EVALUATION OF THE AUDIT COMMITTEES OF GOVERNMENT MINISTRIES IN NAMIBIA: THEIR COMPOSITIONS, FUNCTIONS AND REGULATIONS

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Abstract

The aim of the underlying study to this paper is to evaluate the audit committees in the government ministries in Namibia; by assessing their composition, the function and regulations that govern committees. The study used a qualitative approach of inquiry. A purposive sampling method was used as the researcher selected ministries with audit committees. Thematic and content analysis was used in this study. Both primary and secondary and data were used. On primary data, interviews were conducted and recorded with a voice recorder. Secondary data was during the review of existing literature on the subject. The study found that from the 4 government ministries with audit committees, only one ministry consisted of independent members as well as an independent chairperson, while 3 ministries are chaired by members within their organisations. There was clear evidence of lack of accounting / financial /auditing competence among the committee members. This trend is contrary to the best practice which requires that the chairperson of the audit committees be independent of the ministry as well as the members of the audit committee. The finding indicates possibility of lack of capacity to carry out the functions of audit committees; weak internal control systems; chances of conflict of interest and complacency due to the lack of independence. There is avenue for further research as more ministries in Namibia are now establishing their audit committees, especially as the Namibian Code of Corporate Governance (the NamCode) gains more popularity among the public sector.

Keywords: Audit Committee, Internal Control, Non-Executive Director, Ministry, Permanent Secretary

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Introduction

According to Enofe, Aaronmwana and Abadua (2013) the development of audit committee in corporate environment can be divided into two periods, voluntarily establishment and mandatory establishment period. Saurez, Garcia, Mendez and Guitierrez (2012) argues that voluntarily setting up of an audit committee does not necessarily imply that there was a genuine intention on the part of the company to create an effective control mechanism to prevent the manipulation of accounting information. Moreover Davies (2009) argued that in Spain, researchers found that voluntarily audit committee did not lead to the improvement on the reliability of accounting information. However, such committees are merely the product of marketing campaign to improve the firm's public image. Audit committees have become topical in modern corporate governance world following the major scandals such as Enron in 2001 (BBC, 2002). The scandal even saw the fall of 'Big Five' Accounting Firm Arthur Anderson Firm in United States (Nguyen, 2009). These scandals that lead to the collapse of the firms brought up an awaken call out to audit committees to improve the performance of their functions (Enofe,et al.,, 2013) Due to these scandals authorities were forced to device a lot of legislative instruments such as the King III report (Ferreira, 2008). Furthermore, there was an increase on both regulation and guidance in order to improve corporate governance mechanisms and to reinstate assurance on investors in financial reporting (Morgan, 2010); hence the mandatory establishment period. Sarbenes-Oxley Act (SOX) stipulates that audit committees responsibility is to assist in transparency on internal controls in reporting of financial matters in private and public sector (Chien, Mayer & Sannettie, 2010). Relating more to Africa, KPMG (2009) recommends that audit committee should consist of independent and suitably qualified audit committee should be appointed by the shareholders. The South African Companies Act 71 of 2008 state that an audit committee is a governance control designed to oversee financial reporting, internal controls to assess risk and audit activities (Lin, Hutchinson & Percy, 2013). The main aim is to improve the organisational governance, whether in private or public sector, and to provide assurance on financial and compliance issues through thorough examinations, accountability and efficient use of resources. Audit committees also serve as an advisory function aimed to improve the performance of an organization (Magrane & Malthus, 2010).

For the effectiveness of the audit committee, KPMG (2009) indicate that when appointing an audit committee there should carefully scrutinize on the composition to have members who are knowledgeable in financial accounting, auditing and corporate law. Furthermore, Barua, Rama and Sharma (2010) reiterates the same concept of the need for suitably qualified and experienced audit committee members with specific accounting expertise and auditing experience who are positively associated with internal control effectiveness and the quality of financial reporting. Contrary to this, as Ferreira (2008) points out, a number of studies have shown that most of the audit committees are composed of individuals who do not have the necessary skills, knowledge and experience to function as audit committee members. Ferreira (2008) further contends that the lack of skills, knowledge and appropriate experience hinders the members to perform their duties with due diligence. Further to the above, Ferreira (2008) also states that non-availability of experienced non-executive directors is another challenge faced by audit committees. Migrane and Malthus (2010) contend that in the later studies of their examination of the audit committees it was found that audit committees with less financial expertise are likely to be identified with internal control weaknesses. Similar trends have been reported in some African countries as well as the public sector.

