of protection against fraudulent activities, misrepresentation of financial statements and negative behaviour by managers.

The independence of audit committees can be protected if it consists of a larger number of non-executive directors. This also assists in pronouncing or supporting the auditor's independence through working with management in resolving management conflicts (Bhasin, 2012).

Szczepankowski (2012) also argues that the composition of an audit committee is an important governance instrument as the presence of outside directors are a monitoring tool against the action of managers and a safeguard to shareholders' interests. Moreover, the performance of audit committees is confidently influenced by a larger number of outside directors. Bhasin (2012) further points out that

independent director are a necessary component of an audit committee and the formation results is significantly beneficial to the company.

In order to protect the shareholders' interest, audit committees should adopt exploratory behaviour towards management by questioning their judgment. Moreover, the audit committee should look at the importance of the composition and structure of the audit committee. An audit committee composition is a key driver of its effectiveness. The composition of the audit committee should consist of independent individual members who are ethical and knowledgeable, and who have the right skills and experience. The selection process should be done by checking the personal attributes of individual members. The key requirement is that the composition should consist of people of a diversity of experience, gender, race and even nationality (Ferreira 2008). Morgan (2010) specifies that the oversight of the financial reporting process depends mostly on strong audit committees that have qualified members who are committed and independent in order to be reliable guardians of the public interest.

According to Al-Saeed and Al-Mahamid (2011), in Greece, one of the audit committee members should be experts in finance. Al-Saeed and Al-Mahamid (2011) point out that audit committee members should have integrity, a sense of accountability and a good track record. Furthermore, members should possess certain essential competencies such as financial knowledge, leadership skills, and should be strategic intellectuals. Huang and Thiruvadi (2014) reveal that audit committees that have a large number of financial experts are less likely to encounter fraudulent

activities. Likewise, Bhasin (2012) states that audit committee members with accounting expertise appear to demand more extensive auditing when the risk tends to be high.

Ferreira (2008) further states that the audit committee structure and composition need to be reviewed on a regular basis. Also, any changes in membership should be identified and the time limit should be addressed. The audit committee should from time to time review the strengths and shortage of skills and identify the corrective action to be taken. The structure of the audit committee should be established and properly formalised to maintain independence during the composition. In order for an audit committee to be effective, certain attributes should be considered, such as the qualification, independence, skills, personal attributes and the available time of individual committee members. Ferreira (2008) suggests that audit committees should collectively consist of qualified and capable persons. This is because members need to perform their functions effectively and can be achieved when the majority of the members are independent. The independence requirement should be a base line of the audit committee.

Hegazy, Chong and Hegazy (2014) stress that the Egyptian Stock Exchange Code specifically states that the board of directors should consist of the majority of the members having a number of skills in addition to possessing technical and analytical experiences. The audit committee members should dedicate their time and attention while discharging their duties and should not accept responsibilities that will result in conflict of interest. The code further emphasises that the audit committees should

consist of at least three independent members, one with adequate financial and accounting expertise. Ferreira (2008) recommends that the main requirements to be considered when recruiting new audit committee members should be the independence of individual members and then the other attributes can be considered.

Sarens (2013) argues that the higher the number of independent audit committee members from management, the more they become effective and active in their approach towards internal audits. Huang and Thiruvadi (2014) concur that if independent audit committee members are few in the composition, it faces a large increase in abnormal accruals. In addition, Sarens (2013) points out that the more active the audit committee members are; the more they are likely to encounter greater information needs and to interrelate with the internal audit function. Li et al. (2011) argue that audit committee independence is important as independent directors are more likely to be effective monitors of management's actions. Audit committees that are independent are more likely to be free from management influence and will ensure that there is quality and credibility in the reporting process. Aldamen et al. (2012) also note that the auditing of reports is more reliable if audit committee members have more knowledge in finance. It is also arguable that experience contributes to the effectiveness of audit committees. Members with multiple directorships are overstretched and will not fulfil their fiduciary duties effectively. Audit committees are affected negatively by the more directorships they hold. Aldamen et al. (2012) further contend that experience alone may not be sufficient to establish financial expertise, but members need both experience and education to become financial experts. Moreover, regulators have recognised that all audit

committee members should be able to read and understand financial reports. In their investigation, they discovered that the longer the tenure of the chairperson of the audit committee, the more managerial experience he/she has. Tenure therefore has a positive impact on market performance. The investigation further found that the combination of both education and experience is positively related to market performance.

In contrast, Aldamen et al. (2012) believe that independence has a disadvantage. They argue that being completely separate from the management means that the audit committee will concentrate less on industrial issues, not side with auditors, and will have fewer meetings, thus negatively impacting on monitoring. It is further argued that the independence literature also examined the positive role of the so-called grey directors who have the company's specific knowledge. Grey directors are former or current employees of the company; it was found that these grey directors can be valuable board members. Ferreira (2008) believes that a director may be independent but might have conflict of interest regarding a given matter that could impair his or her objectivity. He argues that such directors should declare their conflict of interest and should not participate in the discussion of the respective matters. Deloitte (cited in Ferreira, 2008) suggests that audit committee members' independence should be re-assessed periodically, if not from time to time by means of surveys or discussions and this can be achieved through self-assessments.

Fama and Jansen (cited in Ng, 2013) maintain that outside directors view themselves as monitoring tools by enhancing their reputation as experts in decision control. The

ASX recommends that the audit committee should be structured and should consist of non-executive directors and the majority should be independent directors. Beasley (cited in Ng, 2013) argues that there are less fraudulent reports on firms that consist of active and outside directors.

Stewart (2012) argues that neutrality is key when the audit committee members are independent. In addition, such a committee should be independent of management. Other researches revealed that effective audit committees with independent members tend to align themselves with external auditors. Moreover, such alliances could provide neutrality, which could lead to the committee not overriding financial statements and will assist in fairly presenting the state of affairs and performance of the company. This leads to trustworthiness of both the auditor and the management, which will assist in resolving differences.

2.4.1.5 Skills of audit committee members

The audit committee has a financial control function and the inclusion of at least one financial expert is required by the US Sarbanes-Oxley Act of 2002. This helps to explain the financial function of the audit committee (Lexicon, 2012). Yasin and Nelson (2012) also argue that audit committee members with financial expertise are a necessity as they provide support on the reliability of financial statements and great quality of reporting on earnings. In addition, having an audit committee with a financial expert is an indication that they can review the internal programme effectively, which reduces the chances of embezzlement of assets in public held

companies. Furthermore, the audit committee serves as an effective check on the management of a company.

The efficiency of an audit committee depends on the experience of members who are both financially and non-financially literate (Al-Saeed & Al-Mahamid, 2011). Islam, Islam, Bhattacharjee and Islam (2010) also argue that the audit committee must have a financial expert who possesses either professional qualifications or experience in preparing, analysing and evaluating of financial statements. Enofe et al. (2012) also consent that the audit committee members are expected to have knowledge and experience of the business, such as the business risk, oversight performance, financial situation and accounting policies that can help to monitor the activities of the firm.

Okpala (2012) reiterates that in order for an audit committee members to discharge their duties, all the members should be financially literate and understanding the operations of the company. At least one member should have financial expertise and professional qualification from a recognised professional accounting body as this helps in preventing corporate failure.

Ng (2013) argues that audit committee expertise is considered as an important governance characteristic for an audit committee to carry out its responsibilities effectively and protect the interests of the shareholders. It is a critical factor for all audit committee members to have a financial and accounting background in order for them to be able to analyse the financial information of the organisation. Moreover, members of audit committees need to have industrial experience relevant to the

organisation. Audit committee members with a financial background have a thorough understanding of the work performed by internal and external auditors.

Yasin and Nelson (2012) suggest that a proposed academic qualification (a postgraduate qualification) is a suitable qualification for all audit committee members in order to enhance its effectiveness. Direct experience might as well improve the knowledge of audit committee members based on previous experiences and exposure, especially past managerial experience. Experience in accounting, auditing and finance, and professionally qualified or certified accountants are considered to be important for audit members to be viewed as experts. In addition, these characteristics are considered to be important in order to enhance an effective audit committee. Financial knowledge in an audit committee is considered to be important since many oversight judgments are subject to such knowledge when making financial decisions.

The BAPEPAM stipulates that one of the requirements is to have least one person who is knowledgeable in accounting so as to improve the committee's effectiveness Ghazali (2012). A financial expert has a sound knowledge of finance and competencies that guide the audit committees in identifying and asking questions that challenge management and external auditors and at the same time improving the quality of financial reporting. Huang and Thiruvadi (2014) reiterate that audit committees comprising at least one member with an accounting or financial background are more likely to have longer meetings with the chief internal auditor

and provide private access to the chief internal auditor, thereby enhancing the internal auditor's access to information.

According to Barua, Rama and Sharma (2010), audit committee members with specific accounting expertise and auditing experience are positively associated with internal control effectiveness and the quality of financial reporting.

In Namibia, the Namcode (2010) specifies that there should be a basic level of qualification and experience for audit committee membership. The audit committee members should have knowledge on integrated reporting, internal financial controls, external audit process, internal audit process, risk management and the governance processes within the company.

It can be noted that the prescribed composition of the audit committees puts emphasis on expertise of the members, especially financial expertise in order for them to be able to perform their duties effectively.

It should be noted that the composition of an audit committee plays a crucial role on the effectiveness of the committee. The audit committee should be independent of management in order to make sound decisions and to face management on matters that need management's implementation. It is also of importance that the chairperson be independent from management.

2.4.2 Authority

According to DeZoort et al. (cited in Ghazali, 2012), authority refers to the discharge of responsibilities of authority given to the audit committee. This authority gives

them power to be able to probe the auditors and management and to review documents that need to be audited. The audit committee's roles should be clearly documented in the regulations as well as stipulated in the audit committee charter. The formal charter stipulates guidelines to members regarding their roles and also serves as a document of authority.

Guy and Burke (as cited in Al-Saeed & Al-Mahamid, 2011) argue that every company with an audit committee should develop a tailor-made charter that describes the committee's composition. The charter enhances the audit committee's effectiveness as it serves as a roadmap for the committee members. Li et al. (2011) state that in order for an audit committee to function effectively, it requires the necessary resources and authority.

Goodson et al. (2012) state that where an audit committee is formed based on legislation, it should ensure that it operates under a certain decree with essential power to be able to complete its mandate.

It is of importance that an organisation should have a charter that outlines the functions and the structure of the committee. An audit committee charter empowers the audit committee members and gives them mandatory powers, but it needs to be backed with legislation.

2.4.3 Diligence

Expertise, independence, authority and resources do not result in the effectiveness of an audit committee unless such a committee is functional. Diligence refers to the

readiness of the members to work as a team; they must be willing to pose questions and seek response from management, internal auditors, external auditors and other stakeholders (DeZoort et al. as cited in Ghazali, 2012).

Audit committees need to be diligent in carrying out their responsibilities in order for them to be effective, and the willingness to work together plays a crucial role.

2.5 The functions of the audit committee

Mohamed and Hussain (cited in Lama, 2011) stress that the function of audit committees has been rapidly changing due to new challenges in the corporate world and scandals that have been occurring from time to time. The functions of the audit committee continue to intensify and broaden daily. Risk assessment and management have been one of these areas. Some companies have instituted risk committees while others are utilizing audit committees to give guarantee to the board of directors and management that the risk policies is trustworthy and operative.

According to Ng (2013), the major responsibility of an audit committee in terms of financial reporting is to assist the board of directors of a company to undertake their responsibility by studying financial information and ensuring that the organisation's accounting records are in accordance with the statutory requirements. The audit committee also ensures the facilitation of the quality of external auditors and also ensures their independence. An audit committee is also responsible for reviewing the internal audit function on its effectiveness and independence from management.

