THE VALUE OF AN AUDIT COMMITTEE AT A HIGH-GROWTH POTENTIAL, SMALL TO MEDIUM-SIZED LISTED COMPANY

by

MADELEINE LA GRANGE

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SUPERVISOR: E M Odendaal
CO-SUPERVISOR: B Ackers

November 2015
DECLARATION

I declare that the dissertation titled **THE VALUE OF AN AUDIT COMMITTEE AT A HIGH-GROWTH POTENTIAL, SMALL TO MEDIUM-SIZED LISTED COMPANY** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references, and that this work has not been submitted before for any other degree at any other institution.

17 November 2015

____________________  _______________________
SIGNATURE          DATE

MADELEINE LA GRANGE
ABSTRACT

A company’s board of directors is ultimately responsible for putting effective corporate governance (CG) structures in place as mechanisms to enhance its accountability to stakeholders. An audit committee (AC), which is a subcommittee of the board, is one component of the company’s CG structures. In South Africa, legislation, the Johannesburg Stock Exchange (JSE) listing requirements, and the King code and report of Governance for South Africa 2009 (King III) deal with the composition and responsibilities of ACs. As the shares of AltX listed companies, which are categorised as high-growth potential, small to medium-sized listed companies, are traded publicly, they are required to comply with the Companies Act and to establish an AC according to the Act’s composition requirements to fulfil mandatory responsibilities. In terms of the JSE listing requirements, AltX listed companies must appoint an AC or explain their reason(s) for not doing so. As the total market capitalisation of AltX listed companies has increased by 87% over the past three years, greater numbers of stakeholder groups are being affected. Since stakeholder groups are protected when companies implement effective CG processes, the purpose of this study is to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders. Attributes that contribute to the value added by ACs were identified as being the characteristics of AC members; the fulfilment of responsibilities through optimised activities; and the fulfilment of responsibilities by maintaining healthy relationships with the board and information providers. An explorative qualitative case-based research design was applied in terms of which a single AltX listed company was selected according to predetermined selection criteria. Data were collected using individual semi-
structured interviews, field notes and company documents. Descriptive open coding techniques were used for data analysis with the findings of the study subsequently being presented in terms of a theoretical framework of the attributes that influence the extent to which the AC adds value. The findings of the study confirm that these attributes of the AC facilitate its ability to add value to the AltX listed company investigated and its stakeholders in terms of enlightened shareholder theory.

**Key terms**

AltX listed company; audit committee; corporate governance; Directors Induction Programme; high-growth potential, small to medium-sized listed company; stakeholders; value added.
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- The research participants who willingly participated in the study.
- To all who in one way or another contributed to the success of the study.
Dedication

I dedicate this dissertation to my parents, Pieter and Rina Coetzer, for teaching me that anything is possible through perseverance, hard work and belief.
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<td>Audit committee</td>
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<td>AFS</td>
<td>Annual financial statements</td>
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<td>AGM</td>
<td>Annual general meeting</td>
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<td>AltX</td>
<td>Alternative Exchange</td>
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<td>BCom</td>
<td>Baccalaureus Commercii</td>
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<tr>
<td>BRC</td>
<td>Blue Ribbon Committee</td>
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<td>CA</td>
<td>Chartered accountant</td>
</tr>
<tr>
<td>CAE</td>
<td>Chief audit executive</td>
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<tr>
<td>CA(SA)</td>
<td>Chartered Accountant (South Africa)</td>
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<tr>
<td>CEO</td>
<td>Chief executive officer</td>
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<tr>
<td>CFO</td>
<td>Chief financial officer</td>
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<td>CG</td>
<td>Corporate governance</td>
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<td>CPD</td>
<td>Continuing professional development</td>
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<td>CV</td>
<td>Curriculum vitae</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
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<td>IOD</td>
<td>Institute of Directors</td>
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<td>IT</td>
<td>Information technology</td>
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<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
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<td>MFMA</td>
<td>Municipal Finance Management Act no. 53 of 2003</td>
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<td>PFMA</td>
<td>Public Finance Management Act no. 1 of 1999</td>
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<td>SAICA</td>
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<td>SOX</td>
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<td>UK</td>
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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

A company’s board of directors (board) is ultimately responsible for putting effective corporate governance (CG) structures in place (Rossouw, Van der Watt & Malan, 2002:289; IOD, 2009a:12). An audit committee (AC), which is a subcommittee of the board (Spira, 1998:30; Spira, 1999a:231; Spira, 2003:182; Brennan & Solomon, 2008:888; IOD, 2009a:28, principle 2.23; Mohiuddin & Karbhari, 2010:110), is a CG structure used by the board to improve its accountability (Brennan & Solomon, 2008:888) to the company’s stakeholders in terms of financial, risk control and audit matters (Marx, 2009:33), to provide assurance on compliance aspects, and to serve as an advisory function (Magrane & Malthus, 2010:427). There are a number of benefits that derive from an AC, which operates as a value-adding component for the company and its stakeholders (Vanasco, 1994:38). These benefits include enhancing the quality of the annual financial statements (AFS), improving the company’s risk management and preventing fraudulent activities (IIARF, 2011:xi). As a result of these benefits, the AC has been described as the “panacea of the corporate world” (Marx, 2008:1), “the financial watchdog of the shareholders specifically, and all stakeholders at large” (Marx, 2009:31), and the “most reliable guardians of the public interest” (Levitt, 1998).

In South Africa, the Companies Act no. 71 of 2008 (Companies Act), the Johannesburg Stock Exchange (JSE) listing requirements, and the King code and report of Governance for South Africa 2009 (King III) deal with the composition and responsibilities of ACs. The JSE listing requirements also deal with requirements applicable to companies listed on the Alternative Exchange (AltX). AltX listed companies form part of the AltX market, a section of the JSE Limited (JSE Limited, 2012c), which was established in October 2003 after a partnership was entered into between the JSE Limited and the Department of Trade and Industry (DTI) (SA.info, 2006). This market provides high-growth potential, upcoming, small to medium-sized companies with an opportunity to access capital (JSE Limited, 2012c) in order to advance their listing on the JSE main board (JSE Limited, 2010a; JSE Limited,
The AltX market is focused on black economic empowerment companies, family-owned companies, small mining companies (SA.info, 2006) and companies run by entrepreneurs (JSE Limited, 2010c). As the shares of AltX listed companies trade publicly (RSA, 2009:s 8), they are required to comply with the Companies Act and establish an AC according to the composition requirements of the Act in order to fulfil mandatory responsibilities (RSA, 2009:s 94). In terms of the JSE listing requirements for AltX listed companies, such companies are also required to apply King III principles, which recommend the appointment of an AC or require the entity to explain the reason(s) for not applying this principle (IOD, 2009a:22, principle 2.6; JSE Limited, 2014b:par. 21.5(i–(ii)).

An AC faces many challenges as it depends on individuals and entities (e.g. management) to supply it with information (Kalbers & Fogarty, 1993:29), only meets at certain intervals, is challenged with complex information, and consists of members who are not familiar with the day-to-day operations, controls and reporting aspects of the company (DeZoort, Hermanson, Archambeault & Reed, 2002:41). The ACs of AltX listed companies may also face unique challenges such as not having the same levels of access to resources to assist them in dealing with complex financial issues that larger companies may enjoy. As a result, more responsibilities are placed on the shoulders of the AC (Gazzaway, 2006). AltX listed companies are also in a growth phase; as companies grow, they are exposed to additional risks and thus the expectation that the AC will address these risks increases (Gazzaway, 2006).

Such challenges may influence the value that an AC adds to the company and its stakeholders, with a lack of value being added by the AC being evidenced by financial scandals occurring notwithstanding the AC’s presence in an organisation (Lublin & Macdonald, 1998). Hence, Sommer (1991:91) points out that the mere existence of an AC does not guarantee its effectiveness, Marx (2008:205) states that ACs might “be formed for compliance and window-dressing purposes only”, whilst The Wall Street Journal has labelled ACs as “toothless tigers” (Lublin & Macdonald, 1998). As such, the value of an AC is something that has stimulated much debate (KPMG, 2005:1; Gendron & Bédard, 2006:211–212), as well as various studies on the value being added by ACs (e.g. Spira, 1998; Gendron, Bédard & Gosselin, 2004; Magrane & Malthus, 2010).
In South Africa, the value of ACs has been studied at the largest JSE listed companies (Marx, 2008) and in the public sector (Van der Nest, 2006). However, these findings cannot be generalised to small and medium-sized companies such as AltX listed companies. The question thus arises: How do the ACs of high-growth potential, small to medium-sized listed companies, such as AltX listed companies, add value to companies and their stakeholders?

1.2 PROBLEM STATEMENT

Publicly trading companies, including high-growth potential, small to medium-sized listed companies, such as AltX listed companies, impact various stakeholder groups. As the total market capitalisation of AltX listed companies grew by 87% over the three-year period 2012 to 2015, from R14 billion to R26 billion (Cheyne, 2012; Maluleka, 2015), it would imply that an increasing number of stakeholder groups are being affected by their operations. These stakeholder groups are protected by compliance with legislation and regulations, and by implementing effective CG practices (IOD, 2009a:12). Since an AC is regarded as a “critical component in the overall corporate governance process” (KPMG, 2005:1), the problem arises that if an AltX listed company was to have an ineffective AC, the company’s CG practices would not be enhanced, which in turn would mean that the company and its stakeholder groups would not receive the required protection.

1.3 PURPOSE STATEMENT

The purpose of this study is to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders.

1.4 RESEARCH OBJECTIVES

To achieve the purpose of the study, the following objectives are pursued:

- to investigate the characteristics of AC members that enable them to add value
- to investigate the way the AC fulfils its responsibilities through optimised activities
- to investigate the way the AC fulfils its responsibilities by maintaining healthy relationships with the board and information providers
1.5 IMPORTANCE OF THE STUDY

As previously mentioned, the way in which value is added by ACs of high-growth potential, small to medium-sized listed companies has not been researched. This study accordingly aims to contribute to the existing body of knowledge on the AC as an integral component of CG practices and specifically with regard to understanding the way in which the ACs adds value to high-growth potential, small to medium-sized listed companies, such as AltX listed companies, and its stakeholders.

In view of the fact that executive and non-executive directors (which include AC members) of AltX listed companies are required to attend a Directors Induction Programme (JSE Limited, 2014b:par. 21.3(d)) to improve their knowledge of aspects such as the Companies Act, the JSE listing requirements for AltX listed companies and CG practices (JSE Limited, 2012c), the findings of this study could be used to inform this programme and thereby contribute to the development of AC members.

1.6 DELIMITATIONS OF THE STUDY

The purpose of the study was to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders. In this regard, the study is confined to the AC of a specific AltX listed company. Therefore, given the scope of the study and the research method deployed, the findings presented cannot be generalised to other ACs.

1.7 DEFINITIONS OF KEY TERMS

In this study the following key terms are used. They are listed together with their definitions:

**Audit committee (AC):** An AC is a subcommittee of the board (Spira, 1998:30; Spira, 1999a:231; Spira, 2003:182; Brennan & Solomon, 2008:888; IOD, 2009a:28, principle 2.23; Mohiuddin & Karbhari, 2010:110) and is regarded as an extension of the board (BRC, 1999:7) to which the board delegates certain of its oversight responsibilities (Kalbers & Fogarty, 1993:27; Menon & Williams, 1994:122; DeZoort et al., 2002:40;
Mohiuddin & Karbhari, 2010:100, 112) with the intention of improving the board’s accountability (Brennan & Solomon, 2008:888) relating to these delegated responsibilities (Marx, 2009:33) to the company’s stakeholders.

**AltX listed company**: An AltX listed company forms part of the AltX market which in turn is a section of the JSE Limited (JSE Limited, 2012c).

**Assurance providers**: Assurance providers refer to internal and external assurance providers. These internal and external assurance providers include, but are not limited to, the internal and external auditors (IOD, 2009b:62, par. 48–49).

**Combined assurance model**: The combined assurance model refers to the integration of the company’s assurance processes (managed by the company’s management and assurance providers), which involve risk and CG oversight, as well as the implementation of controls that are set in accordance with the company’s risk appetite (IOD, 2009b:62, par. 46–47).

**Corporate governance (CG)**: “CG is the system by which companies are directed and controlled” (Cadbury Report, 1992:par. 2.5; Worldbank, 2013:1).

**Designated advisor**: The designated advisor is the caretaker of the AltX listed company’s compliance with JSE listing requirements for AltX listed companies and other applicable legislation and regulations (JSE Limited, 2012b).

**Information providers**: Information providers are individuals who provide the AC with information and guidance so as to enable it to fulfil its responsibilities (Kalbers & Fogarty, 1993:29). In this study, information providers refer to management, the external auditor, the company secretary and the designated advisor.

**Stakeholders**: Stakeholders include persons, groups, or organisations that have direct or indirect interests in an organisation because they can affect or be affected by the company's actions, objectives and policies (Business Dictionary, 2012).
1.8 RESEARCH METHODOLOGY

A qualitative explorative research design and a case study approach were chosen for this study as they enabled the researcher to address the research objectives. Case study research is deemed appropriate for exploring and understanding the uniqueness, dynamics and eccentricity of a particular case in detail (Welman, Kruger & Mitchell, 2005:193), thus allowing the researcher to familiarise him/herself with the research subjects’ worlds and look for patterns in their lives, words and activities (Fouché & Schurink, 2011:320). The case study approach facilitated an understanding of the manner in which the AC fulfilled its responsibilities (formal and informal) and adopted acceptable behaviour (Turley & Zaman, 2007:768; Magrane & Malthus, 2010:434). Such an approach also enabled the researcher to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders, which was the purpose of the study.

Owing to the sensitive nature of the information being dealt with and the AC responsibilities, it was important to find an AltX listed company that would be willing to participate in the study. Furthermore, it was considered important that this company should have been listed for at least the average listing duration of 7.59 years (Maluleka, 2015). The reason for this was that a company with a longer listing timeframe would probably provide rich data, as the company had had ample opportunity to shape and establish the characteristics and responsibilities of its AC.

Data were collected through semi-structured individual interviews with research participants, as well as the use of field notes and company documents. Data obtained from the semi-structured interviews were recorded on a digital voice recorder (Greeff, 2011:359) and subsequently transcribed (Greeff, 2011:360; Saldaña, 2011:44). First and second-coding were performed on the transcribed interviews, field notes and company documents using descriptive open coding techniques (Myers, 2011:110; Saldaña, 2011:104). As such, this approach uncovered new information about the phenomena being studied (Saldaña, 2011:89). Computer software, namely ATLAS.ti (Saldaña, 2011:137), assisted the researcher when coding the transcribed interviews.
In this study, an inductive reasoning process was followed during the analysis and interpretation of data obtained during the data collection phase (Creswell, 2007:17). The researcher made observations during the data collection phase which were aligned to the theories about the value added by a specific AltX listed company’s AC to the company and its stakeholders (Bendassolli, 2013:2).

A study is considered to be trustworthy when the data collection and analysis phases have been properly conducted and the findings accurately presented (Yin, 2011:78). The four pillars for establishing the trustworthiness of qualitative research, as suggested by Lincoln and Guba (1999:398), were used in this study. These pillars include truth value (credibility), applicability (transferability), consistency (dependability) and neutrality (confirmability).

1.9 ETHICAL CONSIDERATIONS

Research ethics govern the manner in which research is done and reported on (Eriksson & Kovalainen, 2008:62, 65), and protect the rights of the research participants being studied (Eriksson & Kovalainen, 2008:68). Trust in the research community is built if all researchers adopt ethical principles during their studies (Eriksson & Kovalainen, 2008:63). In this study, ethical clearance was obtained from the Research Ethics Review Committee of the College of Accounting Science at the University of South Africa (UNISA) before participants were approached for the interviews.

Informed consent was obtained from the AltX listed company selected for the study. Participants were provided with an information sheet (Appendix C) and were requested to sign an informed consent form (Appendix D) (Greeff, 2011:350; Saldaña, 2011:40) prior to conducting the interviews. The participant information sheet provided information about the objectives of the study, the research process, the benefits of the study, the right of withdrawal from the study at any point and the fact that participation in the study was voluntary (National Commission for the Protection of Human Subjects of Biomedical and Behavioural Research, 1978:11, 14). It also confirmed that the information obtained during the interviews would be kept confidential and that the participants’ anonymity would be protected. The researcher also reiterated the importance of maintaining confidentiality and anonymity before the interviews commenced. The identities of both the AltX listed company and the research
participants were protected and information was handled in a confidential manner. To further protect the participants, quality research was produced by applying a recognised research design and approach in the study (Maritz & Visagie, 2011:14). Findings were also presented in a manner that was accurate and objective and would not deceive the readers of this dissertation.

1.10 STRUCTURE OF THE STUDY

This dissertation comprises six chapters, each of which contains a detailed description of the activities that were carried out in this study. The chapter content is indicated below:

Chapter 1 introduces the study and highlights the problem statement. The purpose and research objectives of the study are described and the importance and delimitations of the study are discussed. In addition, the key terms used in this study are listed and defined and the research methodology and ethical considerations are highlighted.

Chapter 2 is the first chapter of the literature review. An overview of CG is provided with reference to the definition, origin and models of CG. CG practices adopted by various countries and companies, as well as the importance of CG and AC practices, are reflected upon. The review then moves on to CG in South Africa, with a discussion of the CG model followed and relevant legislation, codes and reports, as well as the JSE listing requirements governing CG and AC practices.

Chapter 3 is the second chapter of the literature review and focuses on identifying the attributes influencing the AC to add value to an AltX listed company and its stakeholders.

Chapter 4 describes the research design and approach that were used. It sets out the method applied in terms of the selection of a research site and research participants, data collection, data analysis and data management. Measures to ensure the trustworthiness of the study, as well as the ethical considerations adhered to, are also highlighted.
Chapter 5 presents the research findings which were based on the analysis of data obtained from the semi-structured individual interviews with research participants, field notes and company documents.

Chapter 6 outlines the conclusion of the study. This chapter reflects on the significant findings that relate to the purpose and objectives of the study, as well as the limitations of the study, and subsequently makes recommendations for further research. It ends by highlighting the importance of the study.

1.11 CONCLUSION

Chapter 1 introduced the study and provided background information which subsequently led to the purpose statement, namely, to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders. By obtaining an in-depth understanding of the value added by the AC of a specific AltX listed company at a particular point in time, the current study will contribute to the existing body of knowledge on ACs of high-growth potential, small to medium-sized listed companies as a component of CG practices. This study could also serve to inform the Directors Induction Programme and thereby provide a vehicle for developing AC members. Consequently, a qualitative research design and case study approach were deemed appropriate for addressing the research objectives. Within this context, the researcher highlighted the fact that the findings of this dissertation could not be generalised to other ACs owing to the fact that this study focused on just one case. Mention is also made of the measures applied to ensure the trustworthiness and ethical soundness of the research.

In the next chapter, an overview of CG will be provided. This chapter will also deal with CG practices within a South African context.
CHAPTER 2

CORPORATE GOVERNANCE

2.1 INTRODUCTION

Chapter 1 introduced the study, described the purpose of the study and highlighted the research objectives. In attempting to achieve these objectives, it is important to provide an overview of CG by firstly defining the concept and then outlining its history. CG models and practices and the importance of implementing CG practices will also be dealt with (§ 2.2). South African CG practices will be described by explaining the CG model adopted and by referring to legislation, codes and reports, as well as the listing requirements (§ 2.3).

2.2 CORPORATE GOVERNANCE OVERVIEW

This section provides an overview of CG by defining the concept and discussing its origin. Thereafter, CG models are discussed with reference to the agency, shareholder, enlightened shareholder and stakeholder theories, as well as the stakeholder groups of relevance to CG models. The reasons for adopting CG models are also explained. Lastly, the diversity of CG practices adopted by companies and the importance of such practices are discussed.

2.2.1 Defining corporate governance

CG has been defined both broadly and narrowly by different codes (Committee on CG – SEBI, 2003:2, par. 1.1.10; Worldbank, 2013:4) and scholars (Fligstein & Freeland, 1995:22; Shleifer & Vishny, 1997:737; Kakabadse & Korac-Kakabadse, 2002:305). These definitions can be divided into two categories. The first category of definitions focuses on the actions of the company itself, such as the company’s performance, capabilities, growth rate and relationships with its stakeholders. The second category refers to the legislation and/or regulations that regulate companies, such as listing requirements, the laws managing insider trading and the protection of minority shareholders (Worldbank, 2013:2).

