



**UNIVERSITY OF KWAZULU NATAL**

**AN INVESTIGATION INTO THE EFFECTIVENESS OF THE AUDIT COMMITTEES  
IN LOCAL GOVERNMENT WITH REFERENCE TO ETHEKWINI MUNICIPALITY**

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of  
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College of Law and Management Studies**

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## DECLARATION

I, **Zandile Virtue Dlamini** declare that

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Date: November 2016

## **DEDICATION**

I dedicate this research to my Saviour Jesus Christ, my mum Mrs. Z.G. Nyathi, my family and awesome boys Owami and Siba Dlamini

## ACKNOWLEDGEMENT

First and most importantly, 'To God be the glory'. Thank you Lord Almighty for making it possible for me to conclude this research; You are indeed a wonderful God. I don't know how I managed to complete this Masters but I know You were behind everything. 'Thank you Jesus'. Thank you my spiritual father, Pastor LV Mahlangu for all your teachings.

I express my sincere gratitude and appreciation to my supervisor Dr. Emmanuel Mutambara for his professional guidance, constructive criticism and encouragement throughout this research

I am very grateful to my mother for being my pillar of support throughout my life. I am honoured and blessed to have a supportive family as the "Nyathi's". Maphindi and Gcino you had to look after my kids at some times, may God Bless You.

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## ABSTRACT

The Audit Committee is a vital component of accountability and governance for those charged with responsibility of governance. Audit Committees have progressively been perceived as an integral part of modern control structures and governance practices in both the public service and private sector. The fundamental purpose of this study is to investigate the effectiveness of Audit Committees in the local government with reference to eThekweni Municipality. The researcher explored the effectiveness of the support from the Audit Committee to the internal audit function capacity and furthermore, to the Office of the Auditor General in the accomplishment of the best practice auditing in a municipality. The objectives that were developed for this study were to establish the effectiveness of Audit Committees, identify the perceived characteristics of the effective Audit Committee and also to investigate the perceived relationship between the Audit Committee and a good control environment. The researcher endeavours to answer the question of how effective local government Audit Committees are, in helping the municipality to discharge their service delivery mandates. It is clear that the Audit Committee cannot work all alone in the event that it wishes to be effective. Management, External Auditors (Auditor General of South Africa) and Internal Auditors all play a critical part in the effectiveness of the Audit Committee. A mixed methodology was used in this study since a structured questionnaire was used to collect quantitative data as well as reviewing audit documents, such as, the Audit Committee Charter, minutes of meetings, etc. in order to gain more insight into auditing process and procedures. The research instrument that was used consisted of structured and unstructured questions, as well as open ended questions. The target population comprised of the standing committee members as well as all the Audit Committee members totalling 20. Therefore, this study takes a census approach where all 20 members responded to the structured and unstructured questionnaire. The study concluded that the Audit Committee at eThekweni, which was selected for the study, complies with legal requirements and best practice regarding the suggested functions of committees. The Audit Committee can, however, still improve its effectiveness in its performance of certain key functions in the areas of oversight of risk management, reporting, and internal control environment as per recommendations.

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## LIST OF ABBREVIATIONS AND ACRONYMS

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The following abbreviations definitions are relevant and applicable for the purposes of this research:

- MFMA: Municipal Finance Management Act
- PFMA: Public Finance Management Act
- AG: Auditor General
- IIA: Institute of Internal Auditors
- AC: Audit Committee
- CFO: Chief Financial Officer
- MM: Municipal Manager
- AFS: Annual Financial Statements
- COGTA: Department of Corporative Government and Traditional Affairs
- KZN: KwaZulu -Natal
- SCOPA: Standing Committee on Public Accounts
- Municipal Standing Committee on Municipal Accounts
- KZN PT: KwaZulu- Natal Provincial Treasury
- NT: National Treasury
- DORA: Division of Revenue Act
- SALGA: South African Local Government Association
- KWANALOGA: KwaZulu - Natal Local Government Association
- MM: Municipality Manager
- GRAP: Generally Recognised Accounting Practice

## CHAPTER 1

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### INTRODUCTION AND BACKGROUND TO THE STUDY

#### 1.1 INTRODUCTION

Local government is at the focal point of service delivery as it is near to people on the ground. Due to the shortage of people with financial skills and the technical expertise with respect to the internal control system; many of the Audit Committee members have taken opportunity to serve on as many Audit Committees as possible. This brings up an issue concerning how effective the Audit Committee members are. More often than not, management see the Audit Committee role as being that of rubber stamping everything it is given and then submitting it to the board for approval. Management sees no worth in Audit Committees, which are viewed as a complete waste of time and money Johnathan Magrane, Sue Malthus (2010:21). This chapter aims to present the focus and motivation of this study. In addition, this chapter provides the research objectives, scope of the study, research questions, and necessary assumptions for this study.

#### 1.2 MOTIVATION FOR THE STUDY

Issues of financial mismanagement and shortages of skills and capacity within local government have resulted in service delivery protests. The South African government type is established based on majority rule government with a constitution that is regarded as the most progressive in the bill of Rights and worlds' being second to none. All spheres of government are relied upon to have unqualified audit opinions, which means no findings concerning noncompliance with laws and regulations AGSA(2011:13).

However, corruption and poor service delivery are potential dangers to developing countries especially in cases where there is a lack of transparency and public accountability. Corruption alone is one of the impediments of good governance, effective and efficient service delivery claims Lawal and Oladunjoye( 2010).

The recent protests for service delivery and non-participation of certain communities in local government elections is a clear indication of the local government within South Africa failing the very citizens it is supposed to render with basic service delivery (Jonas, 2011:4).

The Municipal Finance Management Act (56 of 2003) places key obligations on the Audit Committee. The Audit Committee is a critical committee of the council; if the municipality has an effective, well equipped internal Audit Committee it will reinforce the system of internal control and, therefore, result in public confidence with long lasting positive impacts on service delivery and transparent spending of public funds.

It is without doubt that the Audit Committee assumes a significant role in reinforcing internal control, ensuring that there are synergies between assurance providers, for example, internal and external audits. The Internal Audit and the Auditor General are assurance providers for the Audit Committee and, therefore, play an even bigger role in its effectiveness. The independence of these assurance providers is crucial as the Audit Committee relies on them to acquire an independent view on effectiveness of controls within the entities.

The research report will be of interest to the following readers:

- Assurance providers (i.e. risk management functions, internal audit functions, external auditors and Audit Committees);
- Stakeholders;
- Citizens of EThekweni;
- Councils of the municipality and other councils within KZN province;
- Cabinet of KwaZulu- Natal;
- Accounting Officer of Department of Corporative Governance and Traditional Affairs;
- The public at large who are interested in learning about research on effectiveness of Audit Committee and its relation to service delivery.

### **1.3 FOCUS OF THE STUDY**

South Africa has nine provinces; each province has its own provincial government with legislative powers vested in a Province Legislature and Executive power vested in a Provincial Premier, exercised together with other members of a provincial Executive Council. The Constitution provides for three types of local government namely, metropolitan, district and local. Local authorities are responsible for delivery of basic services. Therefore, the focus of the study is to investigate the effectiveness of the audit community in local government with reference to eThekweni municipality which is in the KwaZulu- Natal province.

### **1.4 AIM OF THE STUDY**

The main aim of this study is to determine whether or not Audit Committees in the public sector are effective. Given the significance of the role that an Audit Committee plays in the governance structure of the board with respect to financial reporting, internal control and risk management, and other related aspects, and the recent improvements in the legal, regulatory and business environment in South Africa, it is essential to analyse the effectiveness of the Audit Committee. If the Audit Committee is not effective, controls may be poor, resulting in the undetected occurrence of fraudulent activities.

### **1.5 PROBLEM STATEMENT**

There is an enormous obligation on public entities to deliver on the mandate of government.

The 2016 Local Government election introduced a serious opportunity for communities to take a stand on lack of service delivery. Just before the election we have seen most communities protesting for service delivery and corruption by the councillors. This was a clear sign of no confidence on local government system. Government is endeavouring towards a clean audit administration. This study, therefore, is an attempt to identify whether Audit Committee are in fact effective in executing their responsibilities, so that shortcomings maybe identified and recommendations made to the Auditor General to improve the status quo.

## **1.6 RESEARCH OBJECTIVES**

**Based on the above research problem, the following objectives were developed:**

- (a) To assess the effectiveness of Audit Committees
- (b) To establish the characteristics of an effective Audit Committee
- (c) To establish the relationship between an effective Audit Committee and infusion of a good control environment.
- (d) To generate recommendations for improving Audit Committee effectiveness

## **1.7 RESEARCH QUESTIONS**

**The key questions for this research include:**

- (a) What is an effective Audit Committee?
- (b) What are the characteristics of an effective Audit Committee?
- (c) Is there a relationship between an effective Audit Committee and infusion of a good control environment?
- (d) What recommendations can be generated to improve Audit Committee effectiveness?

## **1.8 SCOPE AND ASSUMPTIONS OF THE STUDY**

The study will fill a gap in the practical implementation of corporate governance principles, particularly the role of the Audit Committee, control environment and service delivery as well as the reasons for Audit Committee failure and its impact on service delivery in municipalities.

The study will endeavour to expose the links between good governance and organisational mandate (service delivery); with special emphasis on Audit Committee effectiveness and control environment as well as the links between the control environment and service delivery. While much effort has been committed in conducting researches on corporate governance in general; there has not been much research on the effectiveness of the Audit Committee. Further, linkages

between the role and impact of an effective Audit Committee in a municipality in infusing effective service delivery and a good control environment is limited.

According to the Institute of Public Administration (2011:11) an audit committee should also promote the integrity and effectiveness of audit activities. Therefore research will benefit everyone in the spheres of government especially the municipality in South Africa that are at present experiencing the syndrome of poor service delivery (delivery mandate) because of poor implementation of corporate governance principles and practices, relating to Audit Committees. The study will, likewise, give a South African perspective on Audit Committee effectiveness and implementation of an internal control framework and delivery of service in South Africa. In particular, the natives and partners of South Africa will benefit, if the municipality and Audit Committees implement the recommendations of the study to fast tract service delivery and hold management accountable for their performance.

The study will likewise give direction to the assurance providers (i.e. management, compliance function, risk management function, internal audit and external audit), other stakeholders (COGTA, SCOPA, citizens of KwaZulu- Natal) and in addition the Audit Committee members, the executive management and clients in ensuring accountability.

Notwithstanding that, the study will benefit the assurance providers and stakeholders by providing them with a control and accountability framework, which could be incorporated into the Audit Committee's requirement at local government. The members from the Audit Committee and the executive will benefit by better understanding their role in delivering the mandate of their individual municipalities to ordinary citizens of the municipalities.

Crosslin and Associates (2010:4) assert that the effective functioning of an Audit Committee in the public sector ought to be investigated. Given that the public sector forms an essential part of the economy, it is, therefore, viable to investigate the effective delivery of public services. Crosslin and Associates bid that effective Audit Committees can significantly contribute to increasing the level and reliability of financial reporting and the effectiveness of internal controls and risk management systems.

The accomplishment of the mandate of these entities and government also depends on the contributions made by the Audit Committee to management and the board. Management can hide non-compliance with legislation and treasury regulations, and this might never be detected. If the Audit Committee is ineffective, the internal audit could be undermined by management, and their findings will not be taken seriously Beasley, M.S., Carcello, J.V., Hermanson, D.R. and Neal, T.L. (2009:66).

In a court case in New York, the Audit Committee's oversight of the financial reporting process was tested; Audit Committee chair testified that he "trusted" management. "It never occurred to him to check the truthfulness of management's statements. He always assumed that management was giving the committee a full and complete description of the affairs of the company. The Audit Committee put too much faith in management's integrity and continued to rely on management's assertions even after there was evidence of questionable management integrity" Beasley, M.S., Carcello, J.V., Hermanson, D.R. and Neal, T.L. (2009:67).

The study was permitted and approved by the eThekweni Municipality city manager to be carried out without any hindrance.

## **1.9 RESEARCH METHODOLOGY**

Business research is performed using two general approaches in collecting and reporting on information, being the Positivist (quantitative) and Phenomenological (qualitative approach). Positivism supports the use of the natural science methods in the study of social reality Bryman & Bell( 2011). The positivist approach relies on collecting data on reality that is observable and can be measured and analysed to discover relationships in the data that can be generalised to the population (Gill & Johnson, 2010,cited in Saunders, M., Lewis, P. and Thornhill, A. (2012:134). Hypotheses are developed and tested through the data analysis process to enable conclusions to be drawn on "observable social reality" rather than perceptions Saunders, M., Lewis, P. and Thornhill, A. (2012:134).

Quantitative research is generally used with a deductive approach where data is collected to test a theory Saunders, M., Lewis, P. and Thornhill, A. (2012:162). The study sought to investigate the effectiveness of the Audit Committee in local

government with reference to eThekweni municipality. The benefits of the quantitative approach are that the results are generalisable to the population Saunders, M., Lewis, P. and Thornhill, A. (2012:163).

A mixed method combines both the quantitative and qualitative approaches in research design Saunders, M., Lewis, P. and Thornhill, A. (2012:166). Since this study used a structured questionnaire to collect quantitative data as well reviewing audit documents, the Audit Committee Charter, minutes of meeting, etc. in order to gain more insight into process and procedures, a mixed methodology was used. Perusing documents indicate a qualitative process, emphasising the use of a mixed method approach. Noting the strengths and weaknesses that flow from purely positivistic and phenomenological bias in research, researchers sometimes adopt a mixed approach that draws on both positivism and phenomenology. The use of mixed research methods enables the researcher to increase the reliability and validity of the findings Saunders, M., Lewis, P. and Thornhill, A. (2012:166). Questionnaires are appropriate for a quantitative methodology. The target population were all Audit Committee members totalling 20. Therefore, this study took a census approach where all the 20 members responded to the structured and unstructured questionnaire. The researcher made contact with all prospective respondents through telephone inviting them to participate in the study. An email was sent out to each participant with a letter explaining the purpose of this research. Ethical considerations were taken into account during this research. Participants were not forced or put under pressure in responding to the questionnaire. A software package, IBMSPSS 22, was used to analyse the data. The raw data was coded and categorised for ease of capture, into SPSS. Each questionnaire received was evaluated for completeness prior to capture into SPSS. Content analysis was used to analyse the data gathered from minutes, Audit Committee charter and terms of reference.

#### **1.10 LIMITATIONS OF THE STUDY**

As there is a limited body of knowledge on the Audit Committee in local government, the study uses the body of knowledge that currently focuses on the

public sector i.e. National and Provincial government and private sector as a basis. At the present moment there is a single piece of legislation, the Municipal Finance Management Act (MFMA) that addresses the Audit Committees in local government. However, there is a principal relationship between local government and both national and provincial government legislation.

The study examines the role and effects of an effective Audit Committee in infusing a good controlled environment in the organization; and the impact of both, the effective Audit Committee and a good control environment, in assisting to achieve effective delivery of the organizational mandate.

The availability of the targeted population, such as the Municipal Manager (MM), Chief Financial Officer (CFO), Audit Committee members, senior management, secretariat as well as ex-employees and clients, might be a challenge, as some may be unwilling to share information for fear of victimisation.

## **1.11 ORGANISATION AND STRUCTURE OF THE STUDY**

This study comprises of five chapters which cover the following aspects in detail:

### **Chapter 1: Introduction and Background to the Study**

Chapter 1 presents an introduction to the study. It presents the motivation of the study, problem statement, focus of the study, research objectives and research questions. It also shows the scope of the study, justification and structure of the study.

### **Chapter 2: Literature Review**

This chapter contains the history and different perspectives on corporate governance, reasons for ineffective Audit Committees, reasons for internal control environment failures and ultimately the reasons for local government providing poor service delivery. Various articles or concepts within the field of Audit Committee effectiveness, control environment and delivery of the organizational mandate and corporate governance are presented.

### **Chapter 3: Research Methodology**

The method employed to collect the primary data is covered in this chapter. It presents the research philosophy, research design method, study location, target population, sampling, and collection strategy. It also covers reliability and validity, data analysis and administration of questionnaire.

### **Chapter 4: Research Results**

Chapter four presents the outcomes of the research and its analysis. The results are presented in relation to the propositions formulated.

### **Chapter 5: Conclusion, and Recommendations**

Chapter five covers the conclusions and recommendations drawn in relation to the theory presented.

## **1.12 CONCLUSION**

Chapter 1 attempted to lay a foundation for the proceeding chapters by defining the research objectives, research objectives, problem statement, research question, scope and assumptions of the study that will have to be consistently linked to the research propositions and supporting theory. It also endeavours to describe the research plan in greater detail. The literature review is presented in the next chapter.

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## CHAPTER 2

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### LITERATURE REVIEW

#### 2.1 INTRODUCTION

In the previous chapter, the problem statement, the reason for the study, examination instruments and examining techniques were reported as point of interest. This chapter concentrates on the issue of corporate administration in South Africa, with specific referenced to the EThekweni Municipality. The centrality of this work lies in its recognizable proof of the significance of review advisory groups and the authoritative prerequisites encompassing their presence. This chapter highlights the administration issues and it also investigates the intercessions that administration can present if administration is non-existent or insufficient. This current chapter is in line with the objectives of the study, which are as follows:

- (e) To assess the effectiveness of Audit Committees
- (f) To establish the characteristics of an effective Audit Committee
- (g) To establish the relationship between an effective Audit Committee and infusion of a good control environment.
- (h) To generate recommendations for improving Audit Committee effectiveness

#### 2.2 DEFINITION OF AUDIT COMMITTEE

The Municipal Finance Management Act (MFMA) Act 56 of (2003:156) defines the Audit Committee at Local Government as an independent advisory body to the Council of the Municipality with clearly defined functions, roles, responsibilities and powers.

The common or key aspect of the Audit Committee in the above definition is that it is a committee of the Municipal Council or any organization that should assist the entity in fulfilling its oversight responsibility, particularly with regard to issues of financial management, risk management, internal audit and compliance. The Audit Committee assists Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, management of risks, the audit

process and the process for monitoring compliance with laws and regulations Municipal Finance Management Act (2003: 154).

Audit committees are seen as key components of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and on financial performance CIPFA( 2005:16).

An independent Audit Committee fulfils a vital role in corporate governance. The Audit Committee is a critical component in ensuring the integrity of integrated reporting and financial controls, the proper identification and management of financial risks and the integrity of the reporting practices King III (2009:59).

In the private sector the primary responsibility of the Audit Committee should involve assisting the board of directors in carrying out their responsibilities as they relate to the organization's accounting policies, internal control and financial reporting practices Muhiuddin, M.D. and Karbhari, Y. (2010). Governance in the public sector deserves the same attention as governance in the private sector.

Therefore, it could be argued that Audit Committees in the public service have similar responsibilities as their counterparts in the private sector. Whereas unethical behaviour in the corporate sector impacts on the shareholders of a company, unethical behaviour in the public sector impacts on all taxpayers and citizens of a country Munzhedzi (2013:284).

### **2.3 BACKGROUND TO AUDIT COMMITTEES**

In conference proceedings of the 5th Annual Local Government Conference, Moses (2008: 10) argues that the Local Government within South Africa, across all provinces, have issues of financial mismanagement and maladministration and as a result, some of them have been administered by the Provincial Department responsible for Local Government (COGTA) in terms of Section 139 of Municipal Systems Act, 2000.

South African government is decentralised into National, Provincial and Local levels of Government, called the three –tier system, each with its own legislature and executive, all based on a system of inter-dependent, interrelated and co-operative Government. According to Ananthanarayanan, (2011:53) in the democratic countries in which voters are predominately poor, the politicians often divert resources to political rents and to private transfers that benefit a few allied citizens at the expense of many.

Particularly at local government level, more and more councillors are alleged and even charged with corruption, where they solicit tenders for themselves, families and friends. The rich and the privileged are benefiting while the poorest of the poor still suffer. Corruption is a major hindrance to service delivery, in local government and has led to a growing voice of concerns from the public, communities and citizens for an effective management of local government which in turn will mean that ethics and governance should be a habit of any organization Ananthanarayanan (2011:56).

The major questions facing the government of states are the extent and the diversity of the services to be provided to satisfy the needs of society by the state. According to Jonas (2011:26) as a process of providing satisfactory services, the governments, particularly local governments, which are at the fore front of driving service delivery, must consistently revisit its internal control systems to guard against corruption and improve on public accountability.

Thompson & Strickland (2011) advocate that a strong corporate culture founded on ethical business principles and moral values is a vital driving force behind continued strategic success of any organization. The continued exploitation of communities by their own leaders in local government indicates a huge need for independent, objective oversight bodies to check the transactions and compliance issues at municipalities.

The government and society in responses to curb maladministration, poor governance and improve service delivery, have formulated and adopted a number of control frameworks such as MFMA, Treasury Regulations, Audit Committees,

Standing Committee on Accounts, Protocol on Corporate Governance for the Public Sector, Service Delivery Framework, King III and Internal Control Model, to ensure accountability of those entrusted with governance KPMG (2012). Beside the introduction and implementation of these control frameworks, numerous local government scandals and poor service delivery are still the events of the day, as such, the reputation of the entire governance structures including councillors and its sub-committees such as Audit Committee and assurance providers has been called into question KPMG (2012).

The view expressed by the Auditor General talks to the history and the introduction of Audit Committees in Local Government. Provincial Government and National Government were regulated for some time by Municipal Finance Management MFMA (2003:24) clearly articulating all principles and compliance issues. The introduction of Municipal Finance Management (MFMA) Act 56 of (2003) was indeed a turning point for management and governance of Local Government. One of the mandatory requirements of the MFMA is that each Municipality or Municipal Entity must have an Audit Committee.

The Municipal Finance Management MFMA (2003:154) is the only piece of legislation that introduced Audit Committees by the South African Local Government; this therefore effectively means that municipalities were forced to have Audit Committees as from 2005.

## **2.4 OVERVIEW OF PUBLIC ENTITIES**

There are three spheres of government, to be specific national, common and nearby. In all these three circles, public entities exist. The point of public entities is, in addition to other things, to help government to fast track its delivery of services and economic growth. There are Board committees that do not form part of the political structure due to the vital functions they perform Thornhill (2011:6).

## **Board committees**

In order for the board to perform its responsibilities effectively, it needs to delegate certain functions to its board committee King III (2009:24). These committees include the following:

- Audit Committee
- Risk committee
- Remuneration committee.

The above committees help the board to ensure that the company or entity has and maintains an effective, efficient and transparent system of financial and risk management and internal control. The assurance providers, such as internal audit and external audit, should operate effectively. According to King III (2009:24) the board should delegate certain functions to well-structured committees, without abdicating its own responsibility.

## **2.5 KING III REPORT**

The King III (2009:21) outlines the key principles of good corporate governance as follows:

- Discipline (a commitment by the company management to adhere to behaviour that is universally accepted);
- Transparency (the ease with which an outsider is able to make meaningful analysis of a company's accounts);
- Independence (the extent to which mechanisms have been put in place to minimise or avoid potential conflicts of interests);
- Accountability (individuals in a company should be accountable for the actions they take);
- Responsibility (this pertains to behaviour that allows for corrective action and or for penalising mismanagement);
- Fairness (the systems that exist in a company must be balanced in taking into account all those that have an interest in the company and its future);  
and
- Social responsibility (a well-managed company will be aware of social issues and respond thereto).

The above principles are based on moral duties expressed in concept: “Ubuntu” and are, therefore, equally applicable and relevant to those charged with governance of municipalities. The King III (2009:35) report on Corporate Governance requires that those charged with governance must demonstrate ethical effective leadership; and ensure sound internal controls as well as the catering of the society’s and customers’ needs.