Aida and Tony (2009) state that audit committees should maintain direct oversight on the internal audit function in order to ensure management on issues of control and risk management. According to Braiotta, Gazzaway, Colson and Ramamoorti (2010), the function of the audit committee is to provide guidance to management, external auditors and investors and to make sure that financial information is complete and accurate. The audit committee submits its opinions, results of assessments and analysis to the supervisory board, especially on irregularities which were found, including the difference of opinions between the management board, internal auditors and external auditors (Szezepanskowski, 2012).

According to Enofe et al. (2013), another function not mentioned by the other authors is that the audit committee should give mandatory power to the internal auditor to carry out investigations into any operations of the company which may be worrisome to the committee.

The Nigerian Act has the following additional responsibilities for audit committees:

- To oversee the appointment, fees and oversight of the company's independent accountant;
- To ensure that in its composition there are independent directors;
- To establish procedures and rules for handling complaints by employees concerning accounting and auditing matters;
- To engage the services of other independent advisors (Enofe et al., 2013).

Lama (2011) points out that the function of the audit committee is no longer limited only to ensuring independence of the external auditors from management. The function has expanded to improve businesses on reporting issues, governance and reinstating public assurance. The audit committee's function is to ensure that risks and governance matters are addressed which have spill-over disadvantages on the company's risk management and operational performance and also to ensure that there are controls over risks that will enhance their operating results. It is not only acceptable but vital to investigate whether the existence of audit committees enables the firms to better manage risk and to enhance their operating results. Huang and Thiruvadi (2014) point out that for an audit committee to handle risk, it needs to discuss the challenges faced in accounting with the management and internal and external auditors on a regular basis.

According to Huang and Thiruvadi (2014), the American Institute of Certified Public Accountants (AICPA) outlines specific steps to avoid fraud in risk management. Audit committees re-emerged as a strategic tool for preventing fraud and ensuring sound financial management in business scandals.

O'Riordan (2013) states that in Ireland, audit committees in government departments are generally involved in reviews of internal controls, support and monitoring of internal audit and risk management and some committees request the internal audits to perform value-for-money studies.

Stewart (2012) states that the Bursa Malaysia code of 2011 stipulates other requirements delineating from several functions of the audit committees. These

functions require that the audit committee should discuss with external auditors the audit plan, the scope of the audit and the audit report. The audit committee needs to review the financial statements of the company and should focus on accounting policy changes and mostly on the audit adjustment and compliance with accounting standards. The Malaysian Code on Corporate Governance (MCCG) of 2000 also recommends that at least the audit committee should meet privately with the external auditor, and this should take place when it is required. The MCCG was then revised and now requires that the entire audit committee members should be non-executive members and should meet with the external auditors at least twice a year and this should be done privately.

Goodson et al. (2012) states that when an audit committee is formulated based on composition of the jurisdiction, it is supposed to:

- make an assessment on governance, risk management, control frameworks and regulatory compliance.
- oversee the internal and external audit activities on whether there is a complete coverage of the scope and that there are adequate resources.
- review the activities of the internal and external audit and approve the internal auditors' annual plan.
- approve the appointment and dismissal of the chief auditor executive.
- oversee the effectiveness of the organisation's financial reporting and accounting standards applied.

- ensure that there is a link on reporting to the board of directors of the organisation and other governing boards.

Marx (2009) states that the role of the audit committee was traditionally focusing on assisting the directors in meeting their financial reporting and audit related responsibilities. This is evident in the King 1 report (as cited in Marx, 2009), which states that the responsibility of the audit committee falls into the following five main areas:

- Review the functioning of the internal control structure and the accounting system and reporting.
- Review the work of the internal auditors.
- Make sure that there is inter communication with external auditors.
- Ensure that there is adherence with applicable laws and regulations.
- Ensure that there is adherence to the organisation's code of conduct.

Marx (2009) states that the role of the audit committee has been changing over time from the traditional to the modern committees since the early 1990s. This has been constituted by continual change in the business environment. Audit committees have been given additional responsibilities as explained in the combined code of 2006 in the United Kingdom, which are as follows:

- To ensure the reliability of financial statements and formal announcement on the financial performance of the company and reviewing the content thereof.

- To review the internal financial controls, internal controls and risk management.
- To monitor and review the effectiveness of the company's internal audit function.
- To make recommendations on the selection and appointment of external auditors and fees to be paid to them as per terms of the engagement.
- To review and monitor the extent of the independence of the external auditors on the credibility and efficacy of the auditing process and ensuring that they abide to the United Kingdom professional and regulatory requirements.
- To develop and implement policies in regard to non-audit services provided by the external auditors.
- To compile a report to the board of directors on matters that need actions to be taken and to make recommendations as to steps to be taken.

Marx (2009) stresses that the aforementioned responsibilities are similar to the King 11 report. The only difference is the additional tasks that have been added to the roles, i.e., compliance with legal and regulatory provisions, its articles of association, code of conduct, by-laws and the rules established by the board. The King 11 report also added an oversight responsibility to an audit committee for risk management.

The latest recommendations for the audit committee are illustrated in the King 111 report, which states the following functions.

- The audit committee has to oversee the company's integrated reports such as:
 - Financial statements;
 - Disclosures that are needed to be included in the financial statements and;
 - The content of summarised information.
- The audit committee should ensure that there is a provided coordination on the approaches of all assurance activities.
- The audit committee should ensure that there are sufficient resources in terms of the expertise and experience in financial matters.
- The audit committee is responsible to oversee the activities of the internal audit function, such as the approval of the internal audit charter and the annual plan.
- The audit committee should be an essential component of the risk management process focusing on:
 - Reporting of financial risks;
 - Internal controls on finance;
 - Manipulation of financial statements; and
 - Information technology (IT) risks which relate to financial reporting.
- The audit committee is there to oversee the external audit process and for recommending the fees of the external auditors.

- The audit committee should report to the board and stakeholders on how it has discharged its duties (Marx, 2009).

According to Van-der-Nest (2008), the American Bar Association stipulates the roles of the audit committee and that these roles can still be used in the public sector. The roles are:

- To assess on the fees of the external auditors as per the terms of reference.
- Have the power to appoint and dismiss the Head of internal audit.
- Liaise with the board of directors, external and internal auditors.
- Analyse the reports of the external auditors and examine management response as well as the reports of internal auditors.
- Review the annual financial statements and any significant disputes between management and external auditors should then be discussed with management.
- Evaluate the organisation's internal control in consultation with the external auditors and chief audit executive.
- Review the organisation's internal control with the assistant of the auditors and the Head of internal audit.
- Oversee on the financial statements of the organisation and consider major changes regarding suitable policies, rules and regulations that need to be followed in accounting.

- Meet occasionally with management to assess risks that need to be addressed that will have an impact on the organisation.

The KPMG classifies the responsibilities of the audit committee under three key areas of responsibility as reflected below (Van-der-Nest, 2008).

Table 2.1: KPMG's areas of responsibility for audit committees

Assessing the risk and control environment	Overseeing financial reporting	Evaluating the audit process
Control environment	Earnings releases	Internal audit mission
Risk assessment	Financial reporting	Independence audit expectations
Control activities	Committee diligence	Collaboration and communication
Information and communication	Committee assessment	Understanding results and conclusion

These key areas are explained as follows:

2.5.1 Assessing the risk and control environment

Van-der-Nest (2008) maintains that it is the responsibility of management to assess the possible negative impact of risk on an organisation. According to Walker (cited in Van-der-Nest, 2008), new procedures propose that the audit committee's role is supervise the assessment of risk affecting the organisation. Audit committees should clearly stipulate to what extent they are involvement in risk assessment. Van-der-

Nest states that since the Enron Scandal, there has been a requisite for audit committees to have knowledge on the industry which they operate and they should understand the type of financial threats the industry is facing.

PricewaterhouseCoopers (cited in Van-der-Nest, 2008) stresses that there are certain steps to be considered to oversee risk management, such as:

- The audit committee needs to know to what extent the management has established an effective enterprise risk management.
- The audit committee needs to know the person who has a role in the identification, evaluation and managing of risk of the entire organisation and to discuss this on an occasional basis with the responsible people.
- The audit committee needs to communicate with management on risks that affect the organisation, such as fraud risk and the likelihood for the identified risks to occur.
- The audit committee needs to understand the role of the internal audit activities and planned coverage, and meet from time to time with the chief audit executive.
- The audit committee needs to assess and review risk in the organisation and to measure the level of the risk against the organisation's risk appetite.

- Discuss with management on controls that the organisation has in place in order to reduce risks affecting financial reporting and to determine the efficacy of controls.

Emphasis is put on the audit committee to monitor risk management processes in the organisation. In addition, it indicates the level of expertise the audit committee should consist of in order to perform these functions. Without the background knowledge on risk management and assessment, it might not be easy for the audit committee to identify risks that have the likelihood to affect the organisation.

2.5.2 Overseeing financial reporting

The main function of the audit committee is to oversee financial reporting of a company by analyzing the financial statements. Van-der-Nest (2008) stresses that the main role of the audit committees should be to assist management in carrying out their responsibilities on financial reporting processes and to ensure that management provides accurate and useful financial information to the end users. The King 11 report further stipulates that the audit committee should be of assistance to the board in order for them to perform their tasks diligently when it comes to financial reporting and adherence to laws, regulations, policies and accounting practices.

According to KPMG (cited in Van-der-Nest, 2008) there are certain responsibilities that the audit committee should oversee on financial reporting, such as:

- Understanding the roles of management in regard to financial matters.

- Understanding how management has selected particular accounting policies to use and assessing the appropriateness of these policies.
- Understanding management's judgements and accounting estimates that are applied in financial reporting.
- Understanding the external auditors' reports as well as their responsibilities under the general accepted audit standards.
- Converse with both management and the external auditors about the financial statements.
- Assess whether financial statements are complete and fairly represent the financial position of the company and that disclosures are clear and transparent.

The responsibilities of management is to ensure that financial statements are accurate as well as the disclosure thereof. The responsibility of the audit committee is to obtain assurance from the external auditors on the accounting principles of the financial statements.

2.5.3 Evaluating the auditing process

A key responsibility of the audit committee is to evaluate the audit process in the organisation for both the external and internal auditing regarding their effectiveness.

2.5.3.1 External audit

The role of the audit committee is to ensure that the financial reporting process and the system of internal controls conform to acceptable standards. The audit committee must review the plan of the external auditors and obtain audit reports and recommendations (Van-der-Nest, 2008).

2.5.3.2 Internal audit

According to Van-der-Nest, the audit committee should have an open direct relationship with the head of internal audit, and should meet with her/him on a quarterly basis. The audit committee should discuss the following issues: the functions of the internal audit; the terms of reference; control environment and; internal audit findings. The audit committee should ensure that the reporting structure of the internal audit activity reflects its organisational independence and objectivity by making sure that the chief auditor's executive report goes directly to the accounting officer. The audit committees review the audit reports and assess the management comments in respect of the findings and ensure that management has implemented the important recommendations. During follow-up audit cases, recommendations which were not implemented should be reported to the audit committee. The audit committee should approve the internal audit charter for the internal audit. Enofe et al. (2012) point out that the audit committee is more likely to support the auditor rather than management in audit disputes.

According to Abdulsaleh (2014), audit committees should review internal controls set by management and in reviewing these controls the following factors should be considered.

- The significant risk should be assessed, identified, evaluated and measured on how it can be managed.
- The related system of internal controls should be assessed to identify how the significant risk can be managed and any weakness or failures in internal control systems should be reported.
- An evaluation should be made on any significant failures or weakness and necessary remedies should be considered and promptly taken.
- An evaluation should be done on the findings to determine whether findings need an extensive internal control monitoring system.

Lama (2011) points out that an audit committee plays a fundamental role in the monitoring process. Management needs to be monitored constantly to ensure that the decisions they make are in support of the objectives of maximizing the value of the firm. The audit committee needs to assist management avoid making decisions that are detrimental, which can reduce the value of the firm.