¹ The symbol “§” refers to the specific section in this dissertation.
Despite the number of definitions, the following definition of CG by Sir Adrian Cadbury is deemed appropriate for this study: “CG is the system by which companies are directed and controlled” (Cadbury Report, 1992:par. 2.5; Worldbank, 2013:1). By implication, this definition defines CG as operating tools available to companies whereby there is a separation between the principals of the company and its agents (Worldbank, 2013:1). The responsibility for implementing these operating tools rests on the shoulders of the company’s agents (Rossouw et al., 2002:289; IOD, 2009a:12), as they are the guardians of CG in a company (IOD, 2009a:21, principle 2.1). One such operating tool is the use of subcommittees which perform a support function for the agents (IOD, 2009a:28, principle 2.23). The AC is one such subcommittee (Spira, 1998:30; Spira, 1999a:231; Spira, 2003:182; Brennan & Solomon, 2008:888; IOD, 2009a:28, principle 2.23; Mohiuddin & Karbhari, 2010:110) and is regarded as an extension of the agents (BRC, 1999:7) to which the agents delegate certain of their responsibilities (Kalbers & Fogarty, 1993:27; Menon & Williams, 1994:122; DeZoort et al., 2002:40; Mohiuddin & Karbhari, 2010:100, 112) in order to improve the agents’ accountability (Brennan & Solomon, 2008:888), relating to these delegated responsibilities (Marx, 2009:33), to the company’s stakeholders.

South Africa’s CG code (IOD, 2009a), like many other codes, fails to include a definition of CG (Committee on CG − SEBI, 2003:2, par. 1.1.10; Worldbank, 2013:1). In these codes, where the definition of CG is omitted, CG is dealt with as a concept and reference is made to the value of incorporating good CG practices (Worldbank, 2013:1). However, a uniform definition for CG is not important, as long as the characteristics of good CG (§ 2.3.3.3) are embraced to allow companies to build and maintain the confidence of their stakeholders (Worldbank, 2013:1).

2.2.2 Origin of corporate governance

Prior to the Industrial Revolution in the eighteenth century, companies were run in such a way that the owner also acted as the manager of the company. However, during the Industrial Revolution, high-growth businesses appeared which were characterised by the investment of funds in these companies by the community. This resulted in large-scale investors appointing agents to act on their behalf (Khan, Ghosh & Akter, 2006:9–10), which in turn resulted in a separation between the principals of the company and its agents (Berle & Means, 1967:4). To avoid mismanagement of the company by its
agents, the concept of CG was introduced (Fama & Jensen, 1983:312; Eisenhardt, 1989:59; Rossouw et al., 2002:289; Barac & Moloi, 2010:19).

A renewed focus on CG practices occurred during the twentieth century after the Second World War. Before the Second World War, countries seldom did business across their borders. However, after the war, countries were forced to take hands to rebuild and develop their economies in order to promote economic growth\(^2\) (Bhasa, 2004:5). This involved doing business across countries’ borders, giving birth to the internationalisation of business (Bhasa, 2004:5). Another reason for this internationalisation of business was the growth rate experienced by some companies, which necessitated their raising capital from both domestic and international sources (Wattansasupachoke, 2002:17; Bhasa, 2004:5). As AltX listed companies also aspire to advance their growth rate (JSE Limited, 2012c), they have a similar need to raise capital from both domestic and international sources and to access global markets.

The AC concept, as part of CG practices, was introduced during the twentieth century by the United States Securities and Exchange Commission, which proposed that non-officer members of the board should be responsible for nominating and overseeing auditors (US SEC, 1940:5). Since then, expectations of the AC have evolved, resulting in a number of opinions on its responsibilities (Lin, Xiao & Tang, 2008:725). However, after 2000, regulators and professional bodies worldwide advocated for certain functions to be included in the AC’s responsibilities (Lin et al., 2008:725) (the responsibilities of South African ACs are dealt with in §§ 2.3.2–2.3.4) owing to the increased expectations of ACs regarding their oversight role in terms of ensuring a high standard of financial and integrated\(^3\) reporting, internal financial controls, as well as the identification and management of financial risks (IOD, 2009b:56, par. 1). These increased expectations emanated for instance from financial reporting, which became increasingly complex.

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\(^2\) Economic growth in a country increases the number of work opportunities available to the public. An increase of a country’s workforce will lead to more income being generated by individuals. This income has a positive effect on individuals in terms of improved living conditions, improved medical services and education opportunities (Reed, 2002:232).

\(^3\) Integrated reporting is a medium used to communicate to stakeholders the way in which a company’s strategy, CG aspects, performance and future goals, in the context of the external environment, can evolve into value creation (IIRC, 2013). It provides stakeholders with information about the social, economic and environmental influence of the company on the community (i.e. triple bottom line impact) (IOD, 2009b:59, par. 24).

Companies’ ability to successfully do business across their country’s borders and successfully raise capital is dependent on investors’ perceptions of a company’s CG practices (Bhasa, 2004:6), which include a value-adding AC. Thus, the necessity for companies to adopt effective CG practices has gained momentum worldwide (Bhasa, 2004:6).

### 2.2.3 Corporate governance models

There are two models of CG, one being the Anglo-American model and the other the European model[^4] (West, 2006:434). The Anglo-American model is associated with shareholder theory (§ 2.2.3.2) (Bhasa, 2004:6; West, 2006:434), focusing only on the benefits to be reaped by the shareholders of a company (Reed, 2002:236; Bhasa, 2004:6). The Anglo-American model is also associated with the use of equity to finance the company through active financial markets (Kakabadse & Korac-Kakabadse, 2002:313; Reed, 2002:230; Aquilera & Jackson, 2003:447), widely spread ownership, an active corporate control market, a less stringent labour market (Aquilera & Jackson, 2003:447), a single-tier board structure[^5], limited investments from banks, and limited or no interference from the government (Reed, 2002:230). This model is applied by the United Kingdom (UK) and the United States of America (USA) (Kakabadse & Korac-Kakabadse, 2002:310; West, 2006:445), with the exception that these countries’ CG practices and/or codes also advocate that companies should acknowledge the needs of their stakeholders (NACD, 2008:6; FRC, 2012:3). South African companies, which

[^4]: This model is also referred to as the Japanese model (West, 2006:434), the Nippon-Germano model (Bhasa, 2004:6) or the Continental European model (Kakabadse & Korac-Kakabadse, 2002:312).

[^5]: A single-tier board structure is a unitary board which consists of both executive and non-executive directors. These directors are appointed by the company’s shareholders (Millet-Reyes & Zhao, 2010:286–287).
include AltX listed companies, follow in the footsteps of the UK and the USA by adopting the Anglo-American model of CG with a few amendments. One of these amendments is the consideration of the interests of other stakeholders in business decisions and operations (§ 2.3.1).

In contrast to the Anglo-American model, the European model supports stakeholder theory (§ 2.2.3.2), which emphasises that welfare should be created for all who are affected by a company (West, 2006:434). The European model is characterised by the use of retail banks to finance the company, two-tiered board structures, which include the participation of representatives of the company’s workforce (Kakabadse & Korac-Kakabadse, 2002:313), concentrated ownership, an inactive corporate control market and strict labour markets (Aquilera & Jackson, 2003:447). Japan and Germany are two countries which follow the European model (West, 2006:444).

Shareholder theory (§ 2.2.3.2) is an extension of agency theory (Moore, 1999:120), which explains the reason for discussing agency theory before shareholder theory.

### 2.2.3.1 Agency theory

In a complex company with many dispersed shareholders, it is impractical for all these shareholders to manage the company (Fama & Jensen, 1983:322). Consequently, principals outsource this function to agents in order to use the agents’ advanced skills to optimally manage the principals’ funds invested in the company (Shleifer & Vishny, 1997:740) and to prevent the costs that would be incurred if all principals played a part in company decision-making (Fama & Jensen, 1983:309).

This outsourcing function of management creates a separation between the principals (owners, shareholders) and the agents (board, controllers, managers), which is a feature of agency theory (Jensen & Meckling, 1976:308–309; Fama & Jensen, 1983:301–302). However, a separation between the principals and the agents could lead to agency problems. To illustrate:

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6 A two-tier board structure consists of a management board and a supervisory board, each having its own chairperson. The management board is responsible for operating the company whilst the supervisory board watches over the management board. Employees, together with non-executive directors, serve on the supervisory board (Millet-Reyes & Zhao, 2010:286–287).
The goals of the principals and agents may conflict (Eisenhardt, 1989:58, 61; Hill & Jones, 1992:132; Fligstein & Freeland, 1995:26; West, 2006:434). Principals, such as shareholders, may require an increase in share price and dividend payments at a reasonable risk, whilst the agents may prefer company growth to short-term profit (Aquilera & Jackson, 2003:448). This can be argued, as principals may not only be shareholders (as advocated by agency theory) (Aquilera & Jackson, 2003:450), but also financiers who are also interested in a company honouring prearranged repayments (Shleifer & Vishny, 1997:761).

The principals may be unable to verify the actions of the agents (Eisenhardt, 1989:58, 61).

The level of risk that the principals and the agents prefer may differ, which has a direct effect on the preferred actions to be taken by the principals and the agents (Eisenhardt, 1989:58).

Agents may mismanage the funding supplied by principals (Shleifer & Vishny, 1997:741–742).

To address these agency problems, CG was introduced (Fama & Jensen, 1983:312; Eisenhardt, 1989:59; Rossouw et al., 2002:289; Barac & Moloi, 2010:19). CG includes practices such as the following:

- Protecting principals from agents that misuse the power vested in them (Shleifer & Vishny, 1997:742, 750, 773). Principals may therefore appoint a board to act on their behalf (Fama & Jensen, 1983:311; Shleifer & Vishny, 1997:764).
- Monitoring agents' behaviour by information being made available to the principals (Eisenhardt, 1989:60–61, 64). Accordingly, principals can use this information to monitor the board’s performance in terms of the number of board meetings held, the number of subcommittees appointed by the board, the experience and tenure of board members (Eisenhardt, 1989:65) and budgeting information (Fama & Jensen, 1983:310; Eisenhardt, 1989:61).
- Making incentive pay-outs or prearranged pay-outs linked to agents’ performance (Fama & Jensen, 1983:302; Hill & Jones, 1992:132). These pay-outs can be based on an incentive contract, which is in line with the principals’ expectations of the company (Fama & Jensen, 1983:302; Eisenhardt, 1989:60; Shleifer & Vishny, 1997:744).
2.2.3.2 Shareholder, enlightened shareholder and stakeholder theory

As noted in section 2.2.3, the Anglo-American model is concerned with shareholder theory. According to this theory, the company is merely responsible for maximising the shareholders’ profits (Friedman, 1970; Moore, 1999:118; Reed, 2002:236; Andreasson, 2011:650). Shareholder theory is an extension of agency theory and faces similar agency problems (§ 2.2.3.1) because shareholder theory also suggests a separation between the principals and the agents of a company (Andreasson, 2011:650). Shareholder theory concentrates on two parties only – the principals and the agents of the company. It has on this basis been criticised by scholars (Bhasa, 2004:8) because a company’s sustainability also depends on other internal and external stakeholders.

Shareholder theory is closely related to enlightened shareholder theory, which takes the interests of other stakeholders into account only to the point where these stakeholders can affect shareholders’ profits. According to enlightened shareholder theory, stakeholders have an instrumental role in achieving the company’s objective of profit maximisation but nothing more (Moore, 1999:118–119; IOD, 2009a:12; Muswaka, 2012:3). In other words, not all stakeholders’ rights are protected, merely the rights of those stakeholders who may contribute to a company’s profit maximisation objective.

As highlighted in section 2.2.3, the European model is concerned with stakeholder theory. In terms of stakeholder theory, a company should serve not only its principals, but also other stakeholders of the company (Reed, 2002:236; Wieland, 2005:84; West, 2006:434), as all stakeholders have a right to reap benefits from the company and to participate in its decision-making processes (Freeman, 2002:39). Stakeholder theory is also concerned with a company’s moral obligation (Moore, 1999:118) to act in an ethical manner (Freeman, 2008:39).

Various internal⁷ and external⁸ stakeholder groups (§ 2.2.3.3) have an influence on a company’s growth, profitability (Fligstein & Freeland, 1995:22) and ongoing existence (Bhasa, 2004:6). To ensure these, the interdependencies between the company and the

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⁷ Internal stakeholders are also referred to as primary stakeholders and are those individuals or groups whose support is essential in order to make the company sustainable (Freeman, 2008:47).

⁸ External stakeholders are also referred to as secondary stakeholders and are those individuals or groups who can influence a company’s operations (Freeman, 2008:47).
stakeholder groups need to be cautiously managed by the company’s agents through the introduction of processes and systems, as well as the maintenance of stable relationships (Fligstein & Freeland, 1995:22). To illustrate: a company can only continue with its operations if its employees (as internal stakeholders of the company) fulfil their responsibilities efficiently and effectively. In this regard, a performance bonus system could be introduced to support employee motivation and the smooth running of the company. It is therefore apparent that the CG practices adopted by a company should include the introduction of processes and systems and the nurturing of relationships with its stakeholders that assist the company in protecting stakeholders’ rights (Fligstein & Freeland, 1995:22).

Furthermore, during an organisation’s business operations and decision-making, agents should not only consider their impact on an individual stakeholder group, but also take cognisance of the interests of all stakeholder groups. This consideration will result in realising maximum value for all stakeholder groups. Accordingly, stakeholder groups should not be seen in isolation but as being interconnected in the process of value creation. For example, customers would not be able to obtain goods and services without the company’s suppliers and employees (Freeman, 2008:48).

In South Africa, the Constitution of the Republic of South Africa, 1996 (Constitution), the Labour Relations Act no. 66 of 1995, the Broad-Based Black Economic Empowerment Act no. 53 of 2003 (Broad-Based Black Economic Empowerment Act) and King III, all advocate the consideration of the interests of stakeholders (Freeman, 2002:39, 40; Freeman, 2008:41; IOD, 2009a:46–48, principles 8.1–8.5). Furthermore, section 76(3) of the South African Companies Act (RSA, 2009) and King III (IOD, 2009a:19, principle 1.1) hold that the board should act ethically and display ethical leadership qualities. In other words, an obligation to consider every stakeholder group and to act ethically has been reflected in the broadening of the CG practices to be adopted by South African companies (Marx & Van Dyk, 2011:39), as required by legislation (Freeman, 2002:39–40; Freeman, 2008:41) and recommended by King III.

It may be argued that the theory adopted by AltX listed companies depends on the ultimate goal of the company. An AltX listed company could merely be interested in maximising shareholder wealth in the short term; on the other hand, the company could have a long-term vision to grow its business and create wealth. Where maximum
shareholder wealth in the short term is the primary goal, such a company would focus primarily on shareholders and the interests of those stakeholders that play an instrumental role in increasing shareholder wealth. Such companies would therefore embrace an enlightened shareholder approach. However, as laid down by the Companies Act, other stakeholders should also be considered (§ 2.3.2). With regard to AltX listed companies that have the main goal of growing their businesses in the long term, it may be argued that maximum growth and wealth can be achieved by considering the interests of all stakeholders during the companies’ decision-making processes and business operations. Thus, these companies would adopt stakeholder theory.

2.2.3.3 Stakeholder groups

The stakeholders of every company are unique and who or what they are depends on the company’s circumstances (IOD, 2009b:100, par. 6). Figure 2.1 illustrates the different internal and external stakeholder groups.
The following section explains the internal and external stakeholder groups’ connection with the company.

**Providers of capital** – Shareholders and financiers provide the capital for the company. In return, shareholders receive control rights (i.e. the right to vote for important matters
concerning the company, such as voting for the members of the board), as well as voluntary dividend payments in exchange for their capital contribution. However, there is also the risk that shareholders will not receive any benefits in return and may even lose their initial capital contribution (Shleifer & Vishny, 1997:750, 764). Financiers, on the other hand, provide the company with debt and are entitled to prearranged repayments (Hill & Jones, 1992:133; Shleifer & Vishny, 1997:752, 761–762). If a company does not honour its debt repayments, the financier may be entitled to exercise certain rights by reclaiming some of the company’s assets (Shleifer & Vishny, 1997:752, 761–762).

As described in the previous section, an AltX listed company could merely be interested in maximising shareholder wealth in the short term, or the company could have the vision to grow its business and create wealth in the long term. Whichever strategy it chooses, the company may prefer to be financed by equity rather than debt. As Shleifer and Vishny (1997:765) state, if a company is financed solely by debt, it hands over control rights to its financiers. Thus, whatever the ultimate goal of AltX listed companies, they would probably not consider financiers to be the primary providers of capital.

**Customers (consumers)** – Customers pay for a service(s) or a product(s) produced by the company, which eventually increases the company’s revenue. This stakeholder group expects the service delivered or product purchased to be value for money (Hill & Jones, 1992:133) and to be ethically delivered or produced (Brown, Harris, Hofny-Collins, Pasiecznik & Wallace, 2000:70).

**Public (society or citizens) and communities** – The public at large and the community in which a company is situated provide it with national and local infrastructure respectively, as well as the resources it needs in the form of labour that enable it to operate (Hill & Jones, 1992:133). Therefore, this stakeholder group provides a company with an implied licence to operate. In return, it expects that companies will not harm the welfare of the group but improve its quality of life (Hill & Jones, 1992:133; Reed, 2002:239). Furthermore, companies are expected to act legitimately by respecting the society’s rules, values and expectations and acting accordingly (Palazzo & Scherer, 2006:71).

**Suppliers** – Suppliers are important to a company because the quality, price and timeliness of the products or services being supplied affect the company’s own products
or services (Fligstein & Freeland, 1995:22) and ensure the smooth running of the company (Bhasa, 2004:8).

**Board, management and employees** – The board is accountable to the company’s stakeholders (IOD, 2009a:12). Management and employees dedicate their time and skills to the company, expecting in return decent compensation and acceptable working conditions (Hill & Jones, 1992:133). The board’s role in the company is similar to that of management and employees (Freeman, 2008:44), although employees are in a position to withhold their services should the company not live up to their expectations (Shleifer & Vishny, 1997:751), thus negatively affecting productivity (Esser, 2009:198).

**Government (state)** – The government has the power to regulate the operations of a company through the enforcement of laws (Fligstein & Freeland, 1995:22, 31). The government collects taxes from these companies and uses them to benefit society (Freeman, 2008:46), for instance in the provision of infrastructure.

**Future generations** – In view of the increasing awareness of the importance of a company’s triple bottom line impact, companies have to take cognisance of the influence their operations will have on future generations (IOD, 2009a:11; IOD, 2009b:128). Despite such awareness, companies that deplete society’s available resources place future generations at risk (Bhasa, 2004:8).

**Environment** – The awareness of a company’s triple bottom line impact also demands that companies operate in a manner that takes into consideration their negative influence on the environment (IOD, 2009a:11; IOD, 2009b:128). Despite the presence of laws and regulations that have been promulgated to protect the environment, South Africa is experiencing challenges in protecting the environment from contamination by company operations (Mathee, 2011:37, 40). Bhasa (2004:8) notes in this regard that companies releasing poisonous gases and waste products could negatively affect the environment.

**Competitors** – Companies should engage with their competitors in order to understand the way in which competitors carry out their operations. Such engagement would enable them to reap benefits (White, 1981:518), as well as be proactive in initiating certain interventions.
Although scholars (Bhasa, 2004:8–9) and voluntary codes (IOD, 2009a:10) state that the company, as a corporate citizen, should benefit, either financially or non-financially, all the stakeholders that are directly or indirectly affected by its operations, it is submitted that AltX listed companies will consider other stakeholders on the basis of their short and long-term goals, and accordingly adopt an enlightened shareholder and/or stakeholder approach, as argued in section 2.2.3.2.

2.2.3.4 Reasons for adopting corporate governance models

CG practices vary from country to country (Shleifer & Vishny, 1997:769). The reason for countries not following a globalised CG model may be explained by country characteristics. These include the influence of political forces, the role of a country’s legal system in protecting investors, a country’s financial and economic development and its social circumstances.

Influence of political forces – The political framework of a country is either a social democracy or a capitalistic economy (Bhasa, 2004:13–14), or a combination of both. The legal system of a social democracy supports the protection of the public and employees at the expense of the shareholders, in contrast to a capitalistic economy where the legal system protects investors. As such, the political framework of a country will influence a company’s CG practices (Bhasa, 2004:13–14).

Role of the legal system in protecting investors – A country’s legal system also influences the CG practices that are adopted because a legal system that protects investors will also be reflected in these practices (Bhasa, 2004:6, 10). In countries where the legal system fails to protect investors, companies need to implement more CG practices, which increase the CG implementation costs for a company. A company will only be willing to invest in CG practices if the benefits derived outweigh the cost (Doidge, Karolyi & Stultz, 2007:2, 4). Therefore, if on the basis of a cost/benefit analysis, a company decides not to implement CG practices, protection for investors from improved CG practices may be lacking. A cost/benefit analysis refers to the process of comparing the costs and the benefits of a choice with the other available alternatives. Such a process enables an informed decision to be taken (Business Dictionary, 2013).
**Financial and economic development** – Companies located in countries that experience poor economic and financial conditions will have less access to capital from local financiers and investors. Therefore, if these companies are only able to raise capital locally they will invest less in CG practices (Doidge et al., 2007:2–3, 34). In contrast to the view of Doidge et al. (2007:2–3, 34), other scholars are of the opinion that although countries may experience poor economic and financial conditions, companies can nevertheless attract local institutional investments such as pension funds successfully by implementing good CG practices (Gillan & Starks, 2003:5). Companies that raise capital outside their country’s borders, however, will regard the implementation of CG practices as important (Doidge et al., 2007:2–3, 34).

