

# AN INVESTIGATION INTO THE EFFECTIVENESS OF AUDIT COMMITTEES

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## Abstract

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The fundamental purpose of this study was to investigate the effectiveness of audit committees in the eThekweni municipality within the province of KwaZulu Natal. The target population for the study was all the standing and audit committee members totalling 20, thus taking a census-based approach. The descriptive sections adopted a positivist paradigm employing quantitative methodology was used to examine information through techniques that revealed patterns, trends and relationships. Hence, a mixed methodology was the case in this study. The study revealed that the eThekweni audit committee was generally effective in discharging its oversight role in the council, though there were areas of concern, which include control frameworks and financial management to improve corporate governance. The study revealed that there was, to a large extent compliance with legal requirements regarding audit committees, as well as best practice processes. It is therefore important to point out that, this study outlines good practices of audit committees that are worthy of emulation and further improvement by the research community as a framework for good governance in local governments.

**Keywords:** Audit Committee, Control Frameworks, Governance, Financial Management, Local Governments

## 1. INTRODUCTION AND BACKGROUND

The need for audit committees across organisations came amidst of unexpected failures that stem from corporate misconduct (Dodo, 2017). Formation of audit committees in organization results in substantial benefits (Badara and Saidin, 2014). With the continued changes in business environment, and an increase in complexities within the modern municipalities the need for the establishment of audit committees to enhance the governance process is increasingly compelling (Dodo, 2017). Unfortunately, audit committee functions require individuals with specialist skills, which are seemingly a global challenge (Badara and Saidin, 2014). Due to the shortage of people with financial auditing skills and the technical expertise with respect to the internal control, Audit Committee have become other committees members as well, casting doubt on the Audit Committee as a yes committee, rubber stamping everything for the board`s approval (Endaya and Hanefah, 2013). This brings up an issue concerning how effective the Audit Committee members are. There is, however, a general managerial perception that Audit Committees are a mere time wasting administrative

structure particularly when its mandate is in doubt (Ahmad, Othman and Jusoff, 2009).

There is an enormous obligation on public entities to deliver on the mandate of government to the respective communities (Ahmad et al., 2009). The 2016 Local Government election saw communities challenging the respective municipalities by taking up a stand against the lack of service delivery before voting (Coetzee and Fourie, 2015). Thus, just before the election period, most communities protested for improved service delivery and against corruption by the municipal councillors. Recently, there has been a rampant demonstration against the ruling Government and opposition parties have taken advantage of this lack of confidence in the ruling party to make ground-breaking in-roads into strong holds of the ANC controlled communities (Jonas, 2011). This was a clear sign of lack of confidence on local government administration and management. The government is currently endeavouring towards a clean audit administration to restore public confidence (Coetzee and Fourie, 2015). Rampant protests for service delivery and non-participation of certain communities in local government elections is a clear testimony that local government is failing the very

citizens it is supposed to render basic service to (Jonas, 2011).

This study, therefore, is an attempt to assess whether Audit Committees are in fact effective in executing their responsibilities, so that shortcomings may be identified and recommendations made to the Auditor General to improve the status quo.

### 1.1. Problem Statement

There is an enormous obligation on public entities to deliver on the mandate of government as enshrined in the South Africa Constitution. Municipalities in South Africa are, however, criticised by the public for poor service delivery, compelling the government to institute measures that ensure municipal effectiveness. Thus, the day-to-day activities within municipalities are checked by both internal and external auditors as part of measures towards ensuring effectiveness on service delivery as specified by The Municipal Finance Management Act (MFMA) Act 56 of South Africa (2011:156). Audit Committees serve as a gatekeeper to ensure effectiveness within organisations in general and in particular within local government institutions in South Africa.

### 1.2. Objectives of the Study

The objectives of the study were:

- to assess the effectiveness of the Audit Committees; and
- to generate recommendations towards ensuring audit committee effectiveness.

## 2. LITERATURE REVIEW

Audit committee effectiveness is necessary because of the perfection that it brings in local government administration and management (Dodo, 2017). An organisation can be regarded as effective if it delivers services consistently to meet the objective of the organisation (Badara and Saidin, 2014).