2.5.3.3 Functions of the audit committees in Namibian as per Namcode

In Namibia, the NamCode (2010) proposes a number of functions for the audit committee which should include:

- **Oversee integrated reporting.**
 - On a yearly basis, the entities need to prepare reports that stipulate the required information about the status of the entities on environmental issues, economic and social responsibility in which it operates.
 - The audit committee should take into account any issues that might lead to any inappropriate or inadequate of information that can lead to the incompleteness and misrepresentative image on the financial statement of the company.
 - The audit committee should assess and provide guidance on issues that need substantial judgements and have an impact on the integrated reports that management compiled, including changes on accounting policies, decisions that require attention and disclosures thereof.
 - The audit committee should observe and make sure that it enforces some actions to be taken against the company, for example by a regulatory agency on a timely basis, to allow audit committee to be involved in the company's response to such actions.
 - The audit committee should study evidence that comes to its attention that brings into question any previously published financial or sustainability information, including complaints about this information. The audit committee should take steps to recommend

that the company publicly correct the previously published financial or sustainability information if it is materially incorrect.

- The audit committee should scrutinise statements of financial or sustainability information to ensure that the information provides a proper appreciation of the key drivers that will enable the company to achieve these forward-looking goals.
- Financial statements.
 - The audit committee should review and provide remarks on financial statements, the accounting methods used and the internal financial control of the company and should keep the board up-to-date on these matters.
 - On cases of misunderstanding the audit committee needs to be alerted of such dispute on issues between management and external auditors and should also approve the proposed resolution of the disagreement.
 - The audit committee should review and assess documents compiled by management on the going concern of the company.
- Overseeing the internal audit function.
 - The audit committee should play a key role in determining if an internal audit function is appropriate to the company and document this decision in the annual financial statements.

- The audit committee should be responsible for the appointment, performance assessment and dismissal of the chief audit executive.
- Risk management process.
 - The establishment of risk management and its implementation process rests with the management of the company.
 - The role of the audit committee is to ensure that financial risks are managed and controlled.
 - The audit committee ensures that controls are in place and provide reasonable assurance.
 - The audit committee ensures that controls follow a risk-based approach.
 - The audit committee ensures that there is a cost based approach on internal controls, especially on operational activities, in order to benefit the company.
- Overseeing the external audit process.
 - The audit committee should oversee the appointment of external auditors.
 - The audit committee should be able to assess and monitor the independence and objectivity of the external auditors.

- The audit committee should outline a policy that will be approved by the board and spell out the responsibilities of the external auditors on non-assurance services.
- The audit committee should examine matters of concern as per the findings of the internal or external auditors and to ensure that management gives attention to these matters.

It should be noted that an outline of the functions of the audit committee plays an important role in guiding the audit committee on their responsibilities and should be clearly stipulated and well defined.

For audit committee members to function properly, they should have the right skills and should be properly regulated.

2.6 Regulation of audit committees and benchmarks to other countries

Islam et al. (2010) state that in some countries such as Canada, Singapore, Thailand and South Africa, audit committees are mandated by law. According to Lama (2011), governments and regulatory bodies across the world came up with solutions to resolve conflict of interest among management and shareholders of a company. This was achieved through the establishment of various governance codes and regulations. The codes and regulations required companies to adhere to certain structures, processes and procedures which would assist in controlling the entities to comply with best practices. The best practices would assist organisations to minimize the agency's cost and to improve the value of the organisation. Islam et al. further state

that in numerous countries, audit committees are not mandatory by law, but can be introduced on voluntarily.

According to Marx (2009), various legislations and regulations have been promulgated over the years assigning audit committees with specific responsibilities, focusing mainly on strengthening the external auditor's independence and overseeing external audit and financial reporting processes.

The functions and responsibilities of audit committees can be guided and regulated by law or principles of corporate governance. In New Zealand's public sector, there are no laws or regulations governing audit committees, but only pieces of legislation in the Public Finance Act of 1989, the Crown Entities Act of 2004 and the Local Government Act of 2002 (Magrane & Malthus, 2010). In the Netherlands, there are guidelines with regard to the scope, responsibilities and tasks of audit committees, but this applies to organisations that choose to have one. In 2012, the Ministry of Finance reviewed and added a new regulation of ministerial public sector audit (Hepworth & De Koning, 2012).

According to Ghazali (2012), in Indonesia, there is BAPEPAM which guides companies and provides guidelines in and clearly defines what is meant by independence of audit committees. It further stipulates that audit committee meetings held during a year should be similar to the minimum requirements stated in the Body of Certification (BOC) on holding meetings.

Saurez, Garcia, Mendez and Gutierrez (2012) state that Spain is guided by the Olivencia code of 1998 and the Financial System Reform Law of 2002 that clearly stipulates the functions of the audit committees. It stipulates that the audit committees should facilitate the role of the external auditor for ensuring the achievability and efficiency of internal control measures. The audit committee is therefore evaluated on the degree of fulfilment of its function by measuring the contents of the audit report. Huang and Thiruvadi (2014) state that in the USA, the Security and Exchange Commission (SEC)'s final rule is very clear that it needed one of the audit committee members to be a financial expert and that was supposed to be disclosed in financial reporting and failure to adhere to such a requirement, disclosure of the deviation should be stipulated in the report.

According to O'Riordan (2013), in the Irish government, the secretary general approves the charter or terms of reference of the audit committees and any change he or she suggests also provides input into the content of the internal audit units' work plans, and maintains a high level of interest in the work of the audit committee. The secretary general meets with the chairman of the committee at least once a year and reviews the preceding year plan. The audit committee meets with the secretaries if there are any issues arising during the year. The secretary general appoints senior internal official members who together with the heads of internal audit will keep updating and briefing them on activities discussed during the meetings and also by receiving minutes and reports.

Ng (2013) states that in Australia, regulators previously decided to implement a simple disclosure-based approach on the formation of audit committees. It was not necessary for organisations to adhere to rules or best practices. The government and the regulators needed an explanation on any departure from the best practice. Ng (2013) maintains that due to escalation of financial fraud reporting and a large number of corporate fraud and scandals, Sarbanes-Oxley Act (SOX) was endorsed in the United States to develop new corporate governance principles for the board of directors and audit committees. The SOX legislation was conceded due to the collapsing of Enron and applied rules and regulations that required listed companies in the United States to establish audit committees. In Australia, the operation and composition of the audit committees are controlled by the Australian Stock Exchange (ASX).

In India, the Companies Bill of 2009 stipulates the role and the power of the audit committee. The responsibility of the audit committee is to ensure an oversight on financial reporting and accuracy of financial statements and certain stipulations as stated by Securities and Exchange Bureau of India (SEBI). The audit committee should evaluate the annual financial statements of the company with the help of management before it is handed over to the board of directors. The audit committee should analyse the accounting policies that the organisation uses, and should check for disclaimer, any adjustments on financial statements and other transactions and the requirements of audit reports. A mandate of power is also stated, where audit committees can investigate any suspicious issues that may come to their attention. The audit committee has the right to interrogate any staff member (Sarkar & Sarkar,

2010). The audit committee has the right to get external legal and professional advice that it considers necessary to carry out its investigations (Sarkar & Sarkar, 2010). Sarkar and Sakar (2010) stress that there was an amendment in the regulation of India which previously required that all the audit committee members must be non-executive directors. However, in the new amendment it is required that two thirds of the audit committee must be independent directors, allowing inside directors also to be members of the audit committee. The regulation makes it mandatory for the management to be part of the audit committee. Sarkar and Sakar (2010) argue that management should not be made mandatory by law, but the audit committee should invite them voluntarily when it deems it necessary.

According to Van-der-Nest (2008), in South Africa the public service legislation requires each government department or public entity to have an audit committee. The establishment of audit committees has been widely recognised as a best practice and is added in the public service financial management legislation. Audit committees form part of the accountability structure that is created in the public sector to assist employees or organisations in establishing accountability required from them in performing the duties placed upon them by the Public Finance Management Act.

Van-der-Nest (2008) states that in the South African legislation, the audit committees are required to report the accounting officer to Parliament through the annual report of a department. In South Africa, one of the requirements is that the internal audit activity is required to present a three-year strategic plan based on the risk background

of the departments of the organisation according to National Treasury. The audit committee then requires that the Head of the internal audit should give a quarterly feedback on the implementation of the approved plan and give reasons why the internal audit division failed to achieve the set objectives.

According to Davies (2009), in Wales there was awareness on the advantage of formulating audit committees in 1996. An audit commission then published a so-called *Account the role of audit committees in local government*. It then identified the qualities of the supervising body. Moreover, there was a necessity for understanding internal controls, work performed by auditors and reports produced by internal and external auditors.

According to Enofe et al. (2013), Nigeria is governed by the Company and Allied Matter Act (CAMA) which requires public companies to establish audit committees for strengthening the independence of external auditors and quality of financial statements. The Act aligns the following to the audit committee:

- External auditors to report to the audit committee; this is to strengthen the auditor's independence.
- The audit committee should consist of an equal number of directors and the shareholders of the company should only be representatives. The act is not clear as to which equal number of directors, whether it is non-executive or executive directors. The audit committee members are restricted to a maximum number of six people who are subject to re-election every year.

- Any member may nominate a shareholder as a member of the audit committee by giving a notice in writing of such nomination to the secretary of the company at least twenty-one days before the annual general meeting.

Enofe et al. (2013) state that in Nigeria, the Act stipulates that shareholders should be part of the audit committee, especially when they fail to establish one. It is therefore expected that the companies have an audit committee. The Act deems the entire board of directors to be the audit committee.

In Poland, the Institute of Directors in cooperation with the Association of Chartered Certified Accountants prepared a document entitled “*The Best Practices of Audit Committees*”, which articulates the best international audit model and the required experience of the members of audit committees in listed companies. It is not mandatory that the rules be adhered to, but it is a set of principles to guide shareholders. The Polish Financial Supervision Authority (KNF) also issued guidelines on the functioning of the audit committees, which is a statement of good practice based on international standards, guidelines of international organisations as well as knowledge and experience of audit companies. KNF recommends that the audit committee should ensure reliability of information and methods used. It also emphasises on the importance of effective supervision on internal control system and approval of the subsequent years’ audit plan to support the internal audit function (Szczepankowski, 2012).

According to Islam et al. (2010), Bangladesh’s SEC came up with several situations relating to the audit committee as follows:

- At least one of the members of the audit committee should be a non-executive director.
- The clause regarding term of office of the audit committee members is silent.
- The clause of whether to have an audit committee secretary or the applicable person is also silent.
- It is the responsibility of the board of directors to select one member of the audit committee to be the chairperson.
- The responsibilities or roles of the audit committee are not clearly stated but the requirements of the roles are provided in writing.
- The requirement on when the audit committee needs to meet is silent.
- The audit committee should to report to the board of directors on any matters such as conflict of interest, fraudulent activities, any faults detected on the internal control system, violation of law in security related laws, rules, regulations or any irregularities on disclosures made.
- The audit committee should report any activities carried out during the year to the board of directors and the chairperson of the audit committee should sign the report of the board of directors and should make sure that it is disclosed in the annual report.

Listed companies are not restricted to comply with the Bangladesh rules as can explain any non-compliance.

- Islam et al. (2010) after scrutinizing the audit committee of Bangladesh and the legal framework, it was evident or conclusive that there was no legislation in place regulating the activities of the audit committees. The SEC is silent on the audit committee meetings and on the reporting structure.

Teng, Aun and Fook (2011) state that the code of corporate governance created additional responsibilities for audit committee members and started investigating management integrity and conflict of interest or exploitations by certain controlling shareholders. The code further stipulates on the actions to be taken when the board does not adhere or does not implement the findings of the audit committee. For example, in Malaysia the listing rule of the Bursa Malaysia allows audit committees to report the matter to an established task force on internal controls.