**Social circumstances** – Important social matters that are unique to a country can affect the CG practices in that country (West, 2006:433). The effect of the human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS) and the upliftment of previously disadvantaged groups should specifically be considered in this regard by South African companies (Vaughn & Ryan, 2006:511).

### 2.2.4 Corporate governance practices

As mentioned in section 2.2.3.4, CG practices differ from country to country. This differentiation not only occurs between countries, but also between companies that operate within a specific country (Doidge et al., 2007:2). The nature of CG practices prescribed by a country’s legislation directly affects the CG practices companies implement. In the USA, the Sarbanes-Oxley Act of 2002 (SOX Act) regulates the country’s CG practices, while in South Africa CG practices are regulated by the Companies Act. The word “Act” stipulates mandatory compliance (Esser, 2009:189) and a strict “comply or else” approach (Andreasson, 2011:664).

In addition to mandatory regulation, various CG codes with a voluntary compliance approach have been developed worldwide (IOD, 2009a:5; ECGI, 2013). In South Africa, compliance with King III is not enforceable by law (Vaughn & Ryan, 2006:506) and is based on an “apply or explain” principle (IOD, 2009a:6). Such voluntary compliance gives companies the option to improve on mandatory CG practices on the basis of the benefits derived from CG practices as opposed to the cost of implementing more CG practices (Doidge et al., 2007:34). If more CG practices are implemented, the direct cost
will be higher and vice versa. These costs include “out-of-pocket” costs, as well as costs associated with management time (Doidge et al., 2007:6). Alternatively, on the basis of a cost/benefit analysis a company may decide against implementing any of the CG practices contained in these codes.

The adoption of CG practices also depends on factors such as the company’s size, complexity, nature (IOD, 2009a:5) and unique characteristics (Eisenhardt, 1989:60). These unique company characteristics are derived from the qualities, interdependent relationships (Fligstein & Freeland, 1995:22; Aquilera & Jackson, 2003:447, 459) and interactions (Fligstein & Freeland, 1995:23) between the company itself and its internal and external stakeholders (Fligstein & Freeland, 1995:22; Aquilera & Jackson, 2003:447, 459). The interaction between the company and its blockholder(s)\(^9\) may lead to the board being excessively monitored and influenced by these blockholders, leading to the board having only indirect power or limiting its freedom (Bhasa, 2004:9; Mäntysaari, 2005:151). In such cases, CG practices also have to cater for the needs of the minority shareholders to ensure that the company is not being mismanaged by the blockholder(s) (Bhasa, 2004:9). However, there is also the possibility that a blockholder(s) may improve CG practices by insisting that the company’s disclosure practices be improved. Such an improvement would also benefit minority shareholders because they will be in a better position to monitor the company’s performance (Doidge et al., 2007:6). This influence of a blockholder on the board may also be present in AltX listed companies as these companies include family-owned organisations (JSE Limited, 2010c). Such companies are characterised by the shares being held by the family members who manage the company. In such cases, the blockholders may implement CG practices that benefit themselves to the potential detriment of the minority shareholders.

AltX listed companies are required by law to comply with the Companies Act and therefore do not have an option whether or not to implement the CG practices included in the Act. Paragraph 21.5(i)–(ii) of the JSE listing requirements for AltX listed companies states that such companies are obliged to apply the King III principles applicable to boards and directors or to explain the reason(s) for non-application (JSE

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\(^9\) A blockholder is referred to when ownership is concentrated in a group that holds the majority of shares (Bhasa, 2004:9).
Limited, 2014b). Apart from the King III principles applicable to boards and directors, King III also encourages AltX listed companies to apply all principles included in King III (IOD, 2009a:16) or explain the reason(s) for non-application (IOD, 2009a:6). The reasons for non-application should, however, be truthful.

It may be contended that an AltX listed company’s price-sensitivity and, thus, the implementation of the principles included in King III, depends on its primary goal, that is, maximising shareholder wealth in the short term or having the vision to grow its business and create wealth in the long term. Arguably, an AltX listed company with a short-term goal of growing its business may be more price-sensitive and therefore less inclined to implement CG practices, whilst a company that intends to grow its business and create wealth in the long term may be less price-sensitive and therefore more willing to invest in effective CG practices. Hence, depending on the AltX listed company’s primary goal, the cost of implementing the CG principles contained in King III may outweigh their associated benefits.

2.2.5 Importance of corporate governance practices

When companies implement good CG practices, including the formation and effective functioning of an AC, the number of investors willing to invest in the company increases (Shleifer & Vishny, 1997:773; Mckinsey & Company, 2000:3; Reed, 2002:230; Bhasa, 2004:12; Doidge et al., 2007:2). Consequently, companies are able to gain access to more financial resources (BRC, 1999:3, 7–8, 19; Spira, 1999b:270) because CG practices provide investor protection (Doidge et al., 2007:6).

Malherbe and Segal (2001:8) state that companies with poor CG practices were more affected during the build-up to and during the 1998 worldwide recession. Thus, although the recession resulted in a decrease in private capital inflows to all companies, those with poor CG practices were more affected (JSE Limited, 2011). However, companies can survive such a recession by adopting proper CG practices which will in turn attract investors (Van den Berghe & Levrau, 2003:72). Consequently, if companies implement more stringent CG practices, AltX market capitalisation can be improved (JSE Limited, 2010b). This implies that an AC, as a component of CG practices, also needs to operate more stringently in order to realise its value for the company and its stakeholders.
As highlighted in section 2.2.3.2, the primary goal of AltX listed companies differ. One AltX listed company might merely be interested in maximising shareholder wealth in the short term whilst another may have a long-term vision to grow its business and create wealth. What these two types of AltX listed companies have in common is that both are interested in the continued existence of their business and in creating wealth (either in the short or the long term). Thus, whatever the primary goal of AltX listed companies, it is important that they embrace good CG practices, as they will then attract more investors (Doidge et al., 2007:2), which would in turn help them achieve their goal. This benefit of good CG practices, that is, an increase of the company's investor pool, is emphasised as follows: “If there is a lack of good CG in a market, capital will leave that market with the click of a mouse” (IOD, 2002:9).

Furthermore, companies implementing good CG practices are able to borrow money on favourable terms (Francis, Hasan & Song, 2012:3). In addition, the AltX market benefits companies in the sense that it is an ideal platform for accessing an increased investor base and funds are raised by issuing shares on a regulated market (JSE Limited, 2012b). This market also benefits investors as they are able to diversify their share portfolios successfully by investing in various AltX listed companies (Mkhize & Msweli-Mbanga, 2006:87), although at a higher risk.

CG practices not only hold benefits for the company itself and its investors but also add to a country’s economic growth and long term development (Reed, 2002:229; Vaughn & Ryan, 2006:504, 506). In South Africa, CG practices not only benefit the companies themselves but also the South African economy, because high-growth potential companies that require capital have the opportunity to expand their businesses, which in turn enhances the economy (Mkhize & Msweli-Mbanga, 2006:87).

An AC, which functions as a value-adding component to the company’s operations, plays a vital part in the company’s CG practices (IOD, 2009b:56, par. 1; Mohiuddin & Karbhari, 2010:109), in turn benefitting the company and its stakeholders (Vanasco, 1994:38). This is attributable to the fact that the AC is an impartial body that has the role of protecting stakeholders’ interests (Mohiuddin & Karbhari, 2010:99, 112) in order to create prosperity for all stakeholders (Mohiuddin & Karbhari, 2010:101). An effective AC also adds value to the company and its stakeholders as it reduces the conflicts of interest between the principals of the company and its agents (Menon & Williams,

An effective AC furthermore strengthens stakeholders’ confidence in the financial reporting process (Cadbury Report, 1992:2.1, appendix 4, par. 4(h); AC Guide Review Task Force of the HKSA CG Committee, 2002:5) by ensuring high quality financial reporting (NCFFR, 1987:12, 40; Menon & Williams, 1994:123; AC Guide Review Task Force of the HKSA CG Committee, 2002:5; Mohiuddin & Karbhari, 2010:113) through its nomination of an external auditor, overseeing the external audit process (Menon & Williams, 1994:123; Abbott & Parker, 2000:48, 61) and overseeing the actions of management and the internal auditors (DeZoort, 1997:208). A value-adding AC also creates a platform from which the chief financial officer (CFO) and the external auditor may obtain assistance if disputes arise (AC Guide Review Task Force of the HKSA CG Committee, 2002:5). In addition, such an AC provides an independent view on company matters (AC Guide Review Task Force of the HKSA CG Committee, 2002:5). Finally, the presence of an effectively functioning AC guarantees that the company’s capital is being used efficiently, which results in a lower cost of capital (BRC, 1999:3, 19). As a result of these benefits, the AC has been described as a “striking force” (Islam, Islam, Bhattacharjee & Islam, 2010:181) and the “cornerstone of good governance practices” (Spira, 2006:180).

An AC can also enhance the board’s performance, helping the board to fulfil its oversight responsibilities (Menon & Williams, 1994:123), and increasing the quality of the board’s oversight over the financial reporting process (Cadbury Report, 1992:2.1, appendix 4, par. 4(a)). Moreover, the board’s chances of facing liability charges (RSA, 2009:s 77) are reduced by the AC’s active engagement with those present at AC meetings (asking probing and challenging questions) (Sommer, 1991:91; Nkonki, 2014:9). An AC that fulfils its responsibilities effectively positively affects the quality of the external audit process because when fraudulent activities are suspected, the AC should inform the external auditor. (Such activities may be discovered through the AC’s engagement with management and the internal auditors [Sommer, 1991:92] and its consistent oversight of management’s implementation of effective governance and control mechanisms.) Such actions assist the external auditor to issue a correct audit
report (an unmodified or modified audit report which accurately reflects the auditor’s opinion on the AFS) (Sommer, 1991:92). However, if rampant fraud exists which is unknown to the AC then the external auditor will not enjoy the benefits of such information.

Although the importance and associated benefits of the CG practices embraced by a company may vary, good CG practices, including an AC that performs its responsibilities in a value-adding manner, ultimately protect the interests of all stakeholders (DeZoort et al., 2002:42).

2.3 CORPORATE GOVERNANCE IN SOUTH AFRICA

Prior to 1994 and South Africa’s first democratic elections, South African companies were run in isolation, mostly insulated from “foreign product competition” (Malherbe & Segal, 2001:3). As a result of sanctions, South African companies were prevented from playing a role internationally so that South Africa failed to stay abreast of international corporate reforms (Malherbe & Segal, 2001:3) which negatively affected the manner in which companies were operated (Vaughn & Ryan, 2006:505). Such governance deficiency also prevented the markets from functioning effectively (Armstrong, Segal & Davis, 2005:11). After 1994, South Africa obtained its democratic status, which opened doors to participation in the international financial markets. This event characterised South Africa as a developing country. Thus, in the face of political uncertainty, international investment was sought in order to promote economic growth (West, 2009:10).

After 1994, certain events called for the revision of CG and AC practices. These events included South Africa’s re-entry into the global economy, where foreign investors demanded improved CG practices (Malherbe & Segal, 2001:7) which, in turn, necessitated South Africa implementing effective CG practices in order to attract investors in support of its economic growth (Armstrong et al., 2005:14; West, 2009:11; Andreasson, 2011:655). In addition, in the market crisis experienced from 1997 to 1998, companies that implemented poor CG practices were more affected than those whose CG was effective (Malherbe & Segal, 2001:8). Moreover, the failure on the part of the local market to effectively raise capital from new equity issues during 1998, particularly for small and medium-sized companies, highlighted the need to modernise the
prevailing CG and AC practices. Prospective investors believed particularly in this regard that “they [were] unable to assess and monitor the management of these firms” (Malherbe & Segal, 2001:8). Lastly, the number of corporate collapses that occurred both worldwide and locally (e.g. Masterbond in South Africa), mainly as a result of poor CG practices (Task Force Report, 2007:1), added momentum to the updating of CG and AC practices.

This section highlights the specific CG model adopted by South Africa and includes a discussion of the South African legislation, codes and reports, as well as the listing requirements which provide guidance on CG. Throughout this section, reference is specifically made to the AC and AltX listed companies.

2.3.1 Corporate governance model

South Africa serves as an example of a country that follows the Anglo-American model of CG (owing to South Africa’s historical colonial link with the British) (West, 2006:435), although the South African model displays certain features that are not typical of it (West, 2006:435, 441; West, 2009:12; Andreasson, 2011:660) and which are the result of the country’s unique circumstances. The Anglo-American characteristics which are manifested in South Africa’s CG model are, inter alia, that businesses mainly raise their funds from the public through the JSE, single-tiered boards are established (West, 2006:435; West, 2009:11) and banks are involved in these businesses through arms-length deals (West, 2009:11). In contrast with the Anglo-American model which follows a shareholder approach (West, 2006:441; West, 2009:12, 14), King III advocates a stakeholder consciousness and responsibility (IOD, 2009a:11–12; Andreasson, 2011:656). In adopting stakeholder consciousness and responsibility, the model leans towards the European model, which recommends a two-tier board that includes stakeholders. In order to compensate for not having a two-tiered board (Kakabadse & Korac-Kakabadse, 2002:313), South Africa’s CG practices advocate a single-tiered board made up of a majority of independent, non-executive directors (IOD, 2009a:25, principle 2.18). The practice of establishing a single-tiered board is also adopted by AltX listed companies.

The Anglo-American model is also associated with limited or no interference from the government. However, in South Africa, government has intervened in both the labour
and the capital markets through the promulgation of the Employment Equity Act no. 55 of 1998 and the Broad-Based Black Economic Empowerment Act (West 2006:435, 440–441). These interventions were deemed necessary to promote the upliftment of previously disadvantaged groups ( Vaughn & Ryan, 2006:511). Similarly, AltX listed companies, as South African companies, are mandated by law to comply with legislation that focuses on addressing the country’s social challenges. Accordingly, CG practices are influenced by a country’s unique circumstances (West, 2006:433), as illustrated by South Africa’s “modified” Anglo-American model of CG.

2.3.2 Corporate governance and audit committee practices incorporated into legislation

In the past, the Companies Act no. 51 of 1973 (the previous Companies Act) was continually updated with various amendments to keep it relevant (Du Plessis, 2012:47). These amendments, which were mostly technical in nature (RSA, 2004:12), failed to adequately address the responsibilities of directors (RSA, 2004:17; Du Plessis, 2012:65), shareholder protection (RSA, 2004:15, 19), up-to-date CG practices (RSA, 2004:13, 19), as well as ethical and social dimensions (RSA, 2004:13). Since the advent of South Africa’s democracy, it has been necessary to promote the South African economy by encouraging foreign investment. For this reason, it was necessary to amend the previous Companies Act to make it “investor friendly” and bring it in line with global trends (RSA, 2004:13). The previous Companies Act also contained numerous onerous and costly requirements while the value of these requirements for shareholders, the market and companies remained questionable (RSA, 2004:15). Moreover, such requirements hampered the ability of small entrepreneurial businesses to enter the market to stimulate the South African economy (RSA, 2004:14). As AltX listed companies can be classified as small to medium entrepreneurial businesses (JSE Limited, 2012c), it implies that the previous Companies Act prevented these high-growth potential businesses from being registered as publicly traded companies to promote the South African economy and increase work opportunities. Furthermore, the previous Companies Act failed to take cognisance of all stakeholders in line with the 1996 Constitution (RSA, 2004:25) as it focused on shareholders only (RSA, 2004:24). Therefore, the need to address these deficiencies impelled the DTI to develop the current Companies Act, which was approved by Parliament in 2008 (Du Plessis, 2012:50) and became effective on 1 May 2011 (RSA, 2009:3).
However, the previous Companies Act’s approach to stakeholders has only been partially addressed by the current Companies Act. Certain sections of the current Companies Act still use terminology that raises questions as to whether stakeholders should be considered. Section 76(3)(b) of the Companies Act states that directors should make decisions “in the best interests of the company” (RSA, 2009), but the Act refrains from defining “the company” (Muswaka, 2012:4). In terms of common law, the phrase should be interpreted as the shareholders of the company only (Muswaka, 2012:7). In addition, sections 20(4), 162(2) and 165(2) of the Companies Act also imply that a shareholder approach is followed (Muswaka, 2012:5–6). By contrast, the enlightened shareholder approach is recognised in sections 144, 145 and 218(2) of the Act (Muswaka, 2012:6), while section 7 of the Act promotes that the interests and rights of other stakeholder groups should also be considered (Muswaka, 2012:5). The Companies Act’s approach is therefore open to interpretation as the shareholder, enlightened shareholder and stakeholder approach are all referred to (Muswaka, 2012:5–7). In light of the labour unrest and strike action in various industries in South Africa (e.g. teachers of the Department of Basic Education, workers in the telecommunication industry) (Sukhdeo, 2013; Sithole, 2015), companies have to take cognisance of the stakeholders that could negatively affect their business operations and affect value creation for shareholders. It can therefore be argued that an enlightened shareholder or stakeholder approach should be embraced by South African companies and that the Companies Act should also be interpreted in light of these approaches.

In addressing the deficiencies highlighted by the DTI in the outdated CG practices in the previous Companies Act, the purpose of the current Companies Act is to promote transparency and increase the standard of CG practices implemented by companies (RSA, 2009:s 7(b)(iii); Muswaka, 2012:4). Furthermore, a chapter dealing with CG practices was introduced in the Act (RSA, 2009:ch 2, part F; Muswaka, 2012:4), whilst another chapter describes the options and rights available to shareholders and stakeholders, namely, financiers and employees (RSA, 2009:ch 7; Muswaka, 2012:4).

The AC, as a component of CG practices, was addressed in the previous Companies Act and was incorporated into the current Companies Act with minor changes (the previous Companies Act required a minimum of two independent, non-executive directors on the AC (RSA, 2006a:ss 269A, 270A), whilst the current Companies Act
increases the required AC members to three (RSA, 2009:s 94)). Section 94(7) of the current Companies Act includes mandatory responsibilities that should be performed by an AC in order to fulfil its “custodial” role with regard to stakeholders and its “supporter” role in terms of the board. Certain of the composition requirements and responsibilities included in the current Companies Act have also been included in King III.

The composition requirements for the AC, in terms of the current Companies Act, which are aligned to the King III principles and/or recommended practices, are as follows:

- At least three members should serve on the AC (IOD, 2009a:31, recommended practice 3.2.2; RSA, 2009:s 94(2)).
- All the members of the AC should be independent (IOD, 2009a:22, principle 2.6), non-executive directors of the company (IOD, 2009a:31, recommended practice 3.2.1; RSA, 2009:s 94(4)) and may not be involved in the day-to-day management of the company or have been so involved at any time during the previous financial year (RSA, 2009:s 94(4)(b)(i)) or a prescribed officer or full-time employee of the company, nor should they have been so employed during the previous three financial years (RSA, 2009:s 94(4)(b)(ii)).
- The minister may prescribe minimum qualifications and experience that the AC as a group should possess in order to effectively fulfil its responsibilities (RSA, 2009:s 94(5)). These prescriptions were issued in a 2011 government regulation which states that at least one-third of the members of an AC must have academic qualifications or experience in economics, law, CG, finance, accounting, commerce, industry, public affairs or human resources (RSA, 2011:51). In cases where the AC does not have the skills or experience to deal with a matter, the board should approve the AC obtaining the services of a specialist or consultant (IOD, 2009a:32, recommended practice 3.2.6; RSA, 2009:s 94(11)).

In terms of the current Companies Act the responsibilities of the AC, which are aligned to the King III principles and/or recommended practices, include the following:

- To nominate the external auditor for appointment and verify the independence of the external auditor (IOD, 2009a:34, recommended practices 3.9.1, 3.9.3; RSA, 2009:s 94(7)(a)), determine the audit fee and scope (terms of reference) of the
external auditor’s appointment (IOD, 2009a:34, recommended practice 3.9.2; RSA, 2009:s 94(7)(b)), determine the nature and extent of non-audit services to be rendered by the external auditor (IOD, 2009a:34, recommended practice 3.9.4; RSA, 2009:s 94(7)(d)) and pre-approve any non-audit services rendered by the external auditor (IOD, 2009a:34, recommended practice 3.9.4; RSA, 2009:s 94(7)(e)).