**a) Audit Committee**

With regard to the Audit Committee, King III (2009:59) states the following:

- (a) An organisation should have an effective Audit Committee;
- (b) Audit Committee members should be suitably skilled and experienced independent non-executive directors;
- (c) The Audit Committee should be led by an independent non-executive director;
- (d) The Audit Committee should oversee stakeholder reporting including:
  - Financial reporting (including price sensitive information and prospectuses);
  - Interim results;
  - Summarised financial information; and
  - Integrated sustainability reporting.
- (e) The Audit Committee should satisfy itself of the expertise, resources and experience of the finance function;
- (f) An Audit Committee is required to meet at least three times a year with the Audit General (AG), in order to primarily discuss the scope of the external audit before the commencement of the audit work, and then during the audit engagement, and lastly, when the audit work is finished, in order to discuss the audit findings.
- (g) The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- (h) The Audit Committee should be responsible for the oversight of internal audit;
- (i) The Audit Committee should be an integral component of the risk management process focusing on:

- Financial reporting and risks;
  - Review of internal financial controls;
  - Fraud risks; and
  - Information technology (IT) risks.
- (j) The Audit Committee is responsible for recommending the appointment of the external auditor and the oversight of the external audit process;
- (k) The Audit Committee should enquire about the experience and sufficiency of staff in the Internal Audit, External Audit and Finance departments/ units.
- (l) The Audit Committee receives enough information to review and understand the municipality's system of internal controls.
- (m) The Audit Committee's review of the annual internal audit plan. Audit Committee review of management letters from internal and external audit to address significant issues. Audit Committees' review of management responses to the above- mentioned letters.
- (n) Audit Committee should have regular informal meetings with the Auditor General throughout the whole year. These informal meetings can bring about a 'deeper mutual understanding' of the councils' operations and financial reporting requirements. This will ensure that public and officials trust the Audit Committee which will enhance the future discussions.
- (o) Audit Committees' assessment of compliance effectiveness and other consulting services of internal audit.
- (p) Audit Committees' evaluation of compliance with the standards of the IIA.
- (q) The Audit Committee should report to the board and stakeholders on how its duties have been carried out.

**b) Risk Committee**

The King III (2009:67) report recommends that the risk committee should address the following among others:

- Recognise, evaluate and manage risks and systems of internal control.
- Risk Management Committee to assist board.
- Audits undertaken should be on risk based approach.
- The assessment should address, for example, physical and operation risks, human resource risks and technology risks.

The King III (2009:67) categorically states that risk management is inseparable from the company's strategic and business processes and therefore:

- The management should be responsible for the implementation of the risk management process;
- Risk management should be practiced by all staff in their day-to-day activities;
- The board should be responsible for the process of risk management;
- The board should approve the company's chosen risk philosophy;
- The board should adopt a risk management plan;
- The board may delegate the responsibility for risk management to a risk committee;
- Risk assessments should be performed on an on-going basis;
- The board should approve key risk indicators and tolerance levels;
- Risk identification should be directed in the context of the company's purpose;
- The board should ensure that key risks are quantified and are responded to appropriately; and the
- The Audit Committee understands the municipality's key strategic risks and management plans to address these risks.

**c) Internal Audit**

Internal audit should provide independent assurance on the risk management process:

- The board should report on the effectiveness of risk management;
- The board should ensure that the company's reputational risk is protected;
- The board should determine the extent to which risks relating to sustainability are addressed and reported on;
- The board should ensure that IT is aligned with business objectives and sustainability, and
- The board should consider the risk of the unknown as part of the qualitative and quantitative risk assessment process.

## **2.6 THE EFFECTIVE AUDIT COMMITTEE**

### **Research Question 1: What is an effective Audit Committee?**

An audit committee's effectiveness, as described by Mohiuddin and Karbhari (2010:109), refers to its collective capability to fulfil its oversight objectives and for its members to have the "relevant qualification and experience with authority and resources to protect the 'shareholders' interests by ensuring reliable financial reporting, internal controls and risk management through diligent oversight efforts".

It was noted that Audit Committee responsibilities are on audit matters. They advise the Accounting Officer and Council on matters relating to internal financial control and internal audits, risk management accounting policies, adequacy, reliability and accuracy of financial reporting and information, Performance Management Act (MFMA) and any other applicable legislation or other issues referred to it by the municipality.

The members of the Audit Committee are all independent and have the required qualifications, skills and knowledge, which include legal, business management, risk management, accounting and financial management.

### **2.6.1 Functions of the Audit Committee**

According to the King III (2009) the following are responsibilities of the Audit Committee:

- Should oversee stakeholder reporting, these include financial reports, interim results and integrated sustainability reporting;
- Should satisfy itself of the expertise, resources and experience of the finance function;
- Should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- Should be responsible for the oversight of internal audit;

- The Audit Committee should be an integral component of the risk management process;
- The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process;
- The Audit Committee should report to the board and stakeholders on how its duties have been carried out
- An Audit Committee should plan the yearly agenda. Meeting should be sufficient in time to cover all agenda items. Audit Committee's agenda should dictate the scope of duties and complexity of the organisation's operations. The recommended annual number of meetings that are to be held is four, but further meetings may be scheduled to discuss any matters that may arise which need the attention on the auditor;
- An Audit Committee should assess the Internal Audit unit's capacity and assess resources such as budget, staffing, and the availability of the skills required in executing an internal audit function.

The Audit Committee must review the annual financial statements to provide the Council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall compliance with the MFMA (2003:150). Audit Committee as an oversight body should validate that the management and the Council exhibits the proper "tone at the top" across the Council PwC & IIARF( 2011:86).

They respond to the Council on any issues raised by the Auditor-General in the audit report. The Audit Committee must carry out investigations into the financial affairs of the municipality as the Council may request MFMA (2003:20). In performing this role, the Auditor General supports the audit committee in its oversight role. The Auditor-General, in its mission statement, indicated that it exists to strengthen the country's democracy by enabling oversight, accountability and governance in the public sector Auditor General South Africa (2011).

The above highlights the responsibility that the AGSA has given itself to ensure that it supports audit committees and all those charged with the governance of the entities. It is interesting to note that the AGSA has, as part of its strategic

objectives, clarified its understanding of stakeholders' needs by providing for the simplicity, clarity and relevance of audit messages.

The roles, responsibilities and functions of the Audit Committee are crucial as well as the expectations of management regarding the scope of their function to the success or failure of the organization, as it is indicated by both the MFMA (2003) and King III (2009) report the responsibility of stakeholder management i.e. between the finance unit, internal audit and external audit leading the financial compliance issues. Most corporate failures are as a result of weak and ineffective Audit Committees.

The Municipality has the Investigations Unit as well as Internal Audit Unit that report instances of the possible irregular and/fraudulent activities, to the Accounting Officer and the Audit Committee. Reported matters are to be investigated, such as maladministration, and appropriate action has been taken by management. The internal audit function provides the audit committee with a means of monitoring and evaluating whether or not controls put in place within the organisation are adequate, functioning effectively and sufficient to address risks in the financial reporting process and risks in achieving strategic objectives (performance information). Internal audit typically reviews business processes and associated controls, operational and financial performance, compliance framework, IT risk and controls, and the safeguarding of assets within the organisation King III (2009:103).

As part of compliance issues, an audit committee is also required to assess the adequacy and appropriateness of control strategies, which addresses areas such as risk management, code of ethics, anti- fraud and value for money arrangements, and anti-corruption, including whistle-blowing guidelines CIPFA(2005:16).

## **2.7 CHARACTERISTICS OF EFFECTIVE AUDIT COMMITTEES**

**Question 2:** What are the characteristics of an effective Audit Committee?

**a) Membership of Audit Committee and meetings**

The MFMA (2003) with regards to the Audit Committee at municipality stipulates the following:

- That the Audit Committee must consist of at least three members with appropriate experience, of whom the majority may not be in the employ of the municipality;
- That the Audit Committee must meet at least four times a year;
- That the members of the Audit Committee must be appointed by the council of the municipality;
- That one of the members who is not in the employ of the municipality must be appointed as chairperson of the committee;
- That no councillor may be a member of the Audit Committee.

The King III (2009) report on corporate governance recommends that:

- The Audit Committee members should be suitably skilled and experienced independent non-executive directors;
- The Audit Committee should be led by an independent non-executive director (Not Board Chairperson);
- At each AGM, the shareholders of a public company, state-owned company or any other company that has an Audit Committee must elect an Audit Committee;
- The nomination committee (where there is one) should present shareholders with suitable candidates for election as Audit Committee members.
- Audit Committee members must obtain orientation and education when they undertake their responsibilities. It is prudent for the Audit Committee members to receive on-going education about the activities and operations of the organisation, as well as professional development.

In comparing the MFMA (2012) and King III (2009) the most focal common requirements on the membership of the Audit Committee are independence, in that the committee should be chaired by a non-employee of the municipality or non-executive director. The composition of the Audit Committee can be seen as a determining variable regarding on how well the Audit Committee exercise its oversight function.

This strengthens the objective and the independence of the Audit Committee. The other critical commonality requirement is that the members of the Audit Committee must have skills, expertise to be able to effectively fulfil their responsibilities.

#### **b) The Audit Committee Charter**

In terms of Audit Committee effectiveness, the relevant charter provides the platform for authorisation and mandate from which the Audit Committee operates. The charter describes the scope of the committee's responsibilities and how it complies with these responsibilities.

According to the National Treasury (2012:3) the following points should be included in the Audit Committee Charter:

- Audit Committee membership, how many members, independence of members and manner of appointment;
- Audit Committee authority and responsibility;
- Responsibilities in terms of financial statement and disclosure matters;
- Responsibility with regard to oversight over the external auditor;
- Responsibility in terms of oversight over the internal audit function
- Responsibility with regard to compliance oversight
- Any additional responsibilities as agreed upon

The charter should adopt a wide-ranging view of the responsibilities of the Audit Committee. It should not only focus on "dealing with the auditors" National Treasury(2012:3). The model charter also elaborates on the inclusions mentioned above by including the Audit Committee procedures in the charter. The requirement for a schedule of meetings and the content of these meetings, the minimum number of meetings and who may call special Audit Committee meetings are important. The charter should also make provision for secretarial services for the committee. The secretariat will draw up the agenda for meetings, prepare draft minutes of meetings and maintain attendance registers. The charter has to prescribe reporting arrangements with the external and internal auditors as well as reporting to the board or in the annual report of the organisation.

Audit Committee charters in local government should comply with the above good practice requirements. In order to determine the effectiveness of Audit Committees in local government sector the quality of the Audit Committee charter is evaluated. In addition to its being a requirement for an effective Audit Committee, it is a legal requirement that Audit Committees in the South African public service must have a charter that should be reviewed annually National Treasury (2012:3).

**c) Skills and Experience**

The Audit Committee should adopt formal terms of reference, herein after referred to as the Audit Committee charter. The charter should be presented at a formal meeting. The Audit Committee must consist of minimum of 3 and maximum of 8 appropriately qualified members National Treasury (2012:3).

**d) Communication with management**

The Audit Committee should ensure that it communicates effectively with the board, the head of internal audit, the external auditor and other stakeholders. The Code of Practice does not explicitly deal with the effectiveness of communication between the Audit Committee and key stakeholders. It was found that none of the Audit Committees are reporting their views on their own effectiveness to their governing boards National Treasury (2012:3).

**e) The Audit Committee Chair**

The role of the chair is critical to the effective operation of Audit Committees. The chair has particular responsibility for ensuring that the committee is appropriately resourced and that it is maintaining effective communication with stakeholders. The Code of Practice does not contain any specific requirements in relation to the committee chair. The one area where good practice was not being applied was in relation to performance appraisal. Good practice in this area would involve the implementation of a formal appraisal process for the performance of committee members and the chair National Treasury ( 2012:3).

#### **f) Audit Committee performance and self-assessment**

The Audit Committee evaluation of the performance of an Audit Committee should be done periodically, and this includes the self-assessment of members, as well as evaluation by council. The self-assessment process is considered to be one of the steps that enhance an Audit Committee's performance. An Audit Committee can assess individuals or all the members of an Audit Committee collectively Deloitte, (2012: 7). The Audit Committee should assess whether there has been any changes in the legislation governing the organization or other regulatory changes which impact on areas under the Audit Committee's mandate King III (2009).

### **2.8 THE RELATIONSHIP BETWEEN AN EFFECTIVE AUDIT COMMITTEE AND INFUSION OF GOOD CONTROL ENVIRONMENT**

**Research Question 3:** Is there a relationship between an effective Audit Committee and infusion of a good control environment?

An effective Audit Committee is a vital component of an effective corporate governance system. Auditing Standard ASA 315, (2006:30) states that "The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment sets the tone of an organisation, influencing the control consciousness of its people." The control environment is the foundation of an effective internal control structure.

According to the Auditing Standard ASA 315 ( 2006:16), by understanding the environment and the pressures the organization and its management are facing, the Audit Committee can evaluate whether risks are being identified and, most importantly, being mitigated. Such an approach enables the committee to exercise its responsibilities in an active rather than a reactive manner, and minimizes surprises. An effective control environment needs more than good controls; it needs competent oversight. The board of directors, management, the internal auditor,

external auditor, and the Audit Committee each have a role in helping to ensure that an effective control environment exists.

The Audit Committee should monitor Internal Audit progress against the annual internal auditing plan by going through significant findings and creating recommendations to management. They also need to ensure the implementation of internal auditing recommendations by management; and to meet privately with the CAE to discuss any issues that the audit King III (2009).

## **2.9 REASONS FOR THE FAILURE OF AUDIT COMMITTEE**

The Audit Committee institute under the auspices of KPMG identified at least ten (10) focus areas that should dominate the agenda of an Audit Committee that would want to be effective. These are:

- A. Closely monitor the impact of the financial crisis/ recession on the company; focus on financial forecasts and early warning indicators.
- B. Assess the company's exposure to third parties in financial distress.
- C. Understand the impact of the financial crisis on company's financial report particularly the balance sheet.
- D. Focus on fair value and liquidity disclosures.
- E. Make sure your risk discussions with management are productive.
- F. Help the company and the board prepare for change.
- G. Take a hard look at opportunities to improve Audit Committee's effectiveness.
- H. Be sensitive to the strains to the Chief Finance Officer, Internal Auditor and finance organisation.
- I. Expand the Audit Committee's sources of information.
- J. Monitor the tone from leadership and throughout the organisation.

The 10 points above are equally applicable and important to Audit Committees at Local Government. The conclusion from this is that if these do not dominate the Agenda of Audit Committee at any given point in time, that Audit Committee is likely to fail as it would have failed to focus on the focal points that should be core functions of the Audit Committee.

Frederick (2006:30-32) highlighted six (6) common mistakes of Audit Committees which results to their failure, below five (5) of these common mistakes highlighted by Frederick are discussed on the basis of their relevance:

**A. Failure to fully understand complex accounting concepts.**

It is the duty of Audit Committee members to fully understand the accounting used by the company. Accounting concepts can be very complex. The accounting in certain companies is extremely complex even for trained accountants, let alone the average Audit Committee member. It is difficult to ask incisive questions to the auditor or management if the Audit Committee does not fully understand the accounting used by the company Frederick (2006:30).

This is very common at local government Audit Committee, as some municipalities are in remote areas and fail to attract Audit Committee members with the relevant expertise and qualification. The Audit Committee should schedule continuous workshops and training so as to make certain that they fully understand the municipality's accounting policies.

**B. Failure to interview relevant officials**

Most Audit Committees do a good job of interviewing the auditor, company accounting personnel, corporate governance officers (if any), inside and outside council, head of the disclosure committee, internal auditor (if any), and top management as part of their oversight function. Few Audit Committees consider it necessary to go beyond these groups to line function personnel. This is a mistake, since the accounting for a transaction is no better than the quality of the information provided by the relevant functional department. This is critical as it will assist the Audit Committee to have an in-depth understanding of issues rather than at transactional face value Frederick (2006:31).

**C. Failure to require more intensive or extensive audits prior to certain warning events**

There are numerous warning events that may suggest to the Audit Committee that a more intensive or extensive audit should be conducted. The Audit Committee could

elect to have internal auditor to perform these intensive audits or appoint an external audit firm, the results of both the independent auditor and the internal auditor oversight should be reported directly to the Audit Committee (Frederick, 2006:33).

These warnings events could be but not limited to: Lavish life style by senior management particularly the Accounting Officer and or CFO; conflict of interest situations, going concern issues and strike by communities for lack of service delivery (Local government perspective).

#### **D. Failure to hire, fire, and fix the compensation of the internal auditor**

The internal auditor is the eyes and ears of the Audit Committee. Some companies, particularly smaller public companies, have no internal audit function. In many companies the internal auditor is appointed by management, to whom the internal auditor reports and the internal auditor's compensation is controlled and determined by the chief executive officer or chief financial officer Frederick( 2006:33).

Audit committees should, in consultation with management, be involved in appointment of the head of internal audit, have the head of internal audit report functionally to the Audit Committee and administratively to management. The Audit Committee should also be part of dismissal of the head of internal audit Frederick, (2006:33).

These steps are appropriate to make it clear that the internal auditor has direct responsibility to the Audit Committee. This as well strengthens the independence and objectivity of the internal audit function.

#### **E. Failure to monitor the law compliance culture within the company**

Enron had an extensive and award-winning code of ethics and corporate governance structure. Indeed, there was no scarcity of grandiose ethics policies among most of the companies suffering from corporate scandals. The problem was failure to follow these policies and to develop a law compliance culture within the company Frederick (2006:31).

The Audit Committee is uniquely situated to help foster the law compliance culture within the company, although there is no legal requirement to do so; however one of the functions of an Audit Committee is to ensure compliance with relevant legislation. This may require the Audit Committee to interact more often with employees below the chief executive officer and chief financial officer position. Occasionally having the chairman of the Audit Committee present at employee meetings to explain the role of the Audit Committee helps foster a law compliance culture within the company.

## **2.10 THE BENEFITS OF AN EFFECTIVE AUDIT COMMITTEE**

Certain benefits will accrue to the organisation if the Audit Committee functions effectively. National Treasury (2012:12) lists the following benefits of an effective Audit Committee:

- 1) Ensuring an independent internal audit function, which operates efficiently and effectively,
- 2) Risk management practices are applied in the organisation
- 3) Sound corporate governance practices are applied
- 4) The system of internal control is adequate and functioning effectively
- 5) Fraud and corruption is being dealt with effectively

Psaros & Seamer (2004) indicate that several advantages result from an effective Audit Committee. It ensures the quality of financial reporting, facilitates the independence of external auditors, aids management in meeting their legal responsibilities and improves the quality of accounting and internal control systems. KPMG (2012) agrees that Audit Committees with independent members appear to be more active, more involved in Audit Committee functions and less likely to be involved in actions that impinge on the quality of financial reporting.

“To enable new members to be effective members on the Audit Committee, the organisation should train these members so that they obtain the required background to operate effectively” Naidoo(2009:31). Members should understand the duties and responsibilities of the Audit Committee, especially the amount of time this commitment requires concerning the time to be devoted to the committee’s activities. New members will need to obtain an overview of the business and

financials as well as get a feel for the key risks and internal controls of the organisation.

## **2.11 CONCLUSION**

The chapter presented the literature on effectiveness of Audit Committee. It contains an overview of corporate governance and legal framework within local government. These pieces of legislation and other theoretical papers share some light on the reasons behind the establishment of Municipalities and duties and functions of those concerned with governance. This chapter also highlighted the background of the Audit Committee, the functions of the Audit Committee and factors that contribute to the failure of the Audit Committee. However, a challenge still exists with the effectiveness of the Audit Committee of local government and divorcing the political mandate from strategic business objectives.

The next Chapter presents the research methodology and design applied for the research.

### RESEARCH DESIGN AND METHODS

#### 3.1 INTRODUCTION

The previous chapter presented what is expected of an effective Audit Committee as per legislation. This chapter is focuses on the research design, research philosophies and it provides details concerning the target population, sampling methodology, data collection strategy and ethical considerations. It presents the methods and research approach used to answer the research questions.

#### 3.2 RESEARCH OBJECTIVES

**The following are the objectives of the study:**

- (i) To assess the effectiveness of Audit Committees
- (j) To establish the characteristics of an effective Audit Committee
- (k) To establish the relationship between an effective Audit Committee and infusion of a good control environment.
- (l) To generate recommendations for improving Audit Committee effectiveness

#### 3.3 RESEARCH PHILOSOPHY

Business research is performed using two general approaches in collecting and reporting on information, being the Positivist (quantitative) and Phenomenological (qualitative approach). Positivism supports the use of the natural science methods in the study of social reality Bryman & Bell (2011). Positivism and phenomenological views are the two research philosophies Cooper and Schindler, (2011). The philosophy that was chosen for this study was the positivism philosophy approach.

##### 3.3.1 Positivism (Quantitative Research)

The positivist approach relies on collecting data on reality that is observable and can be measured and analysed to discover relationships in the data that can be

generalized to the population Gill & Johnson, 2010 cited in Saunders, M., Lewis, P. and Thornhill, A. (2012:134). Hypotheses are developed and tested through the data analysis process to enable conclusions to be drawn on “observable social reality” rather than perceptions Saunders, M., Lewis, P. and Thornhill, A. (2012:134). The study sought to establish the effectiveness of the Audit Committee at eThekweni Municipality. The positivist style was chosen as being more suitable for this study.

### **3.3.2 Phenomenological (Qualitative Research)**

The approach is also known as Interpretivism. Phenomenologists believe that social reality is subjective and nuanced, since it is formed by the views of the members, as well as the aims and values of the researcher Saunders, M., Lewis, P. and Thornhill, A. (2012:134).

This style of research argues that social sciences are not quite the same as natural sciences, and requires the understanding of human conduct rather than human science explanation Saunders, M., Lewis, P. and Thornhill, A. (2012). In the study, the researcher adopted a humane position keeping in mind the end goal to comprehend the societal world from the perspective of the research subject Saunders, M., Lewis, P. and Thornhill, A. (2012). A phenomenological approach, as a rule, utilises the qualitative research approach in obtaining information. The qualitative style utilizes a non-probability sampling system which does not take into consideration speculation; this approach was not regarded economical in connection with time and cost, as a result of the geographical dispersion of the municipalities.

### **3.4 RESEARCH DESIGN**

The research design is applied so that suitable research methods are used to ensure the attainment of the goals and objectives set out in Chapter 1. A research design can be characterised as a plan for the obtaining, assessment and investigation of the gathered data, in connection with the research questions for the

study Sekaran & Bougie(2013). The areas of the research design focus on a descriptive study , an exploratory study, a comparative study and correlation studies Saunders, M., Lewis, P. and Thornhill, A. (2012). The study utilised a descriptive study or statistical approach because it deals with the collection of data that defines the features of an individual or situation Sekaran & Bougie ( 2013). Descriptive statistics deals with simple reviews concerning the samples and the methods. They use a simplified approach in defining what the data signifies and is mostly used to show quantitative explanations in a convenient way William (2006). They are used to shorten massive quantities of data in a more practical way Saunders, M., Lewis, P. and Thornhill, A. ( 2012).

Quantitative research is generally used with a deductive approach where data is collected to test a theory Saunders, M., Lewis, P. and Thornhill, A. (2012:162). The study sought to investigate the effectiveness of the Audit Committee in local government with reference to eThekweni municipality. The benefits of the quantitative approach are that the results are generalisable to the population Saunders, M., Lewis, P. and Thornhill, A. (2012:163).

A mixed method combines both the quantitative and qualitative approaches in research design Saunders, M., Lewis, P. and Thornhill, A. (2012:166). Since this study used a structured questionnaire, to collect quantitative data as well reviewing audit documents like the Audit Committee Charter, minutes of meetings, etc. to gain more insight into processes and procedures, a mixed methodology was used for the study. Perusing documents indicate a qualitative process, meaning this study shall be using a mixed method. Noting the strengths and weaknesses that flow from purely positivistic and phenomenological bias in research, researchers sometimes adopt a mixed approach that draws on both positivism and phenomenology. The study, thus, utilised a combination of quantitative and qualitative research methods.

### **3.5 LOCATION OF THE STUDY**

The study was conducted at eThekweni Municipality which is in KwaZulu- Natal province as shown in Figure 1.1



**Figure 1.1** eThekweni municipal area map

Source: eThekweni municipality area, [www.ulwazi.org](http://www.ulwazi.org), access 20 June 2016. EThekweni Municipality is a Category A municipality found in the South African province of KwaZulu-Natal.

The research concentrated on eThekweni Municipality's Audit Committee.

### **3.6 POPULATION AND SAMPLE SELECTION**

A population can be described as the whole group of individuals that the researcher anticipates to study. According to Sekaran & Bougie (2013), the target population must be discrete in terms of elements, geographical limits and period. The target population were all Audit Committee members totalling to 20. Therefore, this study takes a census approach where all 20 members participated in the study.

### **3.7 DATA COLLECTION STRATEGY**

There are typically two kinds of data that are accessible during information extraction. They are primary data and secondary data. Primary data are information that is obtained at first hand by researcher whereas secondary data is gathered by others in the interest of the researcher Ghauri and Gronhaug (2010). A primary data gathering approach was utilized for the study. The approach for data collection that ensures an unbiased approach includes these areas:

- Protection of respondent's privacy;
- Data Confidentiality;
- Participants are not forced to participate in the survey.

The researcher did consider the advantages and disadvantages of different methods for data collection. Email questionnaire distribution was used as the Audit Committee members are not based in one area. The questionnaire was then developed and dispersed electronically by means of email. The questionnaire additionally incorporated consent forms to guarantee that respondent's confidentiality and identity would be respected and not disclosed to anybody. Their feedback was kept confidential as the researcher's goal was not to discharge the criticism to the Audit Committee. The decision to participate or not to participate was likewise clarified to the respondents, to such an extent that they had the flexibility to withdraw from the study with no penalties.