There has been an emphasis that government ministries in Namibia should establish audit committees. The Public Accounts Committee (PAC) of Namibia in its recommended that the ministries and offices must establish audit committees. (Ihuhua, 2012). Currently in Namibia, the only document that governs audit committees in the private sectors and State-owned Entities (SOEs) is the Corporate Governance Code for Namibia (NamCode). So far there is no documentation that regulates government ministries audit committees, but only the PAC recommendations (Ihuhua, 2012). Following the 1994 King Report on Corporate Governance for South Africa and its successors, King II and King III, Namibia established the NamCode based on King III report that provides guidance to all Namibian corporate entities with a list of best practice principles to assist and guide directors to make the right choice for their entities for good corporate governance (Deloitte, 2013). According to Deloitte (2013), the NamCode provides guidance to all Namibian corporate entities, as well as public entities, on various governance related aspects; including audit committees.

Notwithstanding the provision of these codes, suitably qualified committee members with some levels of independence are essential to an efficient audit committee. Otherwise, there will be no assurance of effective internal controls, processes and system in place. Kauaria (2005) observes that there is an absence of an effective internal audit function in the government ministries in Namibia. Furthermore, Masawi (2012) states that most Namibian companies do not have enough representation of qualified board members and audit committee members while public institutions are dominated by political appointees; a situation that compromises the efficiency within SOEs and government ministries, being the most affected institutions. It is against this background and problem that this paper presents the following objectives.

Objectives of this paper

This paper aims to: 1.) assess the compositions of the audit committees in selected government ministries in Namibia; 2.) evaluate the functions of the audit committees in the government ministries in Namibia; and 3.) understand how audit committees in government ministries are regulated.

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

Literature Review

Scarcity of Skills

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

Al-Saeed and Al-Mahamid (2011) declare that an audit committee cannot be effective if it does not have the necessary and properly qualified people as members. According to Beasley (cited in Al-Saeed & Al-Mahamid 2011) pointed out that companies with fewer rate of outside independent directors are more vulnerable to financial fraud compare to companies with majority members who have executive directors. Al-Saeed and Al-Mahamid (2011) state that, based on a research that was done in the US, large number of audit committee members lacked knowledge in accounting and auditing. Thus, many companies did not depend on these audit committees. Similarly, Davies (2009) adds that in Welsh, there was a problem in recruitment of audit committee members, particularly on small councils, it was difficult to identify members with suitable talents and know-how and especially when such members are serving on multiple committees as they tend not to be committed.

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

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

Huang and Thiruvadi (2014) argued that the percentage of independent member and the average tenure of audit committee members has a significant negative impact related to the incident of misappropriation of assets in public held companies. Moreover firms that operate in poor corporate environment with fewer outside directors and who are overcommitted seems to fall into fraud. Bhasin (2012) argues that most of the roles of the audit committees has been limited due to the lack of expertise and time. Morgan (2010) argued that the high experienced audit committee members do sit on too numerous audit committees and this affects their time to be committed.

Szezepanskowski (2012) on his study found that 40% of audit committee members gave reasons for slow audit practice, which is caused by lack of financial accounting or audit experts on supervisory boards and audit committees, independency of committee members, shortfall of laws or other regulations and lack of proper cooperation from management. Morgan (2010) states that audit committee members need to be educated on a continuous basis to stay abreast of the new changes as they might not have current knowledge on International Financial Reporting Standards.

It seems that most authors have acknowledged that there is lack of financial expertise in audit committees and that other tasks besides being audit committee members hinders them to perform their duties diligently. This may be evident in the case of Namibian ministries.

The nature and composition of audit committees

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

Al-Saeed and Al-Mahamid (2011) argued that one of the vital features of establishing an audit committee is the composition of an audit committee. The independence of audit committee members is considered as the most important feature that need to be looked at. Moreover the composition of equal numbers who are non-executive directors enable the audit committee to effectively check the powers of the executive directors (Enofe et al 2012). The most critical success factors in the audit committee composition are to have non- executive directors who are considerate, diligent, good morals and judgmental (Morgan 2010).