In Namibia, there is no legislation regulating companies to comply with the NamCode, but the main purpose of the NamCode is voluntary compliance with recommended practices (Deloitte, 2014). However, according to Deloitte (2014), the NamCode provides a valuable guide for directors and other office bearers to ensure compliance with corporate law.

From the above discussion, it can be seen that there are no strict statutory laws for regulating audit committee members, but there are guidelines that have to be followed. It is important for audit committees to be regulated by law. The Namcode is not an obligation for companies to adhere to, but companies may deviate and explain the deviations.

2.7 Audit committee meetings

Audit committees have a duty to meet regularly in order to discharge their functions in those meetings and to understand the operating activities of the company.

Yasin and Nelson (2012) state that prior studies have found that there is a link between the number of annual audit committee meetings and the diligence of the audit committee. Munro and Buckby (2008) stress that frequency audit committee meetings are important components that contribute to audit committees' effectiveness (Yasin & Nelson, 2012; Munro & Buckby, 2008). Studies reveal that there is a positive link between holding meetings regularly as associated with quality audits. Yasin and Nelson (2012) highlight that the results of audit committees that meet regularly are better informed of the present auditing matters and are attentive in fulfilling their duties. Furthermore, Munro and Buckby (2008) say that prior studies showed that audit committees that meet quarterly are not associated with external audit fees. Stewart and Munro (cited in Munro & Buckby, 2008) found that the more frequent audit committees' meetings are, as well as the auditors' attendance at these meetings, the more there is reduction of audit risk. In addition, Huang and Thiruvadi (2014) point out that for an audit committee to be effective, it should work hard by exercising professional care and must meet frequently in order to ensure good financial reporting quality. Huang and Thiruvadi (2014) further state that at least audit committees that meet bi-annually are provided with deceitful or distorted reports. Al-Matari, Al-Swidi and Fadzil (2014) believe that audit committees that meet frequently can determine the activeness of the committee and it is a helping tool

for audit committees to be able to scrutinize the accounting and internal control system, and provide information to top managers on actions that need to be taken.

Hegazy et al. (2014) stress that the Egyptian Stock Exchange's code states that the board of directors requires that the audit committee should meet periodically, but at least once every three months, with a specified agenda for the meeting.

Ng (2013) stresses that the ASX does not provide the number of meetings that the audit committee should have, but it will depend on the size and complexity of the organisation. The managing director and CFO of the company should attend audit committee meetings in order to discuss and resolve audit issues in a timely manner. Audit committee members have the right to meet in the absence of the top managers for the sake of independence and objectivity.

Saurez et al. (2012) contend that audit committees that meet less regularly will receive fraudulent reporting practices always. Ng (2013) states that it is a must that an audit committee should have an audit charter that articulates the scope, responsibilities and procedures for conducting meetings.

Aldamen, Duncan, Kelly, McNamara and Nagel (2012) stress that one of the characteristics which audit committees should focus on is the size and frequency of meetings. The number of meetings may increase depending on the size of the audit committee. The increase on frequent meetings and audit committee members can be a tool that provides effective monitoring and it improves the company's performance.

Aldamen et al. (2012) also contend that large sizes of committees can also lead to ineffective performance and also has an effect on the frequency of audit committee meetings. Sharma et al. (cited in Aldamen et al., 2012) found that there are three factors that affect the number of audit committee meetings, such as multiple directorships, audit committee independence and independence of the audit committee chairperson.

Poudel and Hovey (2013) stress that the frequency of meetings is a signal of diligence and audit committee effectiveness depends on the audit committee members' willingness to invest a substantial amount of time. Audit committees that meet on frequently have a potential impact on the improvement of financial accounting procedures and also lead to better performance. Salloum et al. (2014) state that frequent meeting of audit committees provides better monitoring on the financial environment and also reduces financial reporting problems. Salloum et al. (2014) found that companies with a high percentage of non-financial reporting problems held meetings four times a year than companies that did not meet frequently. Morgan (2010) argues that audit committees that meet frequently deal with first-hand information and not outdated information and tend to be knowledgeable on the activities of the company.

It may be noted that the effectiveness of the audit committee depends on holding meetings. Moreover, when audit committees meet on a regularly basis, they will be able to acquire knowledge on how the organisation operates and deal with current information. Audit committees that meet frequently tend to execute their functions

effectively. The Namcode requires that audit committees should hold their meetings at least quarterly in a year. By holding meetings four times in a year, the audit committee has a positive impact on its functioning and it enhances the members' knowledge on the organisation's operations.

2.8 Effectiveness of audit committees

Ng (2013) claims that there are five characteristics of an effective audit committee. These characteristics relate, in part, to the composition of the audit committee, according to this study. The characteristics are:

- The chairperson of the audit committee must be independent.
- The audit committee members must have financial and expert knowledge of the industry.
- The audit committee must hold regular meetings.
- There should be a consideration on the size of the audit committee.
- A formal audit committee charter should be a must.

Ng (2013) stresses that the existence of an audit committee enhances the independence of the internal audit function and the financial statements are more reliable to end users. The audit committee's position can be enhanced especially by the work of internal auditors because internal auditors have access to the operational information compared to the audit committee members. Similarly, Godwin (cited in Ng, 2013) found that the independence and accounting experience have a supplementary impact on audit committee relations with the internal audit function. Moreover, independence is more allied with the issue of process, whereas accounting

experience is interrelated with the audit committee's evaluation of the work of the internal auditors. An efficient audit committee will be of assistance to the internal audit unit in performing its duties.

2.9 Assessment of audit committee members

Morgan (2010) also argues that for an audit committee to be effective there needs to be an audit committee assessment on a regular basis. Performance assessment should be done on individual members to determine individual members' competency on their skills and knowledge. The committee should assess the performance of each person based on their knowledge of the organisation's operations, roles of the audit committee and their willingness to devote their time. The effectiveness of the audit committee should then be benchmarked with the best practices of other audit committees. After obtaining the assessment of the audit committee, inputs can then be acquired from the chairman of the board, top managers, the Head of the internal audit and external auditors with respect to the committee's competence and productivity. Performance assessment is an effective tool in identifying the advantages and disadvantages as to where individual development can be improved.

2.10 Importance of audit committees

O'Riordan (2013) states that in Ireland, the secretaries perceive the audit committees as tools that provide assurance to internal auditors and also carry out on reviews of departments' systems and procedures. Audit committees have a major role in supporting and overseeing the internal audit units. The secretaries believe that the audit committees support and give advice and guidance on the annual plans and work

of the internal audit units. Audit committees monitor line management by ensuring that they implement the recommendations of internal audit reports. The chairperson of the audit committee is seen as a personal resource available to provide advice and assistance in relation to the audit, risk and corporate governance.

According to Marx (2009), an effective audit committee brings with it many benefits to the governance structures of entities. Thus, audit committees improve the quality of the company's accounting and internal control by enhancing the objectivity and credibility of financial reporting. Hegazy et al. state that a research was done on whether audit committees have a significant role in the accomplishment of a company's performance. The results revealed that effective audit committees have a positive impact on the improvement of internal control and the existence of audit committees is more likely related to reliable financial reporting and enhances the quality of financial statements and disclosure. Bhasin (2012) also believes that audit committees have been receiving a distinct philosophy on corporate governance across the globe. Government authorities, regulators and international bodies' view audit committees as the influential instrument that enhances the reliability and transparency of financial information. An audit committee can be of great help to the board in implementing, monitoring and empowering good corporate governance practices that benefit the shareholders of a company. Moreover, according to Islam et al. (2010), audit committees are perceived as a monitoring mechanism that has a distinctive contribution to good corporate governance. Bhasin (2012) concur that audit committees can be of great help to the board as they can be used as a monitoring tool and can assist in the maintenance of continuation of good corporate

governance practices to benefit the corporation and its stakeholders. In addition, Lama (2011) accords that audit committees are widely accepted as a monitoring authority to monitor management action.

Islam et al. (2010) are of the view that audit committees play a role in strengthening the independence of internal and external auditors, creating a climate of discipline and control in the organisation. The creation of a climate of discipline reduces the opportunities for fraud. An audit committee also assists the board of directors in discharging their fiduciary responsibilities. The audit committee fulfils or accomplishes its mission through the ability of its members and the tone set at the top of the governance structure. Marx (2009) further states that an audit committee that operates effectively brings a significant benefit to the organisation. Lama (2011) also argues that audit committees are expected to put pressure on management in order for the management to make the right decisions. The audit committee should remind management that the decisions they make will be analysed and if it is found that there is dishonesty, action will be taken against the culprits. It has been argued that the existence of an audit committee decreases costs and reduces irregularities. Moreover, investors are interested in such firms as they are better governed and have less potential risk on risk portfolio and operations.

Dobra and Tamas (2009) state that audit committees strengthen the internal control of an organisation and by merely doing so, it raises investors' confidence in the quality of financial information provided.

Audit committees also play a crucial role in internal audit functions by reviewing the internal audit programme (Yasin & Nelson, 2012). Moreover, audit committees strengthen the reporting function of the internal auditor by enhancing its independence from the management and the CEO (Enofe et al., 2012).

According to Bhasin (2012), audit committee members tend to be of assistance by supporting auditors rather than management when it comes to disputes, and it also enhances the third party perceptions on auditors' independence. Bhasin (2012) points out that firms with audit committees are allied with less shareholder litigations, alleging fraud, and fewer occurrences of audit turnover when there is an audit client disagreement.

According to Al-Saeed and Al-Mahamid (2011), there are three advantages which can be derived from audit committees; these are:

- To assist a firm in improving and maintaining the quality of financial reporting;
- To provide and maintain the independence of internal and external auditors and;
- To provide and boost the morale and confidence of the end-users of financial statements on quality financial reporting.

Al-Saeed and Al-Mahamid (2011) contend that the aim of establishing an audit committee is to minimize fraudulent activities in the organisation. Al-Matari et al. (2014) stress that in case of financial manipulation, the audit committee is held

accountable for it. In addition, Al-Saeed and Al-Mahamid (2011) maintain that an audit committee enforces good corporate governance and enhances the responsibilities and effectiveness of non-executive directors. The audit committee also assists directors in discharging their statutory responsibilities with regard to financial reporting on the following ways:

- To improve communication between the board and internal auditors.
- To assist auditors in reporting serious deficiencies in the control environment or weaknesses.
- To improve communication between the board and external auditors.

Audit committees can provide self-assurance to end-users on financial statements by making sure that the organisations abide to best practices existing globally (Al-Saeed & Al-Mahamid, 2011). Moreover, through their role in supervising the financial reporting process, audit committees also enhance the quality of information flow between the shareholders and management (Abdulsaleh, 2014). Al-Saeed and Al-Mahamid (2011) state that audit committees are able to discover early signs of financial collapse in an organisation when managers try to temper with financial records that can lead to insolvency, which they might try to hide from auditors.

Citakkas and Alpaslan (2013) believe that the main reason for companies to establish audit committees is to assist management to resolve challenges faced by the company. These challenges are as follows:

- Broadening concern regarding corporate ethics.

- Continuous changing of accounting standards and regulatory requirements.
- Fair presentation of financial statements such as disclosure of the company's earnings, financial condition and financial results.
- Changes on global markets, with new opportunities and increased competition.
- Emerging use of new information technology such as microcomputer network and satellite transmission which has a significant change on internal control methods.

According to Islam et al. (2010), audit committees play a crucial role in reducing the compensation and rewards as incentives of the agents, as they have a tendency of maximizing their own wealth. An audit committee also plays a very significant role in mitigating agency problems. It also replaces many shortfalls of agency problems that a particular company faces. The shortfall may be scarcity of external auditors' independence and ineffectiveness of internal control systems (Islam et al., 2010).

Islam et al. (2010) assert that an audit committee plays an important role in assisting the internal audit units to performing their duties effectively and to appoint heads of internal audit. It is therefore important that the head of the internal audit should have self-reliance and respect for the audit committee members as well as the chairperson in terms of skills and knowledge regarding financial and non-financial aspects of the organisation. Davies (2009) stresses that the internal audit units should provide information to the audit committee in order for them to fulfil its ever changing duties.