The Municipal Finance Management Act (MFMA) Act 56 of South Africa (2011:156) defines the Audit Committee as a Local Government with independent advisory powers to the Council of the Municipality with clearly defined functions, roles, responsibilities and powers. The Audit Committee is meant to be a committee to the Municipal Council or any organization that should seek the assistance of the entity in fulfilling its oversight responsibility, particularly with regard to issues of financial management, risk management, internal audit and compliance (Coetzee and Fourie, 2015). Hence, are regarded as a key component of corporate governance.

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 (Dodo, 2017). 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).

### 2.1. Membership of Audit Committee and Meetings

The MFMA (2013) stipulates that the Municipality Audit Committee:

- Consists of at least three members with appropriate experience, of whom the majority may not be in the employ of the municipality.
- Must meet at least four times a year.
- Members must be appointed by the council of the municipality.
- Must be chaired by a member who is not in the employ of the municipality.
- Must not include a councillor as 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 ongoing education about the activities and operations of the organisation, as well as professional development.

Comparison of the MFMA (2013) and King III (2009) shows common requirements on the membership of the Audit Committee as independence, which requires the committee to be chaired by a non-employee of the municipality or non-executive director.

## 3. RESEARCH METHODOLOGY

The study was conducted at eThekweni Municipality, which is in KwaZulu-Natal Province of South Africa and concentrated on eThekweni Municipality's Audit Committee. The target population for the study included all the Audit Committee Members totalling to 20. The study took a census based approach where all the 20 members participated in the study. The study was descriptive in nature approached from a positivist paradigm in which the quantitative methodology was employed.

### 3.1. Data Collection Strategy

Questionnaires were emailed to Audit Committee members as they were all not based in one area. The online method was preferred for this study because; it is quick and advantageous for the respondents as every one of them has access to the web. This had consent forms attached to assure respondent's

confidentiality. 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 and the data was returned electronically as per the required arrangements. All respondents were able to complete the questionnaire within the stipulated time frames.

By utilizing the quantitative research approach for this study, the researchers endeavoured to eliminate bias totally as indicated by Shuttleworth (2009). The structured questions were neutral or impartial and devoid of leading or confusing the respondents. Bias was again ensured by using the Survey Monkey to collect the data and IBM SPSS 22 for analysis. These tools are free of the researchers' interference. The research instrument that was used comprised of structured and unstructured parts, as well as open, ended questions and this was considered appropriate for this study (Palys, 2008). The questionnaire was designed using a 5-point Likert scale 1 (poor) and 5 (excellent) and the yes/no questions for the collection of data for analysis. Participants were educated on the opportunity to take part in the study or withdraw whenever they felt uncomfortable and the survey was carried out on the 25th of September 2016.

### 3.2. 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). Sekaran and Bougie (2013) stated that validity concerns are internal, content, external, criterion and construct related. For reliability, the stability of measures can also be monitored by the test-retest and parallel-form reliability while the internal consistency of measures can be evaluated using inter-item consistency and split-half reliability approach Sekaran and Bougie (2013).

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. A pilot study on 10 municipal employees enabled this act which yielded an overall response rate of 70%. 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.

## 4. RESULTS

A total of 18 questionnaires were successfully completed which translates to a response rate of 90%. Sekaran and Bougie (2013) assert that a 30% response rate is sufficient, therefore for this study, 90% was deemed an excellent response. The 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.

## 5. DISCUSSION OF FINDINGS

### 5.1. The Effectiveness of Audit Committees

The Audit Committee was assessed on the management of risk as a key function of the Audit Committee as per Municipal Finance Management Act MFMA (2013:60) as well the best practice standard. In the following sections participated responded to 27 questions.