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

Islam, Islam, Bhattacharjee and Islam (2010) believes that independent directors should meet certain features that will assist them in achieving their monitoring role. One of the characteristics that they bring in to the committee is the expertise and another one is independence. The expertise and independence is vital in order to retain or enhance their reputations in the external labour market. Munro and Buckby (2008) maintain that independence of audit committee members should be perceived as a crucial characteristic in ensuring that they accomplish their fiduciary duties on making good decisions that are in the best interest of a company's shareholders. Audit committees that consist of independent members are more effective and meet corporate governance requirements. Furthermore, there is an increase in financial expertise when the majority of audit committee members are independent.

Chairpersons of audit committees

(Ng 2013) stresses that the independence of the chairperson is deemed to play a crucial role in enabling audit committee effectiveness. Ferreira (2008) accent that in South Africa the Corporate Laws Amendment Bill of 2006, stipulates that the chairperson may not be an employee of the department, this is included in the National Treasury of 1999 of South Africa. Ferreira (2008) also maintained that the chairperson of audit committee should be an non- executive member and should not be chairperson of the board of directors. There should be a distinct between the chairperson of the audit committee and the board of directors. Furthermore Al-Saeed and Al-Mahamdi (2011) pointed out that the success or failure of the operation of an audit committee depends on the chairman of the audit committee. Therefore the chairman of the audit committee should be chosen with great care. In addition Hegazy, Hegazy and Hegazy (2010) argued that combining the role of the chairman and Chief Executive Officer (CEO) reduces effectiveness of audit committees. However (Hegazy et al., 2010 & Ng, 2013) believe that there should be a difference of the CEO and chairman in terms of their positions. The chairperson of the audit committee should not be the CEO or Chief Financial Officer (CFO) of the company neither a board member. Ng (2013) also accords that the chairperson of the audit committee plays a crucial role in ensuring the effectiveness of the audit committee's operation in a company. The chairperson of the audit committee should have financial background and should have knowledge on the operations of the company.

Size of audit committees

The audit committee should comprise of at least three members of whom the majority should be independent members and an independent chairman. Munro and Buckby (2008) reiterate that audit committee should have three members who are financially literate. Prior studies have shown that financial knowledge is critical for audit committee members to have the ability to read and understand financial statements. NG (2014) is also in agreement with other authors that audit committees should consist of three members who will be responsible tin performing the committees 'roles. Ferreira (2008) further states that the number of the audit committee members might depend on the size of the company.

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

Independence and experience of audit committee members

Stewart (2012) argues whether the experience of audit committee members affects decisions to side with auditors or management. Bhasin (2012) state that audit committee that consists of qualified independent directors contributes better toward the auditor's independence. Independent audit committees and independent auditors have a significant advantage on enhancing the quality of disclosures, in reducing unrestricted earnings of management and generally enhance the value of the firm. Al-Saeed and Al-Mahamdi (2011) maintained that the audit committee should have independent and competent members with necessary skills to be able to monitor external communications, the external auditor and internal controls, in order to accomplish monitoring task. Moreover the performance of audit committee is confidently influenced by a larger rate of outside directors. Bhasin (2012) further pointed out that independent directors are a necessary component of an audit committee, and the formation results is significantly benefit to the company.

In order for an audit committee to be effective, certain attributes should be considered such as the qualification, independence, skill sets, personal attributes and available time of individual committee members. Ferreira (2008) suggested that audit committee should be collectively consists of qualified and capable persons.

The efficiency of an audit committee depends on the experience of members who are both financial and non-financial literate (Al-Saeed and Al-Mahamid 2011). Islam, Islam, Bhattacharjee and Islam (2010) also argue that the audit committee must have a financial expert who possess either professional qualifications or experience in preparing, analysing and evaluating of financial statements. The audit committee has a financial control function and the inclusion of at least one financial expert as required by the US Sarbanes-Oxley Act of 2002, it helps to explain the financial function of the audit committee (Lexicon, 2012). Yasin and Nelson (2012) also argued that audit committee members with financial expertise are a necessity as they provide support on the reliability of financial statement and great quality of reporting on earnings.