According to Davies (2009), the audit committee has a task to review and to assess internal audit function as to its performance and to review the productivity of the heads of the internal audit. Furthermore, the audit committee must make selective decisions as to the quality of work received from the auditors.

Saurez et al. (2012) argue that an audit committee acts as an effective facilitator of external auditors by making sure that the opinions of the auditors about financial statement can be improved from a qualified opinion to a favourable one. Thus, an effective audit committee should lead to the correctness of these disclaimers that can be avoidable and which also cause the accounting information to be unreliable. An effective audit committee can pressure the audited company to accept the adjustments proposed by the auditor when qualified opinions are issued due to error and to provide additional information necessary to audit the firm's accounts.

Munro and Buckby (2008) view an audit committee as a monitoring mechanism that provides assurance on the work delivered by external auditors. The audit committee acts as a communication channel among the board of directors, management and external auditors. Contrary to this, Beasley (cited in Lama, 2011) found that there is no correlation between the audit committee and the probability of financial statement fraud. The findings suggest that having an audit committee cannot provide guarantee that there will be quality financial reporting. Munro and Buckby (2008) state that audit committees have been described as a mechanism for monitoring and protecting the interests of shareholders. Lama (2011) argues that an investigation by McMullen found that the existence of an audit committee is likely associated with few errors.

Furthermore, organisations that do not have audit committees have a higher chance of falsified earnings compared to those with audit committees.

Munro and Buckby (2008) believe that audit committees play a crucial role in neutralising the bias of management's influence on negotiation with external auditors (Abdulsaleh, 2014). In addition, Oghogho, Omimi-Ejor, Osahenoma and Abusomwan (2013) state that audit committees are essential in checking the activities of the auditors and top management, resulting in bridging the gap. According to Abdulsaleh (2014), audit committees also play a crucial role in risk management. Turley and Zaman (cited in Abdulsaleh, 2014) found that in India, audit committees effectively managed future risk by using the "whistle-blowing" policy, which altered the concerned parties' views about uncertain activities, including fraud.

Szczepankowski (2012) says that an effective audit committee strengthens the controls of a company and reduces opportunistic behaviours and lowers the asymmetry of information, and has a positive impact on higher quality disclosure of information. Furthermore, audit committees are an important factor in improving the effectiveness of companies, especially in developing countries and during the period of global economic crisis. Audit committees are held accountable for their action in case of any financial manipulation on the availability of transparent financial information that reduces information asymmetry, which can be helpful for the improvement of the value of the firm. Audit committees can be used by the board on

oversight of financial reporting to enhance the range of relevance and reliability of annual reports.

The audit committee's role is to constitute a supervisory function in order to support the board in the execution of duties and to assist the board in providing reliable information and opinion. Furthermore, the delegation of these duties to the audit committees from supervisory functions is highly beneficial to the company (Szczepankowski, 2012).

Carcello et al. (2008) state that the audit committee plays an important role in overseeing risks, especially if management overrides fraudulent activities of financial reporting. Marx and Els (2009) reason that another important factor for the audit committee is to oversee and strengthen the company's business ethics to ensure that there is compliance and related business practices.

Audit committees are faced with lots of challenges to resolve in today's modern world such as an increase in global competition, high rates of law suits, business re-engineering, economic recession and quick changes in technology, and this requires competent and knowledgeable members to mitigate these business risks (Morgan, 2010).

It is important that an organisation has an audit committee to oversee the financial reporting and to provide independence to both the internal and external auditors.

2.11 Summary

The composition of audit committees was analysed and it seems that size, meetings, financial expertise and independence play a crucial role. Moreover, it is emphasised that audit committee members should be independent of management. In order for an audit committee to function effectively, it should consist of a majority of independent members. Other scholars are of the view that executive members will not be able to question management on matters of the company as they are also part of the management. Prior studies emphasise that independent directors play a crucial role in the performance of a company.

Financial expertise was another factor that was considered on the composition of audit committees. It has been expressed that the audit committee plays a crucial role in overseeing financial statements and therefore the composition of these committees should consist of members who are financially literate. Some researchers and legislation propose that at least one audit committee member should be financially literate. Others propose that at least the majority of the members should be financially literate with financial, accounting and auditing knowledge. Moreover, the audit committee members should be able to read and analyse financial statements.

Another component that has been raised is the size of the audit committee. Some authors are of the view that the audit committee should consist of at least three members, while others suggest that the audit committee should consist of at least six members. Some scholars argue that small audit committees focus better than large audit committees, as smaller committees perform better than larger committees.

Meetings are another component that was looked at and it is believed that the more frequently the audit committee meets the more effective it becomes and the more it can provide good decisions as they happen to know the operations of the organisation.

Another component that was looked at was the regulation of audit committees. It was observed that in Namibia, there is no statutory obligation on companies to comply with the NamCode and the underlying intention of the NamCode is not to force companies to comply with recommended practices (Deloitte, 2014). However, according to Deloitte (2014), the NamCode constitutes a valuable guide to directors and other office bearers to ensure compliance with corporate law. Citing what exists in New Zealand, Netherlands and Namibia, it can be seen that there are no strict statutory laws for regulating audit committee members, but there are guidelines that have to be followed.

The importance of audit committee was another component that was looked at and it is clear that audit committees play a crucial role in an organisation. Audit committees play an important role in overseeing the financial process and also the independence of both the internal and external auditors.

The next chapter presents the research methodology. It spells out the research design, population, sample and sampling techniques, research instruments, data collection procedure and data analysis.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Chapter 3 focuses on the research methodology used in supporting the research process as well as the analysis and interpretation of the results. Section 3.2 discusses research design while section 3.3 discusses the population of the study; section 3.4 discusses the sample and sampling techniques; section 3.5 focuses on the research instruments; sections 3.6 and 3.7 discuss the data collection procedure and data analysis. The chapter concludes with a summary in section 3.8.

3.2 Research design

There are two methods of research design that can be used, which are quantitative and qualitative. Quantitative research is the precise count of some behaviour, knowledge, opinion or attitude (Cooper & Schindler, 2011), while qualitative research is an interpretive technique that seeks to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain phenomena (Cooper & Schindler, 2011). Welman, Kruger & Mitchel (2005) state that the word qualitative implies and emphasis on processes and meanings that are not rigorously examined, or measured in terms of quantity, amount, intensity or frequency. For this study the researcher used a qualitative phenomenological design. De Vos, Strydom, Fouche and Delpont (2011) state that the root of phenomenology is the intent to understand the phenomena under study. The phenomenon to understand in the study is the audit committee composition of the government ministries in Namibia. This study took a qualitative approach. According to Athanasou et al. (2012) a qualitative

design is used by a researcher interested in understanding how people interpret their experiences, how they construct their worlds and the meaning they attribute to their experiences. The researcher intended to gain a thorough understanding of how audit committee members and management teams interpret their experiences on how audit committees are appointed, function and regulated.

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3.3 Population

There are currently twenty-one ministries in the Namibian government (as at the conclusion of this study). The researcher did a preliminary investigation and found that there are only four ministries with audit committees. The targeted population consisted of twenty five (25) people from the four audit committees and internal audit divisions within the selected government ministries in Namibia.

3.4 Sample and sampling technique

The sampling method that was employed for this research was purposive sampling as the researcher focused on four ministries with audit committees. These ministries were: the Ministry of Health and Social Services, the Ministry of Justice, the Ministry of Information and Communication Technology and the Ministry of Youth, Sport and Culture. The sample size consisted of thirteen (13) interviewees. These comprised one (1) Deputy Director: Internal Audits; three (3) Chief Internal Auditors; three (3) chairpersons of the audit committees and six (6) audit committee members from three of the ministries under study. The researcher decided to interview the above-mentioned people as they had broader knowledge of audit committees and they were more knowledgeable of ministerial audit committees as some were members of the audit committees, while others were heads of the internal audit functions.

3.5 Research instruments

Data collection tools or research instruments are devices that researchers use to collect data (Rajeswaran, 2009). There are three types of tools that can be used to

gather data, which are questionnaires, interviews and observation. In this study, the researcher used interviews to gather data (see Appendix A). The research tool consisted of ten questions. Questions 1 to 7 were asked to obtain information on the composition of the audit committees. These questions were set to respond to Objective 1. Table 3.1 shows the first seven questions and the rationale for asking those questions:

Table 3.1: Questions 1-7 of the interview and the rationale

No.	Interview Question	Rationale for posing the question
1.	Who is the Chairperson of the audit committee?	This question was set to obtain an in depth knowledge on the chairperson of the audit committee in the four ministries, whether they were independent or not.
2.	What are the qualifications of the audit committee members?	This question was posed to obtain information on the qualifications of the audit committee members.
3.	How many years of experience do the members have in auditing and finance?	This question was to obtain an in depth knowledge on the experience of the audit committee members in finance and auditing.

4.	Where have the members worked before and what were their previous positions?	This question was set to obtain information on previous experience of the audit committee members and previous positions held by them.
5.	Describe the relationship that the audit committee members have with the Ministry.	This question was asked to gather information on whether the members were employed by the ministry or were outside members. This was to obtain information on the independence of audit committee members.
6.	How many members does the audit committee consist of?	This was asked to acquire information on the number of people serving in the audit committees to determine the size.
7.	To whom does the audit committee report?	This question was to obtain the independence of the audit committee as to whom it reported.

Questions 8 and 9 were set to respond to Objective 2.

Table 3.2: Questions 8 and 9 of the interview and the rationale

No.	Interview Question	Rationale for posing the question
8.	How frequently does the audit committee meet?	This question was asked in order to determine whether the audit committees met to fulfil their obligations as stated in the audit committee charters.
9.	What are the functions of the audit committee?	This question was to find out the functions of the audit committees for the four ministries.

Question 10 was compiled to respond to Objective 3.

Table 3.3: Question 10 of the interview and the rationale

No.	Interview Question	Rationale for posing the question
10.	Is there any policy in place that regulates the audit committee?	This question was set to determine whether or not the audit committees in government ministries were regulated by any law.

3.6 Data collection procedure

The data collection procedure that was used for this study was in the form of interviews. The interviews were conducted face to face with the participants. Questions were compiled for the interviews and appointments were made to secure a higher rate of responses. Telephone numbers for the ministries were obtained from a telephone directory. Participants were then called telephonically to make appointments. Interviewees were booked for an interview in advance and were informed about the purpose of the study. Some ministries could not be reached on first encounter, therefore, some interviews had to be rescheduled. It took three weeks to obtain the participants due to commitment to their work. Anonymity was ensured to the interviewees in that no names of the participants would be disclosed in the research. Interviews were carried out during tea breaks and lunch hours to avoid interference with interviewees' daily tasks. The responses were recorded with a voice recorder and transcribed thereafter for analysis. The transcription was then decoded into data by the researcher. The original recording was kept safely by the researcher to protect the interviewees and to maintain anonymity.

Secondary data were used to examine existing documentation such as published research, legislations and journal articles.

Data from primary sources were collected from 15 February, 2015 to 15 March, 2015.

3.7 Data analysis

Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper & Schindler, 2011). Thematic analysis was used to understand similarities and differences (themes) in the respondents' experiences, views and perceptions. The themes that were analysed were on the functions of the audit committees in government ministries in Namibia. These were the functions that applied frequently to all the three audit committees and were then clustered into themes. Four themes emanated from these functions of the audit committees. Content analysis was applied on government documents in order to determine how audit committees in government ministries are regulated.

3.8 Ethical considerations

Appropriate ethical considerations were followed, whereby participants were informed of the objectives and benefits of the study before they were interviewed. The participants were informed of their rights and that data would be handled by the researcher herself and information obtained through recording would be kept confidential. During the interviews, participants were informed that the outcome of the research would be made available to them if they wished to know the end result. The researcher ensured privacy on the information gathered from participants by not mentioning their names.