The respondents were given two weeks to complete the questionnaire. The questionnaire was complete online and the data was returned electronically as per the required arrangements. All respondents were able to complete the questionnaire within the stipulated timeframes.

The following documents and information were also obtained and analysed for the eThekweni municipality:

- Minutes of Audit Committee meetings;
- Audit Committee Charter;
- Municipality's Service Delivery Budget Implementation Plan; and,
- Integrated Development Plan.

### **3.7.1 Elimination of Bias**

Pannuchi & Wilkins (2011) state that bias is any tendency that prejudices consideration of questions. With regards to the context of research bias occurs when systematic error is presented into sampling or testing by the researcher to influence the results so as to generate a particular outcome. As per Shuttleworth (2009) there are different sorts of research bias that incorporates design bias, measurement predisposition, sampling predisposition and procedural predisposition.

By utilizing the quantitative research approach for this study, the researcher endeavoured to eliminate biasness totally as indicated by Shuttleworth (2009). The researcher additionally structured the questions in a way that was neutral or impartial and avoided questions that lead or confused the respondents.

Biasness was excluded by using the software package IBM SPSS 22 for analysis and the Survey Monkey was used to collect the data. These tools are free of researcher's interference.

### **3.8 QUESTIONNAIRE DESIGN**

#### **3.8.1 Construction of the Instrument**

The research instrument that was utilised comprised of structured and unstructured questions as well as open ended questions. As indicated by Palys (2008) questionnaires are appropriate for quantitative research. The questionnaire was separated into three sections ranging from the effective Audit Committee, characteristics of an effective Audit Committee and relationship between an effective Audit Committee and infusion of good control environment. The first page of the questionnaire had an informed consent. Furthermore, instructions on how to fill in the questionnaire were provided to facilitate completion of the instrument.

In this study, the questionnaire was designed using a 5-point scale using 1 (poor) and 5 (excellent) and the yes/no questions for the collection of data for analysis.

#### **3.8.2 Administration of Questionnaires**

The survey was administered electronically by email since the Audit Committee members are not situated in one area. The online method was preferred for this study since it is quick and was advantageous for the respondents as every one of them have access to the web. Saunders, M., Lewis, P. and Thornhill, A. (2009:397) stated that it is possible to regulate surveys by means of email.

Survey Monkey was used to disperse the questionnaire to the respondents. The survey was carried out on the 25th of September 2016 and the respondents were given two weeks to respond. Participants were informed of the freedom to participate in the survey or to exit at any time. They were additionally educated of the opportunity to take part in the overview or withdraw whenever they felt uncomfortable. The respondents' inputs were not disclosed at all throughout the study as the research goal was not to disclose the feedback from the Audit Committee member; but, rather to communicate the results and provide recommendations.

### **3.8.3 Ethical Considerations**

Ethical considerations are exceptionally fundamental in this research as they promote the research objectives such as knowledge, truth, and avoidance of mistakes Resnik (2015). Ethics in research denotes certain rules or expected norms of conduct while undergoing a research Sekaran and Bougie (2013). Ethical consideration is necessary as it penetrates every phase of the research process like data or information collected through questionnaires, data review, reporting and dissemination of conclusions Sekaran and Bougie (2013). In the course of the design of the questionnaires, care was exercised to ensure the appropriateness of the questions in terms of correct phrases as they will impact on the nature of findings. The researcher provided participants with a clear understanding of the goal of the study and motivated them to contact the researcher with any doubtful questions where necessary regarding the study. The researcher also confirmed that the respondents replied freely with no pressure. The names and employee numbers of the respondents were not required to maintain anonymity and confidentiality.

### **3.8.4 Reliability And Validity**

The measure of reliability illustrates the degree to which the instrument is error free and, therefore, certifies constancy in measurement over time and through items in the research instrument Sekaran and Bougie (2013). It is additionally characterized as the steadiness and stability of the outcomes and recurrence of the testing process Golafshani (2003). There are various worries of validity that exists which

could give rise to accuracy of data issues, numerical tests and outcomes. Sekaran and Bougie (2013) stated that validity concerns are internal, content, external, criterion and construct related. For reliability, stability of measures can also be monitored by the test-retest and parallel-form reliability while internal consistency of measures can be evaluated using inter-item consistency and split-half reliability approach Sekaran and Bougie (2013). The questionnaire was circulated to the entire population of 20 participants to eliminate selection and possible sample bias in the survey.

During the formulation of the questionnaires, the objective of each question was analysed and these were categorized accordingly per relevant respondent targeted on the basis of their responsibility and relevance. The following guidelines were considered in formulating the questionnaire:

- 1) Why are these questions being asked?
- 2) Be clear and concise.
- 3) Response choices should not overlap.
- 4) Use natural and familiar language.
- 5) Do not use words or phrases that show bias.
- 6) Avoid double-barrelled, or ambiguous questions.
- 7) Provide explicit alternatives.
- 8) Questions should be reliable, relevant and valid.

It was anticipated that it will take 14 minutes to complete a questionnaire.

The questionnaire used in this study contained clear and direct questions; this was reflected from the piloting tests, which showed that the construct validity is acceptable.

### **3.9 PILOT STUDY**

According to Payne (2013) a pilot study is a little form of the full study directed before the expected study or in preparation for the complete study. The elimination of bias may be more restricted in a pilot study but it can help the researcher to work

out a portion of the procedural bias despite the fact that it is not liable to add anything new to the principal study. As indicated by Payne (2013), the motivation to utilise a pilot study before executing the principle study incorporates the following:

- a. To test the research procedure and protocol for the most part alluded to as feasibility studies on the grounds that the pilot study tests how conceivable the design is in all actuality
- b. To recognize variables of interest and choose how to operationalise each variable
- c. To test an intervention strategy and distinguish the segments that is most critical to the acceleration of the intervention.
- d. To test the adequacy of the research instruments and check the responses of the members in the research.
- e. To evaluate statistical parameters for future analyses.

A total of 11 participants were approached for formal pilot study, and that the overall response rate was 70% (7 out of 10). Most of the pilot survey participants opined that an anonymous questionnaire survey should be undertaken for this study and the researcher followed this suggestion. The following table presents the response rate of the pilot study.

DESCRIPTION	COUNT
Number of respondents	10
Number of respondents who completed the questionnaire	7
Completion rate	70%

**Table 4.0:** Responses from the pilot study

The pilot of the survey questionnaire for this study obtained some valuable comments and ideas about the questionnaire's content, wording, and sequence; and hence, some modifications were required regarding the wording and scaling of certain questions, but not on any key content of the questionnaire. The final version of questionnaire contained 57 questions.

The results showed that the questionnaire covered the important aspects identified within the literature review. The results also showed that minor modifications were needed before the questionnaire could be finally used in the main study.

### **3.10 DATA ANALYSIS**

Data examination is a systematic application of statistical and logical tools to depict, and assess data as indicated by Shamoo and Resnik (2003). It includes the examination of information through techniques that reveal patterns, trends and relationships. Information is subjected to statistical operations that can help the researcher to investigate all sorts of relationships that exist among variables. Descriptive statistics and correlation analysis was used after all the participants had concluded the research and all the data were collected.

A software package, IBM SPSS 22, was used to analyse the data. The raw data was coded and categorized for ease of capture, onto SPSS. Each questionnaire received was evaluated for completeness prior to being captured onto SPSS. Content analysis was used to analyse the data gathered from minutes, Audit Committee charter and terms of reference.

### **3.11 CONCLUSION**

This section has given a thorough portrayal of the empirical part of the study. This incorporates the research philosophy embraced. The chapter outlined the research methodology used. Mixed method for data collection was used for this study. The questionnaire was aligned to the objectives of this study. A Survey Monkey tool was utilised to administer the questionnaire. This was of great benefit as it allowed the researcher to suitably analyse the data using SPSS software, which is interlinked to Survey Monkey. The measures that were applied to make sure that bias was eliminated, validity and reliability, ethical considerations, of the study and design of the research instruments were also described.

The next chapter presents the results and discussion of the findings.

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## **CHAPTER 4**

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# RESEARCH RESULTS, INTERPRETATION AND DISCUSSION OF FINDINGS

## 4.1 INTRODUCTION

The previous chapter focused on various aspects of the research method employed for the study. This chapter aims at presenting the outcomes of the research, based on the distributed questionnaires that were collected and analysed. It is important to note that in essence this study employed a mixed research methodology. The measurement of the effectiveness is largely based on the perceptions of individuals involved in the Audit Committees; therefore, the term “perceived effectiveness” is used throughout the findings. These analyses are represented by tables, bar charts. In addition, the results are discussed, analysed and linked to the literature. Findings are graphically presented.

## 4.2 SURVEY STATISTICAL REPORT

The questionnaires were administered to all Audit Committee members as indicated in Table 1. Out of 20 questionnaires that were administered, 18 questionnaires were completed which translates to a response rate of 90%. According to Sekaran and Bougie (2013) a response rate of 30% is considered to be sufficient. Therefore, 90% of the response rate from the study was more than sufficient.

**Table 4.1 Summarised Survey respondents**

Survey Details	Total
Key target population	20
Number of respondents who started the questionnaire	19
Number of respondents who completed the questionnaire	18
Completion rate	90%
Average time taken to complete the questionnaire	14 minutes

## 4.3 RESEARCH FINDINGS AND ANALYSIS

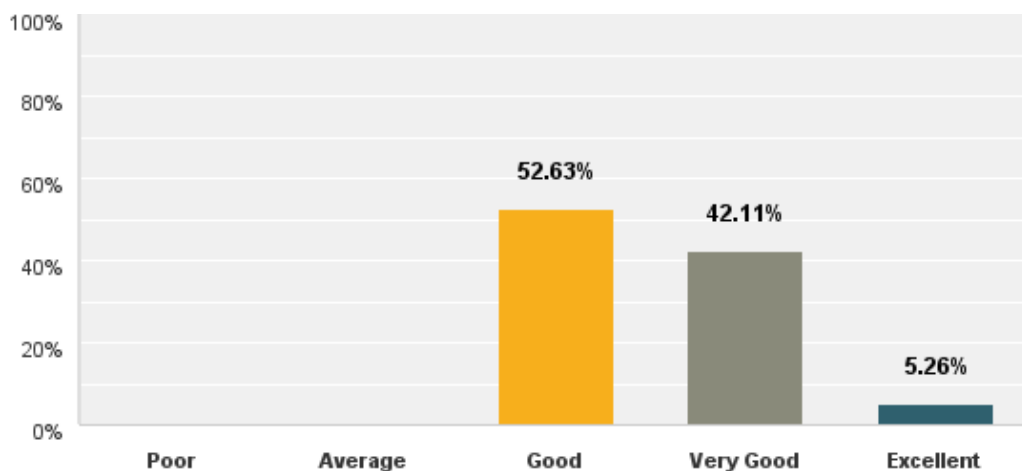
This section details the results obtained from the data analysis explained in the

previous sections. The main objective of this chapter is to present the findings systematically and clearly Thomas & Smith (2003:18).

### **PART A: THE EFFECTIVENESS OF AUDIT COMMITTEES**

This section was made up of 10 questions relating to Risk Management, Financial Reporting and Compliance. The Audit Committee was assessed in terms of the role they play when it comes to management of risk. This is one of the key functions of the Audit Committee as per the Municipal Finance Management Act MFMA, (2003:60) and as per best practice. Each of the 10 questions were represented by a graph. In this category documentation was also reviewed such as Audit Committee charter, Minutes. It was noted that the Council does have completed Audit Committee charter that is reviewed annually. For each and every Audit Committee meeting, the secretary complete minutes and they are kept for audit purpose.

#### **Question 1: The Audit Committee has assessed the effectiveness of the risk management processes used by management.**



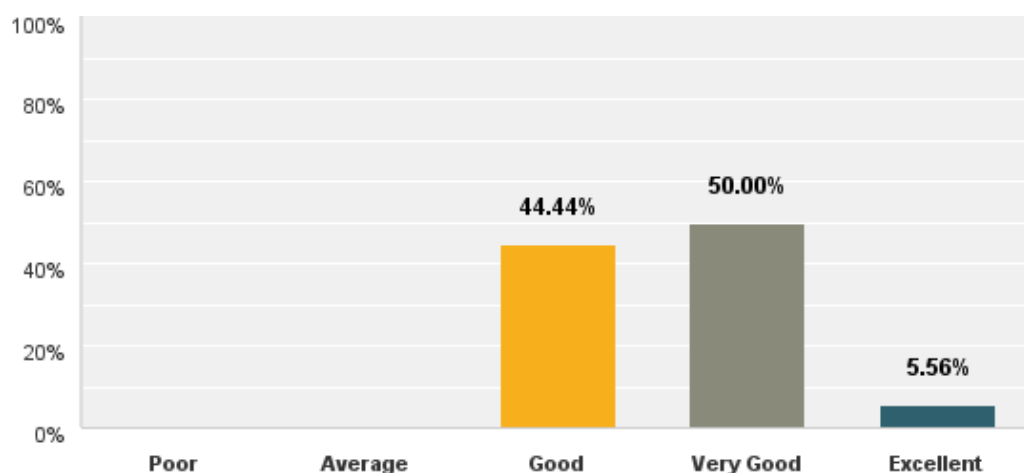
**Figure 4.1** Audit Committee has assessed the effectiveness of the risk management processes

**Source:** Responses from question 1 of survey questionnaire

The Audit Committee should ideally be an internal component of the risk management process. They should ensure that the risk assessments are performed on a continuous basis and should ensure that management considers and

implements appropriate risk strategies. The findings in Figure 4.1 indicate that the majority (53%) of the respondents have assessed the effectiveness of the risk management processes that are used by management to be generally Good, while 42% rated it as Very Good. A small proportion (5%) rated it as Excellent. It is worth noting that none rated it as Poor or Average. The findings are in agreement with the literature review (Section 2.5) which highlighted that although risk management practices are in place as required, King III (2009) report states that its Audit Committee’s responsibility is to oversee the effectiveness of risk management and that risk assessments should be performed on an on-going basis.

**Question 2: The Audit Committee meets periodically with management and auditors to better understand the risks facing the municipality and how those risks are monitored for possible financial reporting implications including risks related to critical third party interdependencies (municipal entities, and provincial governments) that affect the organization’s operations.**



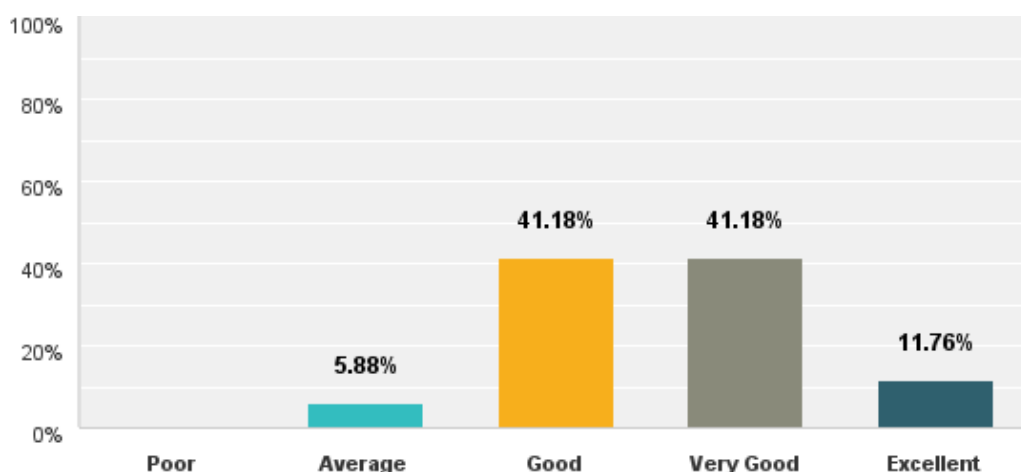
**Figure 4.2** Audit Committee periodically meeting with management and auditors

**Source:** Responses from question 2 of survey questionnaire

The results in Figure 4.2 above illustrate that the majority (50%) of the respondents rate the Audit Committee periodic meetings with management and auditors to better understand the risks as Very Good. 44% rate it as Good and 5.56% regarded it as Excellent. It is, however, worth mentioning that none of respondents rated it as Poor or Average. The overall results suggest that the risk management practice of having periodic meetings of the Audit Committee is being performed possibly due to

compliance requirements. The literature review in section 2.7 highlighted that the Audit Committee should meet periodically with auditors and management to better understand risks facing the council and to understand control measures in place for risks as well as monitoring of financial reporting King III(2009).

**Question 3: The Audit Committee questions management and the Auditor-General about how they assess the risk of material financial misstatement, what the major risk areas are and how they respond to identified risks**

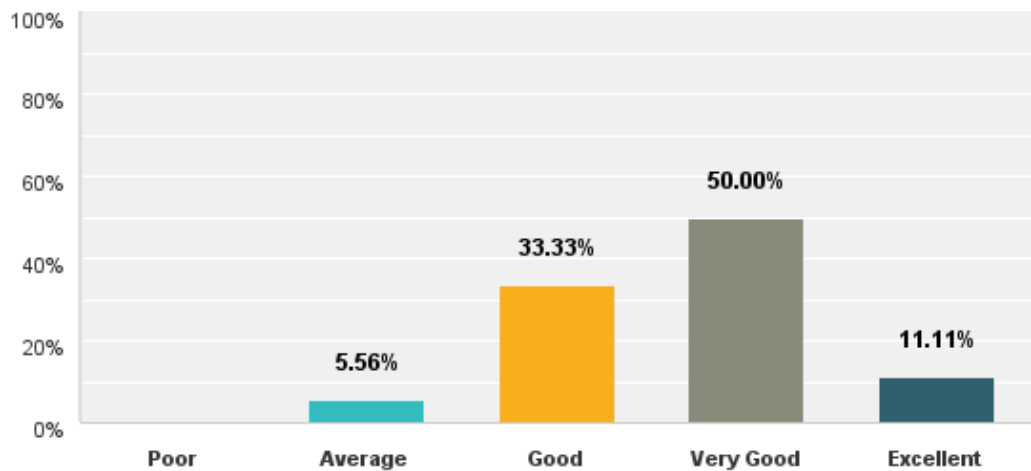


**Figure 4.3**The Audit Committee questions management and the Auditor-General

**Source:** Responses from question 3 of survey questionnaire

In theory the Audit Committee play a key role in the areas of comprehension, communication and oversight concerning financial reporting, external auditing, internal auditing and special investigations. The results of the survey indicate that the 41.18% of the respondents rated this task at Good and Very Good. 11.76% rated it as Excellent and the remaining 5.88% as Average. However, it is worth noting that none rated it as Poor. The overall outcome suggests that Audit Committee does question the external auditors and management on how the risk of material financial misstatement is being assessed. According to KPMG (2012) (section 2.3) the Audit Committee member must be able to probe questions about the municipality’s affairs. It is, therefore, critical for Audit Committee to apply necessary expertise, skills and knowledge in evaluation of the quality of provided information.

**Question 4: The Audit Committee has an understanding of the municipality’s critical strategic risks and management’s plans to address such risks to ensure that the municipality fulfil its service delivery mandate.**



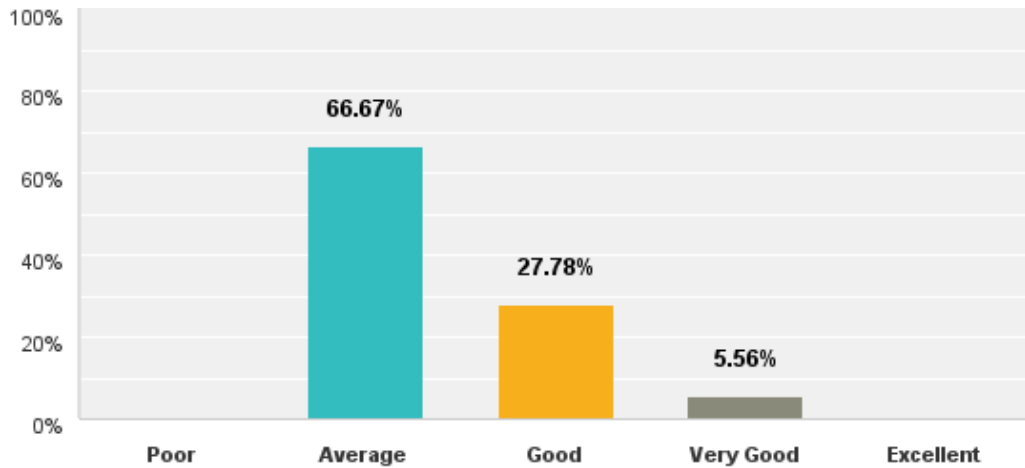
**Figure 4.4**The Audit Committee has an understanding of the municipality’s critical strategic risks and management’s plans

**Source:** Responses from question 4 of survey questionnaire

In theory the Audit Committee is responsible for advising the council on risk management. The results in Figure 4.4 illustrate that the majority (50%) propose that the Audit Committee is very Good at understanding the municipality's critical strategic risks and management's plan to address risks in ensuring that the municipality fulfil its service delivery mandate. 33.33% rated it as Good. A small proportion rated it as Excellent at 11.11% and 5.56% rated it as Average. It is interesting to note that none rated this statement as poor. The overall outcome suggests that the Audit Committee is well informed of the municipality’s critical strategic risks and management’s plans which mean they are able to fulfil their mandate.

The literature review in section 2.5 highlighted one of the key functions of the Audit Committee, as per King III (2009) that the Audit Committee should understand the municipality’s key strategic risks and management plans to address these risks.

**Question 5: The Audit Committee raises questions to management and the Auditor-General on the experience and sufficiency of the audit team assigned to the engagement**

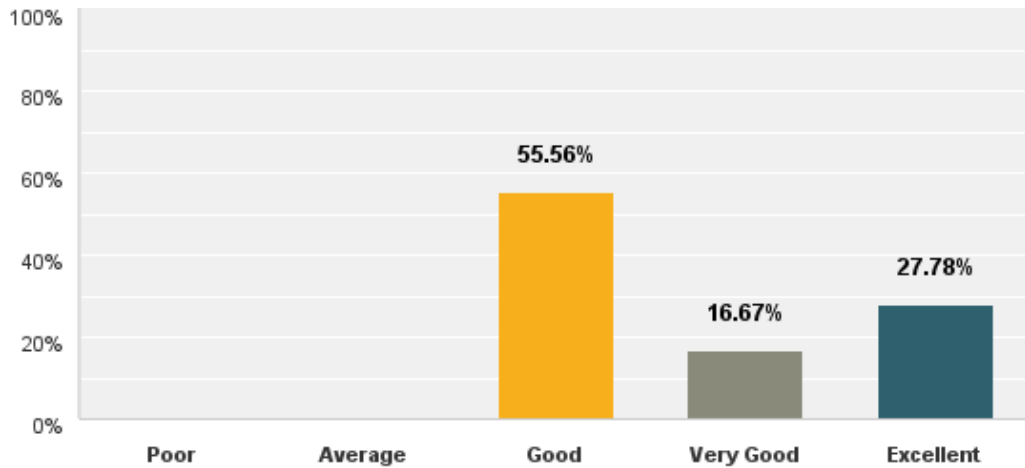


**Figure 4.5** Auditor-General experience and sufficiency of the audit team assigned to the engagement

**Source:** Responses from question 5 of survey questionnaire

The results in Figure 4.5 show that 67% of respondents rated this as Average and 28% rated it as Good. A small proportion of 6% rated the statement as Very Good. However, it is worth noting that none rated it as Poor or Excellent. In practise the Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process. The overall results suggest that the Auditor General’s and management’s experience and sufficiency is not given attention when they engage on assignments. King III (2009) advised that the Audit Committee should enquire on experience and sufficiency of staff in the Audit General and Finance departments/ units.

