

ESTABLISHMENT OF AUDIT COMMITTEES IN GOVERNMENT MINISTRIES OF A DEVELOPING COUNTRY

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Abstract

The underlying study to this paper attempts to establish to what extent audit committees in government ministries in Namibia have been established as a requirement for enhanced quality of service delivery and accountability to taxpayers. A qualitative approach was followed, where questionnaires or an interviews were conducted with accounting officers in government ministries. Content and thematic analyses were used to formulate narratives based on the understanding of similarities and differences in respondents' experiences, views and perceptions. The study shows that from the 17 ministries that responded, only 2 ministries have established audit committees. Confirmatory, there is currently no legislature that makes it mandatory for government ministries in Namibia to establish audit committees within their respective constituencies. There are no formal audit committee terms and references or an audit committee charters are in place. Government ministries in Namibia seem to not have adopted best national and international governance practices with respect to the establishment of audit committees within their ministries. There is a need for a clear guidance as to how audit committees must be established; the composition of the committee members, the terms of office of committee members and remuneration, to mention a few.

Keywords: Audit Committee, Corporate Governance, Public Accounts Committee, Ministry, Accounting Officer

1. INTRODUCTION

Corporate governance and the establishment of audit committees is a global issue. The audit committee concept in the European context has been accepted in many European member states. In the UK the concept of audit committees has existed since the 19th century, while in the US the concept of audit committees dates back to the late 1930s (Institute of Chartered Accountants in England and Wales, 2008). After some well-publicised international auditing failures during 2001 and 2002 about the Enron Corporation scandal in the United States that was defined as being one of the biggest audit failures, there has been an increasing focus on the role of audit committees in the public and private sectors (Controller and Auditor-General, New Zealand, 2008). The Sarbanes-Oxley Act 2002 in the United States and the strengthening of corporate governance requirements and expectations in the public and private sectors in many overseas jurisdictions highlighted the need for more audit committees and for those audit committees to be more effective (Institute of Chartered Accountants in England and Wales, 2008).

In New Zealand, there are no specific regulatory or legislature requirements for setting up audit committees in the public sector. However, there are a number of explicit and implicit expectations of good governance that require or strongly suggest that public entities should set up and operate an

effective audit committee. Significant pieces of public sector legislations in New Zealand refer to a "system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting" (for example, section 155 of the Crown Entities Act 2004). The legislature does not define "internal control" but there are several international best practice models that include audit committees as a crucial component of the internal control environment (Controller and Auditor-General, New Zealand, 2008).

According to the regulations on internal audit for the State public administration (including the public agencies) in France, the internal audit function is set up at ministerial level. It has an audit committee and an internal audit service. In each ministry, the audit committee is the oversight body for internal audit. The committee's responsibilities cover the full scope of public policies and the entity's activities performed under the authority of the minister and include all associated risks. The audit committee is in charge of defining internal audit policy on the entire scope of a minister's responsibilities. It also oversees the quality of the risk management system. As a key governance body for internal audit, the audit committee guarantees the independence of the internal audit and the effectiveness of internal audit operations. Its role in the oversight of internal audit is focused on risk-based audit analysis, strategic and annual audit

plans, audit results and performance, and follow-up of recommendations (European Union, 2014).

The Minister of Finance in the Netherlands published a new by-law on audit committees within central government in 2012. In each ministry, an audit committee advises top management (Secretary General, Director General's) on operational management, risk management and the internal audit function, which is executed by the Central Government Audit Service (CGAS) (European Union, 2014). Audit committees advise on matters including the annual audit plan and management responses to audit findings and recommendations. Audit committees are functional bodies, composed of representatives of the top management and at least two independent external members. The chair of an audit committee, who may be an external or an internal member, is appointed by the minister. Ministries may opt for an audit committee consisting of independent external members only (European Union, 2014).