3.9 Summary

This chapter discussed the research methodology used in conducting this study. The study adopted the qualitative method. Primary and secondary data was used in this study. A questionnaire was used as a research instrument for collection of primary data. Secondary data were collected from government documents. The government documents were analysed to determine the functions of audit committees in government ministries. The next chapter presents the findings and discussions of the study.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

Chapter 4 discusses the presentation, analysis and interpretation of data. The presentation is set out in sections 4.2 to 4.4. Section 4.2 discusses the demography of the participants, while section 4.3 presents the findings. Section 4.4 discusses the findings and related themes. The chapter concludes with a summary in section 4.5.

4.2 Demography of the respondents

Interviews were conducted, recorded and transcribed for data analysis purposes. The people who were interviewed for this research consisted of 8 males and 5 females from the four government ministries. Thirteen participants who were interviewed. These participants comprised of 1 Deputy Director Internal audits; 3 Chief Internal Auditors; 3 chairpersons of the audit committee and 6 members of the 3 ministries' audit committees. One set of questions was compiled for the interviews and not all questions were asked to all the participants. Questions 1 to 10 were asked to the deputy director and chief internal auditors. Questions 9 and 10 were asked to the internal auditors, chairperson of the audit committees and members of the audit committees. The section achieved a 100 % rate.

4.3 Presentation of the findings

The presentation of the findings is based on the objectives of this study. The findings were clustered according to the three research objectives of the study.

4.3.1 Findings based on Objective 1: To assess the composition of the audit committees in selected government ministries in Namibia.

For this objective, 7 questions were asked to address the composition of the audit committees in the government ministries. The following questions were asked:

1. Who is the Chairperson of the audit committee?
2. What are the qualifications of the audit committee members?
3. How many years of experience do the members have in auditing and finance?
4. Where have the members worked before and what were their previous positions?
5. Describe the relationship that the audit committee members have with the Ministry?
6. How many members does the audit committee consist of?
7. To whom does the audit committee report?

4.3.1.1 Responses to Question 1 (Chairmanship of audit committees)

The Ministry of Youth, Sport and Culture and the Ministry of Justice's respondents, responded that the chairpersons of the audit committees were the Permanent Secretaries for those particular ministries. Participants from the Ministry of Health and Social Services responded that the Chairperson of the audit committee was a medical doctor within the ministry. The Ministry of Information and Communication

Technology interviewees responded that the chairperson was a Deputy Director: Internal Audits in the Ministry of Health and Social Services.

4.3.1.2 Responses to Question 2 (Qualification of audit committee members)

Interviewees from the Ministry of Justice responded that the audit committee consisted of 5 members who had degrees in Law and one in Accounting and Auditing. Interviewees from the Ministry of Health and Social Services responded that the audit committee consisted of one member who had a qualification in Law and two in Medicine. The Ministry of Youth, Sport and culture consisted of directors who had qualifications in Public Administration. The Ministry of Information consisted of 3 members with degrees in Accounting.

4.3.1.3 Responses to Question 3 (Experience of audit committee members in auditing and finance)

In the Ministry of Justice, out of the six members, only one had experience in auditing and finance. The rest of the members did not have any knowledge of auditing and accounting. In the Ministry of Health and Social Services there were three audit committee members and all the members did not have a financial background as two had experience in medicine and one in law. This also applies to the Ministry of Youth, Sport and Culture, where out of the six audit committee members, none had a financial background, but they had experience in administration. The three committee members in the Ministry of Information and Communication Technology had experience in accounting and auditing.

4.3.1.4 Responses to Question 4 (Work experience of audit members)

In the Ministry of Justice, five out of the six audit committee members were working in the same ministry and were lawyers and had previous designation as lawyers; only one out of the six was an accountant. In the Ministry of Health and Social Services, two out of three were medical doctors and one was a policeman. In the Ministry of Youth, Sport and Culture, all six audit committee members had worked as administrators before. In the Ministry of Information and Communication Technology, one out of three members was an accountant at the Ministry of Finance and the other two were auditors; one worked at the Ministry of Finance and the other member at Khomas Regional Council.

4.3.1.5 Responses to Question 5 (Relationship of audit committee members with the Ministry)

This question was asked to determine the independence of the audit committee members. The researcher found that in three ministries, the audit committee members were employees of that particular ministry, while the Ministry of Information and Communication Technology consisted of three members who were outsiders or non-executive directors. The research revealed that the other three ministries consisted of executive directors.

4.3.1.6 Responses to Question 6 (Number of audit committee members)

This question was to determine the number of members who were serving on the audit committee in each ministry. The respondents from the Ministry of Youth, Sport and Culture and the Ministry of Justice said that their audit committees consisted of

six members, while the Ministry of Health and Social Services and the Ministry of Information and Communication Technology consisted of three members.

4.3.1.7 Responses to Question 7 (Responsible authority for audit committees)

This question was asked to determine the independence of the audit committee from the management. The research revealed that the audit committees in the Ministry of Justice, Ministry of Health and Social Services and Ministry of Information and Communication Technology did not have a higher authority where they reported to, while the Ministry of Youth, Sport and Culture's audit committee reported to the Permanent Secretary who was the chairperson of the audit committee.

4.3.2 Findings based on Objective 2: To evaluate the functions of the audit committees in government ministries in Namibia

Two questions (8 and 9) emanated from Objective 2: "How frequently does the audit committee meet?" and "What are the functions of the audit committee?"

4.3.2.1 Responses to Question 8 (Frequency of audit committee meetings)

This question was to find out how often, if at all, the audit committees met to execute their duties/functions. The audit committee in the Ministry of Justice met in 2013 and since then, had never met again. In the Ministry of Health and Social Service, the audit committee never met since its establishment in 2011. The audit committee of the Ministry of Youth, Sport and Culture never met since its establishment in 2012, while that of the Ministry of Information and Communication Technology met twice in 2014.

4.3.2.2 Responses to Question 9 (Functions of the audit committees)

When this question was asked, interviewees from three of the ministries referred the researcher to their audit committee charters, where the functions were clearly stipulated. The audit committee charters clearly articulated the functions of the audit committees. The functions of the audit committees were therefore taken from the charter as a referred document. Three ministries, i.e., the Ministry of Justice, the Ministry of Youth, Sport and Culture and the Ministry of Information and Communication Technology, provided their charters on the functions of their audit committees. The Ministry of Health and Social Services did not provide their charter as it was not compiled by the audit committee because they had never met since its establishment.

The analyses of the charters revealed that the Ministry of Justice's audit committee provided risk management and internal control policies, while in the Ministry of Youth, Sport and Culture, the audit committee's role was to review the risk management policy. The Ministry of Information and Communication Technology did not have risk management on their charter. The analysis revealed that the ministries' audit committee functions were therefore not uniform. Through studying of the audit committee charters, there were some shortfalls that were discovered. The study revealed that there was no framework for audit committee functions.

4.3.3 Finding based on Objective 3: To understand how audit committees in government ministries are regulated

One question (Question 10) emanated from this objective: “Is there any policy in place that regulates the audit committee?”

This question derived from Objective 3 of this research. On this objective content analysis was used to analyse government documents to assess whether there was any regulation, policy or guidelines guiding the audit committees in the government ministries.

In Namibia, the State Finance Act of 1991, No. 31 does not make provision for internal auditors in government ministries; neither does it make provision for audit committees. It was found that at the time of the research, the audit committees were not regulated by any law or by any document except the Namcode, which applied to the private sector and SOEs. According to the findings, the Namcode was also not enforced on private sector or state owned entities. The companies could state their reason for not complying with the Namcode. Therefore, the Namcode was not mandatory for the private sector either. All the interviewees responded that there was no policy regulating audit committees in the government ministries.

4.4 Discussions

The researcher used content and thematic analysis. The discussion is therefore based on content and thematic analysis of the transcription of the responses during the interviews. For content analysis, the responses were analysed for similarities and differences. Themes were formed based on content analysis. From the content

analysis the following themes emanated. The themes were then categorised under each objective.

4.4.1 Discussions for Objective 1

For objective 1 the following themes came up.

1. Unsuitably qualified individuals
2. Lack of accounting background and experience
3. Lack of independence
4. Appropriateness of the audit committee size
5. Lack of reporting structure
6. Lack of audit committee meetings

4.4.1.1 Unsuitably qualified individuals

The research revealed that two out of the four audit committees were chaired by Permanent Secretaries, one was chaired by an inside director, while one was chaired by an outsider (non-executive director). If the chairperson of the audit committee is the Permanent Secretary of that particular ministry, who oversees the financial matters of the ministry, a question of fair judgment arises. There might be no fairness when it comes to making decisions that affect the financial aspect of the ministry. Ng (2013) stresses that the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) cannot be a member of the audit committee as this might lead to unfair judgment.

The audit committee should be chaired by a non-executive director, which was not the case in three of the ministries under study. Ferriera (2008) believes that the chairperson may not be an employee of the department and should be a non-executive director.

The results revealed that the chairpersons of the audit committees did not have accounting knowledge; this raises the question of effectiveness of the audit committee. O’Riordan (2013) stresses that the position of the chairman is viewed as a critical key position for the success of an audit committee and such a candidate should have qualifications in accounting and should be independent. Ng (2013) stresses that the chairperson of the audit committee should be a person who is a financial expert and has knowledge on the operation of the business. The research revealed that the Permanent Secretary was the chairperson of the audit committee as well as the accounting officer of the ministry. Hegazy et al. contend that there should be a separation between the CEO and the chairman of the audit committee for better management and effective control over the business operations.

It is evidently clear that three quarters of the audit committees in government ministries are being chaired by people within the organisations who are executive directors.

4.4.1.2 Lack of accounting background and experience

Out of the eighteen audit committee members in the ministries under study, only four had qualifications in accounting and the majority of the members had qualifications in Law, Medicine and Public Administration.

The majority of the audit committee members in the ministries lacked financial expertise despite the fact that such knowledge is needed in analysing the auditor's reports and financial matters. Without financial expertise it can be difficult for the audit committee members to assess internal controls pertaining to financial matters. Financial background plays an important role when it comes to the composition of the audit committee, as such expertise is required from audit committee member to carry out their functions. Yasin and Nelson believe that financial expertise plays an important role when composing an audit committee and suggest at least a postgraduate qualification to be a suitable qualification. Financial expertise is considered as a crucial skill as the main role of the audit committee involves the oversight of financial reporting. Bhasin (2012) also states that audit committee members with accounting expertise appear to demand more extensive auditing when the risk is higher. Okpala (2012) concurs that at least one member should have financial expertise and a professional qualification from a recognised professional accounting body in order to prevent corporate failure.

Inappropriate experience in accounting might have a negative impact on analysing financial and auditing matters for the other three ministries as the audit committee members lack financial skills. Audit committees should consist of the majority of independent members who have the necessary skills and experience to be able to face up management (Ferriera, 2008). According to Enofe et al. (2012), audit committee members should have knowledge in accounting policies. Audit committee members with accounting and audit experience are able to assist management by providing advice that can improve the effectiveness of internal controls. Barua, Rama and

Sharma (2010) found that audit committee members with specific accounting expertise and auditing experience are positively associated with internal control effectiveness and quality of financial reporting.

From the results, it is clear that only the Ministry of Information and Communication Technology has an effective audit committee with members who are financially literate. The rest of the ministries lack financial skills.

The majority of the members do not have previous accounting skills and it might be difficult for them to understand financial matters pertaining to financial statements as well as audit findings and recommendations made. Okpala (2012) believes that in order for audit committees to discharge their duties diligently, all members should be financially literate.