**Question 6: The Audit Committee peruses the Auditor-General’s scope and audit plan to its satisfaction prior to the commencement of the audit.**

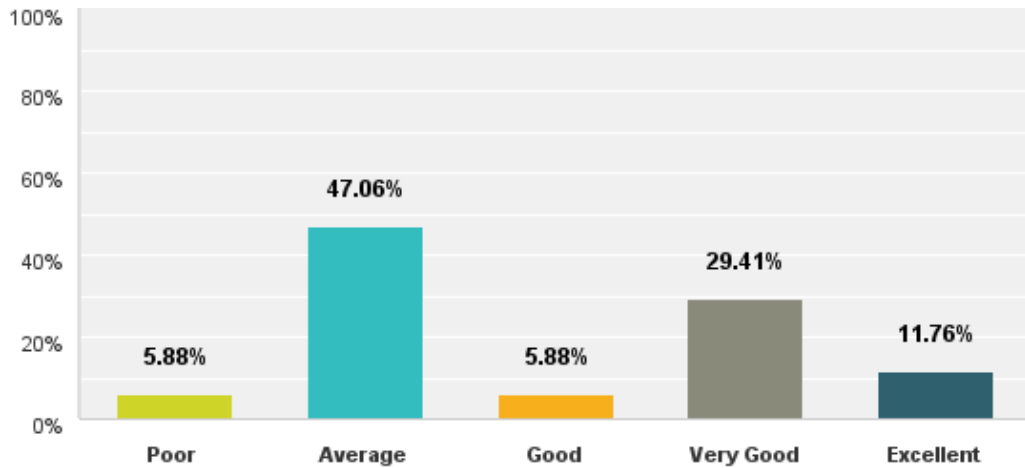


**Figure 4.6** Auditor-General's scope and audit plan satisfaction

**Source:** Responses from question 6 of survey questionnaire

The outcome in Figure 4.6 reflects that the 56% think that the Audit Committee is Good at perusing the Auditor-General's scope and audit plan to its satisfaction prior to the commencement of the audit plan while 17% rated it as Very Good. A remaining proportion of 28% rated it as Excellent. However, it is worth noting that none rated it as Poor or Average. Overall results suggest that there is effective communication among the Audit Committee, external and internal auditors as it is vital for the quality of the audit results. The literature suggests that as part of its oversight of the Audit Committee process, the Audit Committee should discuss the scope and issues identified by auditors King III(2009).

**Question 7: The Audit Committee chair meets with the external and internal auditors outside the regularly scheduled meetings to encourage open and frank dialogue.**

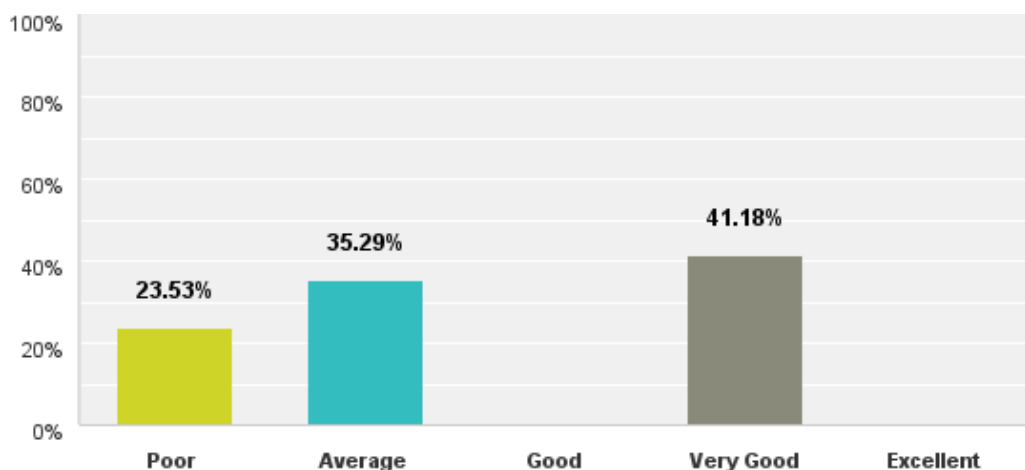


**Figure 4.7** The Audit Committee chair meets with the external and internal auditors

**Source:** Responses from question 7 of survey questionnaire

The findings in Figure 4.7 above indicate a 48% rating on Average. 5.88% regarded this process to be both Poor and Good. 29.41% rated it as Very Good and 11.76% as Excellent. The results portray that the Audit Committee does not have adequate informal meetings with the audits. This is not in keeping with the findings of the literature study which emphasises the need for informal meetings to contribute towards on-going common goals between the Audit Committee and auditors on matters concerning the operations of the council and the financial reporting necessities KPMG (2012).

**Question 8: The Audit Committee is satisfied that management exhibits the proper “tone at the top” and is committed to promoting high-quality financial reporting and strong internal controls.**

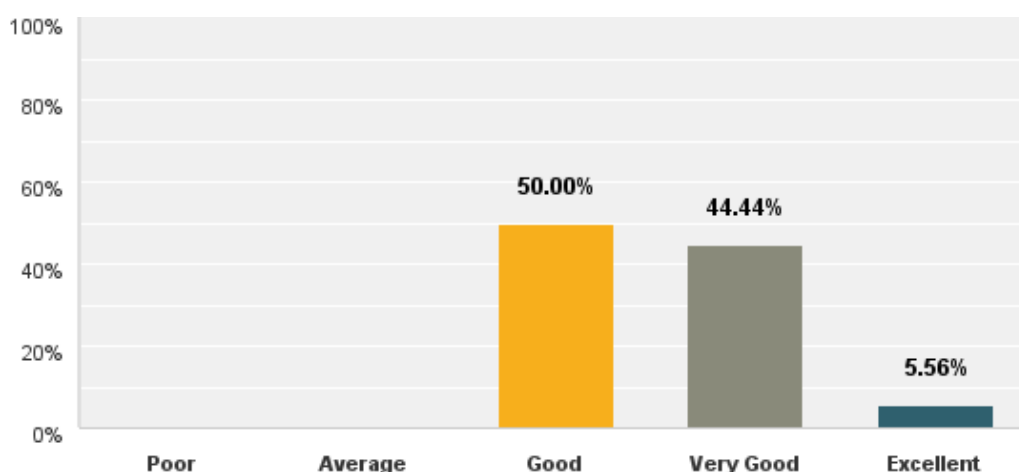


**Figure 4.8**The Audit Committee is satisfied that management exhibits the proper “tone at the top”

**Source:** Survey questionnaire responses from question 8

The primary responsibility of an Audit Committee is to advise on the adequacy, reliability and accuracy of financial reporting and information. The “tone at the top” set by the Audit Committee promotes organizational-wide awareness of corporate ethics, quality financial reporting, and strong internal controls. The outcome in Figure 4.8 above indicates that (41%) respondents rated Audit Committee as Very Good, 35% rated it as Average and the remaining 24% as Poor. However, it is worth noting that none rated it as Good or Excellent. Overall the results portray that the Audit Committee is not satisfied that management exhibits the proper tone at the top and that they are not committed to promote high quality financial reporting PwC & IIARF (2011:86).

**Question 9: The Audit Committee requests and receives sufficient information related to important financial reporting issues, such as the use of complex financial systems, areas of judgment or high subjectivity, unusual transactions, and changes in accounting policies.**



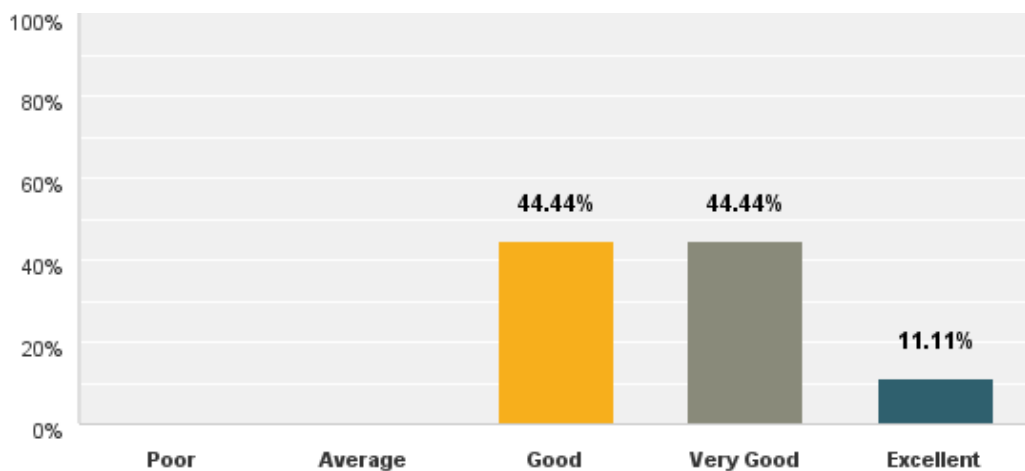
**Figure 4.9**The Audit Committee requests and receives sufficient information related to important financial reporting issues

**Source:** Survey questionnaire responses from question 9

One of the essential elements of the Audit Committee is to regulate the financial reporting of the organisation. To accomplish this, the Audit Committee individuals

are required to practice due care and diligence in the review of financial information, to stay cautious and be very informed. 50% of the respondents rated this process to be Good, 44.44% as Very Good and 5.56% as Excellent. None rated the process as Poor or Average. The overall findings suggest that, according to the best practice identified from literature review, the Audit Committee receives enough information to review and understand the municipality’s system of internal controls which assist them in responding to financial reporting issues King III (2009).

**Question 10: The Audit Committee understands how critical accounting principles were applied (under GRAP).**



**Figure 4.10** The Audit Committee understands how critical accounting principles are.

**Source:** Survey questionnaire responses from question 10

The findings in Figure 4.10 above illustrates that there is an equal split between the respondents in terms of those who rated (44%) it as Good and those who rated (44%) it Very Good. 11% rated the activity as Excellent. It was, however, noted that no one rated the statement as Poor or Average. The overall findings portray that the Audit Committee clearly understands the critical accounting practice application as it is suggested the literature. Section 165 of the MFMA stipulates that Audit Committee must help the board (management, in the public service context) to execute their duties in the preparation of accurate financial statements in compliance with all regulations, accounting standards and legislation.

## **PART B: CHARACTERISTICS OF AN EFFECTIVE AUDIT COMMITTEE**

Part B questions were intended to assess the effectiveness of the Audit Committee on the basis of the characteristics mentioned in the Audit Committee literature. This section is made of 28 questions from the questionnaire.

**Question 11: Please describe the process used to select Audit Committee members including the criteria established, if any, to assess their background and previous experience?**

### **Qualitative response**

The qualitative (open-ended) response section is covered in this section. The respondents were asked to describe the process used to select Audit Committee members including the criteria established, if any, to assess their background and previous experience. Their responses are shown below.

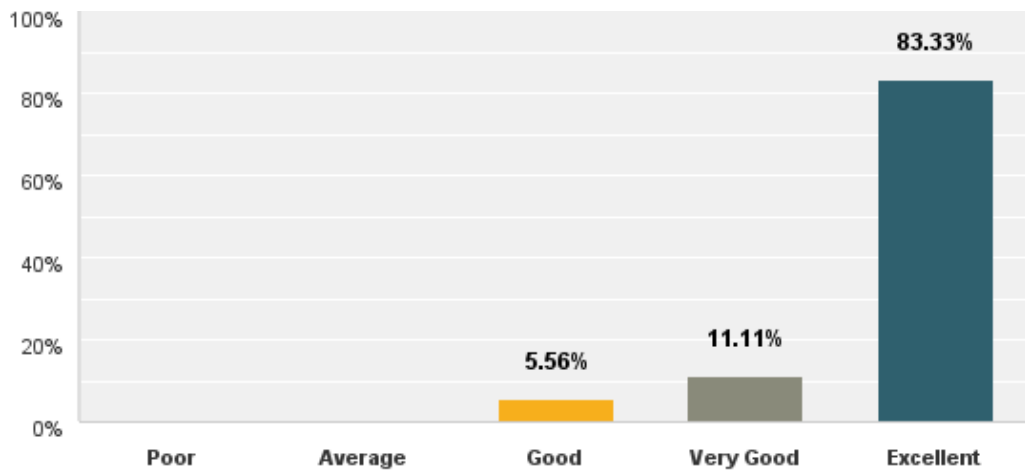
<b>Frequency</b>	<b>Comments</b>
1	Refer to the city manager
1	Post is advertised
1	City manager
1	CAE and city manager
1	City manager
1	Will be on the city manager
1	City manager does this
1	City manager
1	Positions were advertised...national treasury circular 65 was used.
1	City manager does the whole thing
1	City manager

1	City Manager
1	City manager
1	City manager's duty
1	
1	Advertisement in public media; selection based of Circular 65 skill mix requirements and Sec166 of MFMA. Adjudication by panel selected by MM and submission of shortlisted members for appointment. Engagement by EXCO/Council for approval. letter of offer followed by Induction
1	Please refer to the City Manager
1	Positions were advertised and detailed CV and certified copies of qualifications had to be attached. No formal interviews were held but a criterion is specified in National Treasury circular 65 dealing with internal Audit Committee. Members of the Audit Committee have different skills such high as financial CA SA, legal, risk and performance management.
1	City manager does this process
<b>Total</b>	<b>18</b>
1	<b>Skipped</b>

**Table 4.2: Establishment of Audit Committee**

The majority of the respondents in Table 4.2 established that only the City Manager is in the position to select the Audit Committee members and is also in charge of assessing their background and previous experience. However, one respondent indicated that adjudication by panel selected by MM and submission of shortlisted members for appointment. According to Section 165 of the MFMA the Council should establish the Audit committee.

**Question 12: Does the Audit Committee have an approved Audit Committee charter?**

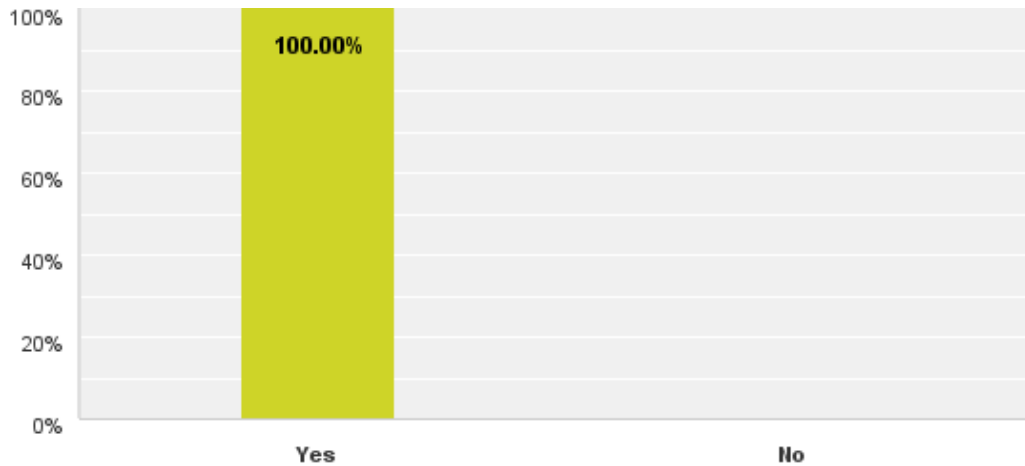


**Figure 4.11** Audit Committee have an approved Audit Committee charter

**Source:** Survey questionnaire responses from question 12

In practise there should be documented terms of reference, setting out the roles and responsibility of the Audit Committee. The results in Figure 4.11 illustrate that the majority (83%) rate the statement as Excellent, with 11% as Very Good, 6% as Good. It was, however, noted that none of the participants rated the statement as Poor or Average. The findings show that most of the Audit Committees have adopted formal terms of reference, herein after referred to as the Audit Committee charter. MFMA Act 56 of (2003) states that the AC should adopt formal terms of reference, herein after referred to as the Audit Committee charter. The charter should be presented at a formal meeting.

**Question 13: If there is a charter, is it reviewed annually and updated?**



**Figure 4.12** If there is a charter, is it reviewed annually and updated

**Source:** Survey questionnaire responses from question 13

The results given above in Figure 4.12 show that all participants were satisfied that the audit charter was reviewed and updated annually. The findings are in agreement with the practice of performing an annual review of the Audit Committee charter National Treasury,(2012:5).

**Question 14: Does the Audit Committee self- assess its performance in terms of its mandate?**



**Figure 4.13** Audit Committee self- assess its performance

**Source:** Survey questionnaire responses from question 14

The outcomes from the self-assessment process can be utilised to inform the improvement of the Audit Committee for future learning programs. The findings in

Figure 4.13 above indicate that 100% of the respondents agreed with the statement that the Audit Committee evaluates its own performance to identify areas for improvement. Self-assessment by the Audit Committee is viewed as a way to enhance its effectiveness. Self-assessment is a procedure through which the Audit Committee reflects on its present practices, with a specific end goal to decide their effectiveness and recognise accomplishments and in addition to identify potential improvement areas Deloitte (2012: 7).

**Question 15: How many members are appointed to your Audit Committee?**

**Qualitative response**

Below Table 4.3 indicate the response from the questionnaire.

<b>Frequency</b>	<b>Comments</b>
<b>18</b>	<b>8</b>
<b>1</b>	<b>skipped</b>

**Table 4.3:** Number of Audit Committee members

Table 4.3 above illustrates that all respondents agree that Audit Committee members are 8 which is within the required practise. The responses received show that all respondents agreed that the Audit Committee should consist of eight (8) members.. In theory the board should ensure that the company has an effective and independent Audit Committee. The Audit Committee in general should consist of a minimum of 3 and a maximum of 8 appropriately qualified members National Treasury(2012:3).

**Question 16: How many members come from within the municipality?**

**Qualitative question**

The following responses were received from the questionnaire that was distributed:

<b>Frequency</b>	<b>Comments</b>
<b>18</b>	<b>None members from eThekwini</b>
<b>1</b>	<b>skipped</b>

**Table 4.4:** Audit Committee members coming from eThekwini

Table 4.4 above illustrates that no Audit Committee members come from eThekwini municipality which means that members of the Committee are all independent. The literature review suggests that no council may be a member of the Audit Committee and, therefore, the findings attest to this King III (2009).

**Question 17: How many members come from outside?**

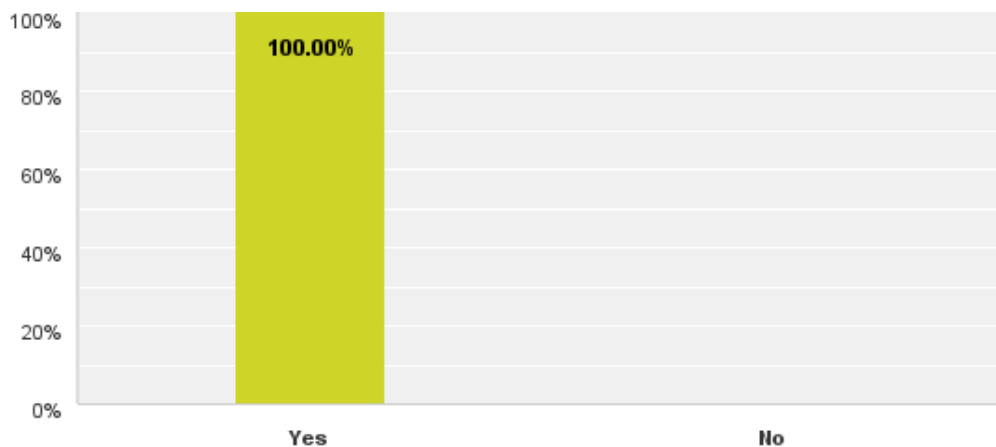
The following responses were received:

Frequency	Comments
18	8 members
1	skipped

**Table 4.5:** Audit committee members who come from outside

As the Table 4.5 above shows, it is clear that eThekwini municipality Audit Committee members are independent as none of them have any interest in eThekwini King III (2009).

**Question 18: Does the Audit Committee report to the Council regularly?**

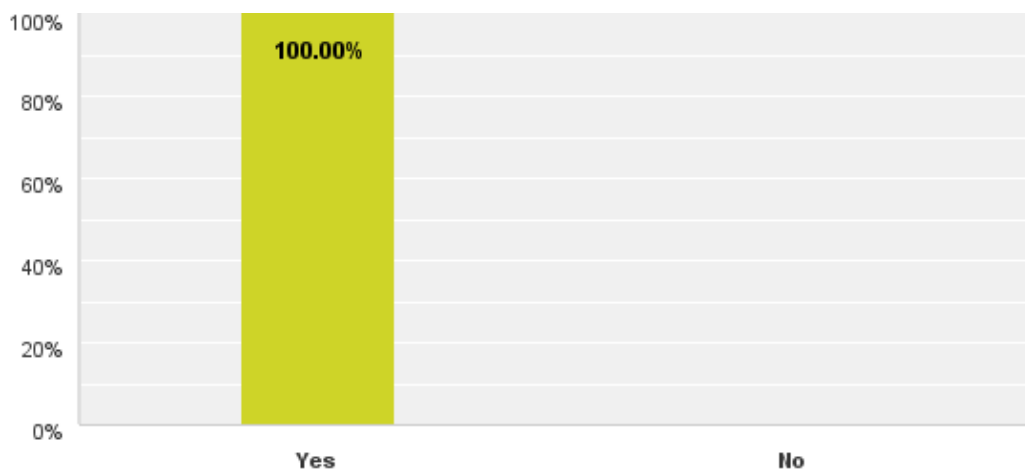


**Figure 4.14** Audit Committee reports to the Council regularly

**Source:** Survey questionnaire responses from question 18

The results in Figure 4.14 illustrate that all participants agree that the Audit Committee reports to the Council on a regular basis. In terms of MFMA the Audit Committee should report to the board and shareholders on how it has discharged its duties. Since there are no shareholders in municipalities, the reference in the public sector is to the stakeholder, such as the city manager.

**Question 19: Does the Audit Committee review information related to the municipality’s financial risks and management’s control framework to mitigate these risks regularly?**



**Figure 4.15** Audit Committee reviews information related to the municipality’s financial risks and management’s control framework

**Source:** Survey questionnaire responses from question 19

The results in Figure 4.15 illustrate that all respondents (100%) agree that the Audit Committee reports to the Council on a regular basis. According to King III (2009) the Audit Committee needs to assess whether there are internal control and risk management procedures in place to ensure adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

**Question 20: How does the Audit Committee assess whether there have been changes in the legislation governing the organization or other regulatory changes which impact on areas under the Audit Committee’s mandate?**

Frequency	comments
1	Auditors etc.
1	Audits
1	CAE , AG, updates from institutions
1	Checklist
1	Members of institutions, AG and CAE
1	Checklist
1	Quarterly checklist
1	Checklist
1	Through CAE and quarterly checklist
1	Quarterly checklist
1	Research; Audits; checklist
1	Research and auditors
1	CAE and compliance questionnaire
1	Through internal audits
1	
1	Risk management reports and Internal Audit Reports, AGSA and MM reports
1	CAE and research is done by Audit Committee members
1	Management has got compliance questionnaires and report to Audit Committee quarterly on compliance. Internal Audit also covers compliance and report quarterly thereon and the CAE will inform AUDCOM if there is new legislation or amendments to existing legislation.
1	We are generally experienced members. I am a member of various institutes and through my membership I am aware of developments and changes in standards and laws, etc. In addition, I subscribe to updates from ASB and various law firms to receive updates.
<b>Total</b>	18
1	Skipped

**Table 4.6:** Assessment in the legislation governing the organization changes

From the majority of responses it was noted that a checklist is used by Audit Committees to assess whether there have been changes in legislation governing the organization or other regulatory changes which impact on areas under the Audit Committee's mandate. This finding concurs with the views of the King III (2009) that stipulates that the Audit Committee should assess whether there have been any changes in the legislation governing the organization or other regulatory changes which impact areas under the audit committee's mandate

**Question 21: Do the Audit Committee members have the resources to assess whether there are altering expectations related to corporate governance and Audit Committee expectations?**

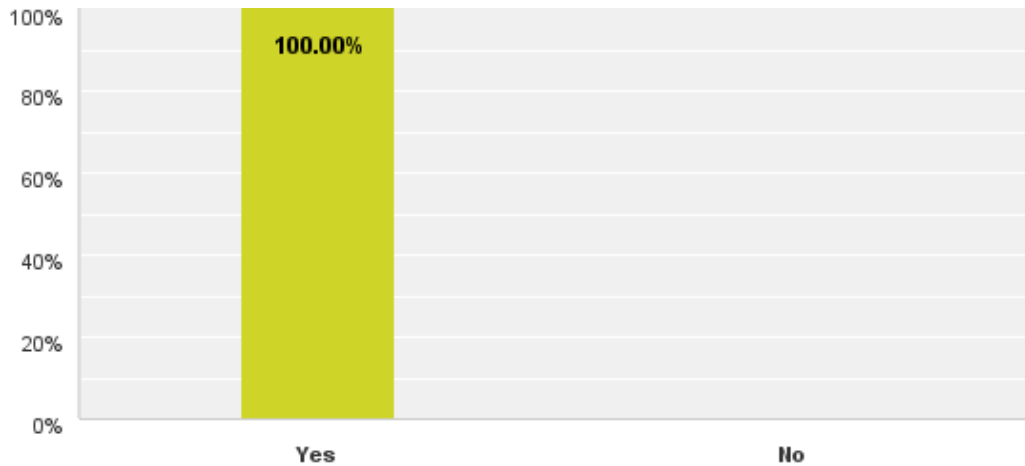


**Figure 4.16** Audit Committee members have the adequate resources

**Source:** Survey questionnaire responses from question 21

The outcomes in Figure 4.16 demonstrates that all participants (100%) agree that the Audit Committee members have the resources to assess whether there are altering expectations related to corporate governance and Audit Committee expectations. The overall findings suggest that the Audit Committee has adequate resources to assess if there are changes in expectations associated with corporate governance and expectations from the Audit Committee as recommended by King III (2009).