The regulatory requirements for audit committees in the public sector of Tanzania is provided in the Public Finance Act (PFA) No.6 of (2001) as amended in 2004 and 2010 and is applicable to Ministries, Departments, Agencies and Local Government Agencies (Functioning of Audit Committees: Participants' Handbook, April 2014). In Kenya, Treasury Circular no. 16/2005 requires the establishment of Ministerial Audit Committees with terms of reference consistent with generally accepted corporate governance practices. It also requires Audit Committees in all public institutions (FM Solutions, 2008). In South Africa the establishment of audit committees within the public sector is made mandatory in the Public Finance Management Act no 1 of 1999 (PFMA) section 38 (1) (a) (ii), which states that "the accounting officer for a department, trading entity or constitutional institution must ensure that there is maintenance of a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of section 76 and 77 of the PFMA". The PFMA Act further states that "The Audit Committee has oversight responsibilities over the effective functioning of internal audit within a department (national and provincial), public entity, municipality and municipal entity (South African Public Finance Management Act of 1999).

There are no specific or regulatory requirements in Namibia for the establishment of audit committees in government ministries. The Namibian State Finance Act of 1991, Section 14 and 15 only provides for the appointment of Internal Auditors and authorises their access to accounts, documents and records to perform their audit duties (Namibia State Finance Act of 1991). The Namibian State Finance Act of 1991 does not however make it mandatory for the establishment of audit committees within government ministers of Namibia. The Namibian Parliamentary Standing Committee on Public Accounts (PAC) in November 2012 subpoenaed Government's Permanent Secretaries to a consultative meeting where the committee recommended that accounting officers establish audit committees and train internal auditors to improve internal controls (Namibian Sun, 2012). The fact that countries like South Africa,

Tanzania, Rwanda, amongst others have embraced good corporate governance practices with respect to the establishment of audit committees within their respective government ministries is very commendable and should set the tone for other countries to follow suit as far as the establishment of audit committees in government ministries is concerned.

It is against this background and problem that this paper presents the following objectives: 1.) to understand how accounting officers of government ministries in Namibia perceive the importance of audit committees within their ministries; 2.) to determine the extent to which the recommendation by the National Assembly's Public Accounts Committee on the establishment of audit committees in government ministries of Namibia have been implemented by the accounting officers; 3.) to determine which party provides assurance for the adequate and effective functioning of internal audit controls in government ministries (in Namibia) without an established audit committee; and 4.) to establish the challenges faced by government ministries in establishing audit committees.

The remaining part of this paper is divided into sections on literature review, research methodology, presentation of result and discussion thereof, conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Theoretical Framework

Limited extant literature was found on the topic in Namibia. Hence, the authors had to rely on literature from Southern African Development Community (SADC) countries mainly South Africa and universal theories.

The fundamental theories in corporate governance began with the agency theory, expanded into stewardship theory and stakeholder theory and evolved to resource dependency theory, transaction cost theory, political theory and ethics related theories such as business ethics theory, virtue ethics theory, feminists ethics theory, discourse theory and postmodernism ethics theory (Abdullah & Valentine, 2009). The public sector represents a principal-agent relationship. The officials acting as the principal's (the public) agent must periodically account to the principal for their use and stewardship of resources and the extent to which the public's objectives have been accomplished. An effective audit activity reduces the risks inherent in a principal-agent relationship (Abdullah & Valentine ((2009). The principal relies on the auditor to provide an independent, objective evaluation of the accuracy of the agent's accounting and to report on whether the agent uses the resources in accordance with the principal's wishes (The Institute of Internal Auditors, 2012).

Namazi (2013) states that in the agency theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents, In its primitive form, agency theory relates to situations in which one individual (called the agent) is engaged by another individual (called the

principal) to act on his/her behalf based upon a designated fee schedule.

Since both individuals are assumed to be utility maximizer, and motivated by pecuniary and non-pecuniary items, incentive problems may arise, particularly under the condition of uncertainty and informational asymmetry. Daily, Dalton and Cannella (2003) argue that two factors can influence the prominence of agency theory. First, the theory is conceptually and simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested. In agency theory shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals; leading to agency problems.

Agency problems between shareholders and management usually arise from a combination of asymmetric information and differences in sensitivity to firm-specific risk. Here the term "sensitivity to firm-specific risk" is used to refer how a decision maker ranks alternative choices differing in their riskiness. Agency theory can be employed to investigate the relationship between the ownership and management structure. On the other hand, where there is a division, the agency model can be applied to align the goals of the management with that of the owners. The agency theory prescribes that people or employees are held accountable in their tasks and responsibilities (Abdullah & Valentine, 2009). Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure (Abdullah & Valentine ((2009). Corporate governance, in general, encompasses the above-mentioned.