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

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

The functions of the audit committee

The functions of the audit committee play an important role in execution of their duties with diligence. This can be achieved through the meetings held in order to discharge these functions. Mohamed and Hussain (cited in Lama 2011) stress that the function of audit committees has been rapidly changing in the current periods due to new challenges in the corporate world and lot of scandals that have been occurring from time to time. The functions of the audit committee continue to intensify and broaden on daily basic. Risk assessment and management have been one of this areas. Some companies have instituted risk committees while others are utilising audit committees to give guarantee to the board of directors and management that the risk polices are trustworthy and operative

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

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

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

Marx (2009) states that the role of the audit committee was traditionally centred on assisting the directors in meeting their financial reporting, control and audit related responsibilities. This was evident based on the King 1 report as (cited in Marx 2009), that the responsibilities of the audit committee fall into five main areas, namely:

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

In Namibia, the NamCode (2010) proposes a number of functions for the audit committees which are to: oversee the integrated reporting; review and provide remarks on financial statements; oversee the internal audit function; establish and implement risk management; oversee the external audit process

It should be noted that the function of the audit committee plays an important to guide the audit committee on their responsibilities and should be clearly stipulated and well defined. For audit committee members to function properly they should have the right skills and should be properly regulated.

Regulation of audit committees and benchmarks to other countries

Islam et al. (2010) state that in some countries audit committees are mandated by law (e.g. Canada, Singapore, Thailand and South Africa). According to Lama (2011) the government and regulatory bodies across the world come-up with solutions to resolve conflict of interest among management and shareholders of a company. This was achieved through establishment of various governance codes and regulations. The codes and regulations required companies to adhere to certain structures, processes and procedures which would assist in controlling of entities to comply with best practices. The best practices will assist organisations to minimize the agency cost and to improve the value of the organisation. Islam et al. further state that in numerous countries' audit committees are not mandatory by law but can be introduced on voluntary basis. According to Marx (2009) various legislation and regulations have been promulgated over the years assigning audit committee with specific responsibilities, focusing mainly on strengthening the external auditor's independence and overseeing external audit and financial reporting process.

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

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

In India the Companies Bill of 2009, stipulates the role and the power of the audit committee. The responsibilities of the audit committee are to ensure an oversight on financial reporting and accuracy of financial statement certain stipulations as stated by Securities and Exchange Bureau of India (SEBI). The audit committee should evaluate the annual financial statements of the company with the help of management before it is handed over to the board of directors. The audit committee should analyse the accounting policies that the organisation uses, and should check for disclaimer, any adjustments on financial statements and other transactions and the qualification of audit reports. A mandate of power is also stated, where audit committees can investigate any suspicious issues that may come to their attention. The audit committee has the right to interrogate any staff member. (Sarkar & Sarkar 2010). The audit committee has the right to get external legal and professional advice that it considers necessary to carry out its investigations (Sarkar & Sarkar 2010). Sarkar and Sakar (2010) stress that there was an amendment in the regulation of India which previously required that all the audit committee members must be non-executive directors. However, in the new amendment it is required that two third of the audit committee must be independent directors making provision allowing inside directors also to be part of the audit committee members. The regulation made it mandatory for the management to be part of the audit committee. Sarkar and Sakar (2010) agrue that management should not be made mandatory by law, but the audit committee should invite them voluntarily when it deems necessary to do so.

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

Van-der-Nest (2008) states that in the South African's legislation, the audit committee are required to report the accounting officer and to Parliament through the annual report of a department. In South Africa, one of the requirements is that the internal audit activity are required to present a three year strategic plan based on risk background of the departments of the organisation according to the South Africa of 2005 and National Treasury. The audit committee then requires that the Head of the internal audit should give a quarterly feedback on the implementation of the approved plan and to give reasons why the internal audit division failed to achieve the set objectives.

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

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

In Namibia, there is no legislation regulating on companies to comply with the NamCode but the main purpose of the NamCode is voluntary compliance with recommended practices (Delloitte, 2014). However, as according to Delloitte (2014), the NamCode provide a valuable tool guide to directors and other office bearers to ensure compliance with corporate law. Citing from other authors, it can be seen that there are no strict statutory laws for regulating audit committee members, but there are guidelines that have to be followed. It is important for audit committees to be regulated by law. However, the Namcode is not an obligation for companies to adhere to but they may deviate and explain the deviations.