- To include a report in the AFS or report to shareholders at the annual general meeting (AGM) on the manner in which the AC fulfilled its responsibilities, the independence of the external auditor and the quality of the AFS, the appropriateness of the accounting practices adopted by the company, as well as whether the company has implemented suitable internal financial control measures (IOD, 2009a:32, recommended practice 3.4.2; IOD, 2009a:35, principle 3.10, recommended practice 3.10.2–3.10.2.4; IOD, 2009b:67, par. 84; RSA, 2009:s 94(7)(f)).
- To deal appropriately with complaints received from individuals within or outside the company, which may include queries relating to accounting matters (RSA, 2009:s 94(7)(g)).
- To provide suggestions to the board on financial matters (such as accounting policies and financial control) concerning the company (RSA, 2009:s 94(7)(h)).

The board can also allocate additional functions to the AC over and above the responsibilities prescribed by legislation (RSA, 2009:s 94(7)(i)).

The current Companies Act brought South Africa’s CG practices in line with international requirements (West, 2009:15). As AltX listed companies trade publicly, they are mandated to comply with the AC composition requirements and fulfil the responsibilities in terms of the Companies Act. AC members should have adequate knowledge of these responsibilities and they should be taken seriously and be filled with enthusiasm and commitment (RSA, 2009:s 76(3)(c)), as members could be held liable if not acting in the best interests of the company (RSA, 2009:s 77).

2.3.3 Corporate governance practices incorporated into CG codes and reports

In South Africa, three versions of a voluntary CG code and/or report have been issued to date, namely, the King Report on Corporate Governance for South Africa 1994
(King I) (§ 2.3.3.1), King Report on Corporate Governance for South Africa 2002 (King II) (§ 2.3.3.2) and King III (§ 2.3.3.3), with each new version improving on the CG practices included in the preceding report. The Institute of Directors (IOD) took the initiative and issued the first CG report, namely, King I (Rossouw et al., 2002:296), as well as the subsequent revised King codes and/or reports (King II and King III) (Vaughn & Ryan, 2006:506). In developing/reviewing the three King codes and/or reports, the IOD consulted multiple documents (e.g. documents issued by the Australian Institute of Company Directors), reports (e.g. the Treadway Report of 1987, the Blue Ribbon Reports of 1996 and 1998 issued in the USA, UK reports such as the Report of the Committee on the Financial Aspects of Corporate Governance [the Cadbury report] issued in 1992, and the Greenbury Report of 1995) and websites in order to produce CG codes and/or reports in line with international trends (Kakabadse & Korac-Kakabadse, 2002:309–310). This therefore implies that CG is not a static concept as the improvement of CG practices is an active and never-ending process (Vaughn & Ryan, 2006:510) which is also demonstrated by the intended release of King IV in 2016 (IOD, 2015b). Moreover, the principles contained in King III have been incorporated into the JSE listing requirements (§ 2.3.4).

Furthermore, the influence of the King codes and/or reports on South African law cannot be underestimated as the rollout of these codes and reports mobilised the introduction and revision of a number of Acts to incorporate CG aspects (Kakabadse & Korac-Kakabadse, 2002:307); for example, the Public Finance Management Act no. 1 of 1999 (PFMA), the Municipal Finance Management Act no. 53 of 2003 (MFMA) (Kakabadse & Korac-Kakabadse, 2002:307–308) and the Insider Trader Act no. 135 of 1998 (Malherbe & Segal, 2001:64). In addition, the previous Companies Act was revised to include certain King II recommendations, leading to the promulgation of the current Companies Act (Engelbrecht, 2010:30).

**2.3.3.1 King I**

Various driving forces were behind the issuing of King I, which came into effect from November 1994 (Armstrong et al., 2005:9). These driving forces included, inter alia, the 1992 Cadbury report in the UK (Esser, 2009:189; West, 2009:11), the increasing momentum of CG worldwide (West, 2009:11), and South Africa’s democracy and re-entry in the global environment.
King I contained a number of recommendations which represented high standards for CG practices (Vaughn & Ryan, 2006:506). Important areas which were embraced in King I were the role of the board (Armstrong et al., 2005:9; West, 2009:11) in terms of its accountability and its responsibilities (Vaughn & Ryan, 2006:506) and the protection of shareholders (West, 2009:11). King I mentioned non-financial matters and the role of stakeholders (Armstrong et al., 2005:9; West, 2009:11) by referring to the triple bottom line approach and the inclusive approach (Esser, 2009:193). The triple bottom line approach advocates that a company should consider stakeholders in three categories: firstly, the effect of its products or services on the environment, secondly, its relationship with the public and, lastly, economic aspects of the company’s operations (IOD, 2002:9, par. 17). The inclusive approach goes further than the triple bottom line approach by stating that a company should define its purpose and values and communicate these to the company’s stakeholders beyond those already identified in the three categories referred to previously (Esser, 2009:193).

2.3.3.2 King II

The revision of King I led to the issuing of King II, which was effective from March 2002 (Armstrong et al., 2005:16). A need to revise King I emanated from matters such as the following:

- CG was refined worldwide (Rossouw et al., 2002:299; West, 2006:436; West, 2009:12).
- South African corporate collapses occurred that related to shortcomings in King I. These corporate collapses resulted in a decrease in shareholder confidence (Kakabadse & Korac-Kakabadse, 2002:306; Armstrong et al., 2005:15; West, 2009:12).
- There was a need to elaborate on the interests of stakeholders, to incorporate areas relating to risk and internal controls assurance and to provide suggestions to put the code into effect (Armstrong et al., 2005:15–16).
- Institutional investors insisted on improved CG practices (Rossouw et al., 2002:299).
- The South African public demanded improved CG practices deriving from the country’s transformation drive (Rossouw et al., 2002:298).
- The promotion of growth for the African continent (Rossouw et al., 2002:299).
King II repeats an extensive amount from the preceding report. However, it also includes detailed guidance on the manner in which non-financial areas should be dealt with and disclosed and gives guidelines on conforming to and enforcing corporate guidelines, prompting shareholders to take an active part in the running of the company, encouraging the media to take part in exposing companies which fail to incorporate CG practices, as well as keeping a record of directors with criminal offences to enable their disqualification from further directorships (Kakabadse & Korac-Kakabadse, 2002:310–311). King II also introduced sustainability reporting in addition to financial reporting (West, 2006:436; IOD, 2009a:13; West, 2009:12) and a company’s relationships with its stakeholders (West, 2009:12). Like King I, King II also follows an enlightened shareholder approach (§ 2.2.3.2) and refers to the triple bottom line and the inclusive approach (§ 2.3.3.1) (Esser, 2009:193).

### 2.3.3.3 King III

The current CG code and report, namely King III, came into effect in March 2010 (IOD 2009a:17). Its release is attributable to the renewed focus on sustainability (Deloitte & Touche, 2009), international changes in CG (E&Y, 2009:Introduction, par. 2; PwC, 2009:2), the rising expectations of stakeholders (E&Y, 2009:Introduction, par. 2), the issuing of the current Companies Act¹⁰ and to bring King III in line with other legislation such as the Auditing Profession Act no. 26 of 2005 (Auditing Profession Act) (West, 2009:15). To illustrate: sections 45(1) and 45(2) of the Auditing Profession Act refer to the duty of a registered auditor to report on irregularities (RSA, 2006b). Reportable irregularities are also now referred to in King III (IOD, 2009a:34, recommended practice 3.9.5).

King III is similar to King I and II in the sense that directors are accountable to company shareholders but should also act responsibly towards the company’s stakeholders (West, 2006:437; Deloitte & Touche; 2009; Esser, 2009:197), thus also following an enlightened shareholder approach. The approach of King I, II and III differs from that of the Companies Act as the latter is unclear on whether a shareholder, enlightened shareholder or stakeholder approach is preferred (§ 2.3.2).

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¹⁰ Certain King II recommendations have been excluded from King III, as these were included in the current Companies Act (Deloitte & Touche, 2009; Engelbrecht, 2010:30).
King II (IOD, 2002:10–11, par. 18) refers to certain characteristics of good CG practices which have not been included and/or clearly described in King III. However, King III (Esser, 2009:191; IOD, 2009a:9–10, 13) includes additional characteristics not described in King II which companies are encouraged to embrace. CG characteristics can be categorised as innovation and collaboration, social transformation, sustainability, and leadership:

**Innovation and collaboration** – Companies should be operating in an innovative and collaborative manner. That means that companies should stand together in adopting innovative ways of achieving results, taking into consideration the impact on society, the environment and the economy (IOD, 2009a:13).

**Social transformation** – Previously disadvantaged people should be provided with opportunities to improve the company and society (IOD, 2009a:13).

**Sustainability** – A company should be operated in a sustainable manner (IOD, 2009a:10) by considering its impact on society, the environment and the economy (IOD, 2009a:12–13). From an ethical and financial perspective, it is essential for a company in the 21st century to conduct sustainable operations (IOD, 2009a:9). Furthermore, companies should integrate their sustainability reporting with their financial reporting. This sustainability reporting should include information about the company’s impact on society, the environment and the economy. The board should also provide information on ways in which the company can enhance the positive aspects of the business and mitigate the negative aspects (IOD, 2009a:12–13).

**Leadership** – The leaders of companies should be independent (IOD, 2002:11, par. 18.3; IOD, 2009a:25, principle 2.18), disciplined (IOD, 2002:10, par. 18.1), responsible, accountable, fair and transparent in fulfilling their responsibilities (IOD, 2009a:9). These leadership qualities can be explained as follows:

*Independence* (IOD, 2009a:25, principle 2.18) – Independence refers to the systems that management has put into place to minimise or avoid conflicts of interest (IOD, 2002:11, par. 18.3).
Discipline – Discipline refers to the fact that a company’s senior management should demonstrate a commitment to behave in a way that is universally accepted as being correct and proper (IOD, 2002:10, par. 18.1).

Responsibility – Responsibility refers to management’s responsibility for the company’s assets and to perform its responsibilities in an ethical and sustainable way (IOD, 2009b:21, par. 14.1) and the punishment of mismanagement. It further implies acting responsibly in respect of the legitimate interests of the company’s stakeholders (IOD, 2002:11, par. 18.5).

Accountability – Accountability refers to the mechanisms that allow a company’s board, which acts as the decision-makers in a company (IOD, 2002:11, par. 18.4), to substantiate its decisions and behaviour to its shareholders and stakeholders (IOD, 2009b:21, par. 14.2). These mechanisms include the board’s duty to issue AFS and an integrated report. Such mechanisms provide investors and other stakeholders with the opportunity to question a company’s decision-makers (IOD, 2002:11, par. 18.4) about the financial decisions taken, sustainability and value creation.

Fairness – Fairness refers to taking the reasonable interests of every one of the company’s stakeholders into account (IOD, 2009b:21, par. 14.3).

Transparency – Transparency refers to the ease with which stakeholders can obtain information about a company’s performance and sustainability to enable them to fully understand the manner in which a business is operated (IOD, 2009b:21, par. 14.4).

The foundation of good CG practices in a company revolves around the adoption of the characteristics associated with good CG (IOD, 2009a:9). As the board is regarded as the guardian of CG (IOD, 2009a:21, principle 2.1), the leadership qualities associated with good CG practices should be adopted by individual board members and specifically by the AC’s chairperson who leads and represents the AC.

Apart from the characteristics of good CG described in King III, King III also improved on the preceding King II in other areas, for example:
King III includes a code which stipulates the principles of CG and a report which deals with recommendations for companies in relation to each of the principles included in the code. These recommendations are based on best practice guidelines (IOD, 2009a:19).

King III’s reference methods, its structure and the practical guidance offered are an improvement on King II. Its reference to stakeholders is dealt with in a more organised and structured manner than King II (Esser, 2009:196). Also, the structure of King III is more user-friendly than King II, which was criticised by Esser (2009:195–196) for dealing with the same concept in a number of paragraphs. Accordingly, King III refers to a principle and then explains the principle. Furthermore, King II provides limited practical guidance on the protection of a company’s stakeholders; this is in contrast to a specific chapter of King III which was dedicated to stakeholder relationships (Esser, 2009:196; IOD, 2009b:99–106). Practice notes were also published for King III (IOD, 2012).

King III builds on the practices of King II (E&Y, 2009:Introduction, par. 3), requiring companies to integrate their sustainability reporting in their financial reporting, while King II merely recommended sustainability reporting in addition to financial reporting (IOD, 2009a:13).

King I was only applicable to companies with securities listed on the JSE, banks, financial and insurance entities as defined in South African financial services legislation, public sector entities and agencies that fell under the Public Entities Act no. 93 of 1992 (Public Entities Act), as well as large unlisted public companies (IOD, 1994:5, par. 2). King II followed the same application as King I, except that public sector entities and agencies that fell under the Public Entities Act were replaced by those that fell under the PFMA and the MFMA (IOD, 2002:20, par. 1.1). In addition, King II excluded large unlisted public entities as an affected party. In contrast with King I and II, King III is applicable to all entities, notwithstanding the manner and form of their incorporation (IOD, 2009a:16).

King III includes additional principles and recommendations such as alternative dispute resolution (E&Y, 2009:Introduction, par. 3).
2.3.3.4 Audit committee practices incorporated into King III

In contrast with the Companies Act, which describes the mandatory AC composition and responsibilities of particular companies only (public companies, state-owned companies or other companies in terms of their memorandum of incorporation) (RSA, 2009:s 94), King III recommends voluntary principles (§ 2.3.3.5) relating to the AC. These principles include the recommendation for all companies to appoint an AC (IOD, 2009a:16) and contain additional general and composition recommendations, as well as the responsibilities that an AC should follow.

The following general and composition recommendations are included in King III, in addition to the requirements included in the Companies Act:

- The AC and its members should be evaluated on an annual basis (IOD, 2009a:28, principle 2.22).
- The AC should be chaired by an independent, non-executive director (IOD, 2009a:32, principle 3.3) who should participate in the setting and agreeing of the AC’s agenda (IOD, 2009a:32, recommended practice 3.3.2).
- The chairperson of the board should not be a member or the chairperson of the AC (IOD, 2009a:31, recommended practice 3.2.3).
- The AC, as a group, should consist of members with the qualifications, knowledge and experience required to enable it to fulfil its responsibilities (IOD, 2009a:31, recommended practice 3.2.4).
- AC members should keep abreast of the latest developments in order to maintain their skill levels (IOD, 2009a:27, recommended practice 2.20.4; IOD, 2009a:32, recommended practice 3.2.5).

While AC responsibilities are stipulated in the Companies Act, further responsibilities are included in King III:

- Review the integrated report (IOD, 2009a:32, principle 3.4).
- Ensure that the company follows a combined assurance model in order to identify and deal appropriately with significant risks faced by the company (IOD, 2009a:33, principle 3.5; recommended practice 3.5.1). The AC should ensure that the assurance providers complement each other; in other words their efforts
should not overlap (Nkonki, 2014:45), and there is no oversight in identifying and dealing with significant risks.

- Ensure that the company’s finance function is of a high standard in terms of resources, qualifications and experience (IOD, 2009a:33, principle 3.6).
- Oversee the internal audit function (IOD, 2009a:33, principle 3.7) by being involved in the appointment, dismissal and performance review of the chief audit executive (CAE) (IOD, 2009a:33, recommended practice 3.7.1). The AC should also review and approve the internal audit plan (IOD, 2009a:33, recommended practice 3.7.2) and ensure that the internal audit function is exposed to an independent quality review to assess its effectiveness (IOD, 2009a:34, recommended practice 3.7.3).
- Play a role in the company’s risk management processes with specific reference to financial reporting risks, internal financial controls designed to mitigate risks, as well as fraud risks and information technology (IT) risks which relate to financial reporting (IOD, 2009a:34, principle 3.8, recommended practice 3.8.2–3.8.2.4).
- Keep up-to-date on the reportable irregularities recognised and reported on by the external auditor (IOD, 2009a:34, recommended practice 3.9.5) and review the quality of the external audit process (IOD, 2009a:34, recommended practice 3.9.6).
- Use the integrated report to provide information about the AC’s role, composition, meetings and activities (IOD, 2009a:35, recommended practice 3.10.3).

AC responsibilities should be included in a charter (pre-approved by the board) (IOD, 2009a:31, recommended practice 3.1.3) and fulfilled, inter alia, during the AC meetings, which should be conducted at least twice a year (IOD, 2009a:31, recommended practice 3.1.4). Furthermore, to enable it to fulfil its responsibilities the AC is required to meet with the internal and external auditor at least once during the year without the presence of management (IOD, 2009a:31, recommended practice 3.1.5).

2.3.3.5 Voluntary compliance

The previous King codes and/or reports (King I and King II) were voluntary, which is in line with the current King III, which is also voluntary in nature. Therefore, on its own King III cannot assure high standards of CG in South Africa (Kakabadse & Korac-
Kakabadse, 2002:309; Armstrong et al., 2005:22–23; Esser, 2009:189). The “apply or explain” principle it adopts (IOD, 2009a:6) requires directors to explain the manner in which the principles and recommendations included in it have been applied and, in the case of non-application, to explain why the recommendation was applied differently or to provide reasons for not following such a recommendation (IOD, 2009a:6). The manner in which a company implements CG practices is influenced by the board’s awareness of the benefits of CG practices for the company, the leadership qualities of a company’s management, as well as the level of participation by shareholders and stakeholders in the company’s affairs (Kakabadse & Korac-Kakabadse, 2002:311).

There are mixed perceptions on whether King III should be mandatory or voluntary. Mervin King (chairman of the King Committee on CG in South Africa, who compiled King I, King II and King III) and a number of business leaders have reiterated their concerns about “overregulating” companies by requiring mandatory compliance with King III (Andreasson, 2011:663–664). According to Mervin King, mandatory compliance will merely result in a “box-ticking” exercise without due regard to the quality of CG practices being adopted (Hogg, 2006). Such an exercise may also result in the company being too focused on the compliance aspect\footnote{For example: The US enacted the SOX Act to improve the reliability of financial reporting, but such measures were proven ineffective as the global financial crisis of 2008 occurred because the AFS of large financial institutions were erroneous (Leech & Leech, 2011:296).} which may reduce the time being spent on measures to increase the company’s performance (IOD, 2009a:5). Furthermore, many business leaders claim, and King III states, that mandatory compliance could ultimately impose unaffordable extra costs on companies (IOD, 2009a:5; Andreasson, 2011:661). Nevertheless, regulators and politicians may welcome a mandatory approach as a result of their priorities, which are concerned with the upliftment of society, because King III specifically addresses the influence of companies’ operations on their stakeholders (Andreasson, 2011:662).

Although King III follows a voluntary approach, the JSE includes the application of the King III principles in its listing requirements for companies listed on the main board (§ 2.3.4). Furthermore, the Companies Act states that a director should act in the best interests of the company and could be held liable if not conforming to this requirement (RSA, 2009:ss 76(3), 77). King III, although voluntary in nature, can thus be a valuable source, providing directors with best practice guidelines for complying with the
requirements stipulated in the Companies Act (Deloitte & Touche, 2009) and, hence, reduce their liability risk.

2.3.4 Corporate governance and audit committee practices incorporated into listing requirements

In 1995, the JSE listing requirements were revised to include the requirement for listed companies to indicate the extent to which they have followed the recommendations of King I in their annual reports (Malherbe & Segal, 2001:59; Armstrong et al., 2005:15). The listing requirements were again amended to bring them in line with King II (IOD, 2009a:5). A further amendment occurred when King III was issued, when the JSE once again updated CG practices to include a requirement for listed companies to apply the principles contained in King III or explain the reason(s) for non-application (Andreasson, 2011:663; JSE Limited, 2012a:par. 8.63(a), 21.5). The latest revision of the JSE listing requirements was made during 2013 and took effect from 30 September 2014 (JSE Limited, 2014a:1). This amendment was made to enable companies that were already listed in Australia, London, New York and Toronto to list faster and more easily on the JSE’s main board or on the AltX. The administrative process for applying for listing was consequently relaxed (Finweek, 2014). This amended process also resulted in the application or explanation (in the case of non-application) of AC principles in terms of King III no longer being mandated for AltX listed companies. Arguably, this amendment was done to encourage business development (particularly for small and medium-sized companies) and improve the South African economy. Further investigation into the impact of this amendment relating to AC practices on business development and the South African economy could be a possible area for further research.

In terms of CG practices (which include AC practices), the latest JSE listing requirements, which are applicable to main board companies, remain unchanged with companies still being required to apply the principles contained in King III or to explain why they are not doing so (JSE Limited, 2014b:par. 8.63(a)). These listing requirements also include a number of CG stipulations for which companies are not given the option of non-application. These include the following:
• The board should be appointed through a formal process involving the nomination committee if necessary (IOD, 2009a:26, recommended practices 2.18.7, 2.19.1; JSE, 2014b:par. 3.84(a)).

• The board should consist of members with balanced power and authority levels (IOD, 2009a:25, principle 2.18; JSE, 2014b:par. 3.84(b)).