2.2. Corporate Governance

Demidenko and McNutt (2010) argue that the concept of governance has been applied in both economics and law for centuries and it has been understood to mean enforcement of contracts, protection of property rights and collective action. In fact, governance is associated with people operating within organizations. Nevertheless, organizations must be governed properly in order for them to achieve their objectives (Naidoo, 2009). The collapse of the Maxwell publishing empire in the late 1980's was a direct catalyst for the publication of the Cadbury Report on corporate governance in the UK in 1992. The collapse of Enron and WorldCom in 2002 precipitated the enactment of the Sarbanes-Oxley Act (SOX) in the US later that year. Corporate governance in South Africa was first institutionalized with the publication of the first King Report on Corporate Governance in 1994 (Naidoo, 2009).

This was followed in 2002 by the second King Report on Corporate Governance for South Africa (King II), placing South Africa at the forefront of countries regulating in favor of superior governance standards. The third King Report on Corporate Governance for South Africa, King III, was released on 1 September 2009 and became effective from March 2010. From a legislative and regulatory perspective, South Africa is well composed as a

country to tackle the governance challenges of the 21st century (Naidoo, 2009).

Namibia saw the launch of "The Corporate Governance Code for Namibia (NamCode)" in 2014. Deloitte and Touche, (2014) states that the NamCode provides a list of best practice principles to assist and guide directors to make the right choice for their entities. There is no statutory obligation on companies to comply with the NamCode. The underlying intention of the NamCode is not to force companies to comply with recommended practice, but rather for companies to 'apply or explain (Deloitte, (2014). Directors are accountable to shareholders and other stakeholders, and where directors opt not to implement the recommended practices as set out in the NamCode, they should be able to explain their reasoning and motivation to the shareholders. Having been drafted by the Namibian Stock Exchange, this code is of particular relevance to listed entities. The NamCode is based on King III and provides guidance to all Namibian corporate entities on various governance related aspects, including: ethical leadership and corporate citizenship; boards and directors; audit committees; governance of risk; governance of information technology; compliance with laws, codes, rules and standards; internal audit; governing stakeholder relationships; and integrated reporting and disclosure (Deloitte, (2014).

Corporate governance in the public sector

Many Asian governments reformed their corporate governance by introducing a number of governance devices from developed economies (Choi, Han & Lee, 2014). The audit committee was one of those key governance devices. Because the audit committee monitors management on behalf of shareholders and ensures fair presentation of financial statements, it is an integral part of most corporate governance systems. A strong audit committee is expected to remedy poor governance systems (e.g., agency problems) that seem to prevail in emerging markets (Choi, Han & Lee, 2014).

An audit committee's mandate can be derived from many sources. In some jurisdictions, the responsibilities of an audit committee and its members are established in legislature and/ or regulation. In other jurisdictions, the mandate may be set out in government policy. Regardless of how the mandate is established, good governance dictates that public sector entities have an independent audit committee and leading practices suggest it formalize a high-level statement of the audit committee's responsibilities (The Institute of Internal Auditors, 2014). The South African National Treasury developed an Internal Audit (IA) Framework during the 2003/2004 financial year. The purpose of the IA Framework is to establish a minimum guideline for the development and operation of internal auditing in the Public Service. The IA framework prescribes that an Audit Committee (AC) is to be established to serve as an independent governance structure whose function is to provide an oversight role on the systems of internal control, risk management, and governance.

The Government of Namibia has taken a proactive step in promulgating the State Finance Act, 1991 (Act 31 of 1991) which provides for the

appointment of Internal Auditors in public sector institutions. The act is however silent on the establishment of audit committees within the respective government ministries. The NamCode provides a list of best practice principles to assist and guide directors to make the right choice for their entities. There is no statutory obligation on companies to comply with the NamCode. Directors are accountable to shareholders and other stakeholders, and where directors opt not to implement the recommended practices as set out in the NamCode, they should be able to explain their reasoning and motivation to the shareholders.