**Question 22: Does the Audit Committee have an annual schedule of items to be considered in order to fulfil their mandate?**

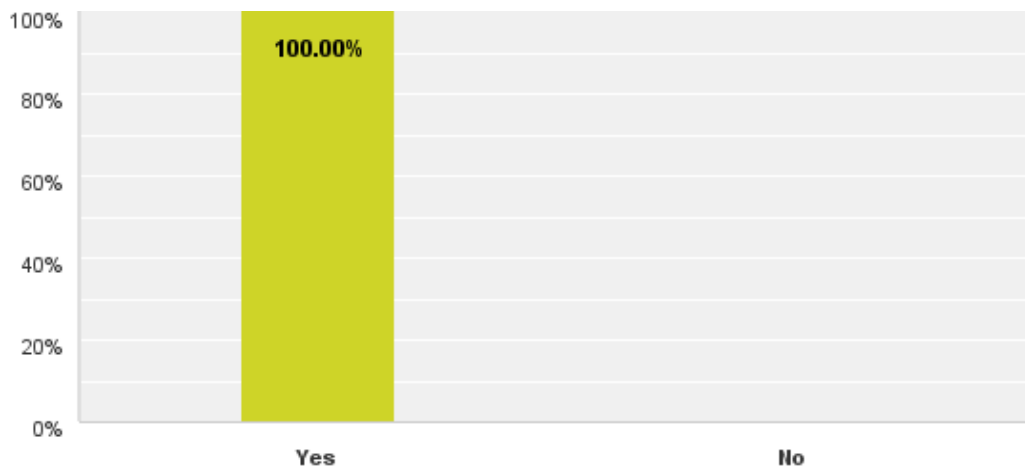


**Figure 4.17** The Audit Committee has an annual schedule of items to be considered in order to fulfil their mandate

**Source:** Survey questionnaire responses from question 22

The outcomes in Figure 4.17 reveal that all participants (100%) agree with the statement that Audit Committee should have an annual schedule of items to be considered in order to fulfil their mandate. The overall results portray that the Audit Committee develop annual agenda of items to be considered to ensure that their responsibilities are met. The requirement for a schedule of meetings and the content of these meetings, the minimum number of meetings and who may call special Audit Committee meetings are important National Treasury(2012:3).

**Question 23: Do the Audit Committee members receive the material to be discussed at a meeting in advance?**



**Figure 4.18** Audit Committee members receive the material to be discussed at a meeting in advance

**Source:** Survey questionnaire responses from question 23

The findings in Figure 4.18 reflect that all participants (100%) agree with the statement that the Audit Committee members should receive the material to be discussed at a meeting in advance. The overall results portray that related material are circulated in advance of the meeting to all Audit Committee members to allow sufficient time to study and understand the material. The agenda for the meeting and reports should be sent out to members well in advance, in order to afford them enough time to prepare for the meeting Deloitte( 2012:5).

**Question 24: Is there a clear agenda for all Audit Committee meetings?**

Figure 4.19 reflects the responses that were received regarding question 24 from the distributed questionnaire.

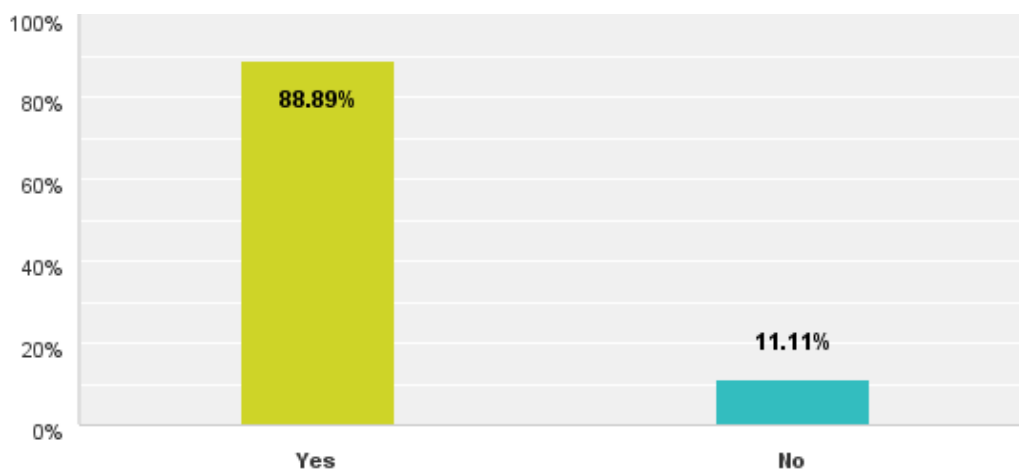


**Figure 4.19** Clear agenda for all Audit Committee meetings

The findings in Figure 4.19 reflect that the participants (100%) agree with the statement that there is a clear agenda for all Audit Committee meetings. The overall outcome reveals that there is clear agenda for Audit Committee meetings as suggested in the literature review. According to King III (2009) an Audit Committee should plan the agenda yearly.

**Question 25: Are the Audit Committee meetings adequate in number and of sufficient length to adequately cover their annual calendar and meeting agendas?**

Figure 4.20 reflects the responses that were received regarding question 25 from the distributed questionnaire.

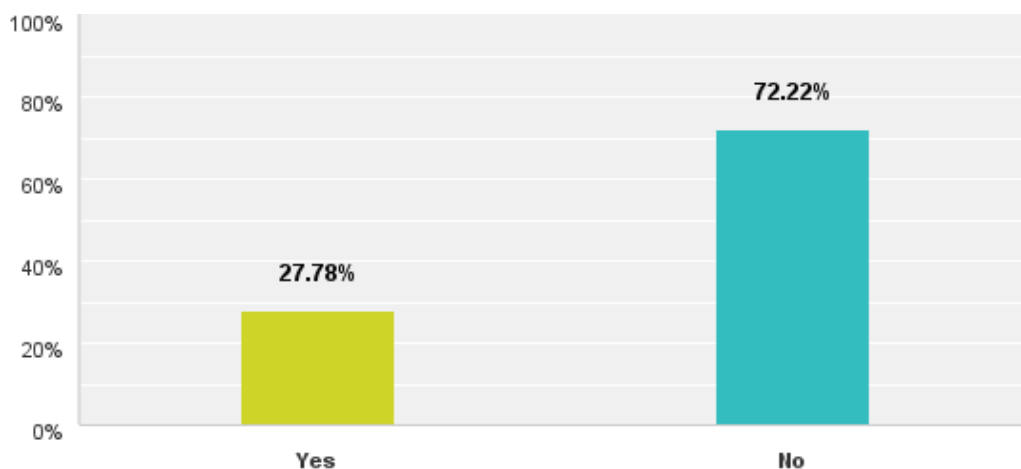


**Figure 4.20** Audit Committee meetings adequate in number and of sufficient length

The Audit Committee must meet as often as required to perform its functions, and not less than four times a year. As is the case with the planning of any committee meetings, Audit Committees need to be planned ahead for the year, with the agenda matters relating to its oversight role. Audit Committees need to be provided with the agenda and supporting reports and documentations ahead of each meeting in order to adequately prepare for the meeting. The findings in Figure 4.20 above reveal that the majority (89%) of the respondents felt that the Audit Committee meetings were adequate in number and of sufficient length to cover their annual calendar and meeting agendas while 11% did not think the Audit Committee meetings were adequate in number and of sufficient length. Although the overall results suggest that Audit Committee is sufficient in number, a small portion feel that the number and length is not sufficient to adequately cover the meeting agenda. The literature suggests that meetings should be held on a quarterly basis and they should be sufficient to cover all emerging risks King III (2009).

**Question 26: During the year, did a quorum of Audit Committee members attend all meetings?**

Figure 4.21 reflects the responses that were received regarding question 26 from the distributed questionnaire.

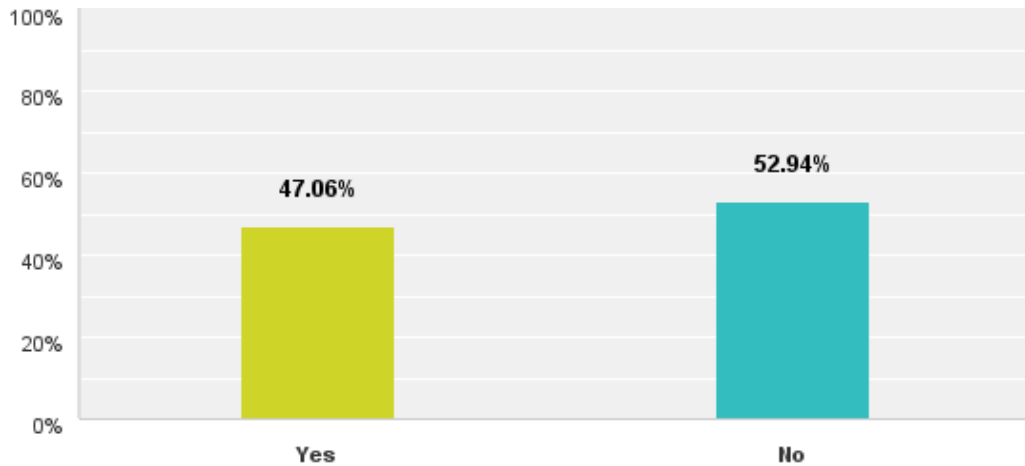


**Figure 4.21** The quorum of Audit Committee members attend all meetings

The findings in Figure 4.21 above reflect that 72% of the respondents felt that the quorum was not reached for AC meetings, whereas 28% suggested the quorum was met. Previous studies on Audit Committee effectiveness resorted to the measurement of diligence by using the frequency and size of meetings as a proxy, since meetings are considered to be visible. The overall results suggest that majority of the members of the committee that constitute a quorum for a meeting of the committee were not met. Section 66 of the MFMA stipulates that the quorum should be made of 50% of members. However, it is the quality of meetings and activities and the level of engagement on those activities by members which is paramount to the degree of care and diligence.

**Question 27: Is there a clear written statement of expectations from management by the Audit Committee of the information required to fulfil their mandate?**

Figure 4.22 reflects the responses that were received regarding question 27 from the distributed questionnaire.

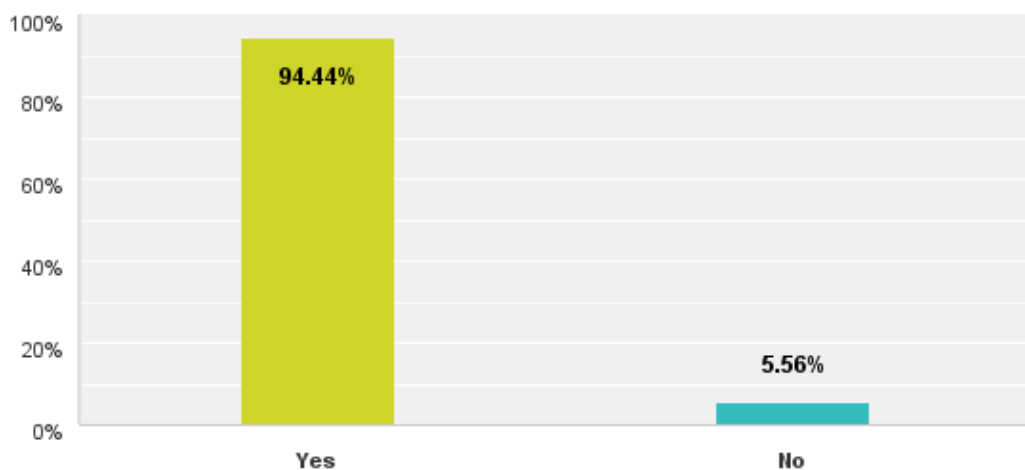


**Figure 4.22** Clear written statement of expectations from management

The outcome in Figure 4.22 reflects that the majority of 53% disagree with the statement, whereas 47% agree that there is a clear written statement of expectations from management by the Audit Committee of the information required to fulfil their mandate. The findings suggest that barely half of the respondents understand the expectations from the Audit Committee. King III (2009) emphasises that the Audit Committee should also stipulate its expectations from management.

**Question 28: Does the Audit Committee provide feedback to management to indicate whether the information provided has met the Audit Committee’s expectations?**

Figure 4.23 reflects the responses that were received regarding question 28 from the distributed questionnaire.

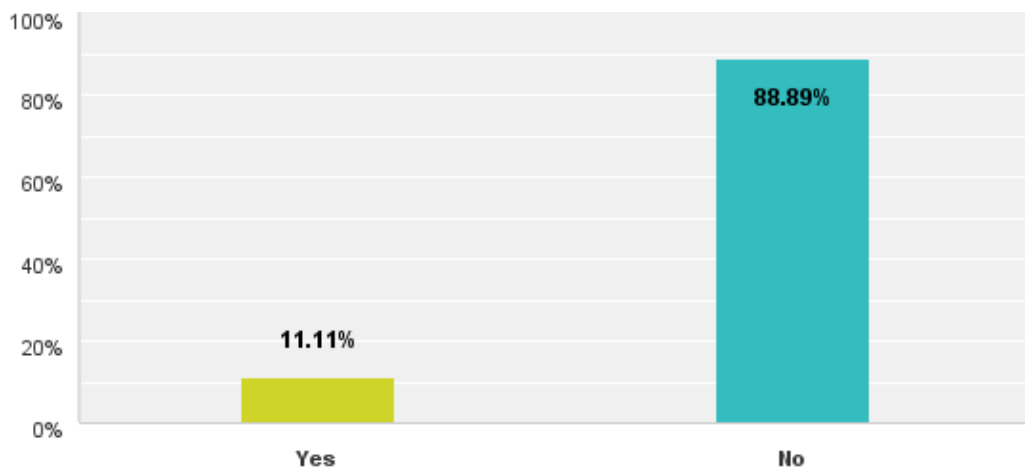


**Figure 4.23** Feedback from Audit Committee

The findings in Figure 4.23 above illustrate that 94% agree that there is feedback from the Audit Committee while 6% disagree. The responses to Question 27 indicate that there are no clear written expectations from the Audit Committee while the results of Question 28 show that there is feedback from the Audit Committee barely half of the respondents understand the expectations from the Audit Committee (Figure 4.22). The literature suggests that feedback should be provided to management on quality of documents submitted to Audit Committee by management. Section 66 of the MFMA stipulates that Management submission should be aligned to the Audit Committee's expectations in the yearly calendar planning.

**Question 29: Does the Audit Committee agenda include an evaluation of the quality and accuracy of financial information provided by management?**

Figure 4.24 reflects the responses that were received regarding question 29 from the distributed questionnaire.



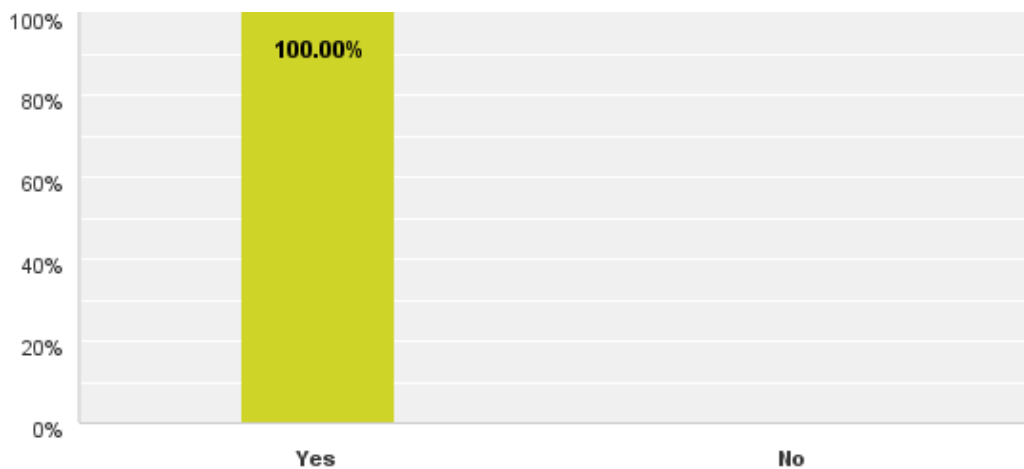
**Figure 4.24** Audit Committee agenda include an evaluation

The findings in Figure 4.24 above illustrate that majority of 89% disagree with the statements while a small proposition of 11% agree that the Audit Committee agenda includes an evaluation of the quality and accuracy of financial information provided by management. The findings show that there is a lack of evaluation processes

regarding the quality of information provided by management. To enhance the effectiveness of meetings it is vital to prioritise the agenda and schedule meetings in accordance with the timing of key issues on financial reporting and the audit process King III (2009).

**Question 30: Is there an Internal Audit function in place for the department?**

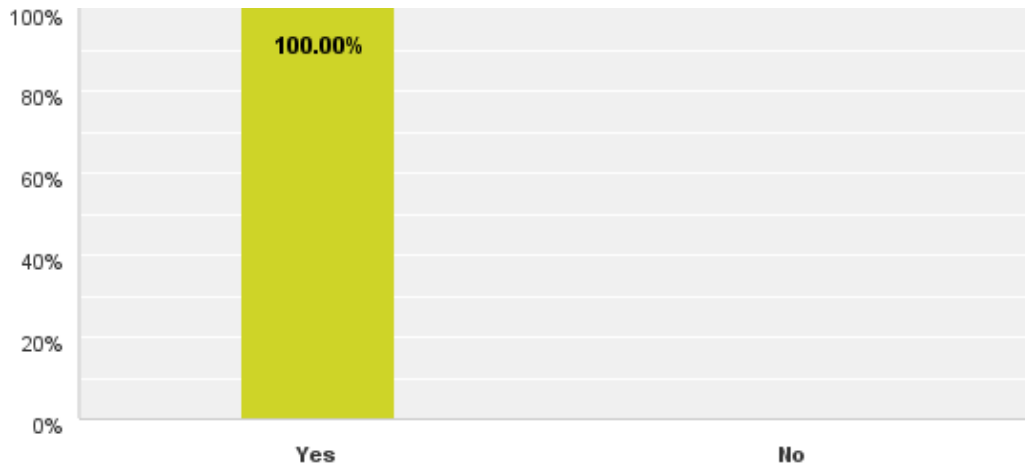
Figure 4.25 reflects the responses that were received regarding question 30 from the distributed questionnaire.



**Figure 4.25** Internal Audit function

The Audit Committee should be responsible for overseeing the internal audit. The results above in Figure 4.25 reveal that the respondents are all (100%) in support of the statement that there is an internal audit function in place. Section 165 of the MFMA stipulates that each municipality and each municipal entity must have an internal audit unit.

**Question 31: Is the Internal Audit mandate/charter set and regularly reviewed by the Audit Committee?**



**Figure 4.26** Internal Audit mandate/charter

**Source:** Survey questionnaire responses from question 31

The charter describes the scope of the committee’s responsibilities and how it complies with these responsibilities King III (2009). The results above in Figure 4.26 reflect that the respondents are all (100%) in support of the statement that Internal Audit mandate/charter is set and is also regularly reviewed by the Committee. This finding corroborates with the literature review.

**Question 32: Does the Internal Audit group meet with the Audit Committee independent of management?**

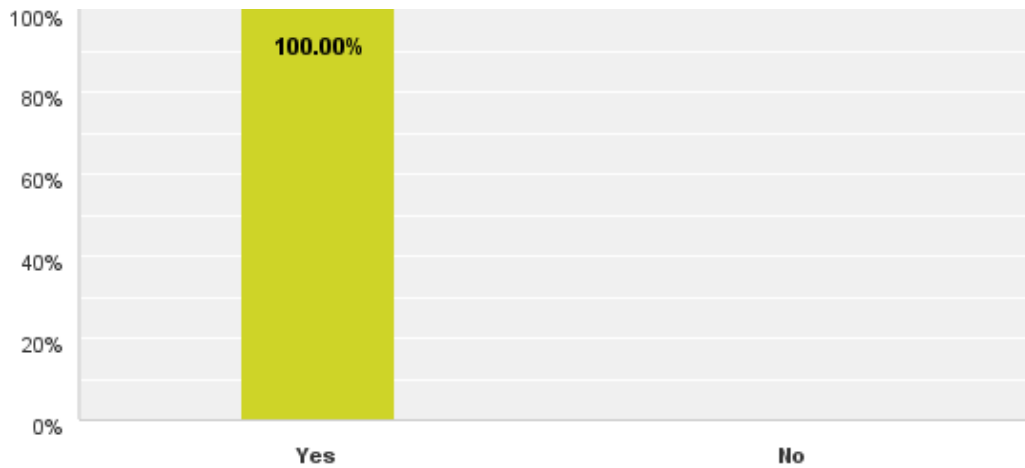


**Figure 4.27** Internal Audit group meet with the Audit Committee independent of management

**Source:** Survey questionnaire responses from question 32

The results above in Figure 4.27 reveal that the respondents are all (100%) in support of the statement that the Internal Audit group meet with the Audit Committee independent of management which is in corroboration with the literature review King III (2009).

**Question 33: Is the scope of work completed by the internal audit group approved by the Audit Committee?**



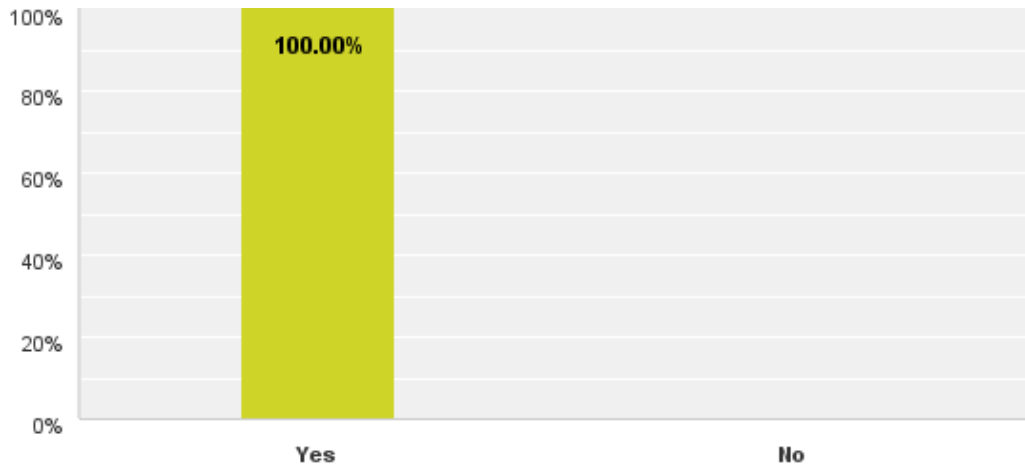
**Figure 4.28** Scope of work completed by the internal audit group is approved

**Source:** Survey questionnaire responses from question 33

Effective communication among Audit Committees and internal auditors is vital to the quality of the audit outcomes. The results above in Figure 4.28 reveal that the respondents are all (100%) in support of the statement that the scope of work completed by the internal audit group is approved by the Audit Committee. The findings suggest that the Internal Audit scope is reviewed and approved by the Audit Committee King III (2009).

**Question 34: Is there a direct channel of communication between the chairperson of the Audit Committee and the Internal Audit function?**

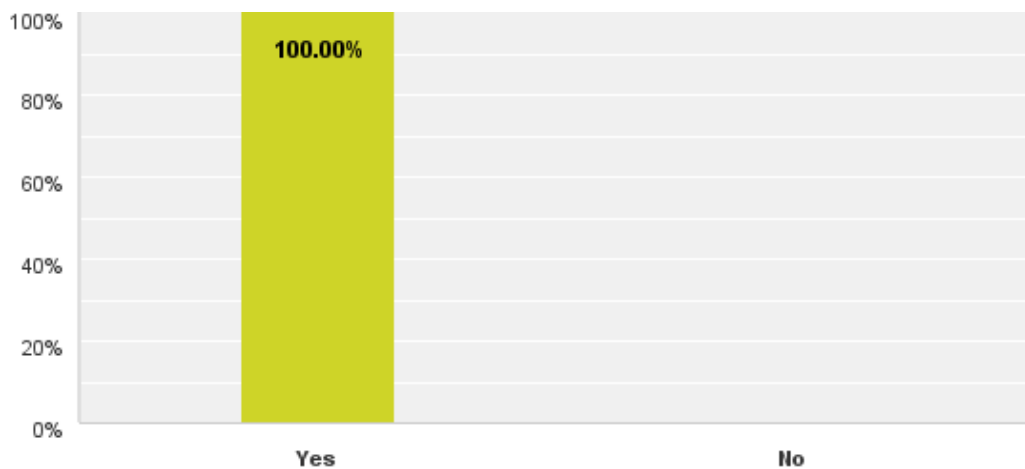
Figure 4.29 reflects the responses that were received regarding question 34 from the distributed questionnaire.