• The company should appoint a chief executive officer (CEO) and a chairperson, with these positions being held by two different individuals (IOD, 2009a:24, principle 2.16; JSE, 2014b:par. 3.84(c)).

• An AC and a remuneration committee must be appointed in compliance with King III and, if necessary, a risk and nomination committee as well. In addition, the composition of these committees, a description of their mandates, the number of meetings held and other important information about these committees must be disclosed in the company’s annual report (IOD, 2009a:29, recommended practice 2.23.6; IOD, 2009a:31, principle 3.1; IOD, 2009a:35, recommended practice 3.10.3; JSE, 2014b:par. 3.84(d)).

• The AC must ensure that the CFO is competent to perform his/her responsibilities and report annually to the company’s shareholders in the annual report that this duty has been duly performed (IOD, 2009a:33, principle 3.6; JSE, 2014b:par. 3.84(h)).

In addition to the CG stipulations listed above, further CG practices not covered by King III were introduced. These include the following:

• A curriculum vitae (CV) of each director must be provided in the case of a new listing. Where a director stands for re-election or election at a general meeting or AGM, the director’s CV should accompany the notice of such meeting (JSE Limited, 2014b:par. 3.84(e)).

• Each director should be categorised as executive, non-executive or independent (JSE Limited, 2014b:par. 3.84(f)).

• If motivated by the AC, a listed company may request the JSE’s approval for its executive CFO to be appointed on a part-time basis only (JSE Limited, 2014b:par. 3.84(g)).

• The board should evaluate the competence, experience and qualifications of the company secretary on an annual basis and report to its shareholders, via the
annual report, that this duty has been successfully performed (JSE Limited, 2014b:par. 3.84(i)).

- Where the company secretary fails to maintain an arms-length relationship with the company and/or is a director of the company, the board should clearly substantiate, through the company’s annual report, that the company secretary is still able to perform his/her CG role effectively (JSE Limited, 2014b:par. 3.84(j)).

The current JSE listing requirements also include additional responsibilities for the AC:

- The AC should only recommend that an auditor be appointed (at the AGM) if such an auditor is listed on the JSE list of auditors (JSE Limited, 2014b:par. 3.86).
- The chairperson of the AC and the board should sign a letter stating that they are satisfied with the quality and completeness of the financial information and that the AC has recommended that the information be approved by the board. This letter should be submitted to the JSE before a company will be listed (JSE Limited, 2014b:par. 16.10(u)(i) and (ii)).
- The chairperson of the AC must approve the working capital pack prepared by the CFO (JSE Limited, 2014b:par. 25.2(a)). This pack includes documents such as a working capital forecast for the next 12 months, a review of cash flow projections, future commitments, contingent liabilities and the statement of financial position borrowings (JSE Limited, 2014b:par. 25.4).

It is apparent that the JSE regards CG as an important area that should form part of every company listed on the JSE’s main board. This is illustrated by its reference to King III, and the inclusion of additional CG requirements and AC responsibilities.

In terms of CG practices (which include AC practices) for AltX listed companies, the current JSE listing requirements have been relaxed in this regard, as reference is now only made to one CG element of King III. These listing requirements state that AltX listed companies should include a narrative statement regarding the manner in which they apply the principles applicable to boards and directors (IOD, 2009a:21–31, principles 2.1–2.27), detailing the reasons for every case of non-compliance (JSE Limited, 2014b:par. 21.5(i)–(ii)). Such narrative statement should enable shareholders to assess the manner in which the principles have been applied. Thus, no reference is
made to the principles and recommended practices concerning ethical leadership and
corporate citizenship, the AC’s composition and responsibilities, the governance of risk
and IT, compliance with laws, rules, codes and standards, internal audit, governing
stakeholder relationships, integrated reporting and disclosure as contained in King III
(IOD, 2009a:19–21, governance element 1; IOD, 2009a:31–49, governance elements
3–9). In other words, where the previous JSE listing requirements for AltX listed
companies referred to the mandatory appointment of an AC and that the AC principles
included in King III should be followed or its non-application thereof explained (JSE
Limited, 2012a:par. 3.84(d), 21.5(i)), the latest listing requirements relating to ACs are
less prescriptive.

Only one of the main board’s JSE listing requirements that relate to the AC’s
responsibilities is similar to the listing requirements for AltX listed companies. This
responsibility implies that the chairpersons of the AC and the board should sign a letter
stating that they are satisfied with the quality and completeness of the financial
information and that the AC has recommended that the board approve the information.
This letter must be submitted to the JSE before a company will be listed (JSE Limited,
2014b:par. 16.10(u)(i)–(ii), 21.36).

The JSE listing requirements for AltX listed companies also contain two additional
requirements for ACs. The first requirement states that the company’s designated
advisor must be invited to and should attend all AC meetings as an observer and must
support the AC to ensure the company’s compliance with the JSE listing requirements
(applicable to AltX listed companies) for one of the following periods (depending which
period is the longest): for the first year after the AltX listed company has been listed; or
until the date of the first publication of the AltX listed company’s AFS. Despite this
regulation, a designated advisor can continue to attend AC meetings if he/she deems it
necessary (JSE Limited, 2014b:par. 21.5(iii)). Secondly, a company applying to be listed
on the AltX must appoint an executive CFO and, in addition, the AC of the company
must submit written confirmation to the JSE that the CFO has appropriate skills and
experience to fulfil his/her responsibilities (JSE Limited, 2014b:par. 21.3(e)).
2.4 CONCLUSION

The AC concept is embedded in CG practices. Therefore, the definition and origin of CG were discussed (§§ 2.2.1–2.2.2). The implementation of CG practices depends on the theory being applied by a company, namely, shareholder, enlightened shareholder or stakeholder theory. The researcher consequently argued that the theory adopted by AltX listed companies depends on the ultimate goal of the company. Such a company could merely be interested in maximising shareholder wealth in the short term, or it could have a long-term vision to grow its business and create wealth. Where maximum shareholder wealth in the short term is the primary goal, companies would focus primarily on shareholders and the interests of stakeholders that play an instrumental role in increasing shareholder wealth. Such AltX listed companies would therefore embrace enlightened shareholder theory. In terms of companies with the main goal of growing their businesses in the long term, it was argued that maximum growth and wealth can be achieved in the long run by considering the interests of all stakeholders during the companies’ decision-making processes and business operations. Thus, these companies would adopt stakeholder theory (§ 2.2.3.2). However, all AltX listed companies are mandated by the Companies Act to take the interests of a number of stakeholders into account during their operations.

The influence of a blockholder(s) on the board may also be an issue in AltX listed companies as these companies include companies owned by families. Family-owned businesses are characterised by shares being held by family members who also manage the company. Because these family members act on the board of the company they may implement CG practices that are to their own advantage, possibly to the detriment of minority shareholders (§ 2.2.4).

CG practices (including AC composition requirements and responsibilities) applicable to AltX listed companies include mandatory compliance with the Companies Act (§ 2.3.2), while the JSE listing requirements for AltX listed companies state that companies are obliged to apply King III principles applicable to boards and directors (which includes the appointment of an independent AC) unless they provide a truthful explanation for non-application (§ 2.3.4). Whether or not an AltX listed company applies the remainder of King III’s recommended principles (§ 2.3.3.4) on an “apply” or “explain” basis (§ 2.3.3.5) may depend on a cost/benefit analysis. This relates to companies’ price-sensitivity and
their primary goal, namely, maximising shareholder wealth in the short term or growing their business and creating wealth in the long term. It was argued that an AltX listed company with a short-term goal of growing its business may be more price-sensitive and therefore less inclined to implement CG practices, whilst a company intending to grow its business and create wealth in the long term may be less price-sensitive and therefore willing to invest more in good CG practices (§ 2.2.4). Despite these arguments, AltX listed companies that embrace good CG practices attract more investors, enhance their survival potential and stimulate their short or long term growth potential. Furthermore, both the company and its stakeholders benefit when the AC fulfils its responsibilities effectively (§ 2.2.5).

The requirements and practices detailed in the Companies Act (§ 2.3.2), King III (§ 2.3.3.3) and the JSE listing requirements for AltX listed companies (§ 2.3.4) provide the AC with the foundation for establishing itself as a value-adding component of the company in terms of its CG practices. Such a foundation should, however, be complemented by additional attributes that should be adopted by an AC. Chapter 3 will focus on the attributes that contribute to an understanding of the way in which the AC adds value to an AltX listed company and its stakeholders.
CHAPTER 3

ATTRIBUTES INFLUENCING THE VALUE ADDED BY AN AUDIT COMMITTEE

3.1 INTRODUCTION

In chapter 2 the definition and history of CG were discussed. CG models and practices and the importance of implementing CG practices were dealt with. Chapter 2 also explained the CG model adopted in South Africa and highlighted the CG practices (which includes AC practices) for AltX listed companies as laid down by the Companies Act, the JSE listing requirements and King III.

The mere formation of an AC does not guarantee that it will add value to the company and its stakeholders (Sommer, 1991:91; Menon & Williams, 1994:124; Pucheta-Martínez & De Fuentes, 2007:1407; Chan & Li, 2008:17; Lin et al., 2008:722; Marx 2008:205; Nkonki, 2014:13). Thus, before understanding the value an AC may hold, the attributes influencing the value added by an AC will be identified and explored. This will provide a theoretical framework for investigating the way in which the AC of a specific AltX listed company adds value to the company and its stakeholders. As such, the purpose of chapter 3 is to identify and explore the attributes that should be considered in order to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders. This will be done on the basis of a review of the legislation, the JSE listing requirements for AltX listed companies, codes and reports, and scholarly literature. Once identified, these attributes will form a theoretical framework consisting of three components that influence the value added by an AC. These components are the characteristics of AC members (§ 3.2), the fulfilment of AC responsibilities through optimised activities (§ 3.3), and the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers (§ 3.4). The value that each attribute adds to the company and its stakeholders will also be dealt with. The theoretical framework for an AC is set out in figure 3.1.
Figure 3.1 Theoretical framework for an AC
3.2 THE CHARACTERISTICS OF AUDIT COMMITTEE MEMBERS

The characteristics of AC members influence the amount of value the AC adds to the company and its stakeholders. These characteristics include the independence of AC members, and their qualifications and experience, the leadership qualities of the AC chairperson, and the number of AC members who serve on the AC.

3.2.1 Independence

An AC that consists of independent members is viewed as value-adding (DeZoort et al., 2002:42, 43; IOD, 2009b:56, par. 1) because an AC’s independence influences the value added by the activities it carries out (Scarborough et al., 1998:53). Independence is defined as the absence of excessive power and favouritism which may arise as a result of the intensity of the association between a director and the company (IOD, 2009b:119). Arguably, this association may refer to the remuneration the director receives from the company. To safeguard the independence of the AC, it is submitted that the company should follow the recommendation made by King III (IOD, 2009a:30, principle 2.25, recommended practice 2.25.4) that directors should receive a fair remuneration and non-executive members should be remunerated according to a base fee, as well as a fee paid for every AC meeting attended.

The value added by an independent AC relates to the ability of its members to monitor management’s skills, decisions and actions (Menon & Williams, 1994:125) and hold management accountable to the company’s shareholders (BRC, 1999:22). An independent AC also provides the external auditor with a platform for openly expressing his/her views and concerns about management (Menon & Williams, 1994:125). Furthermore, an independent AC should support the external auditor appropriately in instances where a dispute between management and the auditors arises. Where the independent AC members have qualifications and/or experience associated with the reports issued by the external auditor, the support the AC is able to give will increase (DeZoort & Salterio, 2001:43). An independent and experienced AC would also be able to recommend the appointment of an external auditor who has a reputation for delivering high quality services (Archambeault & DeZoort, 2001:33–34, 46–47) and would demand that this auditor deliver accordingly (Abbott & Parker, 2000:48). Where a company’s AC consists of independent members, the quality of financial reporting
should increase (Carcello & Neal, 2003:290; Pucheta-Martínez & De Fuentes, 2007:1407). Indeed, AFS fraud is less likely to occur in a company where the AC consists of independent members (Beasley et al., 2000:450, 452–453).

Accordingly, efforts have been made worldwide to improve the value added by the AC by strengthening its independence. In South Africa, King III recommends that the AC should consist exclusively of independent members (IOD, 2009a:22, principle 2.6; IOD, 2009a:31, recommended practice 3.2.1; IOD, 2009a:32, principle 3.3) and non-executive directors (IOD, 2009a:31, recommended practice 3.2.1; IOD, 2009a:32, principle 3.3). The JSE listing requirements for AltX listed companies (JSE Limited, 2014b:21.5(i)) state that such companies should appoint an independent AC (IOD, 2009a:22, principle 2.6) and, where a company does not comply with this, it should explain the reason for not doing so (JSE Limited, 2014b:21.5(ii)). In addition, the ACs of AltX listed companies must comply with section 94(4)(b)(i) of the Companies Act, which states that an AC member should be a director who is not involved in the day-to-day management of the company, and has not been so involved at any time during the previous financial year (RSA, 2009). The Act further states that an AC member should not be a prescribed officer or a full-time employee of the company, nor should they have been so employed during the previous three financial years (RSA, 2009: s 94(4)(b)(ii)). Furthermore, an AC member should not be a significant supplier or customer of the company (RSA, 2009:s 94(4)(b)(iii)). It is clear from the Companies Act that directors serving on the AC should be non-executive, which is in line with King III, as noted above. Although the “independence” requirement is not specified, it is submitted that the Companies Act does nevertheless imply this. This argument is based on section 94(4)(b)(ii) of the Companies Act and is further strengthened by section 94(4)(b)(iii), as just discussed. Nkonki¹² (2014:13), however, does not support this view as it states that although the Companies Act requires AC members to be non-executive, it does not require them to be independent. However, Nkonki (2014:13) acknowledges that it is best practice that all members of the AC should be independent, non-executive directors.

¹² Nkonki is a company consisting of registered auditors, accountants and consultants offering their services to companies in the private and public sector.
In the USA, this principle is also supported by section 301(3)(A) of the SOX Act, which requires the AC to consist exclusively of independent directors (USA, 2002). In the UK, the United Kingdom Corporate Governance code (UK CG code) recommends that all the AC members should be independent, non-executive directors (UK, 2012:18, s C.3.1). An AltX listed company’s appointment of independent, non-executive directors to serve on its AC (which includes the AC chairperson) is of particular importance owing to the value the committee adds to the company and its stakeholders. Therefore, the value added by an independent AC contributes to an increase in investor confidence and advances the company’s growth (JSE Limited, 2012c).

In summary, the independence of AC members is supported by legislation, the JSE listing requirements for AltX listed companies, as well as codes and reports. In turn, independent ACs add value in terms of the activities they carry out. It is therefore important to consider the independent status of the AC when attempting to understand the way in which the AC adds value.

### 3.2.2 Leadership

An AC functions as a group. This implies that when attempting to understand the value added by the AC the group dynamics should also be considered (DeZoort et al., 2002:42). One AC attribute concerned with the group dynamics is leadership (Kalbers & Fogarty, 1993:45), which is determined by the character and actions of the AC’s chairperson. These are important if the AC is to operate successfully. The chairperson should have a “strong” character, and the ability to identify and manage information providers (Spira, 1999a:245), as well as any AC members who may prevent the AC from adding value by virtue of their dominant personality (DeZoort et al., 2002:43). When leading AC meetings, the chairperson should act in a manner that encourages open and constructive conversation (ACF, 2005:3), and ensure that all members of the AC participate and express their views (ACF, 2005:3; Nkonki, 2014:55). An AC chairperson with effective leadership qualities could prevent a situation where excessive reliance is placed on one AC member (DeZoort et al., 2002:43). The chairperson’s leadership is also important as his/her interpersonal and persuasive skills will assist in managing relationships among AC members and ensuring that the AC works together successfully as a team (DeZoort et al., 2002:43).
3.2.3 Qualifications

The AC as a group should have the necessary qualifications (Kalbers & Fogarty, 1993:37; Lin et al., 2008:727; Nkonki, 2014:14). King III recommends that the AC should collectively have the qualifications required to fulfil its responsibilities (IOD, 2009a:32, recommended practice 3.2.4). The JSE listing requirements for AltX listed companies do not make specific reference to AC members’ qualifications (JSE Limited, 2014b:21.5(i)) but the ACs of such companies should comply with section 94(5) of the Companies Act, which states that the minister may prescribe the minimum qualifications that the AC as a group should possess in order to fulfil its responsibilities effectively (RSA, 2009). These prescribed minimum qualifications include that at least one-third of the AC members must have academic qualifications or experience in economics, law, CG, finance, accounting, commerce, industry, public affairs or human resources (RSA, 2011:51). In cases where the AC does not have the qualifications or experience to deal with a matter, the Companies Act requires and King III recommends that the board should approve that the AC obtain the services of a specialist or consultant to assist it (IOD, 2009a:32, recommended practice 3.2.6; RSA, 2009:s 94(11)). It has also been found that AC members themselves believe that they should have qualifications in areas relating to law, accounting and auditing (DeZoort, 1997:210, 224).

An AC that collectively has adequate qualifications and experience should be able to add value to the company and its stakeholders in the way it fulfils its responsibilities (IOD, 2009a:32, recommended practice 3.2.4; RSA, 2009:s 94(5)). In addition, an AC with qualified and experienced members should be able to overcome the challenge of dealing with complex information (DeZoort et al., 2002:41–42). Moreover, in light of the AC’s responsibility to review the AFS and with the difficulties associated with financial reporting, financial and accounting qualifications are also regarded as particularly important (Kalbers & Fogarty, 1993:37, 45; Krishnan & Lee, 2009:243). Besides a strong CG system, the exposure of a company to litigation risk should reduce with the appointment of AC members with financial qualifications (Krishnan & Lee, 2009:243, 257). There is also a positive association between the value added to a company and an AC that consists of financially qualified directors (Chan & Li, 2008:17, 26).

King III recommends that the combined qualifications and experience of the members serving on the AC should be suitable for the company’s size, circumstances and
industry (IOD, 2009b:57, par. 13). AltX listed companies are small to medium-sized companies with unique circumstances as such companies are associated with high-growth potential upcoming companies that wish to advance their listing to the JSE main board (JSE Limited, 2012c). It can therefore be argued that the qualifications and experience levels of AC members are important for an AltX listed company to increase its growth rate as well as its subsequent listing on the JSE main board.

In summary, when attempting to understand the way in which value is added by the AC of an AltX listed company, the collective qualifications of the AC members should be considered. In addition, the qualification attribute is closely linked to the experience attribute as the literature often highlights the value added by the AC in instances where both attributes are present.

### 3.2.4 Experience

It is also important that the AC as a group has the necessary experience (POB, 1994:15; Lee & Stone, 1997:98; Spira, 1999a:236; RSA, 2009:s 94(5); Nkonki, 2014:14). For the purpose of this study an experienced member is defined as a member who has spent sufficient time in the field relating to the member’s allocated oversight responsibilities (DeZoort, 1998:2, 4; DeZoort & Salterio, 2001:43), has a business background (POB, 1994:15; Lee & Stone, 1997:98; Nkonki, 2014:14) and has an understanding of the company’s business (Spira, 1999a:236; Nkonki, 2014:14).

King III recommends that the AC should collectively have sufficient experience to fulfil its responsibilities (IOD, 2009a:32, recommended practice 3.2.4). The JSE listing requirements for AltX listed companies do not make specific reference to the level of experience required of AC members (JSE Limited, 2014b:21.5(i)). However, the ACs of such companies should comply with the 2011 government regulation in terms of the Companies Act which states that at least one-third of AC members must have academic qualifications or experience in economics, law, CG, finance, accounting, commerce, industry, public affairs or human resources (RSA, 2011:51).

To maintain and increase AC members’ experience and competencies, training courses have to be attended. The JSE listing requirements for AltX listed companies require newly appointed executive and non-executive directors (which include AC members) to
attend a compulsory Directors Induction Programme (JSE Limited, 2014b:par. 21.3(d)) at the IOD (IOD, 2015a) to improve their knowledge of the Companies Act, the JSE listing requirements for AltX listed companies and CG practices (JSE Limited, 2012c). Furthermore, AC members should keep abreast of the latest developments in risk and legislation (IOD, 2009a:27, principle 2.20, recommended practice 2.20.4; IOD, 2009a:32, recommended practice 3.2.5). Arguably, it is submitted that “new” AC members should attend an induction course, whilst “established” AC members should attend training courses which focus on the latest CG trends and developments (such as the role of IT in the company). King III recommends that the company secretary should assist with programmes relating to induction and training (IOD, 2009a:27, recommended practice 2.21.6). “Established”, experienced AC members should provide “new”, inexperienced AC members with “on-the-job” training to ensure that they are sufficiently experienced in the event that “established” AC members retire. AC members who lack adequate experience should also be assigned to a mentorship programme (IOD, 2009a:27, recommended practice 2.20.2).