The President of Namibia in October 2014 during the official opening of the offices of the Auditor General in the capital, appalled to all Permanent Secretaries and heads of public institutions to ensure that sound financial management systems are put in place and to account for funds appropriated through the National Budget. The president further encouraged, all Government Offices, Ministries and Agencies to have operational Internal Audit Units which are staffed by competent and skilled personnel. He said these units should not only focus on prudent financial management of their respective Offices, Ministries and Agencies, but should also enforce measures to curb the misuse, abuse and misappropriation of Government assets. (NAMPA, 2014).

The office of the Auditor General Namibia (2010) reported that Ministries do not have oversight audit committees for their internal functions. Additionally, Namibia is a member state to the Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC), other member states include, Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC) is an autonomous and independent association of Public Accounts Committees from SADC states established to promote mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of Public Accounts Committees with SADC community; and promote accountability, good governance and transparency in the SADC states. (SADCOPAC, 2015).

2.3. Importance of Audit Committees

Audit committees are a result of the failure of large corporations in Europe and America since 1986. The major causes for failure were: manipulation of accounting figures; fraudulent management, failure by external and internal audit; unethical management; incompetent senior management etc.

This led to formation of various committees/commission like Treadway Commission (1987), Blue Ribbon Committee (in USA); Cardbury Committee (1992); Macdonald Committee (1982) [in UK] and Bosch Committee (1991) in Australia. One of the key recommendation of these committees was the audit committee as a means by which to improve the reliability of financial reporting, auditing and to raise the standards of corporate accountability and governance. Ever since, audit committees have been increasingly adopted by organisations in both

private and public sectors worldwide. In Tanzania for instance, the audit committees were established effectively in the year 2003/4 (GIZ, 2014). The audit committee plays an important role in ensuring that adequate accounting records are maintained, that an effective system of internal controls exists, that reporting by the company is comprehensive and reliable and that the company generally complies with the principles of good governance (Naidoo, 2009).

According to Magrane and Malthus (2010), audit committees are intended to improve organizational governance, regardless of whether the organization is in the private or the public sector. They argue that the audit committee being a subcommittee of the governing body, should aim to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve an advisory function aimed at performance improvement within the organization.

2.4. Roles of an Audit Committee

The audit committee is an independent oversight committee reporting to the relevant governing body. An audit committee's responsibilities vary depending on the entity's complexity, size and requirements. Typically the responsibilities of a public sector audit committee include overseeing matters related to: financial management; performance management; external audit; internal audit; risk management; internal control; IT governance; combined assurance; appropriateness of the finance function and compliance with laws and other regulatory requirements. (South African Public Sector Audit Committee Forum, 2013).

Independent audit committees help public sector organizations meet taxpayers' increasing demands for transparency and accountability by providing oversight of management practices in key governance areas, including; values and ethics; governance structure; risk management; internal control framework, audit activity; external assurance providers; management action plans; and financial statements and public accountability reports. (The Institute of Internal Auditors, 2014).

An audit committee is an independent oversight body of an organization designed to improve the organization's overall governance framework. In the public sector, the audit committee plays an advisory role and generally helps in achieving the following; improve accountability; strengthening the control environment; and assisting the council and accounting officers to fulfil their stewardship, leadership and control responsibilities. (GIZ, 2014)

2.5. Benefits / Value Add of an Audit Committee

While there are many ways an audit committee can add value to an organization, following are amongst others examples of how an audit committee could help the CAE and/ or drive the vision of the organization to achieve the statutory objectives (The Institute of Internal Auditors, 2014):

- facilitate well-informed, efficient, and effective decision-making;

- promote and monitor an ethical culture;
- ensure compliance with a well-designed code of conduct;
- oversee an effective system of risk oversight and management;
- oversee an effective and efficient internal control system;
- oversee internal and external reporting of financial and nonfinancial information; and
- promote effective communication with audit activity and external assurance providers and respond appropriately to matters they raise.