**Figure 4.29** Communication between the chairperson of the Audit Committee and the Internal Audit function

The results above in Figure 4.29 reflect that the respondents are all (100%) in support of the statement that there is a direct channel of communication between the chairperson of the Audit Committee and the Internal Audit function. The findings suggest that there is effective communication among the Internal Audit function and the Audit Committee Chairperson. The MFMA regulations further offer guidelines on how the Audit Committee should communicate with the municipal manager, internal audit members, as well as the external auditors.

**Question 35: Does the Audit Committee receive appropriate written reports from the Chief Audit Executive?**



**Figure 4.30** Audit Committee receives appropriate written reports

**Source:** Survey questionnaire responses from question 35

The results above in Figure 4.30 reveal that the respondents are all (100%) in support of the statement that the Audit Committee does receive appropriate written reports from the chief audit executive. The overall findings imply that Chief Audit Executive reports to Audit Committee in quarterly meetings as suggested in literature review. According to King III (2009) an effective Audit Committee strongly depends on work performed by Internal Audit results; hence, they oversee this function.

**Question 36: Has the Audit Committee assisted Internal Audit in the establishment of a line of communication with the Accounting Officer?**

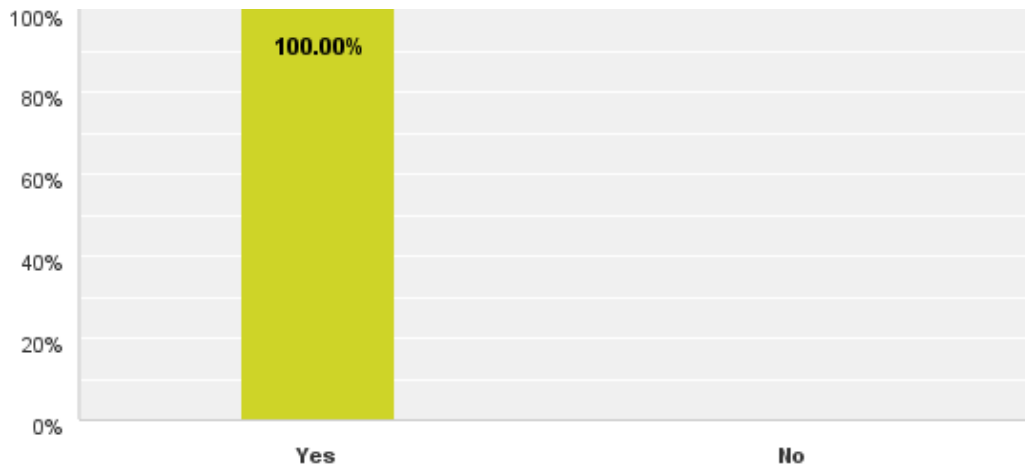
Figure 4.31 reveals the responses that were received regarding question 36 from the distributed questionnaire.



**Figure 4.31** Establishment of Internal Audit line of communication

The results above in Figure 4.31 reveal that the respondents are all (100%) in support of the statement that the Audit Committee assisted Internal Audit in the establishment of a line of communication with the Accounting Officer. The finding is in line with the role that should be played by the Audit Committee. In general, transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence King III (2009).

**Question 37: Has the Audit Committee addressed issues such as a lack of capacity or budget of Internal Audit?**

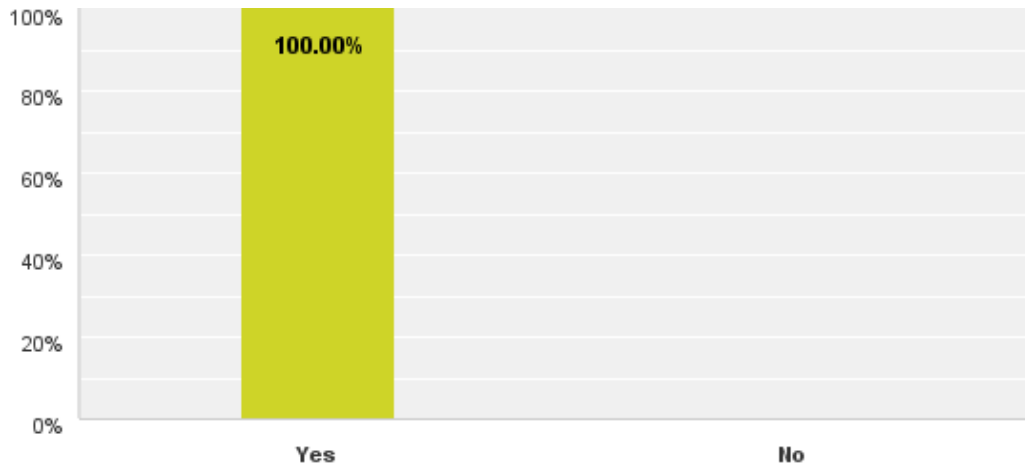


**Figure 4.32** Audit Committee addressed issues such as a lack of capacity or budget of Internal Audit

**Source:** Survey questionnaire responses from question 37

The results above in Figure 4.32 reveal that the respondents are all (100%) in support of the statement that the Audit Committee has addressed issues such as a lack of capacity or budget of internal audit. The findings suggest that it is the responsibility of the Audit Committee to ensure the Internal Audit process is adequately resourced in terms of skilled employees and sufficient budget. According to King III (2009) the Audit Committee should assess the Internal Audit unit's capacity and assess resources such as budget, staffing, and the availability of the skills required in executing an internal audit function.

**Question 38: Has the Audit Committee addressed the issue of reliance placed on the work of Internal Audit by the Office of the Auditor-General?**



**Figure 4.33** Audit Committee addressed the issue of reliance

**Source:** Survey questionnaire responses from question 38

The results above in Figure 4.33 reveal that the respondents are all (100%) in support of the statement that the Audit Committee has addressed the issue of reliance placed on the work of Internal Audit by the Office of the Auditor-General. The findings corroborate with the analysis of the literature on the King Report which states that the Audit Committee should address the issue of reliance placed on the Internal Audit’s work by the Office of the Auditor-General King III (2009).

**Question 39: Does the Audit Committee follow-up on a lack of management responses to Internal Audit findings?**

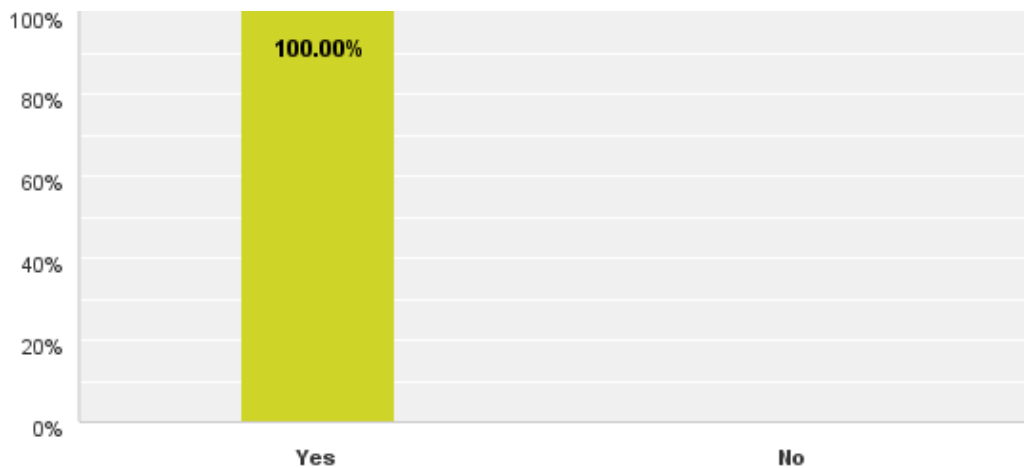


**Figure 4.34** Audit Committee follow-up on a lack of management responses

**Source:** Survey questionnaire responses from question 39

The results above in Figure 4.34 reveal that the respondents are all (100%) in support of the statement that the Audit Committee follows up on a lack of management responses to Internal Audit findings. The findings support the best practice that suggests that the Audit Committee should follow up on lack of management respond to Internal Audit findings King III (2009).

**Question 40: Does the Audit Committee evaluate Internal Audit’s compliance with the standards set by the Institute of Internal Auditors?**

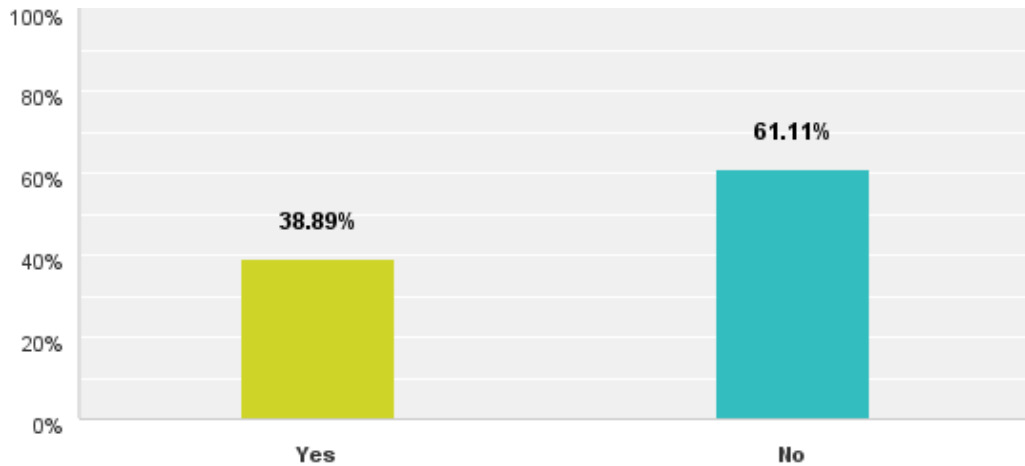


**Figure 4.35** Audit Committee evaluates Internal Audit’s compliance

**Source:** Survey questionnaire responses from question 40

The results above in Figure 4.35 reveal that the respondents are all (100%) in support of the statement that Audit Committee evaluates Internal Audit’s compliance with the standards set by the Institute of Internal Auditors. The finding suggests that the Audit Committee evaluates the Internal Audit’s compliance with the standards set by the Institute of Internal Auditors as stated. King (2009:30)

**Question 41: At regular Audit Committee meetings, does the Audit Committee meet with the Office of the Auditor-General without management present?**

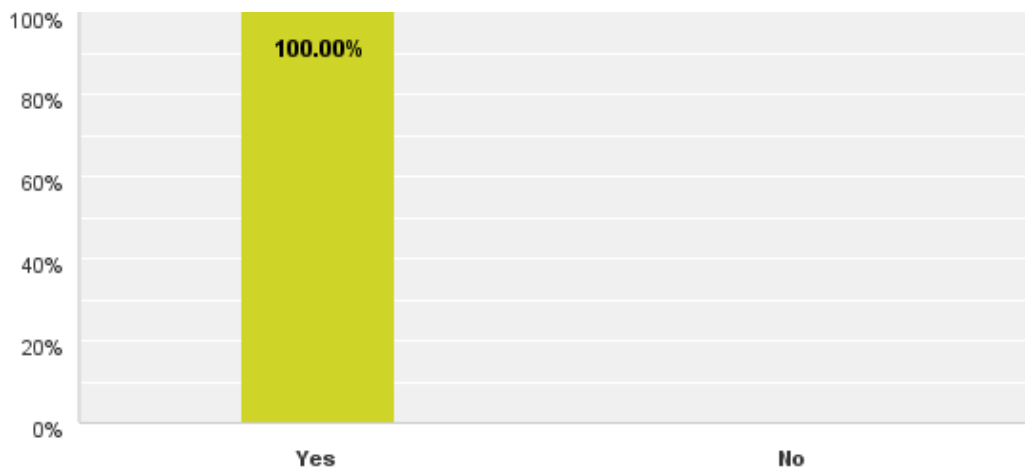


**Figure 4.36** Audit Committee meets with the Office of the Auditor-General

**Source:** Survey questionnaire responses from question 41

The findings in Figure 4.36 reveal that 39% agreed with the statement whereas the remaining 61% strongly disagreed. The overall findings portray that the Audit Committee fails to meet regularly with External Auditors without management. This meeting assists the Audit Committee in understanding if there are any unresolved findings due to management King III (2009).

**Question 42: Does the Audit Committee invite the Office of the Auditor-General to attend all meetings?**

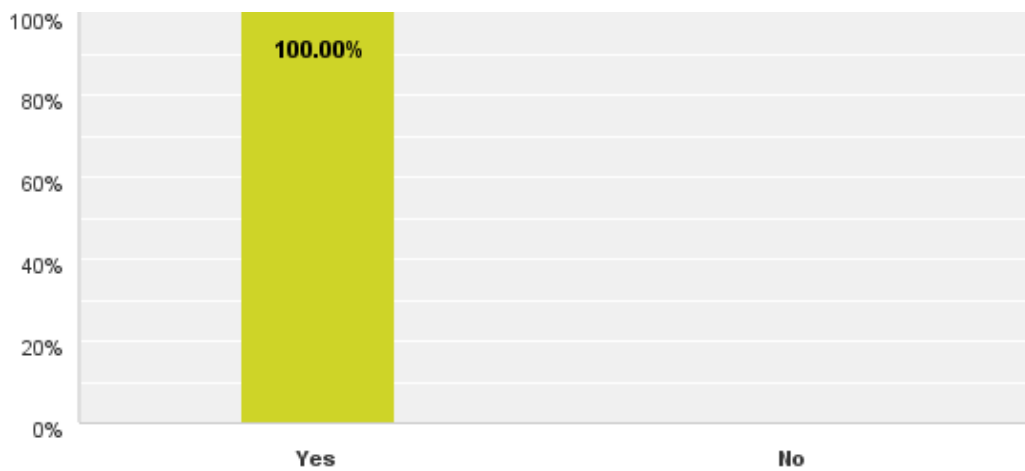


**Figure 4.37** Office of the Auditor-General is invited to attend all meetings

**Source:** Survey questionnaire responses from question 42

The results above in Figure 4.37 reveal that the respondents are all (100%) in support of the Audit Committee inviting the Office of the Auditor-General to attend all meetings. The findings suggest that External Auditors are invited to the Audit Committee meetings to give feedback on work done. This finding concurs with the views of King III (2009) who advised that the Audit Committee must invite the external auditors in all meetings.

**Question 43: Does the Audit Committee review the background to the Auditor-General’s recommendations and the scope and nature of the work performed?**

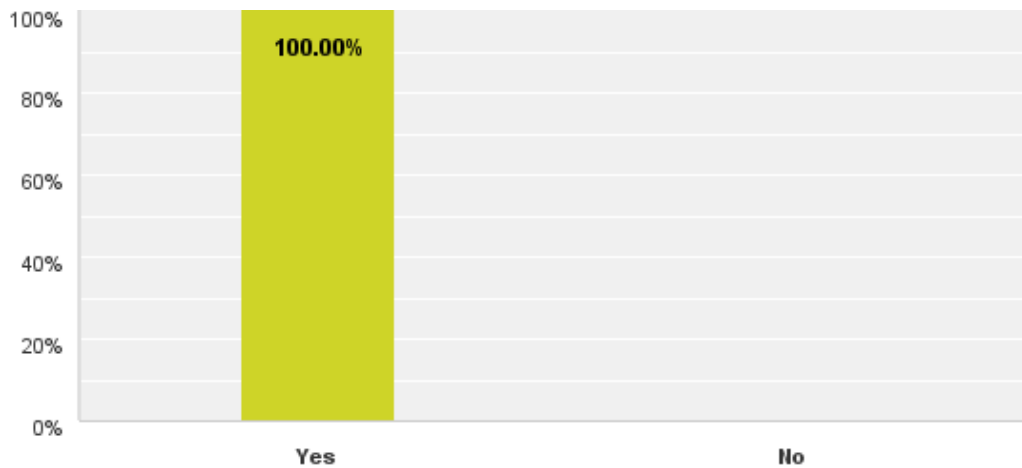


**Figure 4.38** Audit Committee reviews the background to recommendations

**Source:** Survey questionnaire responses from question 43

The results above in Figure 4.38 reveal that the respondents are all (100%) in support of the statement that the Audit Committee reviews the background to the Auditor-General’s recommendations and the scope and nature of the work performed. The overall outcome suggests that the Audit Committee reviews the background to External Auditor recommendation to ensure that the raised recommendations are implemented as per the recommendations of the King III (2009) Report.

**Question 44: Does the Audit Committee hold management accountable for actions suggested on the recommendations of the Auditor-General?**



**Figure 4.39** The Audit Committee holds management accountable for action

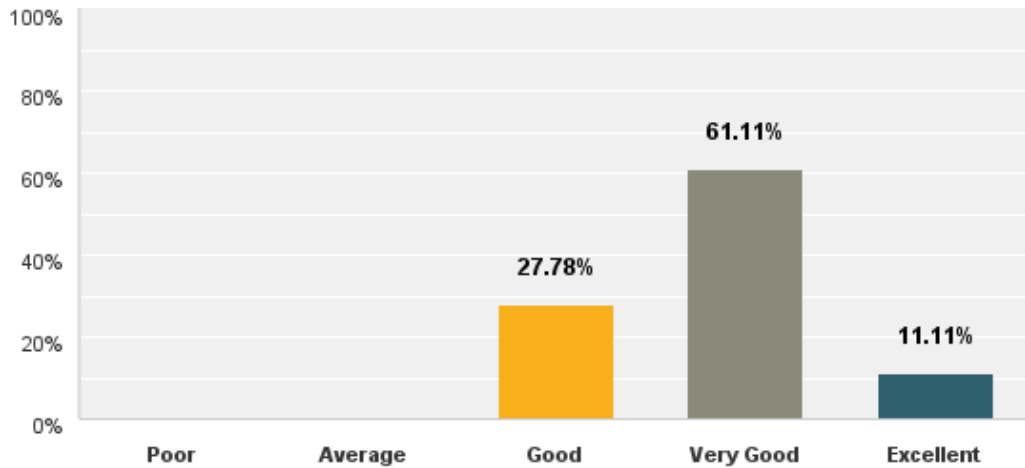
**Source:** Survey questionnaire responses from question 44

The results above in Figure 4.39 reveal that the respondents are all (100%) in support of the Audit Committee holding management accountable for actions suggested on the recommendations of the Auditor-General. The findings support the terms of reference of an Audit Committee.

**PART C: THE RELATIONSHIP BETWEEN AN EFFECTIVE AUDIT COMMITTEE AND INFUSION OF A GOOD CONTROL ENVIRONMENT**

Part C consists of 12 questions. This category deals with findings relating to the control environment within each municipality. The idea on questions relating to internal control was to assess the control environment and whether there are procedures and policies in place. The Audit Committee was assessed in particular on the role it plays in this regard. Under this category the role and the support that the Audit Committee gives to the internal audit department, will have a positive impact on control environment.

**Question 45: The Audit Committee receives enough information to review, understand and assess the department’s system of internal controls.**

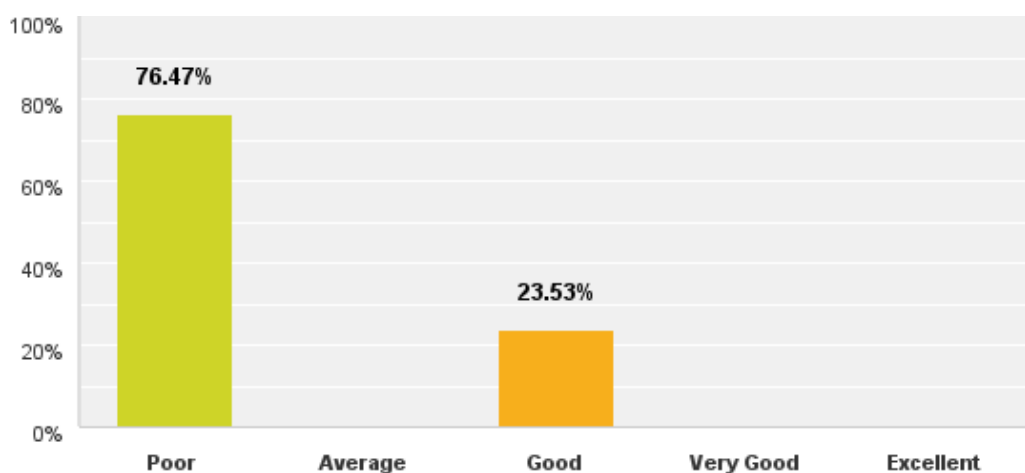


**Figure 4.40** The Audit Committee receives enough information to review

**Source:** Survey questionnaire responses from question 45

Figure 4.40 above reflects that the majority of 61% respondents rated the activity as Very Good whereas 28% rated it as Good. 11% rated the activity as Excellent. The overall findings suggest that the Audit Committee receives enough information to review, and understand how to assess the organisations' system of internal controls King III (2009).

**Question 46: The Audit Committee makes enquiries of the external auditor and management on the experience and sufficiency of staff in the finance and internal audit departments.**

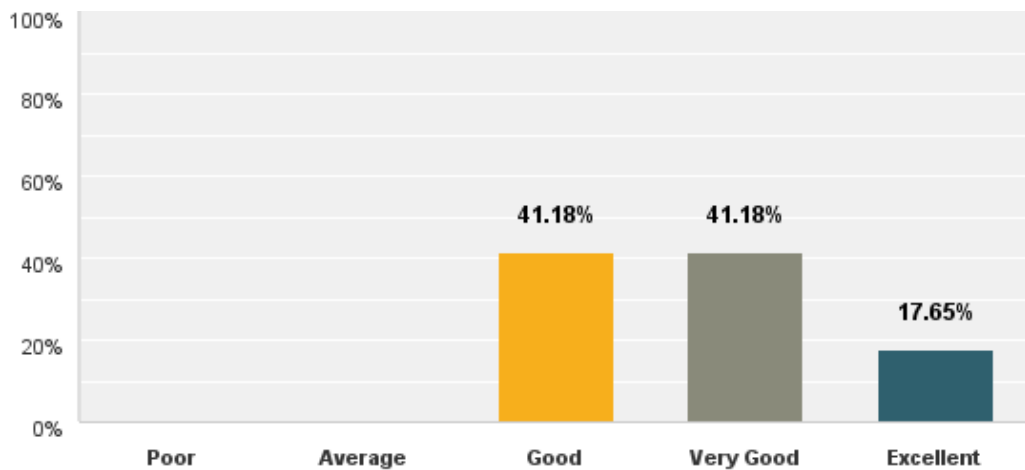


**Figure 4.41** The Audit Committee makes enquiries of the external auditor and management

**Source:** Survey questionnaire responses from question 46

The findings in the above Figure 4.41 reveal that 77% of the participants rated the statement as Poor and 23% as Good. The findings indicate that the Audit Committee does not inquire from the External Auditors and Management on the experience and sufficiency of employees. According to King III (2009) the Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process; therefore, they should enquire on the experience and sufficiency of staff from the external auditor, management and internal audit departments.

**Question 47: The Audit Committee reviews the Internal Audit plan annually**

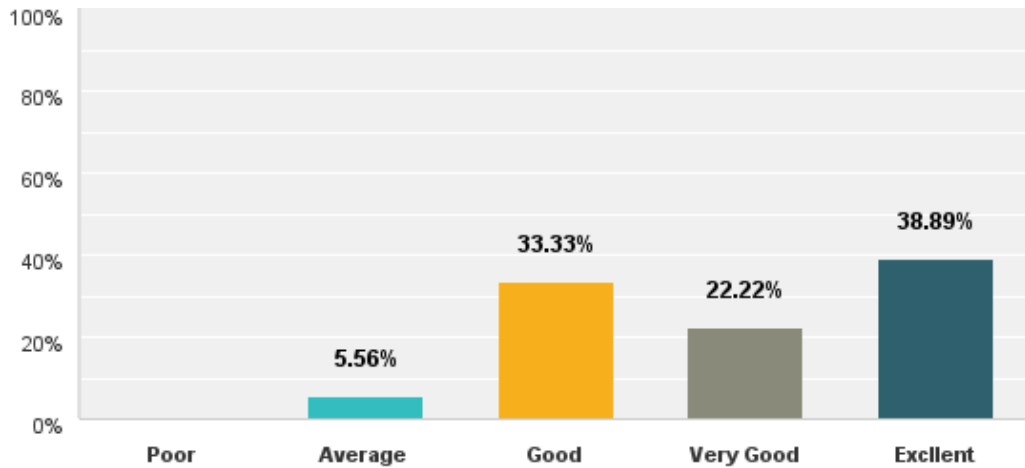


**Figure 4.42** The Audit Committee reviews the Internal Audit plan annually

**Source:** Survey questionnaire responses from question 47

Figure 4.42 above illustrates that there is an equal split between the respondents in terms of those who rated the statement Good (42%) and those who rated it Very Good (42%). A small proposition of 18% rated it Excellent. In essence, the findings portray that the Audit Committee reviews the Internal Audit plan on annual basis to provide an oversight role to Internal Audit as recommended by (King III, 2009).