*Question 1: How many members are appointed to your Audit Committee?*

Respondents indicated that the Audit Committee members were 8 in number which is the required practice. 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 2: How many members come from within the municipality?*

Findings from under question 2 revealed that no Audit Committee members were recruited from within the municipality, which means that members of the Committee were 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 3: How many members come from outside?*

Data under question 3, it clearly suggested that the eThekweni municipality Audit Committee members were independent as none of the members had a conflict of interest with eThekweni King III (2009). All the 8 members were recruited from outside according to the responses from this question,

*Question 4: Does the Audit Committee report to the Council regularly?*

The findings under this question indicated that all participants were in agreement to the statement that the Audit Committee reported 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 5: Does the Audit Committee review information related to the municipality's financial risks and management's control framework to mitigate these risks regularly?*

Results under this question indicated that all respondents (100%) agreed to the statement 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 6: Do the Audit Committee members have the resources to assess whether there are altering expectations related to corporate governance and Audit Committee expectations?*

The findings under this question revealed that all participants (100%) agreed to the statement that the Audit Committee members had 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 7: Does the Audit Committee have an annual schedule of items to be considered in order to fulfil their mandate?*

All participants (100%) agreed to the statement that Audit Committee should have an annual schedule of items to be considered in order to fulfil

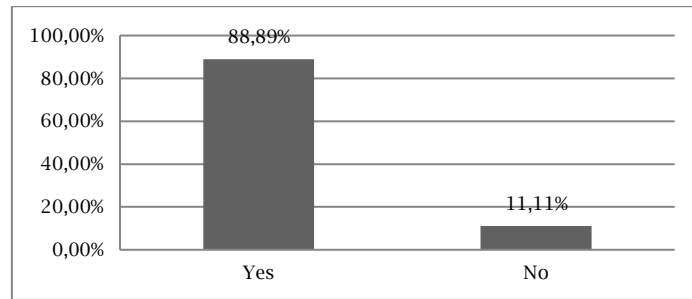
their mandate. The overall results portray that the Audit Committee develop annual agenda of items to be considered to ensure that their responsibilities are met. The requirement for a schedule of meetings and the content of these meetings, the minimum number of meetings and who may call special Audit Committee meetings are important National Treasury (2012:3).

*Question 8: Is there a clear agenda for all Audit Committee meetings?*

Under question 8 all the participants agreed (100%) to the statement that there was 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 9: Are the Audit Committee meetings adequate in number and of sufficient length to adequately cover their annual calendar and meeting agendas?*

**Figure 1.** Audit committee meetings adequate in number and of sufficient length

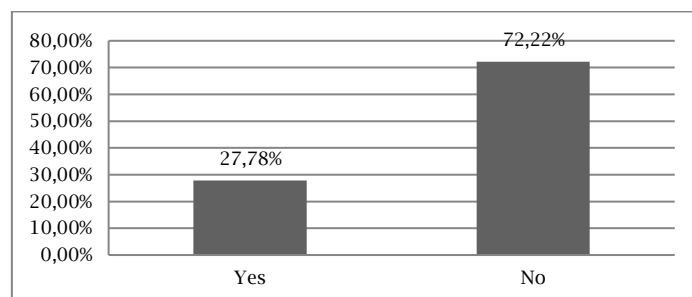


The Audit Committee must meet as often as required to perform its functions, and not less than four times a year. As is the case with the planning of any committee meetings, Audit Committees need to be planned ahead for the year, with the agenda matters relating to its oversight role. Audit Committees 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 1 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 feels that the number and length are 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 10: During the year, did a quorum of Audit Committee members attend all meetings?*

**Figure 2.** The quorum of audit committee members attends all meetings



The findings in Figure 2 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 11: Is there a clear written statement of expectations from management by the Audit Committee of the information required to fulfil their mandate?*

**Figure 3.** Clear written statement of expectations from management

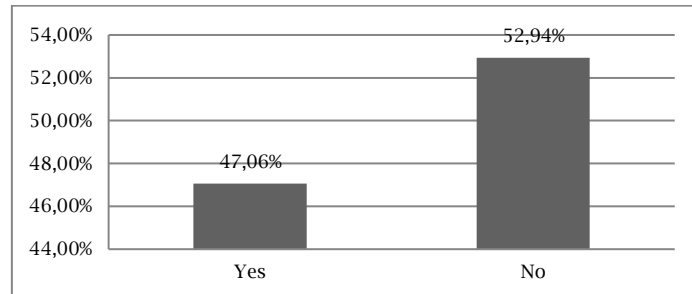
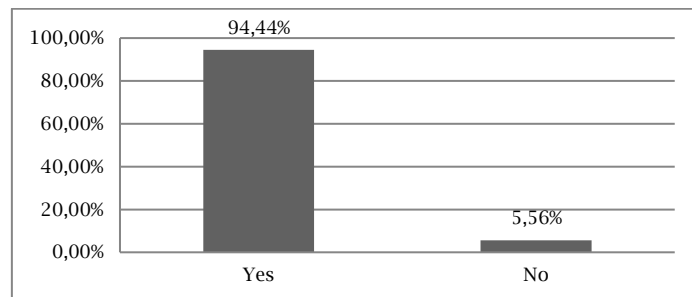