According to South African Public Sector Audit Committee Forum (2013), audit committees make valuable contributions towards improving the governance, performance and accountability of public sector organizations. An effective audit committee has numerous benefits for public sector entities, including;

- giving guidance on sound corporate governance practices
- monitoring the adequate and effective functioning of the system of internal controls
- monitoring the implementation of recommendations made by internal audit and other review activities
- ensuring that fraud and corruption is dealt with effectively
- improving the quality of financial and performance reporting
- facilitating an efficient audit process and
- improving risk management.

2.6. Challenges Facing Public Sector Audit Committees

The following are some of the challenges facing audit committees in the public sector (South African Public Sector Audit Committee Forum, 2013):

- **Legislature and regulatory requirements:** public sector entities operate within a unique regulatory framework with a number of pieces of legislation and regulations that need to be complied with. The terms of reference of a public sector audit committee do not always clearly define the requirements of the audit committee in relation to the entity's environment.
- **Role clarity:** accountability, role clarity and reporting lines are not always clear in the public sector (with regard to the shareholders, the "directors" and management as applicable in the private sector. King III is clear on who is charged with specific governance responsibilities and its application is encouraged.
- **Independence:** the independence of the audit committee may be impaired due to previous/current relationships of audit committee members or the audit committee as a whole and political standing, among other factors.
- **Knowledge, skills and experience:** the difficulty in attracting a pool of suitable persons to serve on the public sector audit committees is another challenge in the public sector. Other matters that require attention are the remuneration of committee members and political influence in the appointment process.
- **Commitment:** adequate dedication and commitment on the part of members and proper preparation for meetings, reading documents prior

to meetings, follow-up procedures and attendance of and participation in meetings are not receiving sufficient attention.

- **Lack of support from management:** the audit committee is sometimes unable to evaluate situations due to the absence of quality information which should be made available by management. The audit committee therefore cannot fulfill all its responsibilities.

There may be several challenges when setting up an oversight audit committee for internal audit activity (European Union, 2014):

- **Clarifying the powers and responsibilities of audit committees:** in the absence of clear guidance on audit committees in the public sector and without specific legal anchorage, it may be difficult to define the scope, powers and responsibilities of the audit committee.
- **Integrating audit committees in public sector:** existing governance structures could be an alternative to audit committees as a functional reporting line for internal audit, depending on the administrative organization and the administrative culture of the country and of public entities (ministry, institutions, local community). If the governance structures cover the entire scope of responsibilities of the entity, such structures could actually take the role of oversight body. In such cases, it may be a challenge to integrate the specificities of overseeing internal audit activity into the governance structures, while fulfilling the preconditions assigned to audit committees. Moreover, it is important to ensure that the members of the governance body responsible for functional organizational independence have the required level of knowledge, skills and qualifications.

- **Composition of audit committees:** it can be difficult to find members with the right kind of experience, skills and independence for audit committees. The qualifications and independence of the members of an audit committee are crucial because the committee's collective composition will determine its credibility, and therefore its acceptance by top and operational management and external stakeholders. The same factors determine a committee's capacity to deliver added value. Yet another challenge is to avoid conflicts of interests between a member and the activities of the public entity.

- **Administrative burden and cost of audit committees:** the effectiveness and independence of internal audit may be jeopardized if a functional reporting line for internal audit is not clearly established or inadequate, or the composition/functioning of the audit committee is not credible. Such weaknesses would make it very unlikely that the committee could offer added value. Instead, audit committees might be perceived as an unwelcome added layer of bureaucracy and be rejected by managers and other stakeholders. Moreover, the time-consuming nature of such committees and the costs of operating them might be controversial, especially in times of public spending cuts.

- **Committing Officers and governance bodies on audit committees:** officers and governance bodies in public entities may see it as unnecessary or even undesirable to set up an audit committee. They may,

for instance, see the task of an audit committee as being part of their own oversight responsibilities, and perceive a newly-created audit committee as a blurring of responsibilities. In countries where audit committees are not mandatory, some might argue that they are not obliged to establish such committees.

Following a qualitative approach, the current study, as indicated in the objectives, attempts to understand the above-mentioned in the context of government ministries in Namibia.