**Question 48: The Audit Committee reviews the management letters written by the Internal Audit unit and the Auditor-General, to ensure that all significant matters raised are properly addressed**

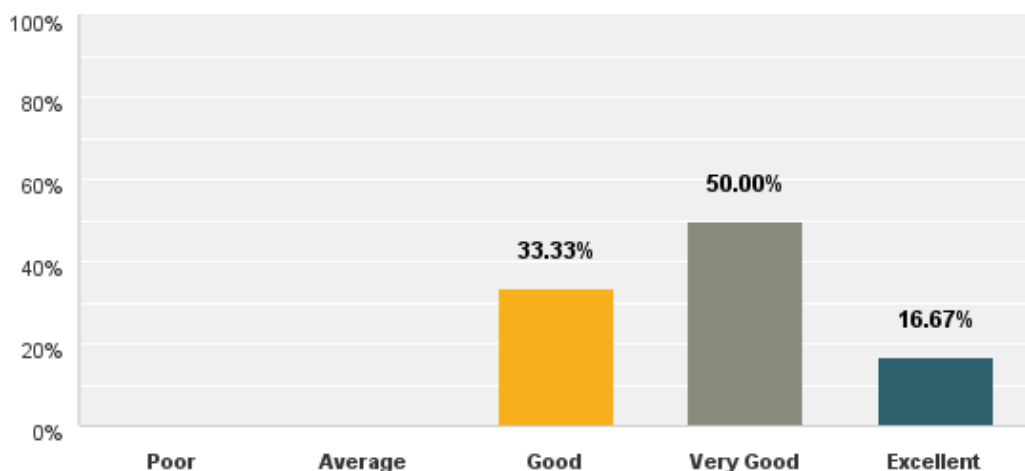


**Figure 4.43** The Audit Committee reviews management letters

**Source:** Survey questionnaire responses from question 48

It is reflected in Figure 4.43 above that 33% respondents rated the process as Good and 22% as Very Good. On the other hand 39% of the respondents feel that the Audit Committee is Excellent in reviewing management letters. The overall findings suggest that the Audit Committee reviews management letters. In terms of MFMA, External Auditors is the Audit Committee’s responsibility to ensure that all weaknesses identified by Auditors are resolved by management to improve the quality of audit’s outcomes.

**Question 49: The Audit Committee reviews the management responses to the above management letters**

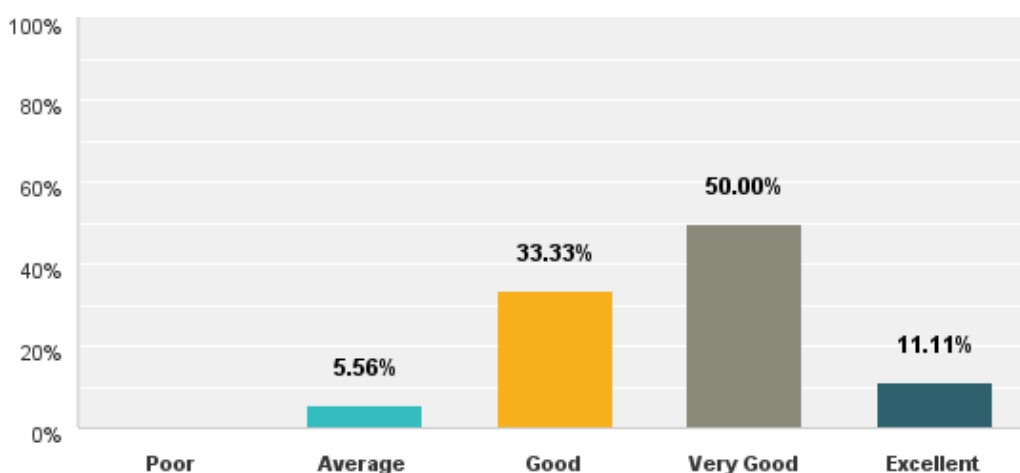


**Figure 4.44** The Audit Committee reviews the management letters

**Source:** Survey questionnaire responses from question 49

The findings in Figure 4.44 above indicate that 50% rate this as Very Good and 33.33% as Good. 16.67% regard it as being Excellent performance. This corroborates the findings from the King III Report which shows that the role of the Audit Committee should include reviews of the management responses to findings raised by Auditors King III (2009).

**Question 50: The Audit Committee assesses both the compliance effectiveness and the value of service of the Internal Audit department.**

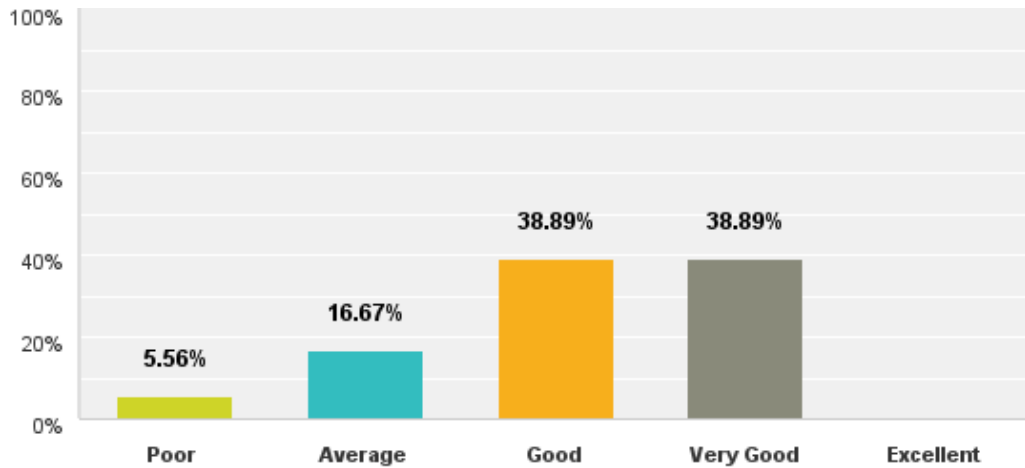


**Figure 4.45** The Audit Committee assesses compliance and value effectiveness

**Source:** Survey questionnaire responses from question 50

The results presented in Figure 4.45 above indicate that 50% of the respondents rated the statement as Very Good and 33.33% rated it as Good. 11% felt the Audit Committee was doing an Excellent job. The remaining respondents, constituting 6% had an Average opinion. The overall findings suggest that the Audit Committee assesses both the compliance and effectiveness and the values of service provided the Internal Audit function as per the International Standards for the Professional Practice of Internal Auditing.

**Question 51: The Audit Committee’s orientation programme to educate new members on their responsibilities**

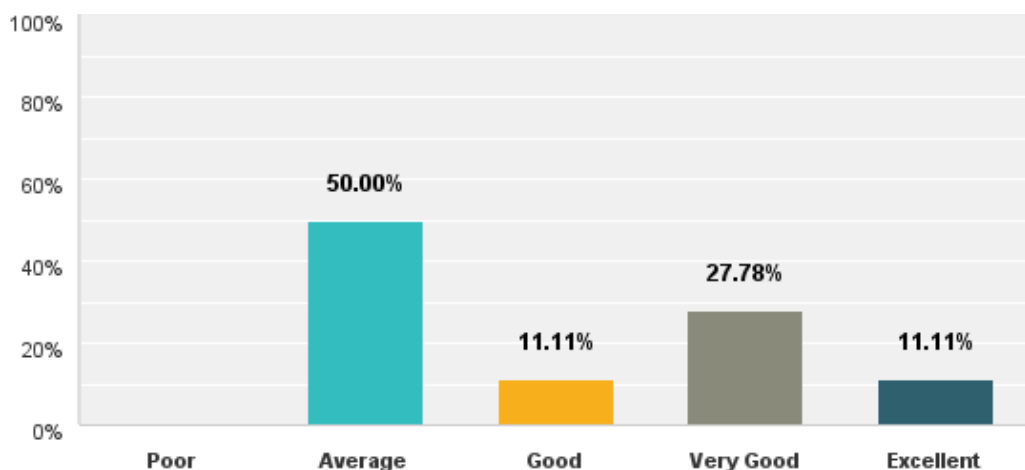


**Figure 4.46** The Audit Committee's orientation programme

**Source:** Survey questionnaire responses from question 51

Figure 4.46 above indicates that 39% observe this process to be Good and 39% as Very Good. It was also noted that 17% of the respondents rated the statement as Average whereas 6% of responses stated it to be Poor. The literature suggests that Audit Committee members must obtain orientation and education before they assume their responsibilities and that it is important for the Audit Committee members to have an on-going education about their duties and operations of the organisation, as well as professional growth King III (2009). The majority of the findings are in agreement with this.

**Question 52: The Audit Committee participates in a continuing education programme to enhance Audit Committee members' understanding of relevant accounting and reporting areas.**

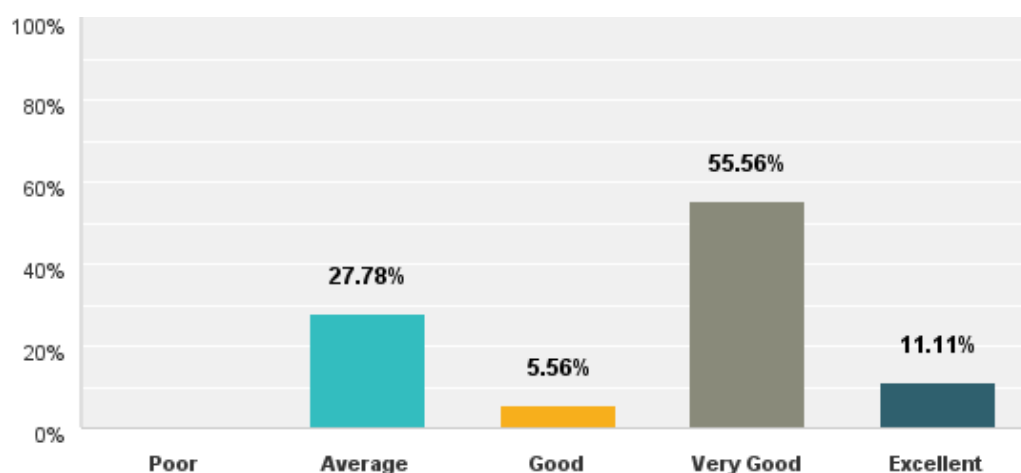


**Figure 4.47** Audit Committee participates in a continuing education programme

**Source:** Survey questionnaire responses from question 52

Continuous learning offers members with new perceptions and information on important practices in corporate governance. As shown in Figure 4.47 above, 50% saw this as an Average practice while 11% rated it as Good. 28% rated it Very Good and the remaining 11% rated it as Excellent. The literature shows that the development of the Audit Committee members is critical in order to ensure that committee members remain informed on current issues and practices. The findings support this view. It is prudent for the Audit Committee members to receive on-going education about the activities and operations of the organisation, as well as professional development King III (2009).

**Question 53: Management, the Auditor-General, and Internal Audit provide input on the Audit Committee charter and meeting agendas.**



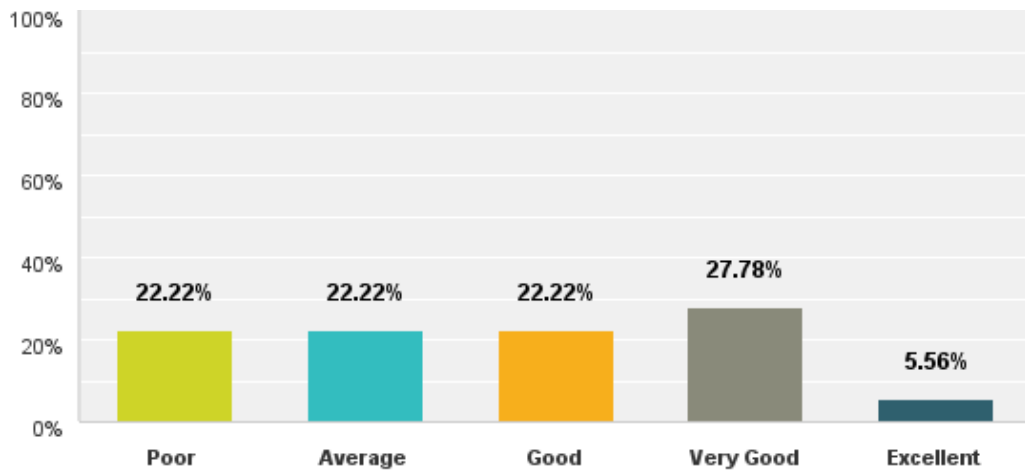
**Figure 4.48** Management, the Auditor-General, and Internal Audit provide input on the Audit Committee charter and meeting agendas.

**Source:** Survey questionnaire responses from question 53

A total of 56% rated this statement as Very Good, while 11% rated it as Excellent. 6% rated the statement as Good. The remaining 28% rated it as Average. The average suggests that Audit Committee does encourage input on the Audit

Committee charter and meeting agenda from internal audit, and management as it is suggested King III (2009)

**Question 54: Audit Committee meetings are scheduled to allow enough time to cover all agenda items.**



**Figure 4.49** Audit Committee meetings are scheduled to allow enough time to cover all agenda items.

**Source:** Survey questionnaire responses from question 54

The following results were noted:

Poor – 22%

Average – 22%

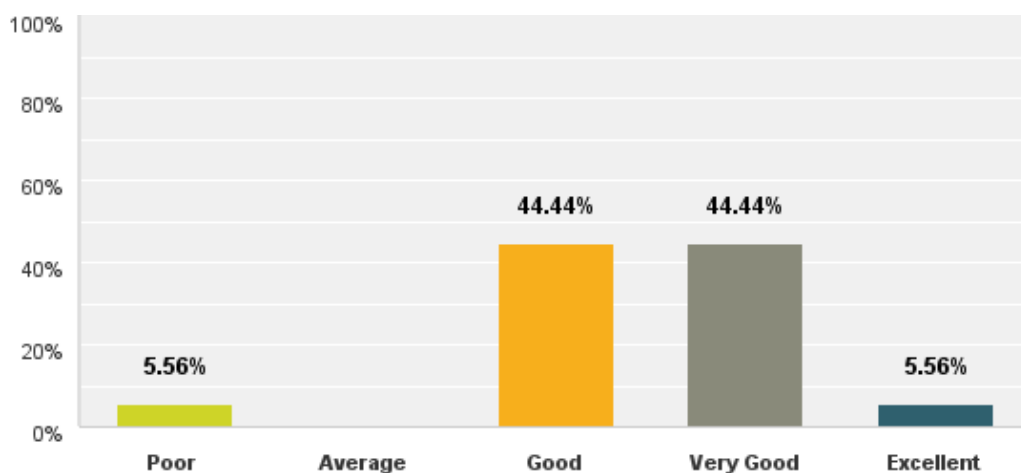
Good – 22%

Very Good – 27.78%

Excellent – 5.56%

The results suggest that stakeholders are not entirely happy with the length of the Audit Committee meetings to cover all agenda items; this is further noted in Question 25 where the results suggest that a small portion of the respondents also feel that the number and length is not sufficient to adequately cover the meeting agenda. Meetings should be sufficient in time to cover all agenda items. The Audit Committee's agenda should dictate the scope of duties and complexity of the organisation's operations King III(2009).

**Question 55: The Audit Committee discusses significant issues with management and the Auditor-General prior to annual financial statement release.**

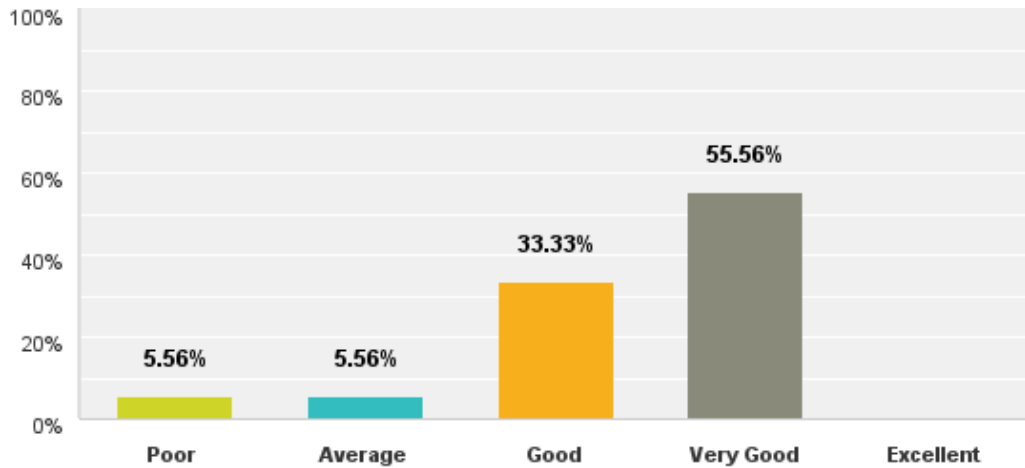


**Figure 4.50** The Audit Committee discusses significant issues

**Source:** Survey questionnaire responses from question 55

The above Figure 4.50 shows that 44.44% of respondents agree (Good) that the AC discusses significant issues. 44.44% rate it as Very Good, 5.56% as Poor and 5.56% as Excellent. The overall findings portray that the discussion of significant issues with management and the Auditor-General prior to annual financial statement release does occur which is in accordance with best practise. The Audit Committee should monitor the Auditor-General progress and should go through significant findings and produce recommendations to management.

**Question 56: The Audit Committee reviews significant issues with management and the Auditor-General prior to annual audit report release.**

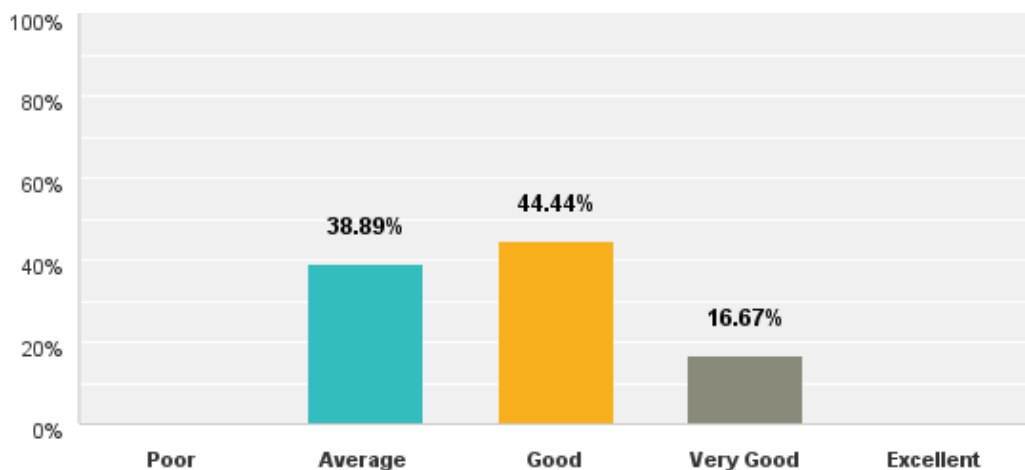


**Figure 4.51** The Audit Committee discuss significant issues

**Source:** Survey questionnaire responses from question 56

Figure 4.51 reveals that 55.56% rated this practice as very Good; 33.33% as Good; 5.56% as Average; and 5.56% as Poor. There is general consensus that significant issues are discussed by the Audit Committee King III( 2009).

**Question 57: The Audit Committee is informed of communications received from governmental or regulatory agencies or similar parties relating to areas of alleged violations or non-compliance.**



**Figure 4.52** Audit Committee is informed of communications

**Source:** survey questionnaire responses from question 57

Figure 4.52 above indicates that 16.67% rated this practice as Very Good; 44.44% as Good; and 38.89% as Average. In terms of PMFA it is essential that the council complies with applicable laws and considers adherence to nonbinding rules, codes and standards. This should form an integral part of the council's risk management process. The findings show a sizeable gap in this practice.

#### **4.4 CONCLUSION**

This chapter offered an opportunity for the researcher to present the results depicted in Table format and bar chart. It can be concluded briefly that an effectively functioning Audit Committee would result in the public funds placed in the municipalities being utilised constructively for the purposes of improving service delivery. However, it has been noted that the Audit Committee has no direct influence on the achievement of the municipality's mandate. It can also be concluded that for service delivery to take place it is dependent on a good control of the environment, which the Audit Committee must monitor and enhance.

The next chapter presents the conclusions and recommendation to management on how to improve the effectiveness of the Audit Committee.

# CONCLUSIONS AND RECOMMENDATIONS

## 5.1 INTRODUCTION

The previous chapter 4 provided the findings from data and it also gave analysis on the basis of the study. This final chapter 5, covers the attachment of the objectives, draws conclusions and recommendations. The findings of the study suggest solid support for the idea that the Audit Committee is providing an effective oversight task in order to ensure achievement of service delivery by the municipality. The study was guided by the following objectives:

- a. To assess the effectiveness of Audit Committees
- b. To establish the characteristics of an effective Audit Committee
- c. To establish the relationship between an effective Audit Committee and infusion of a good control environment.

Based on the preceding expositions, the following conclusions can be drawn that the research objectives of the study were achieved. The following sections present the findings and recommendations drawn from the results of the study and a conclusion. Recommendations have been offered on how the Audit Committee can strengthen the effectiveness of the local government.

## 5.2 FINDINGS FROM THE STUDY

This section of the study focuses on the three main objectives, findings from the literature review and findings from the study.

### 5.2.1 Findings from literature study

#### 5.2.1.1 To assess the effectiveness of Audit Committees

The Audit Committee is responsible for advising the council on risk management; therefore, an understanding of the municipality's critical strategic risks and management's plan is vital so they can be able to address risks in ensuring that the municipality fulfil its service delivery mandate. They should also review goals,

objectives and key performance indicators to measure the effectiveness of the risk management. An on-going learning programme is recommended and to have periodic targets and goals for each aspect of their development KPMG (2012:14).

The literature demonstrated the importance of the Audit Committee in advising the Council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to accounting policies, internal financial controls and adequacy, reliability and accuracy of financial reporting and information.

It is vital that they evaluate the effectiveness and adequacy of mitigating strategies to address the strategic risk of the municipality. Internal Audit plan should be a risk-based plan as suggested in MFMA section 65(2).

The literature revealed that the Audit Committee meets as often as required to perform their functions, provided that it is not less than four times a year. Meetings should be held in line with the terms of reference as stated in Section 230 of the MFMA.

#### **5.2.1.2 To establish the characteristics of an effective Audit Committee**

The literature supported the importance of having a well-established Audit Committee function and also highlighted the adverse impact of having an ineffective Audit Committee. The Audit Committee is established by the Council in terms of Section 166 of the Municipality Finance Management Act. The Audit Committee should be an independent external committee, since it provides an oversight function over the financial management and performance of the Municipality.

The literature demonstrated that the aspect of constant communication with the internal and external auditors is critical for effective functioning of an Audit Committee. The informal discussions with the external auditors contribute towards on-going mutual understanding between the Audit Committee and the external auditors on matters relating to the operations of the municipality and the financial reporting requirements.

The Audit Committee should adopt formal terms of reference, herein referred to as the Audit Committee Charter. The charter is presented at a formal meeting, deliberated upon and recommended for final approval by the Council. This is important as it gives access to financial reports and other relevant information of the municipality required by it in the performance of its function.

The literature also demonstrates the importance of providing proper and timely reports to the Municipality Manager and Council on the state of risk management together with the aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

#### **5.2.1.3 An effective Audit Committee infuses a good control environment.**

The literature revealed that the Audit Committee consists of a minimum of 3 and maximum of 8 qualified members. It also suggested that the Committee may formulate its own rules for the conduct of meetings provided that such rules must be approved by the Speaker as being compatible with the Rules of Order of Council. It also emphasised that the Audit Committee must review the annual financial statement to provide the Council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall compliance with the Municipality Finance Management Act.

The literature revealed that the Committee must respond to the Council on any issues raised by the External Auditors in the audit report.

The literature highlighted the importance of evaluating the effectiveness and adequacy of mitigating strategies to address the strategic risk of the Municipality.