Figure 3 reflects that the majority of 53% disagree with the statement, whereas 47% agree that there is a clear written statement of expectations from management by the Audit Committee of the information required to fulfil their mandate. The findings suggest that barely half of the respondents understand the expectations from the Audit

Committee. King III (2009) emphasises that the Audit Committee should also stipulate its expectations from management.

*Question 12: Does the Audit Committee provide feedback to management to indicate whether the information provided has met the Audit Committee's expectations?*

**Figure 4.** Feedback from audit committee



The findings reflected on Figure 4 illustrate that 94% agreed that there was feedback from the Audit Committee while 6% disagree. The responses to Question 11 indicate that there are no clear written expectations from the Audit Committee while the results of Question 12 show that there is feedback from the Audit Committee - barely half of the respondents understand the expectations from the Audit Committee (Figure 3). 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 13: Does the Audit Committee mandate include an evaluation of the quality and accuracy of financial information provided by management?*

**Figure 5.** Audit committee agenda include an evaluation

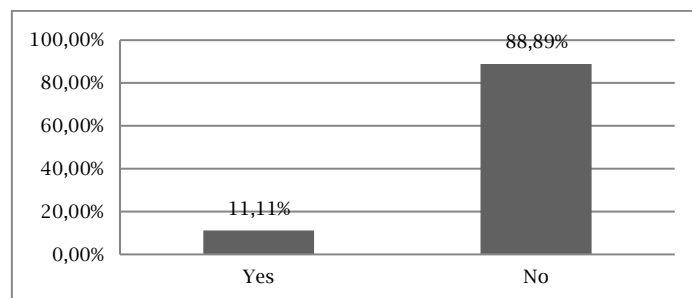


Figure 5 illustrates that majority of 89% disagreed with the statements while a small proposition of 11% agreed that the Audit Committee mandate included an evaluation of the quality and accuracy of financial information provided by management. The findings show that there is a lack of evaluation processes 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 14: Is there an Internal Audit function in place for the department?*

The Audit Committee should be responsible for overseeing the internal audit. The results above in Findings under question 14 indicated that all participants (100%) supported the statement that there was 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 15: Is the Internal Audit Charter set and regularly reviewed by the Audit Committee?*

All participants (100%) agreed to the statement that Internal Audit Charter was set and regularly reviewed by the Committee. This finding corroborates with the literature review. The Audit Charter describes the scope of the committee's responsibilities and how it complies with these responsibilities King III (2009).

*Question 16: Does the Internal Audit Group meet with the Audit Committee independent of management?*

Regarding Internal Audit group, meeting, all participants (100%) supported the statement that the Internal Audit Group meets with the Audit Committee independent of management, which is in corroboration with the literature review King III (2009).

*Question 17: Is the scope of work completed by the internal audit group approved by the Audit Committee?*

Effective communication among Audit Committees and internal auditors is vital to the quality of the audit outcomes. All the participants (100%) supported the statement that the scope of work completed by the internal audit group was 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 18: Is there a direct channel of communication between the chairperson of the Audit Committee and the Internal Audit function?*

Results under this question revealed that all participants (100%) supported the statement that there was a direct channel of communication between the chairperson of the Audit Committee and the Internal Audit function. The findings suggest that there was 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 19: Does the Audit Committee receive appropriate written reports from the Chief Audit Executive?*

The results under this question revealed that all participants (100%) supported 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 the 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 20: Has the Audit Committee assisted Internal Audit in the establishment of a line of communication with the Accounting Officer?*