3. RESEARCH METHODS

The data for the study was sourced 1 representative (this can be the accounting officer, chief internal auditor, finance and administration director, deputy director internal audit) from each ministry, who is in the position to provide necessary information for the purpose of the study. Semi structured interviews were conducted with the respondents where feasible to provide an understanding of their experiences, perceptions and perspective on the workings of audit committees. The interviews were conducted at the work places of the government officials. In some cases where the appropriate respondent was not available for an interview due to time constraints, questionnaires with same questions as the interview schedule were administered. In some instances the questionnaire was sent to the ministries, completed and sent back.

Two set of tools were compiled for this study: Group 1 - Government ministries with established audit committees and Group 2 - Government ministries without established audit committees. This became important so that all the research objectives are catered for. The data collection tool covered the following: the importance of audit committees, reporting lines of audit committee, challenges faced by audit committees, criteria used to evaluate and appoint the audit committee, and the composition of the audit committee.

No sampling method was applied as all 21 government ministries were selected for the research, and a response rate of 81% (17 ministries out of 21) was obtained. Interviews were recorded and transcribed.

4. FINDINGS AND DISCUSSION

The findings are analyzed based on the outcome of the interviews and information obtained. The findings and the discussions are organized based on the four objectives of this paper, as earlier stated. The discussion is based on content analysis of the transcription of the responses during the interviews. For content analysis the responses were analysed for similarities and differences.

Findings:

Finding based on objective 1: to understand how accounting officers of government ministries in Namibia perceive the importance of audit committees within their ministries. *For this objective the accounting officers in government ministries with and without established audit committees were asked how they perceive the importance of the Audit Committee in their ministry?*

A corporate governance practice common in the private sector is the use of audit committees to provide strengthened oversight of the financial and ethical integrity of publicly held companies. Because this oversight responsibility is essential to effective governance, public sector entities also may look to the audit committee to play a similar role (Institute of Internal Auditors ((Jan, 2012).

All (17/17) of the respondents from the government ministries indicated to the researcher, that they acknowledge the importance and contribution of an audit committee and the value the committee will add to the ministry. The respondent from the Ministry of Industrialization, Trade and SME Development stated that the audit committee is important as the committee will ensure that audit recommendations made are implemented by management.

The respondent from the Ministry of Home affairs indicated that the Audit Committee is very important to the Ministry, however, the State Finance Act and Treasury Instructions does not make provision for the establishment of Audit Committees in government ministries of Namibia.

Ministry of Veteran Affairs stated that, the audit committee is very important in the organization since they oversee the performance of the auditors and in monitoring the accounting policies and principles.

Ministry of Information and Communication informed the researcher that the audit committee is importance as the committee plays a role to ensure the independence of the internal auditors within the ministry.

The official within the Ministry of Defence stated that it is important to have an established audit committee, because the audit committee is like a mother body of the internal audit division in the Ministry. The internal auditors within the ministry of defence have to report complains to the audit committee which will thereafter take it up with the relevant authorities. The audit committee also serves to protect the internal auditors.

Finding based on objective 2: to determine the extent to which the recommendation by the National Assembly's Public Accounts Committee on the establishment of audit committees in government ministries of Namibia have been implemented by the accounting officers.

In a discussion session held on 15 April 2015 with the *Deputy Director Committee Services of the National Assembly's Public Accounts Committee in Namibia*. The Public Accounts Committee's main mandate is to examine financial reports from the Auditor-General and to check if budget allocations to various government ministries and agencies are spent as intended. The Public Accounts Committee of Namibia is a member state of the Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC) which recommended that member states government ministries establish and strengthen their audit committees. In November 2012, the Parliamentary Standing Committee on Public Accounts (PAC) reminded permanent secretaries of all government ministries (in their capacity as accounting officers) to minimize wasteful spending and improve operational efficiency to guard against fraud and corruption. PAC then made a recommendation that

permanent secretaries of government ministries establish an audit committee in their respective ministries (Namibian Sun, 2012).

Preliminary contacts served to determine which government ministries have established audit committees in their respective ministries as per the recommendations made by PAC. The study shows that only 12% (2 out of 17) ministries that responded have established an audit committee as per the recommendation made by PAC in 2012. The remaining 88% (15 out of 17) ministries did not establish an audit committee within their respective government ministries.