Research Methodology

The method which was used was qualitative and used the following techniques thematic and content to analyse the set objectives which are: to assess the compositions of the audit committees in selected government ministries in Namibia, to evaluate the functions of the audit committees in the government ministries in Namibia and to determine how audit committees in government ministries are regulated.

The sampling method which was employed for this research is purposive sampling as the researcher focused on 4 ministries with audit committees. These ministries are;- Ministry of Health and Social Services, the Ministry of Justice, the Ministry of Information and Communication Technology and the Ministry of Youth, Sport and Culture.

Data collection

Interviews were conducted for this research paper for the four ministries. Appointments were made telephonically and the interviewees were interviewed at their place of work. The interviews were recorded, and the transcripts were decoded into data. Open questions were used in order to obtain more detailed information on the audit committee in government ministries.

Data analysis

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

Ethical issues

Appropriate ethical consideration was followed, where participants were informed of the objectives and benefits of the study before they were interviewed. The participants were informed of their rights and that data will be handled by the researcher herself and information obtained through recording will be kept confidential. During the interviews participants were informed that the outcome of the research will be made available to them if willingly to know the end result. The researcher ensured privacy to the participants by giving the assurance on the confidentiality of information shared and not mentioning the names of the persons to ensure anonymous.

Findings and Discussion

The findings are analyzed based on the outcome of the interviews and information obtained. The findings and the discussions are based on the three objectives of this paper as earlier stated

Finding based on objective 1: which is to assess the compositions of the audit committees in selected government ministries in Namibia.

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

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

Ministry of Youth, Sports and Culture and ministry of Justice's respondents, responded that the chairperson of the audit committee was the Permanent Secretaries for those particular ministries. Ministry of Health and Social Services responded that the Chairperson of the audit committee was a medical doctor within the ministry. Ministry of Information and Communication Technology's interviewees respondent that the chairperson was a Deputy Director Internal Audits from Ministry of Health and Social Services.

Interviewees from ministry of Justice responded that; the audit committee consisted of 5 members who have degrees in law and one in accounting and auditing. Interviewees from ministry of Health and Social Services responded that the audit committee consisted of one member who has a qualification in law and two in medicine. Ministry of Youth, Sports and culture consisted of directors who have qualifications in Public Administration. Ministry of information consisted of 3 members with degrees in accounting.

In the ministry of Justice out of the six members only 1 have experience in auditing and finance. The rest of the members do not have any knowledge of auditing and accounting. In ministry of Health and Social Services there are three audit committee members and all the members do not have financial background as the 2 have experience in medicine and 1 in law, this also applies to the ministry of Youth, Sport and Culture out of the 6 audit committee members none have financial background but experience in administration. Ministry of Information and communication technology have 3 members of which all the 3 members have been in the accounting and auditing field.

In ministry of Justice 5 out of 6 of the audit committee members have worked in the same ministry and their previous position before were lawyers and only 1 out of the 6 was an accountant. In ministry of health the 2 out of 3 were medical doctors and 1 of policemen. In the ministry of Youth, Sports and Culture the all 6 audit committee members worked before as administrators and lastly, ministry of information and communication technology 1 out of 3 members was an accountant at ministry of finance and the other 2 were auditors, 1worked at ministry of finance and the other member at the Khomas Regional council.

The fourth question which was asked based on objective 1 was the relationship that the audit committee members have with the Ministry. This question was posed to determine the independence of the audit committee members. The researcher found that in all the three ministries the audit committee members were employees of that particular ministry and except for ministry of Information that consisted of 3 members who were outsiders or non-executive directors. The research revealed that the other three ministries consisted of executive directors.

Another question that emanated from objective 1 was the number of members which the audit committee consisted of. This question was to determine the number of members that are serving in the audit committee as it is also part of the audit committee composition. Ministry of Youth, Sport and Culture and ministry of Justice‘s respondents responded that the audit committees consisted of 6 members while ministry of Health and Social and Ministry of information consisted of three members.