Taxpayers will be interested to know whether public funds are properly utilised and safeguarded. This can only be achieved if the government adheres to good corporate governance by making sure that there are strong monitoring tools such as effective audit committees in government ministries. This can be achieved if audit committees have properly skilled members with qualifications and relevant experience in auditing and finance. Committees without proper experience in auditing and accounting cannot be relied on to perform its duties diligently. Moreover, for audit committees to be effective, they should have members with relevant experience in accounting and auditing. This was not the case with three of the audit committees in this study. The compositions of these audit committees therefore need to be revised. Ng (2013) argues that audit committee members with financial knowledge are more

likely to understand the extent of internal controls and works performed by the internal auditors and provide support to external auditors with regard to any disagreement with management. Yasin and Nelson (2012) also argue that having audit committee members with financial expertise decreases the probability of stealing assets in public companies.

4.4.1.3 Lack of independence

The research revealed that most of the audit committee members were executive directors; only one ministry consisted of non-executive directors. These executive directors were from various departments of the ministries. This might bring conflict of interest as it is their departmental audit reports that need to be discussed by the audit committee. Audit committees that consist only of executive directors are not in support of good governance practices according to the King 111 report as well as the Namcode that stipulate that the majority of the audit committee members must be non-executive directors. Independent audit committee members are able to face management when confronted with tough issues. If management is part of the audit committee, members of the management might override some of the decisions. Audit committee members who are executive directors might not be good monitoring tools as they might have conflict of interest and might not be able to face management as they are part of the management. The question of management overriding internal control may also arise. Poudel and Hovey (2013) argue that independent audit committees from management are likely to prevent manipulation of financial results. In addition, independent audit committee members are a good monitoring tool for

managers as they do not have any economical or personal connection or relationship with management. Salloum, Azzi and Gebrayel (2014) believe that executive members can impair the effectiveness of audit committees by influencing the decision-making process of the board. The higher the percentage of executive directors, the higher the limitation of information held by the board members. Neal, Palmrose and Scholz (2008) also believe that inside directors can lead to manipulation of decisions and dilution of power by compromising their decisions. Li et al. (2011) argue that audit committees' independence is important as independent directors are more likely to be effective monitors of management's actions. Audit committees that are independent are more likely to be free from management influence and will ensure the quality and credibility of the reporting process.

4.4.1.4 Appropriateness of the audit committee size

International recommendations say that the audit committees should consist of at least three to six members. In two of the ministries, the audit committee consisted of six members, while the other two consisted of three members. With these numbers, it is clear that work can be executed effectively. In Namibia and South Africa, the audit committee should have at least three members. This is supported by the Namcode and the PFMA of South Africa. Salloum et al. (2014) believe that larger committees lose concentration and become less participative than small audit committees and therefore, smaller boards are better monitors than larger boards.

4.4.1.5 Lack of reporting structure

The researcher found that there is no proper reporting structure to whom the audit committees report. In the case of the Ministry of Youth, Sport and Culture, the Permanent Secretary reports to himself. The person who makes the final decision should not be the same person whom the audit committee should report to.

In the other three ministries in this study, the audit committees do not report to anyone or any organ. There is no standard or legal framework on issues of reporting. This is contrary to the Irish government departments where the audit committee reports to the secretary general (O’Riordan, 2013). In South Africa, the legislation stipulates that audit committees should report to the accounting officers as well as to Parliament through a report in the annual report of the department (Van-der-Nest, 2008).

In this case, Namibia can benchmark with other countries like Ireland and South Africa. There needs to be a higher governmental body where government audit committees can report to.

4.4.1.6 Lack of audit committee meetings

The researcher found that some audit committees never met since their establishment. A question also arises on whether the functions were being executed properly by the audit committees if they did not meet to execute these functions.

Some of the ministries’ audit committees never met at all to discuss the financial matters of the ministries. The effectiveness of the audit committee is therefore

questionable. Audit committees that meet frequently contribute to audit committees' effectiveness and are more likely associated with higher quality audits (Yasin & Nelson, 2012; Munro & Buck, 2008). In cases where audit committees have never met, the question arises as to how the audit committees are informed of the auditing issues of the company. Audit committees that meet frequently are more likely to be informed of current audit issues and are more obliged to fulfil their duties (Ng, 2013; Yasin & Nelson, 2012). If the audit committee never meets, how are its functions executed? Thiruvadi (2014) states that audit committees that meet at least twice a year are likely to be sanctioned on fraudulent or misleading reports. In addition, Swidi and Fadzil (2014) concur that frequent meetings of audit committees determine the activeness of the committee in examining accounting records, internal control systems and providing information to top management on actions taken.

Audit committees need to meet at least quarterly in order for them to be effective in executing their duties.

4.4.2 Discussions for Objective 2

For Objective 2, the following theme came up:

4.4.2.1 Lack of uniformity in guidelines of audit committee functions

The Ministry of Information and Communication Technology's audit committee did not have the function of risk management. This is an important function and should be incorporated in the audit committee charter. Mohamed and Hussain (cited in Lama, 2011) point out that the roles of the audit committee have been changing over

the years to meet rapid changes in the corporate world. Some of the major responsibilities of the audit committee that have expanded dramatically are risk assessment and risk management.

There is a clear indication that each ministry's audit committee has their own function as they deem necessary. At least the Ministry of Finance or the office of the Auditor General should come up with a generic audit committee charter including the functions of the audit committees in all the ministries on what is expected of them. Some of the functions are really not necessary as they are not the major functions of the audit committees. The audit committees should be benchmarked with the Namcode and the King 111 report.

4.4.3 Discussions for Objective 3

For Objective 3, the following theme was derived.

4.4.3.1 Lack of regulations

There are no regulations guiding audit committees in the government ministries in Namibia. At least the State Finance Act should make it mandatory that ministries should have audit committees. The authority, composition and functions of the audit committees should be clearly stipulated in the State Finance Act. Previously in the government, there were no audit committees. The audit committees in the government were established as per the recommendations of the Public Accounts Committee (Ihuhua, 2012). These recommendations were implemented by some government ministries and there is no law regulating such audit committees. A

comparison can be made to New Zealand and South Africa. In New Zealand, there are regulations guiding audit committees in the public sector legislation, such as the Public Finance Act, Crown Entities Act and the Local Government Act (Magrane & Mathus, 2010). South Africa is also another country where audit committees are included in the public service legislation such as the Public Finance Management Act and the National Treasury (Van-der-Nest, 2008).

4.5 Summary

The chapter presented data and related findings. The chapter focused on the composition of the audit committees in the four selected government ministries. The findings revealed that the audit committees are not properly constituted. Furthermore, the functions of the audit committees in the four selected government ministries were analysed. The regulation of the audit committees was examined. The research revealed that among the four ministries, only one is upholding the standards of good corporate governance as per the Namcode. The majority of the audit committee members from three ministries are executive directors, which leads to the question of independence. The audit committees in the four ministries did not meet on a regular basis. Through scrutinising of the audit committee charters, it is evident that there is no uniformity on the functions of audit committees. There is no proper reporting structure for the audit committees in all the four ministries.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter Five concludes the thesis. Section 5.2 presents the summary of the findings. Section 5.3 discusses the conclusions emanating from Chapter Four. Section 5.4 presents recommendations by the researcher. The chapter concludes with a summary in Section 5.5.

The conclusions are based on the three objectives of this study, which were 1) to assess the composition of the audit committees in selected government ministries in Namibia; 2) to evaluate the functions of the audit committees in government ministries in Namibia and finally; 3) to determine how audit committees in the government are regulated.

5.2 Summary of findings and conclusions

Despite the fact that there has been emphasis that government ministries in Namibia should establish audit committees as per PAC's recommendations, only four ministries have adhered to the recommendations. These four ministries are faced with a lot of challenges on best practices. Four ministries have established audit committees, but these audit committees do not meet the best practice according to the Namcode, King 111 and various literature reviews.

Chapter One of this thesis dealt with the introduction and background of the research problem. Chapter Two presented the literature review. In Chapter Three, the methods

of data collection and analysis were discussed. The findings were discussed in Chapter Four. The research concludes that the audit committees are not functioning properly.

Conclusion on Research Objective 1: To assess the composition of the audit committees in selected government ministries in Namibia

This study revealed that of the four ministries with audit committees, two were chaired by the permanent secretaries of those particular ministries, one was chaired by a medical doctor and one by a deputy director (internal audit) who was an outsider. The study also revealed that from the four ministries, three of the audit committees consisted of members within the ministry and only one ministry consisted of members from outside. This is contrary to the Namcode and the King 111 report and various authors who emphasise that the chairperson of the audit committee should be an independent member who is free from the day to day activities of the ministry. Based on the findings, it makes it difficult for the audit committee members to make decisions that are contrary to the management as they are part of both the management and audit committee members. The audit committee members are likely to make decisions that are in favour of management, which leads to conflict of interest.

The study further revealed that three of the four audit committees in the four ministries were specialised in fields other than accounting and auditing. The audit committee members therefore did not have relevant experience in auditing and accounting. A number of scholars (Yasin & Nelson, 2012; Okpala, 2012; Aldamen et

al., 2012; Al-saeed & Al-Mahamaid, 2011) state that one or the majority of the audit committee members should be financially literate. Evidence in this thesis indicates that audit committee members from three ministries did not have an accounting background or auditing experience. This indicates a problem in the composition of the ministerial audit committee as members are not assessed based on qualification.

Conclusion on Research Objective 2: To evaluate the functions of the audit committees in government ministries in Namibia

The result on the evaluation of the audit committees in government ministries revealed that the audit committees of the four government ministries hardly met. The result revealed that the audit committee of one of the ministries never met since its establishment in 2012, two ministries had never met since 2013, while one ministry had met twice the previous year. Based on the findings from three of the ministries, it is questionable which functions the audit committees executed if they never met. This is an indication that the functions of the audit committees are null as there were never executed by the other three ministries. Scholars (for example, Munro & Buckby, 2008; Yasin & Nelson, 2012; Huang & Thiruvadi, 2014) state that the audit committee should meet at least twice a year or quarterly in order to analyse the financial statements and audit reports.

Conclusion on Research Objective 3: To determine how audit committees in the government are regulated

It can be concluded from the findings that in Namibian government ministries, there is no law or policy regulating the audit committees. The State Finance Act does not make provision for both internal audits in the government ministries and audit committees. There is a Namcode in Namibia that governs the private sector and SOEs. According to Deloitte (2013), companies are not forced to comply with the Namcode but can explain the reasons for their departure. Namibia should have clear guidelines on how audit committees should function. In other countries, for instance South Africa and New Zealand, audit committees in the government are regulated by law and this provide uniformity. In South Africa, the public service legislation requires each government department or public entity to have an audit committee. The audit committee in the public service is covered in the Public Finance Management Act (Van-der-Nest, 2008). In New Zealand's public sector, there are no specific regulatory or legislative requirements for establishing audit committees, but there are pieces of public sector legislation, such as the Public Finance Act of 1989, the Crown Entities Act of 2004 and the Local Government Act of 2002 (Magrane & Malthus, 2010).

5.3 Recommendations

The following recommendations are made based on the findings of the study:

- The Chairperson of an audit committee should be independent from management and should be a non-executive director.
- The audit committee members should be outsiders in order for them to discharge their duties with more diligence and to avoid conflict of interest.

- Legislation must make it clear that at least one or the majority of the audit committee members should be literate in financial matters and some should have auditing and accounting skills so that there is a balance. This will empower members to understand and be able to analyse financial reports and understand audit reports.
- The audit committee should meet on a regular basis, at least four times in a year in order for them to discharge their functions.
- The functions of the audit committees should be clearly stated in the State Finance Act.
- At least the State Finance Act should be amended to include government internal auditors as well as audit committees on the authority, composition, meetings and functions. This will assist audit committees to know the composition of the audit committee and what they are required to do. The government should come up with a legislation which will assist ministries to operate in uniformity across the board and to abide with best practices.

Recommendations for future research

Further research may be required in the same area as some ministries might establish audit committees. Future research may assist in providing the government ministries with best practices on audit committees and good corporate governance. People who wish to do further studies should include the new ministries as new ministries have been established.