The optimal collective experience level of the AC can be achieved by rotating AC members. This rotation is implied by King III’s recommendation that at least one-third of non-executive directors should retire annually (IOD, 2009a:26, recommended practice 2.18.6). KPMG (2013:3) also suggests that a policy be implemented that mandates the rotation of AC members because “new” members serving on the AC provide alternative ways of fulfilling AC responsibilities. This rotation should, however, be carefully implemented to balance the “established” and the “new” members serving on the AC (KPMG, 2013:3). Members who have served on the AC for a number of years are able to evaluate the consistency and validity of explanations provided by management and assurance providers within a specific timeframe. Such an evaluation of the consistency and validity of these answers provide the AC with evidence of the trustworthiness of the information (Gendron et al., 2004:168–169). However, there is also the risk that the independence of these members may be called into question as a result of their lengthy service. Furthermore, the observation that “new”, inexperienced members are often more careful and critical in fulfilling their allocated responsibilities demonstrates the importance of new blood (DeZoort, 1998:19). Moreover, “new” members may decrease the risk of the AC demonstrating a lack of independence, which may happen if members serve too long on the committee. All in all, a combination of “established” and “new”
inexperienced members adds balance to the AC, enabling it to function as a value-adding CG component of the company.

The collective experience level of an AC is influenced by the appointment of “new” members, who should be formally appointed (IOD, 2009a:26, principle 2.19; JSE Limited, 2014b:par. 21.5(i)–(ii)). The appointment process includes the identification of members with suitable qualifications and experience (DeZoort, 1998:3, 18; IOD, 2009a:26, recommended practice 2.19.1) and performing background and reference checks with the assistance of the nomination committee (IOD, 2009a:26, recommended practice 2.19.2). In addition, AC members should be elected and/or re-elected by the shareholders at the AGM (IOD, 2009b:40, par. 80; RSA, 2009:s 70(3)(b)(i), 94(2)).

In light of South Africa’s skills shortage (Daniels, 2009:35) and the lack of suitable candidates to serve on ACs (Barton & Wong, 2006:36; Nkonki, 2014:6), it can be expected that qualified, experienced individuals will be more willing to serve on the ACs of JSE main board companies. These companies may be viewed as being a safer harbour than AltX listed companies and capable of paying adequate remuneration for services rendered. Thus, the researcher is of the opinion that small to medium-sized companies which are still in a growing phase, such as AltX listed companies (JSE Limited, 2012c), may find it difficult to attract suitable qualified and experienced people to serve on their AC.

In summary, the experience, rotation and combination of members serving on the AC, as well as the identification and appointment of AC members, should all be considered when attempting to understand the way in which value is added by the AC of an AltX listed company.

3.2.5 Number of audit committee members

There should be sufficient members serving on the AC to enable it to fulfil its responsibilities effectively (DeZoort, 1998:2; DeZoort et al., 2002:42, 44). The Companies Act requires and King III recommends that the AC should consist of at least three members (IOD, 2009a:31, recommended practice 3.2.2; RSA, 2009:s 94(2)). However, although the JSE listing requirements for AltX listed companies state that these companies should appoint an AC (IOD, 2009a:22, principle 2.6), they do not
stipulate a specific number of members (JSE Limited, 2014b:21.5(i)). Nevertheless, the ACs of AltX listed companies must comply with the requirements of the Companies Act, thus they should have at least three members. This Companies Act requirement is echoed in the recommendations issued by the UK CG code (UK, 2012:s C.3.1). However, the UK CG code makes an exception for smaller companies where ACs are only required to have two members (UK, 2012:s C.3.1).

An AC guide issued by Nkonki (2014:13) supports a small AC, consisting of three to five members. Nkonki (2014:13) perceives that a small committee works more efficiently than a larger one. When too many members serve on the AC, efficiency levels may decrease and conflict and debate may increase (Sharma, Naiker & Lee, 2009:261). Too many members may also increase the number of AC meetings needed as a result of the differing opinions among AC members (Raghunandan & Rama, 2007:276).

As described, legislation and voluntary codes advocate that the AC should consist of a minimum of three directors. However, no mention is made of the maximum number of members that should be serving on the AC to enable it to function as a value-adding committee for the company and its stakeholders. Smaller companies (which include AltX listed companies) may be more price-sensitive (Menon & Williams, 1994:137–138) than larger companies, which may affect their willingness to bear the costs of the AC, which include those associated with the number of members serving on the AC and the remuneration received by individual members. AC costs are also affected by the number of meetings held, which may be related to the complexity of the company’s operations. With reference to the cost implications associated with the number of AC members, it can be expected that AltX listed companies with the primary goal of maximising shareholder wealth in the short term will not employ the services of more than three directors to serve on their AC. On the other hand, AltX listed companies with a long-term vision to grow their business and create wealth may employ more than three AC members.

Although the number of members should be considered when attempting to understand the way in which value is added by an AC, the independence, leadership, qualifications and experience of AC members are arguably more important in this regard.
3.3 THE FULFILMENT OF AUDIT COMMITTEE RESPONSIBILITIES THROUGH OPTIMISED ACTIVITIES

The AC’s responsibilities are prescribed by the Companies Act (ch 2, § 2.3.2) and the JSE listing requirements for AltX listed companies (ch 2, § 2.3.4), and are recommended by King III (ch 2, § 2.3.3.4). These responsibilities should be complemented by optimised AC activities that enhance the value it adds to both the company and its stakeholders. These optimised activities include the AC acting diligently during the fulfilment of its responsibilities by accepting its fiduciary role and providing feedback to the board and its stakeholders. Other activities include AC responsibilities being formalised in an AC charter and work plan and assessing the AC annually in terms of the extent to which it has fulfilled its responsibilities.

The responsibilities placed on the shoulders of the AC by the board (IOD, 2009a:31, recommended practice 3.1.3) and the company’s stakeholders could be challenging, because the AC consists of people who are unfamiliar with the day-to-day operations, controls and reporting aspects of the company, only meeting at certain intervals (DeZoort et al., 2002:41) and depends on individuals (information providers) to supply it with information (Kalbers & Fogarty, 1993:29) that could be complex (DeZoort et al., 2002:41). To overcome these challenges, it is important that optimised AC activities should be adopted. These include conducting sufficient AC meetings, where information is sent to AC members in advance so that they can prepare for them. Another activity relates to the AC’s consideration of the scheduled date, time and duration of AC meetings, which should be planned so as to ensure that meetings are well attended and add value. Furthermore, the meetings should be accompanied by accurate minutes and action sheets.

3.3.1 Fiduciary role

It can happen that AC responsibilities are fulfilled by following a “tick-box approach” (DeZoort et al., 2002:45), where responsibilities are merely carried out with no regard for quality. However, it is important that responsibilities are carried out diligently (DeZoort et al., 2002:45) to enable the AC to add value to the company and its stakeholders. As such, the AC of an AltX listed company should understand its responsibilities and perform them with enthusiasm (Nkonki, 2014:5, 7), in good faith, in
the best interests of the company and with a degree of caution, skill and experience that may be expected of a person in the same position (RSA, 2009:s 76(3)). An AC member could be held personally liable if he/she fails to act in such a manner (RSA, 2009:s 77(2)).

3.3.2 Feedback to the board and stakeholders

The AC should report to both the board and the shareholders on the fulfilment of its responsibilities (IOD, 2009a:35, principle 3.10) through a number of media. Internal communications can be in the form of minutes of AC meetings (Spira, 1999b:269; Nkonki, 2014:10, 14), the presentation of formal reports to the board (Nkonki, 2014:14) and/or oral reporting to the board by the AC’s chairperson (IOD, 2009b:58, par. 19; Nkonki, 2014:14). External communications can take place at the AGM (IOD, 2009b:67, par. 84) and through a report in the AFS (IOD, 2009a:35, recommended practice 3.10.2–3.10.4; RSA, 2009:s 94(7)(f)). In providing the board with feedback, the AC adds value to the company by illustrating its accountability to the company’s shareholders (Spira, 1999a:253). However, the JSE listing requirements for AltX listed companies make no mention of the feedback the AC should provide to the board and the company’s shareholders (JSE Limited, 2014b:21.5(i)). Furthermore, the company’s AFS and integrated report are public information which could be accessed by stakeholders. It therefore implies that a company also provides feedback to its stakeholders.

3.3.3 Audit committee charter and work plan

An AC’s responsibilities should be formalised in an AC charter (Kalbers & Fogarty, 1993:36, 45; DeZoort et al., 2002:44; 55; Nkonki, 2014:10), which should be approved by the board (IOD, 2009a:31, recommended practice 3.1.3; Mohiuddin & Karbhari, 2010:110). Although the board can allocate additional responsibilities to the AC (RSA 2009:s 94(7)(i)), the AC should be cautious about accepting responsibilities for which it is not qualified, which fall outside its scope (BRC, 1999:27; IOD, 2009a:32, recommended practice 3.2.4; Nkonki, 2014:13) or for which it does not have the time to deal with (Olson, 1999:1102; Nkonki, 2014:13). For this reason, the AC charter should be a fair reflection of the AC’s responsibilities (DeZoort, 1997:222). It may be argued that if the responsibilities included in the charter are incomplete, invalid and irrelevant, their fulfilment would not classify the AC as being a value-adding component of CG.
Such a charter, which is viewed as the “contract” between the AC and the board, is therefore important for clarifying any uncertainty about the responsibilities assigned to the AC (Nkonki, 2014:10). AC members should also be familiar with the charter so that they know what is expected of them (BRC, 1999:27).

King III recommends that the company secretary should accept responsibility for ensuring that the AC charter is kept up-to-date (IOD, 2009a:27, recommended practice 2.21.8) and should draft a yearly work plan in line with the AC charter (IOD, 2009a:27, recommended practice 2.21.11). This King III recommendation is not, however, included in the JSE listing requirements for AltX listed companies (JSE Limited, 2014b:21.5(i)). In terms of the Companies Act, (RSA, 2009:s 88(a)) the company secretary is required to provide board members both individually and as a group with direction as to the responsibilities that they need to fulfil. If the company secretary is involved in drafting the AC charter and work plan, he/she would be fulfilling this statutory duty.

3.3.4 Annual assessments

The AC and its individual members should be evaluated on a yearly basis (IOD, 2009a:28, principle 2.22) with the assistance of the company secretary (IOD, 2009a:28, recommended practice 2.21.13). The AC charter could be used as a benchmark for these annual assessments in terms of which “what went well” is discussed, areas for improvement determined and the value added by the AC gauged. This assessment could also be used to communicate to stakeholders the extent to which the AC has fulfilled its responsibilities. The results of this annual assessment should be included in the integrated report (IOD, 2009a:28, recommended practice 2.22.4). The JSE listing requirements for AltX listed companies (JSE Limited, 2014b:21.5(i)) also state that these companies should evaluate the AC and its individual members every year. Where companies do not comply with this requirement, reasons for not doing so should be explained (JSE Limited, 2014b:21.5(ii)), which is similar to the “apply or explain” provision of King III. The integrated reporting framework also supports the inclusion of these annual assessments, because they provide stakeholders with information about the effectiveness of the company’s governance structure (IIRC, 2013:25). Such communication in the integrated report could demonstrate the valuable role played by the company’s AC and build trust between the AC and the company’s stakeholders.
3.3.5 Number of audit committee meetings

The will, motivation and desire of AC members to fulfil their responsibilities in a value-adding manner (Kalbers & Fogarty, 1993:29, 40, 42, 44; DeZoort, 1998:2; DeZoort et al., 2002:42, 45; Chan & Li, 2008:17; Sharma et al., 2009:245) may be confirmed, inter alia, by the number of AC meetings held per year (DeZoort, 1998:2; DeZoort et al., 2002:45; Raghunandan & Rama, 2007:266; Nkonki, 2014:11). Thus, an AC can only be of value if it meets regularly (Menon & Williams, 1994:124).

An increase in the number of meetings held annually is associated with fewer problems being experienced in relation to the company’s financial reporting matters, an increase in the quality of services rendered by the external auditor (Abbott & Parker, 2000:48; DeZoort et al., 2002:65), higher quality AFS (Archambeault & DeZoort, 2001:34, 46–47) and fewer fraudulent activities (Beasley et al., 2000:450, 452–453). It is doubtful whether an AC that fails to meet or meets only once during the year will be of value to the company and its stakeholders (Menon & Williams, 1994:125). In terms of the number of AC meetings, an AC guideline published by Nkonki (2014:14) reiterates that at least three AC meetings should be held every year, whilst King III recommends that the AC should meet at least twice a year (IOD, 2009a:31, recommended practice 3.1.4). As the JSE listing requirements for AltX listed companies do not require such companies to follow the principles applicable to ACs contained in King III or to explain the reason for non-application (JSE Limited, 2014b:par. 21.5(i)–(ii)), they do not compel the ACs of these companies to meet at least twice a year, or to explain the reason(s) for not doing so.

According to Sharma et al. (2009:249), the ACs of New Zealand companies that are associated with rapid growth tend to meet on average 3.76 times per year. In South Africa, AltX listed companies are typically fast-growing companies (JSE Limited, 2012c). Thus, it can be expected that their ACs should meet at least four times annually (a benchmark displayed by New Zealand companies), which is 100% more than the number of meetings recommended by King III. Although it is expected that at least four meetings be held, it can be argued that fewer meetings could still serve the purpose, as an experienced AC should try to limit costs (ch 2, § 2.2.5) by scheduling only the number of AC meetings required (based on the company’s needs and unique circumstances) at appropriate intervals during the financial year.
3.3.6 Information sent to audit committee members in advance of audit committee meetings

AC members should be provided with information prior to the AC meeting to enable them to prepare effectively for it (Spira, 1999a:242; KPMG, 2014:6; Nkonki, 2014:11). It is important to note, however, that even if this information is sent out to members before the meeting, it does not necessarily mean that they will study it (Spira, 1999a:243, 245). Nevertheless, even if the AC members do not familiarise them with the content before the meeting, they can obtain a certain degree of assurance based on the volume and detail of the information provided (Feldman & March, 1981:177; Spira, 1999a:244). In addition, the person providing this information should only make sufficient and relevant information available to the AC members that relates to areas that will be discussed at the AC meeting. Providing members with irrelevant and superfluous information may prevent the AC from analysing the important information and thus from fulfilling its responsibilities (Deloitte Development LLC, 2012:5).

3.3.7 Scheduled date, time, duration and attendance of audit committee meetings

An AC guideline issued by Nkonki (2014:14) suggests that the first annual AC meeting should be scheduled before the commencement of the interim audit, another after the interim audit, and the last meeting after the completion of the year-end audit and prior to reporting. Since the AC is a subcommittee of the board, it also has a responsibility to report to the board (IOD, 2009a:35, principle 3.10) and could use the board meeting as a platform for providing feedback (§ 3.3.2). As the AC consists of directors who also serve on the board (IOD, 2009a:31, principle 3.2), it may be logistically more convenient to schedule the AC meeting before the board meeting. However, such an arrangement may hamper the AC in dealing effectively with all the issues that emerge during the meeting (Spira, 1998:34–35; Spira, 1999a:246). Furthermore, the duration of such meetings should be considered when understanding the way in which value is added by the AC (DeZoort, 1998:2; Collier & Gregory, 1999:312, 316, 318, 323, 328). Lastly, AC members should make a concerted effort to attend all AC meetings, as their collective input will enable the AC to improve the manner in which it fulfils its responsibilities to the benefit of the company and its stakeholders.
3.3.8 Minutes and action sheets of audit committee meetings

Decisions taken at each AC meeting should be included in the minutes of the meeting (Spira, 1999a:242; IOD, 2009a:27, recommended practice 2.21.12; Nkonki, 2014:14, 60) and timeously distributed by the company secretary to all members (IOD, 2009a:27, recommended practice 2.21.12). These minutes should be accurate (IOD, 2009a:27, recommended practice 2.21.12). The JSE listing requirements for AltX listed companies do not make specific reference to the company secretary’s role in preparing the minutes of the AC meetings (JSE Limited, 2014b:21.5(i)). However, these ACs should comply with the Companies Act which states that the minutes of AC meetings should be properly recorded by the company secretary (RSA, 2009:s 88(d)). As the company secretary is responsible for recording these minutes, it is submitted that he/she should always be present at the meetings. It is suggested that the minutes of the previous meeting should be approved prior to the commencement of the following AC meeting. The AC should also make use of action sheets on which members report back on agreed actions taken based on the previous minutes. Such minutes and action sheets could be used to demonstrate to the board that the AC has fulfilled its allocated responsibilities (§ 3.3.2) and to encourage AC members to behave in a proper manner.

3.4 THE FULFILMENT OF AUDIT COMMITTEE RESPONSIBILITIES BY MAINTAINING HEALTHY RELATIONSHIPS WITH THE BOARD AND INFORMATION PROVIDERS

In fulfilling its responsibilities, the AC should be supported by the board. In this regard (Scarborough et al., 1998:52, 54; Raghunandan, Read & Rama, 2001:106), information is provided by management and internal (e.g. the internal auditor) and external assurance providers (e.g. the external auditor) (DeZoort et al., 2002:44–45). These role-players are referred to as the three lines of defence, and provide the AC with assurance on the risks faced by the company. These three lines of defence are advocated by the combined assurance model in King III (IOD, 2009b:62, par.46). The designated advisor of an AltX listed company also advises the AC (JSE Limited, 2014b:par. 21.5(iii)), whilst the company secretary supports the AC in administrative (RSA, 2009:s 88(d); IOD, 2009a:27, recommended practices 2.21.8, 2.21.11–2.21.12) and compliance matters (RSA, 2009:s 88(b)). As such, it is important that the interactions and relationships between the AC and the board, and the AC and the information providers are
investigated to understand the way in which value is added by the AC to the company and its stakeholders (Carcello & Neal, 2003:297). To measure the extent to which healthy relationships are being maintained, the following attributes should be considered: the informal interaction and ad hoc meetings with management and assurance providers, the agenda, the tone of AC meetings and the accompanying procedures, as well as the perception of the value of the AC.

3.4.1 Informal interaction and ad hoc meetings with management and assurance providers

The only way in which the AC can fulfil its responsibilities is to engage with and obtain combined assurance from management (Zanni & Terrel, 2002:54; KPMG, 2014:7, 9; Nkonki, 2014:26) and assurance providers (Olson, 1999:1106; KPMG, 2014:7, 9; Nkonki, 2014:26). This engagement between the AC and management, as well as the assurance providers, implies that there should be a good working relationship, open channels of communication, as well as informal meetings to stay up-to-date (BRC, 1999:30; KPMG, 2014:5). Furthermore, individual meetings could be held between the AC chairperson and the CFO, the internal auditor (Olson, 1999:1109) and the external auditor before the AC meetings. These pre-meetings will enable the chairperson to prepare properly for AC meetings, direct the meetings effectively (Nkonki, 2014:55) and minimise unpleasant surprises at the meetings (CAQ, FEE & ICAA, 2013:7; KPMG, 2014:14). It is suggested that, after the meetings have taken place, the AC chairperson should also meet individually with management and assurance providers. This could provide the AC, management and assurance providers with an opportunity to unpack the matters that were discussed at these AC meetings. King III also recommends that the AC should meet with the auditors (internal and external) at least once per annum (IOD, 2009a:31, recommended practice 3.1.5). During these meetings, management should not be present (IOD, 2009a:31, recommended practice 3.1.5). This interaction allows for the exchange of confidential information without management interference (Gendron et al., 2004:166; Nkonki, 2014:46). In addition, interaction in the form of private meetings (IOD, 2009a:31, recommended practice 3.1.5; Nkonki, 2014:46), confidential memorandums and reports (BRC, 1999:33; Nkonki, 2014:46) enable the AC to remain up-to-date on the quality of the processes followed in preparing the AFS and the appropriateness of the AFS disclosures (BRC, 1999:33; KPMG, 2014:8). The AC
can also meet with the risk manager, compliance officer and ethics officer, if deemed necessary (Nkonki, 2014:11).

3.4.2 Agendas, tone of and procedures followed at audit committee meetings

Agendas should not be too lengthy in relation to the time allocated for the meeting, as lengthy agendas may limit the time spent on important matters (Spira, 1999a:242). In addition, the level of detail in the agenda may be an indicator of the trust placed in the AC by the board, as the agenda is usually prepared by the company secretary based on input from the chairperson of the board, the CEO, the CFO and the CAE (Spira, 1999a:242). King III recommends that the chairperson of the AC should also contribute to finalising the agendas (IOD, 2009a:32, recommended practice 3.3.2). It is imperative that the AC is involved in setting the agenda to ensure that it is focused and manageable (Olson, 1999:1110; KPMG, 2014:5). An agenda set by management could hamper the AC to focus on important areas (KPMG, 2014:12, 14) to the potential detriment of the minority shareholders.