The last question that derived from objective 1 was: to whom do the audit committees report to? This question was asked to determine the independence of the audit committee from management. The research revealed that the audit committees in the ministry of Justice, Ministry of Health and Social Services and ministry of Information does not have a higher authority were they report to. While ministry of Youth, Sports and culuture ‘s audit committee report to the Permanent Secretary who is the chairperson of the audit committee.

Finding based on objective 2, which is to evaluate the functions of the audit committees in the government ministries in Namibia.

Two questions emanated from this objective 2, which are question 8 and 9 and consisted of the following questions.

1. How frequently does the audit committee meet?
2. What are the functions of the audit committee?

Ministry of Justice‘s audit committee met in 2013 and since then never met again. Ministry of Health and Social Service’s audit committee never meet since its establishment in 2011. Ministry of Youth, Sports and Culture never met since its establishment in 2012, while Ministry of Information, Communication and Technology met twice last year.

When the interviewees were asked question about their functions they referred the researchers to the audit committee charter. The audit committee charter clearly articulated the functions of the audit committees. The functions of the ministries were taken from these charters as it was a referred document. Three ministries provided their charter, which are the Ministry of Justice, Youth and Sports and Ministry of Information for the functions of the audit committees. Ministry of Health did not provide their charter as it was not compiled by the audit committee for they never met since its establishment.

Through studying of the audit committee charters there were some shortfalls that were discovered from the other ministries. The analyses of the charters revealed that Ministry of Justice’s audit committee provide the risk management and internal control policies while Ministry of Youth, Sport and Culture’s audit committee‘s role is to review the risk management policy. Ministry of Information, Communication and Technology does not have risk management on their charter. The analysis revealed that ministries’ audit committee functions lack uniformity. There is no framework for audit committee functions.

Finding based on objective 3, which is to understand how audit committees in government ministries are regulated.

One question emanated from this objective which is as follows:

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

In Namibia the State Finance Act of 1991 does not make provision of internal auditors in the government ministries neither does it make provision for audit committees. It was found that currently the audit committees are not regulated by any law or by any document except the Namcode that applies to private sector and SOE. The Namcode is also not enforced on private sector or state owned entities. The companies can state the reason for not complying with the Namcode. Therefore, the Namcode is not a mandatory for the private sector either.

All the interviewee responded that there is no policy regulating audit committees in the government ministries.

Discussions

The researcher used content and thematic analysis. The discussion is based on content and thematic analysis of the transcription of the responses during the interviews. For content analysis the responses were analysed for similarities and differences. Themes were formed based on content analysis. From the content analysis the following themes emanated. The themes were then categorized under each objective.

Objective 1

For objective 1 the following themes came up:

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

Unsuitable qualified individuals

The research revealed that 2 out of 4 of the audit committees were chaired by the Permanent Secretaries, while 1 out of 4 is chaired by an inside director and 1 was chaired by an outsider (non-executive director). If the chairperson of the audit committee is the Permanent Secretary of that particular ministry who oversees the financial matters of the ministry, a question of fair judgments arises. There might be no fairness when it comes to making decisions that affects financial matters of the ministry. Ng (2013) stresses that the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) cannot be a member of the audit committee as this might lead to unfair judgments.

The audit committee should be chaired by a non-executive director, which is not in this case from the three ministries. Ferriera (2008) believes that the chairperson may not be an employee of the department and should be a non-executive director. The results revealed that chairperson of the audit committees do not have accounting knowledge, a question of effectiveness arises on how effective might that audit committees be? O'Riordan (2013) stresses that the position of the chairman is viewed as a critical key for the success of an audit committee and such candidate should have qualification in accounting and should be independent. Ng (2013) states that the chairperson of the audit committee should be a financial expert and should have knowledge of the company. The research revealed that the Permanent Secretary is the chairperson of the audit committee as well as the accounting officer of the ministry. Hegazy et al. contend that there should be a separation between the CEO and chairman of the audit committee, for better management and effective control over the business operations.

It is evidently clearly that 3 out of 4 of the ministries audit committees are being chaired by people within the organisation.