The study shows that majority of government ministries did not establish audit committees within their respective government ministers and enquired with the officials as to why the case:

The official within the Ministry of Industrialization, Trade and SME Development stated that the Ministry had difficulty in establishing an audit committee because there were no terms of reference in place. Once they had been drafted, the problem shifted to the appointment of the members.

Ministry of Home Affairs stated that, the State Finance Act and Treasury Instructions does not make provision for the establishment of Audit Committees within government ministries of Namibia.

Lack of expertise on how to go about establishing an audit committee was the reason provided to the researcher as to why the Ministry of Veteran Affairs did not establish an audit committee.

The Ministry of Defence stated that the organizational structure of the internal audit division is structured in such a way that the internal auditor department have to report to the Brigadier General and Chief of Defence Force. This reporting line is making it difficult for the Ministry to establish the Audit Committee. The current reporting line is also jeopardizing the independence of the internal auditors. The internal audit department is supposed to report straight to the Permanent Secretary (Accounting Officer).

Finding based on objective 3: to determine which party provides assurance for the adequate and effective functioning of internal audit controls in government ministries of Namibia without an establish audit committee. *For this objective the researcher asked the accounting officers in government ministries without established audit committees, which body monitors the adequate and effective functioning of the system of internal controls in your in the absence of the audit committee in your ministry?*

Ministry of Defence stated that, in the absence of an audit committee, the internal audit division is monitoring the adequacy and effectiveness of the internal controls of the Ministry.

Ministry of Trade and Industry stated that there is currently no body that monitors the adequate and effective functioning of the system of internal controls in the absence of the audit committee.

Ministry of Home Affairs informed the researcher that, the internal controls of the Ministry are currently monitored by the Financial Advisor who oversees the correctness of filling of advances,

requisitions for expenditure, invoices; approvals by the Accounting Officer and checking by Internal Auditors.

Ministry of Veteran Affairs indicated that, the ministry only depends on the findings of the internal Auditor since there is no other body in place to monitor the adequate and effective functioning of the system of internal controls of the ministry.

Finding based on objective 4: to establish the challenges faced by government ministries in establishing audit committees.

The study shows that government ministries are faced with various challenges when having to establish audit committees and even after having established audit committees. The following below are amongst others, some of the major cause for the challenges faced by the government ministries in establishing audit committees:

Lack of legislature

The current State Finance Act does not make it mandatory for the establishment of audit committees within government ministries of Namibia. Accounting Officers of the respective government ministries have acknowledged the importance of audit committees and the value that the audit committee will add to the ministries. However, the non-existence of a legislature/ law making it mandatory for government ministries to establish audit committees currently makes it difficult for accounting officers to establish the committee.

Additionally there is also no guideline in the form of an audit committee charter that outlines amongst others the composition of the committee. A formal audit committee charter has also not been developed to guide the Accounting Officers on how to establish an audit committee within their respective government ministries.

Responsible party to establish legislature/ laws

From the interviews conducted with the Office of the Auditor General, the National Assembly's Standing Committee on Public Accounts, and the 17 Government Ministries, the study shows that there seem to be some misalignment as to who the responsible person is to drive the entire process of ensuring the establishment of audit committees within the respective government ministries. The government ministries were of the opinion that the Ministry of Finance was in the process of drafting a document to outline the process to be taken when establishing an audit committee in the form of a legislature. This was then to be passed on to all the other government ministries upon completion of the said document by the Ministry of Finance. When the researcher confirmed this with the Ministry of Finance, she was informed that this however is not the case. The representative within the Ministry of Finance stated that it is the responsibility of each and every ministry to establish an audit committee and that no guidance document is the process of being developed for any ministry on how to go about establishing an audit committee by the Ministry of Finance.

The Ministry of Environment and Tourism stated that the office of the auditor general has

established an audit committee that will cater for all other ministries. Upon confirmation of the statement made by the Ministry of Environment and Tourism with the office of the auditor general, the researcher was informed by an official within the office of the auditor general that an audit committee was indeed in place but only for the office of the auditor general and not to serve all other government ministries.