In order to understand and assess the risks faced by the company, AC members should understand the company’s business. Only then will they be able to handle the agenda items appropriately by asking management and assurance providers probing and challenging questions at AC meetings (Sommer, 1991:91; DeZoort, 1998:18; Olson, 1999:111; Spira, 1999a:245, 248; Spira, 1999b:268; DeZoort et al., 2002:45; Gendron et al., 2004:154, 168; Nkonki, 2014:11, 26). Asking tough questions and engaging in robust conversations will enable the AC to take appropriate action (e.g. engaging the services of an outside consultant) based on their interpretation of the responses provided (Spira, 2003:186) and, inter alia, considering the effect of these responses on the quality of the AFS (BRC, 1999:33; Nkonki, 2014:26). Although AC members may use a checklist of questions to ask management and assurance providers, it is important for them to remain open-minded and to ask additional questions which may not be covered by the standard checklist (BRC, 1999:42–43, principle 4). During these meetings, the AC can also act as a problem-solving and support function to resolve conflict between management and assurance providers (Spira, 1999a:241), as well as the board and the external auditor (Spira, 1999b:264).
Furthermore, during AC meetings, the company secretary can fulfil his/her duties, as prescribed by the Companies Act and recommended by King III, by making AC members aware of the laws affecting the company (RSA, 2009:s 88(b)) and providing guidance on areas of good governance (IOD, 2009a:27, recommended practice 2.21.7). Accordingly, the company secretary could provide valuable input during AC meetings which could enhance the AC’s fulfilment of its responsibilities.

In addition, the JSE listing requirements (JSE Limited, 2014b:par. 21.5(iii)) state that the company’s designated advisor must be invited to and should attend all the AC meetings as an observer and should support the AC to ensure the company’s compliance with the JSE listing requirements for one of the following periods (depending on which period is the longest): for the first year after the AltX listed company has been listed; or until the date of the first publication of the AltX listed company’s AFS. Despite this requirement, a designated advisor can continue to attend AC meetings if he/she deems it necessary. As such, the designated advisor could provide valuable input during AC meetings on the risks faced by the company in the event of non-compliance with the JSE listing requirements.

3.4.3 Perception of the value of the audit committee

Both the board and the AC’s information providers should understand and respect the AC’s role (Cadbury report, 1992:par. 4.37; Morrow & Pastor, 2007:47; Nkonki, 2014:5). If they perceive the AC to be an effective component of the company’s governance processes, it will strengthen communication channels and foster interaction between the AC and the board, as well as between the AC and its information providers (Nkonki, 2014:5). It is also important that the board does not view the AC as a liability formed only to comply with legislation (IOD, 2009a:5; Nkonki, 2014:5). Thus, the perceived value of the AC by the board and the AC’s information providers should be taken into consideration when understanding the effectiveness of the AC (Kalbers & Fogarty, 1993:42, 45).

Management and assurance providers can create a company culture where the AC is a powerful body and may, consequently, feel threatened by possible investigation by the AC (Spira, 1998:34). Such a threat stems from AC members raising concerns and making assessments based on the comments and feedback received from
management and assurance providers during AC meetings (§ 3.4.2) (Spira, 1999a:245; Gendron et al., 2004:154). Thus, management and assurance providers who perceive the AC as a value-adding component will take the AC seriously (Spira, 1999a:251) and will therefore be well prepared when providing information and explanations at the AC meetings.

3.5 CONCLUSION

Chapter 3 provided the attributes that should be investigated to understand the way in which the AC of an AltX listed company adds value to the company and its stakeholders. Through a review of the legislation, the JSE listing requirements for AltX listed companies, codes and reports, and scholarly literature, the researcher identified and explored various attributes that contribute to the AC adding value to the company and its stakeholders. Attributes were grouped into the following three components: the characteristics of AC members (§ 3.2), the fulfilment of AC responsibilities through optimised activities (§ 3.3) and the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers (§ 3.4).

Attributes identified and described under the characteristics of AC members include the following: independence (§ 3.2.1), leadership (§ 3.2.2), qualifications (§ 3.2.3) and experience of AC members (§ 3.2.4), as well as the number of AC members that serve on the AC (§ 3.2.5).

Acceptance of AC members’ fiduciary role (§ 3.3.1), providing feedback to the board and its stakeholders (§ 3.3.2), the compilation of an AC charter and work plan (§ 3.3.3) and conducting annual AC assessments (§ 3.3.4) were highlighted as activities that also form part of the attributes to be considered. Other activities, namely, the number of AC meetings held annually (§ 3.3.5), whether or not information was sent to AC members and invitees to these AC meetings prior to the AC meetings (§ 3.3.6), the scheduled date, time, duration and attendance of AC meetings (§ 3.3.7), as well as preparation of minutes and action sheets for AC meetings (§ 3.3.8) were also viewed as attributes that should be reflected on when understanding and describing the amount of value added by a specific AltX listed company’s AC to the company and its stakeholders.
These activities should be complemented by healthy relationships with the board and information providers. The attributes described under the maintenance of healthy relationships include informal interaction and ad hoc meetings with management and assurance providers (§ 3.4.1). In addition, interaction when compiling the agendas of AC meetings, the tone of and procedures followed at AC meetings were also emphasised (§ 3.4.2). Lastly, the perception of the value of the AC by the board and the AC’s information providers was highlighted (§ 3.4.3).

In the next chapter, the research design and approach, as well as the method followed in understanding the way in which value is added by a specific AltX listed company’s AC to the company and its stakeholders will be described.
CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

Chapter 3 identified and explored the AC attributes that help to assess the way in which it adds value to an AltX listed company and its stakeholders. These attributes were derived from legislation, the JSE listing requirements for AltX listed companies, codes and reports, and scholarly literature and provided the basis for the theoretical framework that was empirically tested in this study.

In this chapter, the research design and approach are discussed (§ 4.2), followed by a description of the research method (§ 4.3). The chapter ends with a description of the ethical principles adhered to (§ 4.4).

4.2 RESEARCH DESIGN AND APPROACH

A research design concerns what is to be studied and the way in which it will be studied (Babbie, 2010:91). In line with this, Hofstee (2006:109) states that the researcher needs to select a research design that is appropriate for addressing the research objectives.

When deciding on a design, a researcher can follow a quantitative or qualitative design or a combination of both. A qualitative research design is more flexible than a quantitative one, as research participants are asked “open-ended” questions as opposed to “closed-ended” questions (Mack, Woodsong, Macqueen, Guest, & Namey, 2005:3–4). Such “open-ended” questions provide research participants with an opportunity to express their views freely and in detail (Mack et al., 2005:4). The researcher is of the opinion that a qualitative research design is the most appropriate way to address the objectives of this study. For this reason and because the characteristics and fulfilment of responsibilities of an AltX listed company’s AC are unique, “open-ended” questions would allow research participants to share information with the researcher freely. Furthermore, a qualitative research design is appropriate if an issue (in this study, the manner in which value is added by an AC) needs to be explored (Creswell, 2007:39) and if the characteristics of entities, processes and
meanings are not measurable in terms of quantity, intensity, or regularity (Denzin & Lincoln, 2011:8).

Qualitative researchers collect data in a setting that is familiar to the research participants (Creswell, 2007:37) and analyse data according to themes (Creswell, 2007:37–38). The findings of qualitative research are presented in a “story-telling” or narrative style, which includes quotations from the research participants, and the researcher’s responses and analyses (Creswell, 2007:37). Thus, in this study, a qualitative research design allowed the researcher to gather contextual, in-depth knowledge and to gain an understanding of the way in which value is added by the AC, as provided by the research participants’ narration of their experiences in a setting which was familiar to them (§ 4.3.2 discusses the setting in which the data were collected.). A qualitative research design also allowed the researcher to tell the story from an insider perspective. As the data collection and analyses unfolded, new knowledge on the way in which the AC adds value to a specific AltX listed company and its stakeholders was generated.

Previous research on the value added by ACs has been criticised for using quantifiable measures, as it focused on documents such as annual reports and meeting agendas and minutes (Spira, 1999a:234; Raghunandan & Rama, 2007:277). As such, the use of these quantitative measures alone does not provide a complete picture of the value added by the AC (Raghunandan & Rama, 2007:277). An alternative research design was suggested by Spira (1999a:234), which focused on the views of participants (serving on the AC or closely related to the AC) on the value added by the AC. Thus, the researcher’s decision to follow a qualitative research design is substantiated by Spira’s (1999a:234) suggestion.

Qualitative research studies imply that there is no single truth as research participants have subjective views (Creswell, 2007:17). This was evident in this study, since the views of research participants were in some instances divergent. Furthermore, the researcher should position him/herself close to the research participants in order to interact with them during the data collection phase (Creswell, 2007:17). This suggestion of Creswell was followed in this study since the researcher acted as the primary data collection instrument, conducting the interviews personally. However, the data obtained were influenced by the participants’ and the researcher’s values and could therefore
have been biased (Creswell, 2007:17). To reduce bias in collecting and interpreting data, the researcher implemented measures to ensure trustworthiness (§ 4.3.5).

Inductive reasoning (which is associated with a qualitative research design) implies that the researcher creates findings by observing the phenomenon under study and develops theories based on these observations (Bendassolli, 2013:2). Such a reasoning process differs from deductive reasoning, which is associated with experimental methods where theory exists and such theory is confirmed or disputed by conducting experiments (Bendassolli, 2013:4). In this study, an inductive reasoning process was followed during the analysis and interpretation of the data obtained during the data collection phase (Creswell, 2007:17). During the latter phase, the researcher made observations that were aligned to the theories on the value added by a specific AltX listed company’s AC to the company and its stakeholders (Bendassolli, 2013:2).

When conducting research, a researcher should express his/her own paradigm (i.e. epistemology) (Creswell, 2007:15, 30). A paradigm refers to the set of principles that a researcher brings to the research (Creswell, 2007:19). In this study, the researcher acted as a constructivist. As a constructivist, the multiple subjective views of the participants were relied upon to develop themes which were based on the researcher’s interpretation (Creswell, 2007:21). The researcher’s paradigm accordingly influences the qualitative research approach chosen to address the research objectives (Creswell, 2007:37; Fouché & Schurink, 2011:310).

In view of the constructivist paradigm adopted by the researcher, a case study was considered to be the most appropriate research approach to complement the research design. A case study is defined as a qualitative research approach in terms of which the researcher explores a case(s) over a certain period by collecting detailed, in-depth data from multiple sources of information (Creswell, 2007:73). The result of such a study is an in-depth description of a case(s) and a number of themes (Creswell, 2007:73; Fouché & Schurink, 2011:321; Saldaña, 2011:8). Case study research is appropriate for exploring and understanding the uniqueness, dynamics and eccentricity of a particular case in detail (Welman et al., 2005:193), as well as when the researcher intends to familiarise him/herself with the research subjects’ worlds and identify patterns in their lives, words and activities (Fouché & Schurink, 2011:320).
A case study approach therefore enabled a detailed explorative study of the characteristics of the AC, the fulfilment of the AC’s responsibilities through optimised activities and the fulfilment of the AC’s responsibilities by maintaining healthy relationships. It also allowed an understanding of the manner in which the AC fulfilled its responsibilities (formal and informal) (Turley & Zaman, 2007:768; Magrane & Malthus, 2010:434). Such an approach also enabled the researcher to understand the way in which value was added by the AC that was not evident from publicly available sources (Turley & Zaman, 2007:782).

The purpose of an explorative (i.e. instrumental) case study is to understand an issue (Creswell, 2007:74) in order to produce new knowledge (Fouché & Schurink, 2011:321). In view of the fact that the characteristics of an AltX listed company’s AC and the fulfilment of the AC’s responsibilities are unknown, an explorative (instrumental) case study was chosen.

Although a case study research approach is appropriate for this study, it has its challenges. The findings of a case study are not generalisable, thus the readers of such a study are informed that the related findings are only applicable to the company selected for the study, as views on the value added by an AC differ among individuals and companies (Spira, 1999a:236) and therefore cannot be generalised to other AltX listed companies. However, this does not invalidate the findings of the study because detailed knowledge of the case is obtained (Hofstee, 2006:123), which may be useful when conducting similar studies on the value added by ACs. Another challenge of the case study approach is that the researcher may be subjective when collecting data and documenting the findings (Hofstee, 2006:123), which can lead to them being inaccurately presented. This challenge was addressed during the study by following the appropriate method and applying measures of trustworthiness (§ 4.3.5).

4.3 METHOD

The research method can be defined as the manner in which the chosen research approach is applied to achieve the researcher’s objectives (Hofstee, 2006:108, 112, 115). The methodological aspects that will be addressed in this section include the selection of a research site and research participants, the collection of data and their
analysis and management. The measures implemented to ensure trustworthiness will also be dealt with.

4.3.1 Selection of a research site and research participants

Non-probability sampling is often applied to qualitative research (Strydom & Delport, 2011b:391). In non-probability sampling, unit(s) will be deliberately selected to deepen the researcher’s understanding about the phenomenon under study (Ishak & Bakar, 2014:29). As a result, certain of the units have no chance of being selected (Business Dictionary, 2015). Numerous non-probability sampling techniques exist (Strydom & Delport 2011b:392–394). In this study, the research site (case) and participants were selected from 60 AltX listed companies (Maluleka, 2015) on the basis of a purposeful sampling strategy. The specific research site and participants were chosen because the researcher was of the opinion that they could provide rich information about the phenomena being explored (Creswell, 2007:118, 125; Yin, 2011:88).

Selection criteria were developed to select the research site. Although the selection of an ideal number of cases was in the hands of the researcher, it was important to bear in mind that the value of case study research is embedded in the presentation of detailed information. Thus, if more cases are selected, the value of case study research may be compromised (Creswell, 2007:76). Based on this argument, only one AltX listed company was purposefully selected.

The following criteria were used for selecting a research site:

- **Accessibility** – The AltX listed company had to be accessible (Creswell, 2007:119).
- **Listing duration** – On average, the 60 companies listed on the AltX had been listed for 7.59 years (Maluleka, 2015). Therefore, to be eligible for the study, the company had to be listed for at least 7.59 years. Such a selection criterion would ensure rich data as a company that had been listed for an extended period would have had ample opportunity to shape and establish the AC’s characteristics and responsibilities.
The AltX listed company that was selected for the study was accessible and had been listed for a period of 7.74 years (Maluleka, 2015). Hence, the company met the selection criteria.

Access to the research site was arranged through a member of management (CFO) of the specific AltX listed company. The CFO approached the AC chairperson and the CEO to request their approval to conduct the study. After the AC chairperson and the CEO showed interest in the study, a memorandum detailing the scope of the research was sent to the CEO, who then provided written approval for the study. To ensure anonymity (§ 4.4), the approval letter was not included in this dissertation.

The research participants selected from this company had to include individuals who would provide rich information about the phenomena being studied (Saldaña, 2011:33). The importance of selecting board members (who did not serve on the AC) to interview was highlighted by King III which states that the board should be dedicated to supporting and retaining an AC that is of value to the company and its stakeholders (IOD, 2009b:56, par. 5). Shareholders who are present at shareholders’ meetings have insight into the AC report and also vote for directors to be appointed as AC members (RSA, 2009:s 61(8)(a), 61(8)(c)). As the major shareholders’ investment in a company is significant compared with that of minority shareholders, major shareholders would be more interested in the role of and the value added by the AC to the company and its stakeholders. Furthermore, the AC is responsible for the application of a combined assurance model (IOD, 2009a:33, principle 3.5). Combined assurance is provided by internal (e.g. the internal auditor) and external assurance providers (e.g. the external auditor), as well as management. Thus, based on this responsibility, the AC should have a close relationship with both these assurance providers and management. The external auditor is also regarded as an important informant as he/she has to audit a wide range of companies and comes across both “good” and “bad” ACs. He/she will therefore be in a position to provide information about the value added by the AC of a specific company (Sommer, 1991:92). The company secretary is also an important source of information as he/she is responsible for keeping the AC charter up-to-date (IOD, 2009a:27, recommended practice 2.21.8), helping to compile the AC’s work plan (IOD, 2009a:27, recommended practice 2.21.11), and preparing and circulating the AC minutes (IOD, 2009a:27, recommended practice 2.21.12). The designated advisor also has a close relationship with the AC as he/she advises the AC on the application of the
JSE listing requirements for AltX listed companies (JSE Limited, 2014b: s 21.5(iii)). Thus, for this study, research participants had to consist of AC members and persons who had a relationship with the AC. The latter included board members (those that did not form part of the AC), major shareholders, management (CEO and CFO), assurance providers (internal and external auditor), the company secretary and the designated advisor.

The criteria that were developed for the selection of the research participants were applied when approaching specific individuals and requesting them to take part in the study. For the purpose of this study, it was important that participants from each of the following categories, namely, the AC, board (excluding AC members), major shareholders, management and assurance providers, participate in the study to provide an in-depth understanding of the way in which value is added by the AC of the specific AltX listed company. The company secretary and the designated advisor were also regarded as important participants. Ultimately, eight of the ten participants who were purposively selected according to the selection criteria, agreed to take part in this study. Table 4.1 provides details of the participant categories and the number of individuals in these categories that were approached to participate in comparison to the number of individuals who actually participated in the study.

**Table 4.1 Number of individuals approached to participate in the study compared to the number of individuals that actually participated**

<table>
<thead>
<tr>
<th>Participant categories</th>
<th>Number of individuals approached to participate in the study</th>
<th>Number of individuals that actually participated in the study</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC (which includes the chairperson of the AC)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Board (which includes the chairperson of the board)</td>
<td>2 (Note 1)</td>
<td>1</td>
</tr>
<tr>
<td>Management (CEO and CFO)</td>
<td>2 (Note 2)</td>
<td>2</td>
</tr>
<tr>
<td>CAE</td>
<td>Note 3</td>
<td>Note 3</td>
</tr>
<tr>
<td>External auditor (partner in charge of the external audit)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Company secretary</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Designated advisor</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>
Note 1: The two board members were also major shareholders of the company as they held 22.6% and 19.4% of the issued shares in the company respectively (ABC Limited, 2014a:27).

Note 2: The CEO was also a major shareholder of the company who held 10.1% of the issued shares in the company (ABC Limited, 2014a:27).

Note 3: The AltX listed company in this study did not have an internal auditor.

As indicated in table 4.1 the researcher was unable to secure two of the ten interviews. The board member who did not participate in the study had a busy work schedule and could therefore not accommodate the researcher, while the external auditor was initially keen to participate but later withdrew as a result of confidentiality concerns.

4.3.2 Data collection

In a case study, a number of data sources can be used, for example interviews, observations, documents and archival records (Fouché & Schurink, 2011:321). In this study, semi-structured individual interviews were conducted, field notes were made and company documents were reviewed. By using these three data sources, an understanding was gained of the way in which the AC adds value to the AltX listed company and its stakeholders. Furthermore, the trustworthiness of the study was enhanced by using more than one data source (Saldaña, 2011:76). The use of more than one data source to corroborate the research findings is referred to as triangulation (Creswell, 2007:208).

Semi-structured individual interviews – The research participants were individually interviewed and these interviews were semi-structured in nature. An interview can be described as a connection where information is exchanged between the interviewer and the participant (Greeff, 2011:342). A semi-structured interview is an interview in which the researcher uses pre-populated questions to guide the interview, although new questions may arise during the course of the interview (Myers, 2011:124).

The rationale for using semi-structured interviews was to obtain detailed and comparable data on the participants’ views on a particular aspect (Greeff, 2011:348,
Semi-structured interviews provide participants with a chance to inform the interviewer of important matters concerning the value added by the AC not covered by the pre-populated questions, whilst the pre-populated questions provide structure to the interviews (Myers, 2011:125). It was therefore a useful way to obtain an informed view of the value added by the company’s AC.

According to Gendron et al. (2004:156), the pre-populated questions posed to research participants should be developed on the basis of the research objectives and previous research studies. Thus, pre-populated interview questions were developed to address the AC attributes that contribute to understanding the way in which the AC adds value to an AltX listed company and its stakeholders. Chapters 2 and 3 identified and explored the attributes that should be considered in terms of legislation, the JSE listing requirements for AltX listed companies, codes and reports, and scholarly literature. The attributes identified from these sources therefore provided the theoretical framework for the study (Delport, Fouché & Schurink, 2011:306) and guided the researcher in developing the questions for the interviews (Greeff, 2011:352).

In this study, main and sub-questions were developed for each category of participants. The main questions were asked first. If during their responses the participants failed to provide information about the areas addressed by the sub-questions, then these were also posed. Appendix A lists the pre-populated questions linked to the attributes influencing the value added by an AC.