Lack of accounting background and experience

Out of the 18 audit committee members, only 4 have qualifications in accounting and the majority of the members have qualifications in law, medicine and public administration. The majority of the audit committee members in the ministries lacked financial expertise and such knowledge is needed on analysing the auditor's reports and financial matters. Without financial expertise it might be difficult for the audit committee members to assess internal controls pertaining to financial matters. Financial background plays an important role when it comes to the composition of the audit committee as such expertise will be required from audit committee member to carry out their functions. Yasin and Nelson believe that financial expertise plays an important role when composing an audit committee and suggest that at least a postgraduate qualification to be a suitable qualification. Financial expertise is considered important as the major role of audit committee is on the oversight of financial reporting. Bhasin (2012) also states that audit committee members with accounting experts appear to demand more extensive auditing when the risk is higher. Okpala (2012) concurs that at least one member should have financial expertise and professional qualification from a recognized professional accounting body in order to prevent corporate failure.

Inappropriate experience in accounting might have a negative impact on analysing of financial and auditing matters for the other three ministries as the members have lack of financial expertise. Audit committee should consist of the majority of independent members who have the necessary skills and experience to be able to face up management (Ferriera, 2008). According to Enofe et al. (2012) audit committee members should have knowledge in accounting policies to be a better and effective monitoring tool for the company. Audit committee members with accounting and audit experience are able to assist management by providing advices that can improve the effectiveness of internal controls. Barua, Rama and Sharma (2010) found that audit committee members with specific accounting expertise and auditing experience are positively associated with internal control effectiveness and quality of financial reporting.

It is evidently clear that it is only ministry of Information who has an effective audit committee with members who are financial literate. The rest of the ministry lack financial expertise.The majority of the members do not have previous accounting skills and might be difficult to understand financial matters pertaining financial statements as well as audit findings and recommendations made. Okpala (2012) believes that in order for an audit committee to discharge their duties diligently, all members should be financial literate.

The government stakeholders, which are taxpayers will be interested to know whether public funds are properly utilised and safeguarded. This can only be achieved if the government applies good corporate governance, by making sure that there are strong monitoring tools such as effective audit committees in government ministries. This can be achieved if audit committees have proper skilled members with qualification and relevant experience in auditing and finance. A committee without proper experience in auditing and accounting cannot be relied on to perform their duties diligently. Moreover, for audit committees to be effective it should have members with relevant experience in accounting and auditing. This is not the case with the other three audit committees. The composition of these audit committees need to be revised. Ng (2013) argued that audit committee members with financial knowledge are more likely to understand the extent of internal controls and work performed by the internal audit function and provide support to external audits on disagreement with management. Yasin & Nelson also argued that having audit committee members with financial experts decreases the probability of stealing of assets in public held companies.

Lack of independence

The research revealed that most of the audit committee members were executive directors only one ministry consisted of non-executive directors. These executive directors were from different departments of the ministries. This might bring conflict of interest as it is their departmental audit reports that need to be discussed by the audit committee. Audit committees that consist only of executive directors is not in support of good governance practices of the King 111 report as well as the Namcode that stipulate that the majority of the audit committee members must be non-executive directors. Independent audit committee members are able to face management when confronted with tough issues, which were deliberately done by management. If management are part of the audit committee, they might override some of the decisions. Audit committee members who are executive directors might not be good monitoring tools as there might have conflict of interest and might not be able to face management as they are part of management. A question of management override on internal control may also arise. Poudel and Hovey (2013) argue that independent audit committees from management are likely to prevent manipulation of financial results. In addition, independent audit committee members are a good monitoring tool for managers as they do not have any economical or personal connection or relationship with management. Salloum, Azzi and Gebrayel (2014) believe that executive members can impair the effectiveness of audit committees by influencing decision-making process of the board. The higher the percentage of executive directors the higher the limitation of information held by the board members. Neal, Palmrose and Scholz (2008) also believe that inside directors can lead to manipulation of decisions and dilution of power, by compromising their decisions. Li et al. (2011) argue that audit committee independence is important as independent directors are more likely to be effective monitors of management's actions. Audit committees that are independent are more likely to be free from management influence and will ensure the quality and credibility of the reporting process.