The findings under this question revealed that all participants (100%) supported the view 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 21: Has the Audit Committee addressed issues such as a lack of capacity or budget of Internal Audit?*

All participants (100%) supported the statement that the Audit Committee 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 22: Has the Audit Committee addressed the issue of reliance placed on the work of Internal Audit by the Office of the Auditor-General?*

Under this question, all respondents (100%) supported the statement that the Audit Committee adequately 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 23: Does the Audit Committee follow-up on a lack of management responses to Internal Audit findings?*

The results revealed that all (100%) participants supported the statement that the Audit Committee followed 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 the lack of management respond to Internal Audit findings King III (2009).

*Question 24: Does the Audit Committee evaluate Internal Audit's compliance with the standards set by the Institute of Internal Auditors?*

Findings under question showed that all participants (100%) supported the statement that Audit Committee evaluated Internal Audit's

compliance with the standards set by the Institute of Internal Auditors. The finding suggests that the Audit Committee evaluates the Internal Auditor's compliance with the standards set by the Institute of Internal Auditors as stated King (2009:30).

*Question 25: At regular Audit Committee meetings, does the Audit Committee meet with the Office of the Auditor-General without management present?*

**Figure 6.** Audit committee meets with the office of the auditor-general

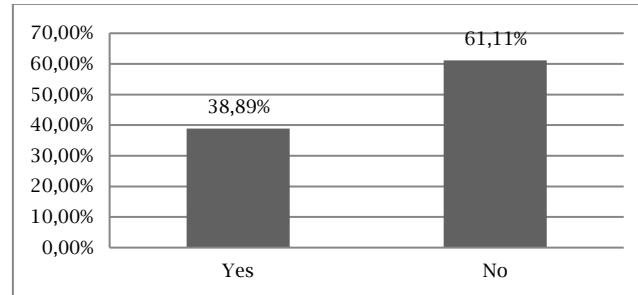


Figure 6 reveals that 39% agreed with the statement whereas the remaining 61% disagreed. The overall findings portray that the Audit Committee fails to meet regularly with External Auditors without management. This meeting assists the Audit Committee in understanding if there are any unresolved findings due to management King III (2009).

*Question 26: Does the Audit Committee invite the Office of the Auditor-General to attend all meetings?*

Regarding invitation of the Auditor-General by the Audit committee to all attend meeting all participants (100%) supported the view that Audit Committee at eThekweni often invites 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 27: Does the Audit Committee review the background to the Auditor-General's recommendations and the scope and nature of the work performed?*

Data gathered under this question revealed that all participants (100%) supported the statement that the Audit Committee reviewed 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.

## 5.2. Findings from the Study

### 5.2.1. The Effectiveness of Audit Committees

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 the 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%) agreed that the Audit Committee receive 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, agreed that the Audit Committee reviews management responses and action plans. The study 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 the 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 was not satisfied with the type of management exhibited at the top and that management was not committed to 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.

## 6. RECOMMENDATIONS

The attendance of municipal managers at all Audit Committee meetings should be made mandatory. The Municipal Manager as accounting officer is responsible for the 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 the effective functioning of an Audit Committee. The informal discussions with the external auditors contribute towards an ongoing 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 the 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.

## 7. CONCLUSION AND LIMITATIONS

The results of this study 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 is on improved corporate governance, control frameworks and financial management placed 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 directed towards strengthening these committees and monitoring their effectiveness. This research has revealed that there is, to a large extent, compliance with legal requirements regarding Audit Committees, as well as best practices, that, there is an established Audit Committee functioning within the parameters of the Municipal Finance Management Act.

The study, however, found that the provincial treasury, department of corporate governance and traditional affairs and policy makers lacked reporting skill which was to place more emphases on the value of effective Audit Committees actions, directed towards strengthening these committees and monitoring their effectiveness. The staff should, therefore, undergo training in writing and reporting skills. 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 should play a critical part in the effectiveness of the audit committee. The number of sample size (20) used in the current study, however, places a limitation of the extent of generalizability. Future study should endeavour to increase this to a substantial quantity.

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