5.4 Summary

This chapter discussed the summary of the findings and recommendations. The findings were discussed in accordance with the objectives of the study. The first objective was to assess the composition of audit committees in the selected government ministries. The findings of the study are that audit committees are not properly constituted. In line with the second objectives, the study revealed that audit committees are not convening regularly. The third objective was on the regulating of audit committees. The study revealed that the government does not have any laws to regulate the functions, appointment and composition of audit committees. The chapter concluded with a number of recommendations, including the appointment of an independent chairperson, the formulation of statutory rules and regulations to govern audit committees in government ministries and amendments to the State Finance Act.

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Appendix A: Interview guide

1. Who is the Chairperson of the audit committee?
2. What are the qualifications of the audit committee members?
3. How many years of experience do the members have in auditing and finance?
4. Where have the members worked before and what were their previous position?
5. Describe the relationship that the audit committee members have with the Ministry?
6. How many members does the audit committee consists of?
7. To whom does the audit committee report?
8. How frequently does the audit committee meet?
9. What are the functions of the audit committee?
10. Is there any policy in place that regulates the audit committee?

Appendix B: Transcription of the interviews

Appointments were made telephonically and the interviewees were informed of the confidentiality of the interviews. The interviewees were informed that the information obtained will be kept secretly. The respondents were informed that they can get the research paper if willing to know of the outcome of the research. Names are not going to be used on this transcript for the protection of the respondents' anonymous. Ministries will be used as to classify from which ministry the data was obtained. Question 1 to 7 was set to meet objective 1 of this research paper. Question 8 and 9 was set to respond to Objective 2 and Question 10 emanated from Objective 3. Question 1 to 8 were asked to the Head of the internal audit divisions who are the 3 Chief internal auditors and 1 deputy director. These questions were asked to them as they had the necessary required information and knowledge of who serves in the audit committees. Question 9 and 10 were asked to the Chairpersons and the audit committee members.

The following are the questions and the responds from the participants.

1. Who is the Chairperson of the audit committee?

Ministry of Justice

The question was asked as to who is the chairperson of the audit committee.

Chief Internal Auditor: "The chairperson of the audit committee is the Permanent Secretary of this ministry".

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “The chairperson of the audit committee is the Permanent Secretary.

Ministry of Health and Social Services

Deputy Director Internal Audit: “The chairperson of the audit committee is a medical doctor heading one of the directorates”.

Ministry of Information and Communication Technology

Chief Internal Auditor: The Chairperson of the audit committee is a deputy director internal audit from Ministry of Health and Social Services”.

1 What are the qualifications of the audit committee members?

A question was asked as to what were the qualifications of the audit committee members

Ministry of Justice

Chief Internal Auditor: “All the members of the audit committee have qualification in law and except one who have a qualification in accounting and auditing”.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “All the members have experience in administration”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “2 members have qualification in medicine and 1 in law”.

Ministry of Information and Communication Technology

Chief Internal Auditor: “2 members have qualification in accounting and 1 member in accounting and auditing”.

3. How many years of experience do the members have in auditing and finance?

A question that was raised for the interviewees was the years of experience the members had in auditing and finance.

Ministry of Justice

Chief Internal Auditor: “5 of the audit committee members have no experience in auditing and finance and 1 has 15 years in auditing and finance”.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “All the 6 members have no knowledge in accounting and finance”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “ 2 have experience in medicine and 1 in police”.

Ministry of Information and Communication Technology

Chief Internal Auditor: : “2 members have more than 10 years in auditing and 1 has more than 15 years in auditing and finance”.

4. Where have the members worked before and what were their previous position?

Another question that was asked to the participants was where the members worked before and their previous experience.

Ministry of Justice

Chief Internal Auditor: “5 members have worked before at ministry of Justice in the law departments and 1 at ministry of finance as an accountant.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “5 members have worked before at ministry of Youth in the Administration and 1 at Kavango Regional Council as a CEO”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “2 have worked in the same ministry as medical doctors and 1 at Safety and Security as a policeman.

Ministry of Information and Communication Technology

Chief Internal Auditor: “2 have worked at ministry of finance, 1 as an accountant and another as an auditor. 1 has worked at Khomas Regional Office as an auditor before”.

5. Describe the relationship that the audit committee members have with the Ministry?

Respondents were asked to describe the relationship that audit committee members have with the Ministry?

Ministry of Justice

Chief Internal Auditor: “All 5 members are internal, they are employees of the ministry except for one who is an outside member.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “All the 6 members are employees of the ministry”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “All the 3 members are employees of the ministry.

Ministry of Information and Communication Technology

Chief Internal Auditor: “All the employees are non-executive directors from various ministries”.

6. How many members does the audit committee consists of?

The question that was asked to the respondents was the number of the audit committee members

Ministry of Justice

Chief Internal Auditor: “ 6 members”.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “6 members”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “3 members”.

Ministry of Information and Communication Technology

Chief Internal Auditor: “3 members”.

7. To whom does the audit committee report?

The interviewees were asked as to whom does the audit committee report to?

Ministry of Justice

Chief Internal Auditor: “The audit committee does not report to anyone”.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “The audit committee report to the Permanent Secretary”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “The audit committee of the ministry does not report to anyone”.

Ministry of Information and Communication Technology

Chief Internal Auditor: “The audit committee does not report to anyone”.

8. How frequently does the audit committee meet?

The interviews were asked a question on how often does the audit committees meet?

Ministry of Justice

Chief Internal Auditor: “The audit committee does not meet currently and has been dormant since 2012 and are in the process of reviewing to see if they can reactivate it”.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “The audit committee never met since its establishment in 2012”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “The audit committee never met since its establishment”.

Ministry of Information and Communication Technology

Chief Internal Auditor: “The audit committee met twice a year”.

9. What are the functions of the audit committee?

Another question that was asked to the respondents was the functions of the audit committee?

Ministry of Justice

Chief Internal Auditor: “I will give you the audit committee charter where the functions are clearly stipulated”.

Chairperson 1 : “The audit committee charter stipulates the functions and you can obtain it from the chief internal auditor”.

Audit committee member 1: “The functions are in the audit committee charter of the ministry”.

Audit committee member 2: “The roles are stated in the audit committee charter”.

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “I will give you the audit committee charter where you can get the functions of the audit committee for this ministry”.

Chairperson 2: “Obtain the charter for the roles of the audit committee from the Chief Internal auditor.

Audit committee member 3: “The functions you will find them in the audit committee charter”.

Audit committee member 4: “The chief internal auditor has the audit committee charter that has the authority and functions of the audit committee.

Ministry of Health and Social Services

Deputy Director Internal Audit: “The audit committee is not in existence they never met”.

Ministry of Information and Communication Technology

Chief Internal Auditor: “You can find the functions of the audit committee in the audit committee charter where the functions are stipulated”.

Chairperson 3: “The functions you can obtain them from the audit committee charter”.

Audit committee member 5: “The functions are in the charter and clearly stipulated in there”.

Audit committee member 6: “The functions are a lot and it is better if you can obtain them from the charter which we compiled for the ministry at least to have all the roles as I might leave some out”.

The functions of the audit committee as directly taken out from the audit committee charters of the three ministries are as follows.

Financial Reporting Process

The functions for the ministry of Justice’s audit committees under the financial reporting process are as follows;

- Oversee the reporting of all financial information.
- Resolve any disagreements between management, the external auditor and/or the internal auditor regarding financial reporting.

Ministry of Information and Communication Technology's audit committee does not have a role on financial reporting process.

Risk Management

The functions of the audit committee for ministry of Justice under risk management are as follows;

- Provide the policy and framework for an effective system of risk management, and provide the mechanisms for periodic assessment of the system of risk management, including risks of the information systems, and risks of business relationships with significant vendors and consultants.
- Oversee all consultants and experts that make recommendations concerning the risk management structure and internal control structure.

The function on Risk management is not part of the roles for the audit committee of Ministry of Information and Communication Technology. This function is left out on their audit committee charter.

For ministry of ministry of Youth, Sport and Culture, the following are the functions of the audit committee.

- Review and evaluate the effectiveness of the Ministry process for assessing significant risk or exposures and the steps management has taken to monitor and control such risks to the ministry.
- Ensure the ministry has a comprehensive policy on risk management
- Consider the effectiveness of the ministry's risk management system, including risks of information technology systems.
- Hire outside experts and consultants in risk management as necessary.

System of Internal Control

The functions of the audit committee for ministry of Justice are here beneath under internal control

- Provide the policy framework for an effective system of internal controls, and provide the mechanisms for periodic assessment of the system of internal controls, including information systems, and internal control over purchases from significant vendors and consultants.
- Ensure that contracts with external service providers contain appropriate record-keeping and audit language.
- Seek any information it requires from employees-all whom are directed to cooperate with the committee's requests, or the requests of internal or external parties working for the audit committee. These parties include the internal auditors, all external auditors, consultants,

investigators and any other specialists working for the Audit Committee.

The under mentioned are the responsibilities of Ministry of Information and Communication Technology's audit committee under system of internal controls.

- Consider the effectiveness of the Ministry's internal control over annual and interim financial reporting, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial and operational reporting, and obtain reports on significant findings and recommendations, together with management's responses.

The ministry of Youth, Sport and Culture's audit committee, has the following function

- Review the effectiveness of weakness in the ministry's internal control including the status and adequate of information systems and security
- Review any related management's responses including the timetable for implementation of recommendations to correct weakness in the internal controls.

Internal Audit Process

Under Internal Process the functions of the audit committee for ministry of Justice are mentioned below;

- Oversee the work of the Internal Audit Division.
- Serve as the primary liaison and provide the appropriate forum for handling all matters related to audits, examinations, investigations or inquiries of the Auditor-General and the Ministry of Finance.

The functions of the audit committee for ministry of Ministry of Information and Communication Technology under internal audit process are as follows;

- Review with management and the Chief Internal Auditor the charter, plans, activities, staffing and organisational structure of the internal audit activity.
- Review the effectiveness of the internal audit activity, including compliance of Internal Auditing.

Under Internal Process the functions of the audit committee for ministry of Youth, National Service, Sport and Culture are mentioned below;

- Review the significant reports to management prepared by the internal audit department together with management's response and follow-up to these reports.
- Have final authority to review and approve the annual audit plan major changes to the plan.
- Assure and maintain through the organisational structure of the ministry and by other means the independence of the internal audit process.

- Ensure that internal auditors have access to all documents, information and systems in the ministry.
- Ensure that there are no unjustified restrictions or limitations placed on the internal audit staff.
- Review with management and Head: Internal audit, the charter, objectives, plans, activities, staffing, budget, qualifications and organisational structure on the internal audit function.
- Review the responsiveness and timeliness of management's follow-up activities pertaining to any reported findings and recommendations
- Receive periodic notices of advisory and consulting activities by internal auditors.

10. Is there any policy in place that regulates the audit committee?

The interviewees were asked a question on any policies guiding the audit committees in ministries.

Ministry of Justice

Chief Internal Auditor: "No there is no policy that regulates audit committees".

Chairperson 1 : "Currently there is no document or policy in place".

Audit committee member 1: "There is no policy guiding the ministries".

Audit committee member 2: "There are no policies in place".

Ministry of Youth, Sport and Culture

Chief Internal Auditor: “Currently the State Finance Act is silent regarding audit committees”.

Chairperson 2: “There are no regulations that regulate audit committees.

Audit committee member 3: “No policies are in place”.

Audit committee member 4: “Audit committees need to be regulated but currently there is nothing in place”.

Ministry of Health and Social Services

Deputy Director Internal Audit: “There is nothing in place at the moment”.

Ministry of Information and Communication Technology

Chief Internal Auditor: “There is no policy in place which supports audit committees”.

Chairperson 3: “There is no policy in place and government needs to look into this”.

Audit committee member 5: “No policy in place”.

Audit committee member 6: “There is no policy guiding audit committees in the government ministries”.