Appropriateness of the audit committee size

International recommendation says that the audit committees should consist of at least three to six members. In 2 of the ministries the audit committee consisted of 6 members while 2 consisted of 3 members. With these numbers, it is clearly that work can be executed effectively. In Namibia and South Africa the audit committee should have at least three members. This is supported by the Namcode and the PFMA of South Africa. Salloum et al. (2014) believe that larger committees losses concentration and becomes less participative than small audit committees and therefore, smaller boards are better monitors than bigger boards.

Lack of reporting structure

The researcher found that there is no proper reporting structure to which the audit committees report to. In case of ministry of Youth, Sports and culture the Permanent Secretary report to himself. The same person who makes the final decisions should not be the same person whom the audit committee should report to.

In the other three ministries the audit committees do not report to anybody or any organ. There is no standard or legal framework on issues of reporting. This is in contrarily to the Irish government departments were the audit committee reports to the secretary general (O'Riordan 2013). In South Africa the legislation, stipulates that audit committees should report to the accounting officers as well as to

Parliament through a report in the annual report of the department (Van-der-Nest 2008).

Lack of audit committee meetings

Some audit committees never met since their establishment. A question also rests on whether the functions are being executed by the audit committees if they do not meet to execute these functions as it revealed that the audit committees do not meet. Some of the 3 ministries' audit committees never met at all to discuss financial matters of the ministries. The performance of the audit committee is therefore questionable as to its effectiveness. Audit committees that meet frequently contribute to audit committee effectiveness and are more likely associated with higher quality audits (Yasin & Nelson, 2012; Munro & Buck 2008). In the case where some audit committees have never met, the questions arises as to how are the audit committees going to be informed of the auditing issues of the company, if the audit committees do not meet? Audit committees that meet frequently are more likely to be informed of current audit issues and are more obliged in fulfil their duties (Ng 2013, Yasin & Nelson 2012). If the audit committee never met how are their functions executed? Thiruvadi (2014) states that audit committees that meet at least twice a year are likely to be sanctioned on fraudulent or misleading reports. In addition, Swidi and Fadzil (2014) coincide that frequent meeting of audit committees determines the activeness of the committee in examining accounting, internal control systems and providing information to top management on actions taken. At least audit committees need to meet quarterly in order for them to be effective in executing their duties.

Objective 2 - Lack of uniformity on guidelines of audit committee functions.

The ministry of Information, Communication and Technology‘s audit committee does not have the function of risk management. This is an important function and should be incorporated in the audit committee charter. . Mohamed and Hussain (cited in Lama 2011) pointed out that the roles of the audit committee have been changing over the years to meet rapid changes in the corporate world. One of the major responsibilities of the audit committee that has expanded dramatically is risk assessment and risk management.

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

Objective 3 - Lack of regulations.

There are no regulations guiding audit committees in the government ministries of Namibia. At least the State Finance Act should make it a mandatory that ministries should have audit committees, the authority, composition and functions of the audit committees should be clearly stipulated. A comparison can be made to New Zealand and South Africa. In New Zealand there are pieces guiding audit committees in the public sector legislation, such as the Public Finance Act, Crown Entities Act and the Local government Act (Magrane & Mathus, 2010). South Africa is also another country were audit committees are included in the public service legislation such as the Public Finance Management Act and National Treasury (Van-der-Nest, 2008).

Recommendations

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

- The Chairperson of the audit committees should be independent from management and should be non-executive directors.
- The audit committee members should be outsiders in order for them to discharge their duties with more diligence and to avoid conflict of interest.
- The audit committee members should consists of the majority of the members who are financial literate and some with auditing skills to be able to analyse and give advice on matters of finances and auditing.
- The audit committee should meet on a regular basis at least four times in a year in order for them to discharge their functions.
- The functions of the audit committees should be clearly stated in the State Finance Act.
- At least the State Finance Act should be amended to include the government internal auditors as well as the audit committee on the authority, composition, meetings and functions. This will assist audit committees to know the composition of the audit committee and what are the required to do. By coming up with legislation this will assist in uniformity across the board in order to abide to the corporate governance which is the best practice.

Suggestions for Further Research

Due to the time constraints and limited data, further work in this same area should also be considered in evaluating the performance of audit committee in government ministries and to come up with the best results. Future research may assist in providing the government ministries with best practices on audit committee. People who want to do further studies should include the new ministries.

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