The National Assembly's Standing Committee on Public Accounts are also of the opinion that the Ministry of Finance should be the responsible office to develop some kind of guideline with reference to the establishment of the audit committees with in government ministries. The representative further stated that the Ministry of Finance have decided and in the process of redrafting the Public Finance Management Bill. The researcher concluded that since the Ministry has already commenced with this process, that a clause be inserted that makes it mandatory for government ministries to establish audit committees. This same argument made by PAC was also seconded by the office of the auditor general.

All the respondents indicated to the researcher that there is currently no policy regulating audit committees in government ministries in Namibia.

Discussions:

The Audit Committee is set up with the major objective of ensuring confidence in the integrity of an organisation's internal processes and procedures and its financial reporting. In this way, the Audit Committee provides an 'independent' reassurance to the Board and all stakeholders through their oversight and monitoring role (Mauritius Audit Committee Forum, 2014). The Audit Committee should support the Board and Accounting Officer by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances (Selim, 2008).

Government ministries in Namibia that have not establish audit committees may face the challenge of which party to provide assurance for the adequate and effective functioning of internal audit controls of the government ministry. Assurance on the adequate and effective functioning of internal controls is currently non-existent in some of these government ministries, while the internal audit department of some government ministries are currently providing assurance on the adequate and effective functioning of internal controls of the government ministries. The study shows that government ministries in Namibia are currently experiencing numerous challenges in establishing audit committees in their respective government ministries. 88% of government ministries from a total response rate of 17 government ministries did not establish audit committees due to amongst others, the non - existence of a legal framework that makes it mandatory for the establishment of audit committees; lack of knowledge on how to establish an audit committee; responsible and accountable party/ person at the forefront of ensuring the implementation of audit committees in all government ministries of Namibia is non- existent.

CONCLUSION AND RECOMMENDATIONS

Majority of the respondents acknowledged the importance of audit committees in their respective government ministries. The respondents however stated that they have various issued that are currently hindering the ministries to establish audit committees. The major issue that was raised was the fact that there are currently no legal frameworks that govern the establishment of audit committees in government ministries of Namibia.

Out of a total of 17 government ministries that responded only two government ministries have established an audit committee. The remaining 88% of government ministries did not establish an audit committee as there is no legal framework that makes it mandatory for the establishment of audit committees in government ministries of Namibia. The 88% represents a very alarming figure in spite of the fact that PAC recommended that accounting officers establish audit committees. The office of the Auditor General also recommended that government ministries should establish audit committees.

There are areas that warrant improvement regarding the establishment of audit committees that could be addressed. Government should develop and implement a law that makes it mandatory for the establishment of audit committees in government ministries of Namibia. The legislature should detail the audit committee terms of reference; purpose of the Audit Committee; scope of duties of the Audit Committee; composition of the Audit Committee; meetings; responsibilities of the Audit Committee; interaction with the Assurance Providers; and reporting responsibilities of the audit committee.

The recommendations derived in this paper are based on the conclusion that were found and are stipulated below:

- PAC to establish which party will be responsible to drive the entire process for the establishment of audit committees in government ministries.
- The Ministry of Finance to amend the current State Finance Act, 1991 (Act 31 of 1991), to include a clause that makes it mandatory for all government ministries to establish audit committees.
- That a formal audit committee charter be developed that will be used by all government ministries with established audit committees. The audit committee charter should document information about the audit committee's mandate, composition and membership, authority, responsibilities, etc.
- Parliamentary oversight: parliament should recognise the importance of audit committees as an accountability instrument in government ministries and focus on their effectiveness as this could provide them with an independent opinion regarding the risk management, financial reporting and control environment in the respective government ministries of Namibia.
- The Parliamentary Accounts Committee to consider establishing a Public Sector Audit Committee Forum (PSACF) in Namibia, similar to the one that was launched in South Africa in November 2011.

Due to the time constraints and limited data, further work in this same area should also be considered in establishing whether there is a link between audit committee effectiveness and the audit reports compiled on government ministries by the Auditor General. Also, newly established ministries in Namibia should be included in further studies, as new ministries were established in the country towards the conclusion (after the empirical phase was finalized) of this study.

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