It also demonstrated that the Internal and External Auditor is appointed by the Audit Committee and they oversee the functions of the Internal Auditors in terms of the MFMA.

### **5.3 FINDINGS FROM THE PRIMARY DATA**

The findings from the primary data are offered under the research objectives.

### **5.3.1 To assess the effectiveness of Audit Committees**

Under this objective the findings reveal that the Audit Committee at eThekweni does perform its functions relating to risk management. The municipality has a dedicated risk unit or department headed by a deputy manager dealing with all issues of risks. This department has set up procedures to assess impact of risk to service delivery; this was also verified through observation and document review. All 100% respondents were in agreement with the findings of the study on risk management.

The Audit Committee does receive adequate information to review and understand the municipality's system of internal controls, through engagement with the Internal Audit team.

Through inspection and scrutinizing the agenda and minutes of the Audit Committee, it was evident that the Audit Committee enquires about the experience and sufficiency of staff in the internal audit and finance departments/ units. All respondents (100%) agree that Audit Committee receives enough information to review and understand the municipality's system of internal controls which assists them in responding to financial reporting issues.

The Audit Committee's annual review of the annual internal audit plan, to consider any changes or new assignments that must be introduced or brought forward were confirmed by 94% of the respondents. The audit plan is the end result of a consultative process with all senior management and consideration of issues raised by the Auditor General. The findings also reveal that the Audit Committee reviews management letters from the internal and external audit (Auditor General) to address significant issues of concern. A total of 94% were in agreement that the Audit Committee reviews management letters written by the Internal and External Auditors as it is the Audit Committee's responsibility to ensure that all weaknesses identified by Auditors are resolved by management to improve the quality of the audit's outcomes.

A total of 94% of the respondents, agree that the Audit Committee reviews management responses and action plans in the above- mentioned letters. It was confirmed that the Audit Committee performs compliance assessment and effective

consulting services of the internal audit. With regard to the Institute of Internal Audit standards on evaluation of compliance, the Audit Committee complies with this requirement and also implements best practice.

It is, however, disturbing that 69% of the respondents alleged that the Audit Committee is not satisfied with the type of management exhibited at the top and that management is not committed in promoting high quality financial reporting.

About 67% of the respondents indicated that the Auditor General and management do not accord sufficient attention to staff when they are engaged on assignments.

Again 53% of the respondents mentioned that the Audit Committee does not have adequate informal meetings with the audit teams. This is in contradiction with the views expressed in the literature review.

Further document analysis, revealed that some of the contributing factors to the positive assessment to the majority of the questions are the fact that eThekweni has a separate Internal Audit Unit, an Internal Control Unit and a Risk Management Unit; all these departments are focussed and engage continuously with the Audit Committee.

### **5.3.2 To establish the characteristics of an effective Audit Committee**

Individual comments from the open-ended questions within the questionnaires confirmed that the municipality has established the Audit Committee, with adequate membership and recommended mix as per the Municipal Finance Management Act. The Audit Committee has developed an audit charter and it is reviewed annually. Meeting proceedings and Audit Committee agenda are as per recommended best practice and legislation. The Audit Committee performs its functions as per legislative requirements e.g. reviewing the financial statements and giving a credible view on all financial matters.

However, it is disturbing that barely half (53%) of the respondents understand the expectations from the Audit Committee. Another problem is that there is a lack of evaluation processes regarding the quality of information provided by management.

While the Audit Committee meetings were held, it is a cause for concern as some respondents felt they were not enough to cover the whole agenda.

A total of 89% of the respondents indicated that there is a lack of evaluation processes regarding the quality of information provided by management. This finding is a cause for concern.

### **5.3.3 An effective Audit Committee infuses a good control environment.**

This category deals with findings relating to the control environment within each municipality. The questions relating to internal control were to assess the control environment and ascertain whether the procedures and policies are in place. The Audit Committee in particular, was assessed regarding its role in this regard. Under this category the role and the support that the Audit Committee gives to the internal audit department, has a positive impact on environment control.

It is disturbing that participants (77%) indicated that the Audit Committee does not enquire from the External Auditors and Management about the experience and efficiency of employees.

A total of 50% of the respondents saw this as an average practice while 11% rated it as Good; 28% rated it Very Good and the remaining 11% rated it as Excellent. The literature shows that the development of the Audit Committee members is critical to ensure that committee members remain informed about current issues and practices.

It is disturbing again that about 44% of the stakeholders are not entirely happy with the length of the Audit Committee meetings to cover all agenda items.

## **5.4 RECOMMENDATIONS**

The attendance of municipal managers at all Audit Committee meetings should be made mandatory. The Municipal Manager as accounting officer is responsible for administration of the municipality including financial management and compliance. The municipal manager must only attend the Audit Committee meetings as an observer and should not vote or take resolutions; the Audit Committee can recuse

the municipal manager when dealing with matters where the Audit Committee is of the opinion that his or her presence could compromise the process.

The aspect of constant communication with the internal and external auditors is vital for effective functioning of an Audit Committee. The informal discussions with the external auditors contribute towards an on-going mutual understanding between the Audit Committee and the external auditors on matters relating to the operations of the municipality and financial reporting requirements.

Audit Committees should have a schedule of meetings for the whole financial year. There should also be regular communication between the Audit Committee chairperson, the municipal manager and the mayor.

The research showed that the attendance of senior management also had an effect on the performance of the Audit Committee. The Audit Committee should ensure that all relevant managers attend meetings on invitation to respond to questions relating to their departments. They could be recused when necessary.

The Committee should hold sufficient, scheduled quarterly meetings to discharge all its duties as set out in the terms of reference.

A structured orientation programme should be presented to all new members to induct and inform them about the activities and functions of the municipality local government.

Municipality officials particularly the CFO's and Heads of Internal Audit should create forums for discussions, exchange of ideas and sharing experiences. This should preferably be done every quarter.

The Audit Committee should put mechanisms in place to ensure it receives sufficient information to review and understand the municipality's system of internal controls, as this area is a cause for concern as per the findings.

The Audit Committee should encourage the municipal manager and the mayor to have a specific budget for an internal audit and to appoint permanent staff or

outsource internal audit assignments. The Audit Committee through the internal audit units need to regularly review recommendations of best practice as that of the Institute of Internal Auditors, so as to incorporate the recommendations in their functioning.

### **Additional recommendations**

Generally reports are not easily understood by the council as they are presented in complex financial terms. In this regard the recommendation is that the Audit Committee should amend the audit charter to include that reporting to council will be done in person by the chairperson every 3 months. This information must be communicated to the council and be included in the appointment letter of the chairperson. In addition this recommendation, if implemented will improve the understanding by the council of issues raised by the Audit Committee and the impact of such issues in relation to the Auditor General. It is also recommended that the councillors be trained on financial and audit related matters. This could be done through the Audit Committee to improve communication and interaction.

With regard to members' remuneration; an investigation should be conducted to establish whether the remuneration paid to members is market related and sufficient to attract competent, experienced members and chairpersons. The hourly tariffs, as prescribed by the South African Institute of Chartered Accountants, should be paid for meetings, plus payment for a stipulated number of hours for proper preparation for meetings.

The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.

## **5.5 FUTURE RESEARCH**

The research into the effectiveness of Audit Committees in local government is a relatively new area of research. This research has indicated that although Audit Committees have been established, they are not necessarily effective in all areas of their operations. For this research, a case study on eThekweni municipality within KwaZulu-Natal province was selected. This research revealed that the size of the

municipality, its budget and location have an impact on the effectiveness of the Audit Committee. This area requires further research and analysis.

Further research could be done to establish whether political interference plays a role in appointing Audit Committee members and whether this impacts on service delivery. This case study research focussed on eThekweni municipality within KwaZulu- Natal province; a further research could be done to assess the effectiveness of Audit Committee within South African local government and this research could be used as a guide to contribute to the body of knowledge.

## **5.6 CONCLUSION**

The results of an investigation into the effectiveness of the Audit Committee in local government with reference to the eThekweni suggest that the Audit Committee is generally effective in discharging their oversight role in the Council, but there are areas of concern and improvement of specific operations. The emphasis on improved corporate governance, control frameworks and financial management will place the onus on the Audit Committee to act on it within the municipality.

Therefore, it is crucial that the provincial treasury, department of corporate governance and traditional affairs and policy makers appreciate the value of effective Audit Committees actions should be directed towards strengthening these committees and monitoring their effectiveness.

The eThekweni Municipality achieved a clean audit report this year (2016). This research has revealed that there is, to a large extent compliance with legal requirements regarding Audit Committees, as well as best practice processes. In the eThekweni municipality there is an established Audit Committee functioning within the parameters of the Municipal Finance Management Act. It is, however, a cause for concern that the eThekweni municipality's Audit Committee lacks in their reporting style to the council. It is recommended that staff undergo training in writing and reporting skills.

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## **APPENDIX A: Covering Letter**

### **Research questionnaire: Effectiveness of Audit Committee at eThekweni municipality**

Dear Participant

The primary purpose of this research is to investigate the effectiveness of Audit Committees in the local government with particular reference to eThekweni Municipality. The main objective of this study is to determine whether or not Audit Committees in the public sector are effective. Given the significance of the role of Audit Committee plays in the governance structure of the board with respect to financial reporting, internal control and risk management, and other related aspects, and the recent improvements in the legal, regulatory and business environment in South Africa, it is essential to analyse the effectiveness of the Audit Committee.

#### **The following objectives were developed:**

- (a) To assess the effectiveness of Audit Committees
- (b) To establish the characteristics of an effective Audit Committee
- (c) To establish the relationship between an effective Audit Committee and infusion of a good control environment.
- (d) To generate recommendations for improving Audit Committee effectiveness

**The research is solely for academic purposes and the researcher is aware that the information obtained through this questionnaire cannot be used beyond the scope of the Graduate School of Business and Leadership, University of KwaZulu-Natal.**

The researcher will be grateful if you would take some time to complete the questionnaire below. As a participant, you will obtain a copy of the consolidated survey results reflecting consensus achieved by the responded group.

Thank you for taking your time to complete this questionnaire.

**Zandile Virtue Dlamini**

**Graduate School of Business and Leadership**



## APPENDIX B: Questionnaires

### Research questionnaire: Effectiveness of Audit Committee at eThekweni municipality

#### Part A: THE EFFECTIVENESS OF AUDIT COMMITTEES.

#### PLEASE RATE THE EFFECTIVENESS OF YOUR AUDIT COMMITTEE:

1 = Poor, 2= Average, 3= Good, 4= Very Good, 5 = Excellent

	1	2	3	4	5
	Poor	Average	Good	Very Good	Excellent
<b>Risk Management</b>					
1. The Audit Committee has assessed the effectiveness of the risk management processes used by management.					
2. The Audit Committee meets periodically with management and auditors to better understand the risks facing the municipality and how those risks are monitored for possible financial reporting implications including risks related to critical third party interdependencies (municipal entities, and provincial governments) that affect the organization's operations.					
3. The Audit Committee questions management and the Auditor-General about how they assess the risk of material financial misstatement, what the major risk areas are and how they respond to identified risks.					
4. The Audit Committee has an understanding of the municipality's critical strategic risks and management's plans to address such risks to ensure that the municipality fulfil its service delivery mandate.					
5. The Audit Committee raises questions to management and the Auditor-General on the experience and sufficiency of the audit team assigned to the engagement.					
6. The Audit Committee peruses the Auditor-General's scope and audit plan to its satisfaction prior to the commencement of the audit.					

	1	2	3	4	5
	Poor	Average	Good	Very Good	Excellent
7. The Audit Committee chair meets with the external and internal auditors outside the regularly scheduled meetings to encourage open and frank dialogue.					
8. The Audit Committee is satisfied that management exhibits the proper “tone at the top” and is committed to promoting high-quality financial reporting and strong internal controls.					
<b>Financial Reporting and Compliance</b>					
9. The Audit Committee requests and receives sufficient information related to important financial reporting issues, such as the use of complex financial systems, areas of judgment or high subjectivity, unusual transactions, and changes in accounting policies.					
10. The Audit Committee understands how critical accounting principles were applied (under GRAP).					

**PART B: CHARACTERISTICS OF AN EFFECTIVE AUDIT COMMITTEE**

11 Please describe the process used to select Audit Committee members including the criteria established, if any, to assess their background and previous experience?

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**Please answer the following questions about the responsibilities of the Audit Committee.**

**Audit Committee Information:**

12 Does the Audit Committee have an approved Audit Committee charter?	<b>YES</b>	<b>NO</b>
13 If there is a charter, is it reviewed annually and updated?	<b>YES</b>	<b>NO</b>
14 Does the Audit Committee self- assess its performance in terms of its mandate?	<b>YES</b>	<b>NO</b>
15 How many members are appointed to your Audit Committee?	_____	

16 How many members come from within the municipality?		
17 How many members come from outside?		
18 Does the Audit Committee report to the Council regularly?	<b>YES</b>	<b>NO</b>
19 Does the Audit Committee review information related to the municipality's financial risks and managements' control framework to mitigate these risks regularly?	<b>YES</b>	<b>NO</b>

20. How does the Audit Committee assess whether there have been changes in the legislation governing the organization or other regulatory changes which impact on areas under the Audit Committee's mandate?

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21. Do the Audit Committee members have the resources to assess whether there are altering expectations related to corporate governance and Audit Committee expectations?

<b>YES</b>	<b>NO</b>
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**Audit Committee Meetings:**

22. Does the Audit Committee have an annual schedule of items to be considered in order to fulfil their mandate?

<b>YES</b>	<b>NO</b>
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23. Do the Audit Committee members receive the material to be discussed at a meeting in advance?

<b>YES</b>	<b>NO</b>
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24. Is there a clear agenda for all Audit Committee meetings?

<b>YES</b>	<b>NO</b>
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25. Are the Audit Committee meetings adequate in number and of sufficient length to adequately cover their annual calendar and meeting agendas?

<b>YES</b>	<b>NO</b>
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26. During the year, did a quorum of Audit Committee members attend all meetings?

<b>YES</b>	<b>NO</b>
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**Communication with Management:**

27. Is there a clear written statement of expectations from management by the Audit Committee of the information required to fulfil their mandate?

<b>YES</b>	<b>NO</b>
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28. Does the Audit Committee provide feedback to management to indicate whether the information provided has met the Audit Committee's

<b>YES</b>	<b>NO</b>
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expectations?

29. Does the Audit Committee agenda include an evaluation of the quality and accuracy of financial information provided by management?

YES	NO
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### **Internal Audit**

30. Is there an internal audit function in place for the department?

YES	NO
-----	----

31. Is the internal audit mandate/charter set and regularly reviewed by the Audit Committee?

YES	NO
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32. Does the internal audit group meet with the Audit Committee independent of management?

YES	NO
-----	----

33. Is the scope of work completed by the internal audit group approved by the Audit Committee?

YES	NO
-----	----

34. Is there a direct channel of communication between the chairperson of the Audit Committee and the internal audit function?

YES	NO
-----	----

35. Does the Audit Committee receive appropriate written reports from the chief audit executive?

YES	NO
-----	----

36. Has the Audit Committee assisted internal audit in the establishment of a line of communication with the Accounting Officer?

YES	NO
-----	----

37. Has the Audit Committee addressed issues such as a lack of capacity or budget of internal audit?

YES	NO
-----	----

38. Has the Audit Committee addressed the issue of reliance placed on the work of internal audit by the Office of the Auditor-General?

YES	NO
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39. Does the Audit Committee follow-up on a lack of management responses to internal audit findings?

YES	NO
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40. Does the Audit Committee evaluate internal audit's compliance with the standards set by the Institute of Internal Auditors?

YES	NO
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### **External Audit**

41. At regular Audit Committee meetings, does the Audit Committee meet with the Office of the Auditor-General without management present?

YES	NO
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42. Does the Audit Committee invite the Office of the Auditor-General to attend all meetings? 

YES	NO
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43. Does the Audit Committee review the background to the Auditor-General's recommendations and the scope and nature of the work performed? 

YES	NO
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44. Does the Audit Committee hold management accountable for action suggested on the recommendations of the Auditor-General? 

YES	NO
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**PART C: THE RELATIONSHIP BETWEEN AN EFFECTIVE AUDIT COMMITTEE AND INFUSION OF GOOD CONTROL ENVIROMENT**

	1	2	3	4	5
	Poor	Average	Good	Very Good	Excellent
45. The Audit Committee receives enough information to review, understand and assess the department's system of internal controls.					
46. The Audit Committee makes enquiries of the external auditor and management on the experience and sufficiency of staff in the finance and internal audit departments.					
47. The Audit Committee reviews the internal audit plan annually.					
48. The Audit Committee reviews the management letters, written by the internal and the Auditor-General, to ensure that all significant matters raised are properly addressed.					
49. The Audit Committee reviews the management responses to the above management letters.					
50. The Audit Committee assesses both the compliance effectiveness and the value of service of the internal audit department.					
<b>Corporate Governance</b>					
51. The Audit Committee's orientation programme to educate new members on their responsibilities.					
52. The Audit Committee participates in a continuing education programme to enhance Audit Committee members' understanding of relevant accounting and reporting areas.					
53. Management, the Auditor-General, and internal audit provide input on the Audit Committee charter and meeting agendas.					

	1	2	3	4	5
	Poor	Average	Good	Very Good	Excellent
54. Audit committee meetings are scheduled to allow enough time to cover all agenda items.					
55. The Audit Committee discuss significant issues with management and the Auditor-General, prior to annual financial statement release.					
56. The Audit Committee reviews significant issues with management and the Auditor-General prior to annual audit report release.					
57. The Audit Committee is informed of communications received from governmental or regulatory agencies or similar parties relating to areas of alleged violations or non-compliance.					

**Thank you for taking your time to complete this questionnaire.**

#### APPENDIX C: Descriptive Statistics

	Mean	Median	Min	Max	Std. Dev
The Audit Committee has assessed the effectiveness of the risk management processes used by management.	3.53	3	3	5	0.6
The Audit Committee meets periodically with management and auditors to better understand the risks facing the municipality and how those risks are monitored for possible financial reporting implications including risks related to critical third party interdependencies (municipal entities, and provincial governments) that affect the organization's operations.	3.61	4	3	5	0.59
The Audit Committee questions management and the Auditor-General about how they assess the risk of material financial misstatement, what the major risk areas are and how they respond to identified risks.	3.59	4	2	5	0.77
The Audit Committee has an understanding of the municipality's critical strategic risks and management's plans to address such risks to ensure that the municipality fulfil its service delivery mandate.	3.67	4	2	5	0.75
The Audit Committee raises questions to management and the Auditor-General on the experience and sufficiency of the audit team assigned to the engagement.	2.39	2	2	4	0.59
The Audit Committee peruses the Auditor-General's scope and audit plan to its satisfaction prior to the commencement of the audit.	3.72	3	3	5	0.87

	Mean	Median	Min	Max	Std. Dev
The Audit Committee chair meets with the external and internal auditors outside the regularly scheduled meetings to encourage open and frank dialogue.	2.94	2	1	5	1.21
The Audit Committee is satisfied that management exhibits the proper “tone at the top” and is committed to promoting high-quality financial reporting and strong internal controls.	2.59	2	1	4	1.24
The Audit Committee requests and receives sufficient information related to important financial reporting issues, such as the use of complex financial systems, areas of judgment or high subjectivity, unusual transactions, and changes in accounting policies.	3.56	3.5	3	5	0.6
The Audit Committee understands how critical accounting principles were applied (under GRAP).	3.67	4	3	5	0.67
Please describe the process used to select Audit Committee members including the criteria established, if any, to assess their background and previous experience?	Open-Ended Response				
Does the Audit Committee have an approved Audit Committee charter?	4.78	5	3	5	0.53
If there is a charter, is it reviewed annually and updated?	1	1	1	1	0
How often does your team meet its deadlines?	1	1	1	1	0
How many members are appointed to your Audit Committee? - Open-Ended Response	Open-Ended Response				
How many members come from within the municipality? - Open-Ended Response	Open-Ended Response				
How many members come from outside? - Open-Ended Response	Open-Ended Response				
Does the Audit Committee report to the Council regularly?	1	1	1	1	0
Does the Audit Committee review information related to the municipality’s financial risks and managements’ control framework to mitigate these risks regularly?	1	1	1	1	0
How does the Audit Committee assess whether there have been changes in the legislation governing the organization or other regulatory changes which impact on areas under the Audit Committee’s mandate? - Open-Ended Response	Open-Ended Response				
Do the Audit Committee members have the resources to assess whether there are altering expectations related to corporate governance and Audit Committee expectations?	1	1	1	1	0
Does the Audit Committee have an annual schedule of items to be considered in order to fulfil their mandate?	1	1	1	1	0
Do the Audit Committee members receive the material to be discussed at a meeting in advance?	1	1	1	1	0
Is there a clear agenda for all Audit Committee meetings?	1	1	1	1	0

	Mean	Median	Min	Max	Std. Dev
Are the Audit Committee meetings adequate in number and of sufficient length to adequately cover their annual calendar and meeting agendas?	1	1.1	1	2	0.31
During the year, did a quorum of Audit Committee members attend all meetings?	1.72	2	1	2	0.45
Is there a clear written statement of expectations from management by the Audit Committee of the information required to fulfil their mandate?	1.53	2	1	2	0.5
Does the Audit Committee provide feedback to management to indicate whether the information provided has met the Audit Committee's expectations?	1.06	1	1	2	0.23
Does the Audit Committee agenda include an evaluation of the quality and accuracy of financial information provided by management?	1	2	1	2	0.31
Is there an internal audit function in place for the department?	1	1	1	1	0
Is the internal audit mandate/charter set and regularly reviewed by the Audit Committee	1	1	1	1	0
Does the internal audit group meet with the Audit Committee independent of management?	1	1	1	1	0
Is the scope of work completed by the internal audit group approved by the Audit Committee?	1	1	1	1	0
Is there a direct channel of communication between the chairperson of the Audit Committee and the internal audit function?	1	1	1	1	0
Does the Audit Committee receive appropriate written reports from the chief audit executive?	1	1	1	1	0
Has the Audit Committee assisted internal audit in the establishment of a line of communication with the Accounting Officer?	1	1	1	1	0
Has the Audit Committee addressed issues such as a lack of capacity or budget of internal audit?	1	1	1	1	0
Has the Audit Committee addressed the issue of reliance placed on the work of internal audit by the Office of the Auditor-General?	1	1	1	1	0
Does the Audit Committee follow-up on a lack of management responses to internal audit findings?	1	1	1	1	0
Does the Audit Committee evaluate internal audit's compliance with the standards set by the Institute of Internal Auditors?	1	1	1	1	0
At regular Audit Committee meetings, does the Audit Committee meet with the Office of the Auditor-General without management present?	1.61	2	1	2	0.49
Does the Audit Committee invite the Office of the Auditor-General to attend all meetings?	1	1	1	1	0

	Mean	Median	Min	Max	Std. Dev
Does the Audit Committee review the background to the Auditor-General's recommendations and the scope and nature of the work performed?	1	1	1	1	0
Does the Audit Committee hold management accountable for action suggested on the recommendations of the Auditor-General?	1	1	1	1	0
The Audit Committee receives enough information to review, understand and assess the department's system of internal controls.	3.83	4	3	5	0.6
The Audit Committee makes enquiries of the external auditor and management on the experience and sufficiency of staff in the finance and internal audit departments.	1.47	1	1	3	0.85
The Audit Committee reviews the internal audit plan annually.	3.76	4	3	5	0.73
The Audit Committee reviews the management letters, written by the internal and the Auditor-General, to ensure that all significant matters raised are properly addressed	3.94	4	2	5	0.97
The Audit Committee reviews the management responses to the above management letters.	3.83	4	3	5	0.69
The Audit Committee assesses both the compliance effectiveness and the value of service of the internal audit department.	3.67	4	2	5	0.75
The Audit Committee's orientation programme to educate new members on their responsibilities.	3.11	3	1	4	0.87
The Audit Committee participates in a continuing education programme to enhance Audit Committee members' understanding of relevant accounting and reporting areas.	3	2.5	2	5	1.11
Management, the Auditor-General, and internal audit provide input on the Audit Committee charter and meeting agendas.	3.5	4	2	5	1.01
Audit Committee meetings are scheduled to allow enough time to cover all agenda items.	2.72	3	1	5	1.24
The Audit Committee discuss significant issues with management and the Auditor-General, prior to annual financial statement release.	3.44	3.5	1	5	0.83
The Audit Committee reviews significant issues with management and the Auditor-General prior to annual audit report release.	3.39	4	1	4	0.83
The Audit Committee is informed of communications received from governmental or regulatory agencies or similar parties relating to areas of alleged violations or non-compliance.	2.78	3	2	4	0.71