Greeff (2011:352) states that the interview questions should be arranged from simple and broad to complicated and specific. The less sensitive questions should be asked first followed by the more sensitive questions as the interview progresses. Questions 1–5 contained in appendix A deal with qualifications, experience, the AC members’ appointment process, performance assessment and training. The researcher regarded these questions as simple and unthreatening. Questions 6 (How does the AC add value to the company?) and 7 (How does this differ from other companies and why?) were regarded as complicated and sensitive. Nevertheless, these questions were posed to participants at the start of the interview, as the second last question of the interview (question 50: What else can the AC do to increase the value being added to the company and its stakeholders?) related back to questions 6 and 7. The separation of
these questions was used as a measure of trustworthiness to corroborate the participant’s answers. Questions 9–49 were asked in a logical sequence:

- Questions 8–13 related to the relationship between the AC and the board, management, the external auditor, the company secretary and the designated advisor.
- Questions 14–22 built on the relationship status and revolved around meetings (excluding AC meetings) between the AC and management as well as the external auditor.
- Questions 23–47 were associated with AC meetings. The questions were regarded as sensitive because the AC meetings were the platform on which the AC mainly fulfils its responsibilities. The researcher was also denied access to these AC meetings which further supports the sensitive nature of these questions. Hence, the questions were positioned at the end of the interview.
- Question 48 revolved around the manner in which the AC demonstrated its CG responsibilities to the board. It made logical sense to position this question after all the questions relating to relationships and the fulfilment of the AC’s responsibilities had been posed.
- Question 49 (Do you believe that you have any responsibilities to the public apart from your responsibilities to shareholders?) was also regarded as a sensitive question and was therefore asked towards the end of the interview.
- Question 51 was included as the researcher wanted to reduce the risk of missing information about the value of the AC that had not been covered by the other interview questions.

The questions that guided the interview were included in an interview schedule (Greeff, 2011:352), which covered the areas the researcher wanted to deal with during the interview with the specific category of participant (Greeff, 2011:352). The participant was allowed to move away from questions contained in the interview schedule. However, the researcher determined the relevance of such a deviation and redirected the interview if necessary (Greeff, 2011:353). Eight interview schedules were drawn up as the number of and type of questions included varied depending on the category of the participant. Appendix B provides an example of the interview schedule for the AC chairperson.
Research participants may be reluctant to share information during an interview (Greeff, 2011:360). To overcome this risk, the researcher made contact with and maintained a good relationship with the CFO as the researcher had previously worked with him/her. This relationship meant that the CFO was willing to approach the CEO and AC chairperson to request approval for the study. In the interests of establishing good relationships, the researcher also informed the participants of her credentials, the sincerity of the intention to collect data objectively, the objectives of the proposed study and the manner in which the research would be undertaken (Fouché & Schurink, 2011:325). To further reduce the risk of participants not being communicative, the interview commenced with an explanation of the objectives of the study, the role of the participant, and the fact that all information obtained during the interview would be treated confidentially and the participants would remain anonymous (Greeff, 2011:350). Six of the research participants were interviewed at the company where they were employed, in a private, comfortable, quiet venue where there were no interruptions (Greeff, 2011:350; Saldaña, 2011:34). This relaxed atmosphere enabled participants to share their experiences of the way in which value was added by the AC. Although the other two interviews were conducted at coffee shops, these venues were comfortable. The researcher is of the opinion that this setting also allowed these two research participants to share their experiences regarding the value added by the AC easily, as these venues were suggested by the research participants themselves. See also the ethical considerations discussed in section 4.4.

There is a risk that the interview questions may not probe the participants sufficiently to provide a detailed response (Greeff, 2011:360). This risk was managed by pilot testing (Creswell, 2007:133) the interview questions in the interview schedule with one of the researcher’s colleagues who had previously served on ACs. It was considered important to pilot the interview that would be held with the AC chairperson because he/she was regarded as an important source of information and this interview schedule was the most comprehensive (appendix B). The colleague’s role during the pilot testing was to ensure that the questions were limited, neutral, clear, focused, open-ended and arranged in the correct sequence (Greeff, 2011:352). After the pilot interview the questions in the interview schedule were refined and the researcher felt confident about proceeding with the data collection phase.
A training session was attended to equip the researcher with interview skills and communication techniques. Proper interview skills are important as they result in high quality data being collected (Greeff, 2011:343). During the interviews the researcher applied good communication techniques such as providing minimal verbal responses (e.g. “yes”), clarifying information brought to the fore by the participant, encouraging the participant to expand on his/her ideas (Greeff, 2011:345) and probing participants in order to increase the richness of the information obtained (Greeff, 2011:345; Saldaña, 2011:43). Furthermore, the adoption of good listening skills and showing curiosity and respect led to the establishment of good relationships with the participants (Greeff, 2011:351; Saldaña, 2011:39–40). Interviews were also conducted at a rate the participants felt comfortable with and they were allowed to complete their sentences and/or ideas (Greeff, 2011:351).

The interview process was as follows: Research participants were invited to participate in an interview and a time and place for the interview was then arranged (Greeff, 2011:350; Saldaña, 2011:34), taking into account the amount of time required. An hour (Greeff, 2011:351) was deemed sufficient for each interview as the research participants included high profile individuals with busy work schedules. The participant information sheet describing the areas to be addressed during the interview (appendix C) was then e-mailed to the participant. The researcher was of the opinion that the fact that the interview questions were absent from the information sheet, prevented participants from providing insincere and rehearsed responses.

At the commencement of the interview, the purpose of the study, the role of the participant, the confidential treatment of information revealed during the interview (Greeff, 2011:350), the digital voice recording (Greeff, 2011:359) and the participant’s right to withdraw at any point during the interview were explained (Greeff, 2011:350). After the participant had agreed to being recorded (Greeff, 2011:350; Saldaña, 2011:40) and had signed the informed consent form (appendix D) (Greeff, 2011:350; Saldaña, 2011:40) the interview and recording of the interview commenced. The interview concluded with a summary of the main findings and the participant was asked whether he/she had any questions. He/she was then thanked for his/her willingness to participate (Greeff, 2011:351). The digital voice recordings were subsequently transcribed and analysed shortly after the interview (Greeff, 2011:360; Saldaña, 2011:44). Interviews were transcribed from 379 minutes of voice-recorded
conversations in total, which translated into 192 pages of transcriptions. Interviews took between 14 and 68 minutes each.

As indicated in section 4.3.1, not all of the ten research participants who were purposefully selected according to the selection criteria agreed to be interviewed. Nevertheless, the interviews conducted with the eight participants (who did agree to take part in this study) were deemed sufficient as data saturation was achieved. Hence, the same themes on the value added by the AC as experienced by the eight research participants occurred repeatedly. The researcher is of the opinion that no new information would have been brought to the fore by the two research participants who did not take part in this study.

Field notes – In the context of this study, field notes can be described as notes detailing the things that the researcher heard, saw, understood, considered and felt during the progression of the interview (Greeff, 2011:359). These notes were made immediately after each interview and were kept throughout the data collection phase. This helped in recalling the observations made during each interview. In these field notes the researcher also made reference to things that actually happened and things that the researcher thought had happened (Greeff, 2011:359), as well as the participant’s body language and tone of voice (Saldaña, 2011:40). In qualitative research the researcher is regarded as the primary data collection instrument because he/she needs to document what he/she comprehends and feels during the research process (Saldaña, 2011:32). Although qualitative research is inherently subjective (Creswell, 2007:17), the researcher attempted to be as objective as possible during the data collection phase and not be unduly influenced by her “feelings”. These field notes provided contextual insights into the participants’ responses and were used to give readers background on the observations made during the interviews.

Company documents – Public documents such as the company’s AFS for the year ending 2008, annual report for the year ending 2010 and integrated report for the year ending 2014 were reviewed. Previous AFS were only reviewed to obtain information about AC members’ appointment dates, whilst information included in the company’s integrated report for the year ending 2014 enabled the researcher to refine the questions included in the interview schedules. The following documents were provided to the researcher on request and were also reviewed: attendance registers for the AC
meetings held during the 2014 calendar year, the AC’s latest terms of reference and its work plan.

A study of the company’s documents was combined with an analysis of the transcribed interviews to corroborate findings from the interviews (Strydom & Delport, 2011a:376–377). This also served to highlight information that was not brought to the fore during the interviews. As such, information obtained from the company documents added additional evidence on the value added by the company’s AC and was analysed in terms of the applicable themes and categories.

Permission to attend an AC meeting was requested but was denied. This is not a new phenomenon (Spira, 2003:183). Spira (1998:33; 1999a:242) suggests that information about the structure of AC meetings and the records of issues dealt with at AC meetings should be obtained by studying the agendas and minutes of these meetings. As a result, the researcher requested the agendas and minutes of AC meetings for the preceding twelve months to obtain an understanding of the AC responsibilities, the involvement of AC members, management and assurance providers, as well as the procedures followed. However, again access to these agendas and minutes was denied for reasons of confidentiality (Strydom & Delport, 2011a:379). This obstacle was overcome by including questions on these matters in the various interview schedules (appendix A, questions 40–44, 46–47).

Only the latest documentation was requested from the company as this study was not historical in nature. The researcher does acknowledge that historical data on the company’s AC would indicate the manner in which processes and systems concerning the AC had changed and whether these processes and systems had affected the way in which the AC adds value to an AltX listed company and its stakeholders. However, the study of historical data does not fall within the scope of this study. The researcher thus proposes that further research should be performed on the development of processes and systems concerning the AC and to establish whether or not these developments affected the value added by an AC.
4.3.3 Data analysis

The aim of qualitative data analysis is to reveal new information that has been observed and discovered about the phenomena being studied (Saldaña, 2011:89). Qualitative data analysis is defined as “[t]he non-numerical examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationships” (Babbie, 2010:394). The qualitative data analysed included interview transcripts, field notes and company documents.

Numerous techniques are available for analysing data (Saldaña, 2011:89, 93; Schurink, Fouché & De Vos, 2011:400). In this study, following the data collection phase, the hard copies of the eight transcribed interviews, field notes and company documents were read extensively to identify preliminary codes. These codes were highlighted (Saldaña, 2011:95) and then written next to the relevant text in the right-hand margin of the transcripts, field notes and company documents being analysed. Codes are defined as a descriptor assigned to a piece of data. Such a descriptor captures the core meaning of a data piece (Saldaña, 2011:95). Codes can be assigned throughout the data analysis phase if data with a similar core meaning appear (Saldaña, 2011:96). Codes are subjectively determined, depending on the interpretation of the data analysis (Saldaña, 2011:97). Descriptive open coding techniques were used. Open coding refers to the examination of textual data (a sentence or paragraph), subsequently summarising the data using a descriptive code (Myers, 2011:110). Descriptive codes take the form of nouns which summarise the main focus of a particular text (Saldaña, 2011:104). This first review of the data allows the researcher to stimulate his/her analytical thinking, to recall areas to be followed up and to establish interrelationships among themes (Saldaña, 2011:95).

The transcribed interviews (in the form of MS Word documents) were then formatted, numbered sequentially (P1–P8 to maintain the anonymity of participants), saved in Rich Text File format and imported into Atlas.ti, that is, Computer Assisted Qualitative Analysis software. The steps followed in the first-coding phase were repeated again for the transcribed interviews using Atlas.ti. The researcher allocated a code that differed from the code assigned during the first-coding phase if deemed necessary. This software merely assisted the data analysis process by acting as a repository for the
researcher's data (Saldaña, 2011:137); the researcher is the one who has to do the thinking and capture his/her thoughts into the software (Yin, 2011:180).

During qualitative data analysis the researcher captures “text” input into the software and performs the disassembling and reassembling processes (Yin, 2011:181). This second-coding was also done on the hard copies of field notes and company documents by reviewing the codes that were assigned in the first-coding phases. As in the transcribed interviews, the researcher changed codes if required. Thereafter, similar descriptive codes were grouped and assigned to a specific descriptive category (Babbie, 2010:401; Saldaña, 2011:104). The interrelationships among these categories were explored (Saldaña, 2011:92) and common themes identified in order to place the value added by the AC in context. The theoretical framework drawn up in chapter 3 guided the themes and categories developed by the researcher.

The transcribed interviews were then sent to an independent and experienced co-coder to enhance the reliability of the findings. Reliability is defined as “the stability of responses to multiple coders of data sets” (Creswell, 2007:210). The co-coder did not review the theoretical framework of attributes influencing the value added by an AC, which served as a guideline during the theming and categorising of data, but he/she did code the transcribed interviews independently and provided the researcher with a report on the themes and categories identified. The researcher then compared the co-coder’s themes and categories with those that had emerged after the second-coding phase. A meeting was subsequently held where differences were clarified. The findings are presented in chapter 5 under the applicable themes and categories that emerged. Verbatim quotes from participants were also used to support the findings.

4.3.4 Data management

A marked file was created for the AltX listed company selected for the study in which hard copies of interview transcripts, field notes and company documents were filed in a logical order. Another file was created for storing the consent forms signed by the participants. These files were stored in a safe location under lock and key. Soft copies of data were stored in a marked folder on a password protected computer. This folder was backed up on a separate storage device which was kept in a different, secure location.
4.3.5 Measures to ensure trustworthiness

A study is considered to be trustworthy when the data collection and analysis phases have been properly conducted and the findings accurately presented (Yin, 2011:78). Guba’s model of trustworthiness (Krefting, 1991:214–222; Lincoln & Guba, 1999:398) was used as a guideline for implementing measures to ensure trustworthiness and increase the rigour of the study. According to this model, trustworthiness is built on the following four pillars: truth value (credibility), applicability (transferability), consistency (dependability) and neutrality (conformability). Each pillar advocates strategies which are discussed below.

**Truth value** – Truth value is defined as the researcher’s degree of confidence in the findings being presented. These findings are based on the research method adopted, the research participants, and the context in which the research was undertaken (Krefting, 1991:215; Lincoln & Guba, 1999:398). Truth value further refers to the believability of the researcher’s findings (Saldaña, 2011:135). For the purpose of this study, reflexivity, triangulation, peer examination, structural coherence and referential adequacy were used to enhance the truth value.

Reflexivity is regarded as the effect of the researcher’s own beliefs, background and culture on the research process (Ruby, 1980:153; Krefting, 1991:218). To improve the researcher’s neutrality in this study, field notes were made during the data collection phase which detailed feelings and thoughts experienced during the research process.

Triangulation refers to the use of numerous data methods, data sources, investigators and theories to corroborate the research findings (Creswell, 2007:208). In this study data were collected from interviews, field notes and company documents. The findings brought to the fore by these data sources were subsequently compared to corroborate the research findings. Different categories of participants (AC members, a member of the board, management, the company secretary, and the designated advisor) were interviewed which provided information that was compared to corroborate the findings. The findings presented were also compared with the existing scholarly literature.

Peer examination refers to discussions among the researcher and colleagues about all aspects of the research process (Krefting, 1991:219; Lincoln & Guba, 1999:412–413).
Regular formal and informal meetings were held with the researcher’s two supervisors to discuss the progress, findings and difficulties encountered during the research process. These meetings provided clear direction and helped the researcher through the research journey.

Structural coherence involves the integration of a large volume of unstructured, linked data into the dissertation to present a clear picture of the phenomena being studied (Guba, 1981:85–86; Krefting, 1991:220). This dissertation is presented in six chapters in which the literature, methodology and findings are described in detail to provide a holistic picture of the study.

Referential adequacy (literature review) was established by using research resources which are relevant and current. These resources are included in the list of references (Maritz & Visagie, 2011:10). Appendices (Maritz & Visagie, 2011:10) are also included in the dissertation and include a participant information sheet (appendix C) and a letter of informed consent (appendix D). Furthermore, the services of a co-coder were used to code the data independently and provide the researcher with a coding report.

**Applicability** – Applicability is concerned with the manner in which the research findings relate to other research studies (Krefting, 1991:220; Lincoln & Guba, 1999:398). Qualitative studies are generally associated with the study of a unique group where the findings emanating from such a group may not necessarily be transferable to other situations (Krefting, 1991:220; Lincoln & Guba, 1999:420). According to Lincoln and Guba (1999:420), the researcher is not responsible for informing the reader about the transferability of a study, but should merely provide adequate information to allow the reader to assess the transferability of the study to other situations (Krefting, 1991:221; Lincoln & Guba, 1999:420).

The provision of the selection criteria used to identify the research site and the research participants, background information on the research participants, the context of the study, the research process and the findings of the study was a strategy to address the applicability of the study. By providing such information, readers should be able to decide for themselves whether or not such findings may be applicable to other situations (Krefting, 1991:220; Lincoln & Guba, 1999:420).
Another strategy to ensure the applicability of the study was the selection of research participants who could give a holistic view of the value added by the selected AltX listed company’s AC. In this study research participants were purposefully selected using predetermined selection criteria.

**Consistency** – Consistency is also known as reliability and occurs when the data are analysed again and the same findings result (Delport & Roestenburg, 2011:177). In this study, a code-recoding procedure was followed where an independent, experienced co-coder was used (§ 4.3.3) to increase the consistency of the findings (Krefting, 1991:221; Lincoln & Guba, 1999:421). Furthermore, an in-depth description of the method, including the selection of a research site and research participants, data analysis and interpretation of data, was provided to allow readers to follow the decision trail (Krefting, 1991:221; Lincoln & Guba, 1999:421). Other strategies that were used to increase the consistency of the study included triangulation and peer examination (refer to the “truth value” pillar discussed in this section) (Krefting, 1991:217).

**Neutrality** – Neutrality refers to the idea that the data links up with the findings and can be effortlessly understood by others (Eriksson & Kovalainen, 2008:294). An audit trail of the records used in this study was created to ensure that readers and/or other scholars would be able to verify the trustworthiness of the study (Lincoln & Guba, 1999:422–423). Other neutrality strategies used include reflexivity (Lincoln & Guba, 1999:430) and triangulation (refer to the “truth value” pillar discussed in this section) (Guba, 1981:83).

### 4.4 ETHICAL CONSIDERATIONS

Research ethics govern the manner in which research is done and reported on (Eriksson & Kovalainen, 2008:62, 65) and protect the rights of the research participants by ensuring that ethical principles are adopted during the study (Eriksson & Kovalainen, 2008:63).

Internationally accepted ethical principles included in the Belmont Report (National Commission for the Protection of Human Subjects of Biomedical and Behavioural Research, 1978:4) were applied during this study. The Belmont report (National Commission for the Protection of Human Subjects of Biomedical and Behavioural
Research (1978:4) refers to three principles: respect for persons, beneficence and justice. The researcher adhered to all three of these principles.

**Respect for persons** – Respect for persons implies that the researcher should respect the autonomy of and provide protection for research participants (National Commission for the Protection of Human Subjects of Biomedical and Behavioural Research, 1978:4). A letter of consent to perform the study was obtained from the AltX listed company selected for the study (see § 4.3.1 for the reasons for excluding this letter from the dissertation). The research participants of the AltX listed company were identified on the basis of selection criteria (§ 4.3.1). The researcher personally invited the research participants to the interview and e-mailed them a participant information sheet (appendix C) and voluntary informed consent form (appendix D), requesting them to sign the consent form (Greeff, 2011:350; Saldaña, 2011:40). The participant information sheet provided information about the fact that participation in the study was voluntary, as well as details on the objectives of the study, the research process, the benefits of the study, and the right of withdrawal from the study at any point (National Commission for the Protection of Human Subjects of Biomedical and Behavioural Research, 1978:11, 14). It also confirmed that information obtained during the interviews would be kept confidential and that participants’ anonymity would be protected. The interview process commenced only after a participant’s signed consent form and agreement to record the interview had been obtained (Greeff, 2011:350; Saldaña, 2011:40).

To safeguard the anonymity of both the company and the research participants, a pseudonym was given to the AltX listed company, namely, ABC Limited. In the presentation of the findings in chapter 5, the company is therefore referred to as ABC Limited. The participants’ names were also excluded from the researcher’s findings.

Confidentiality was maintained as the transcriber and the co-coder had to sign a confidentiality agreement before the researcher provided them with the digital recordings containing the interview data and the interview transcriptions respectively. Data management techniques that safeguard confidentiality were also applied (§ 4.3.4).

**Beneficence** – Beneficence refers to not doing harm or minimising possible harm to participants and maximising the benefits to be reaped by participants from the study (National Commission for the Protection of Human Subjects of Biomedical and
Behavioural Research, 1978:6). To evaluate the risks and benefits of the study for research participants, the researcher did a risk/benefit analysis (National Commission for the Protection of Human Subjects of Biomedical and Behavioural Research, 1978:16). Accordingly, the benefits of this study are deemed to be that the results of the study would be shared publicly (although anonymity would be maintained) to provide greater knowledge on the way in which value is added by ACs at AltX listed companies. On the other hand, a risk associated with the study was identified as the fact that the research participants might be apprehensive about a breach of anonymity and confidentiality. This risk was dealt with by providing research participants with an informed consent form confirming that information shared during the interview would be kept confidential and anonymous. Furthermore, the researcher reiterated the importance of maintaining confidentiality and anonymity before the interviews commenced.

To further minimise possible harm to participants, high quality research was produced by applying a recognised research design and approach (Maritz & Visagie, 2011:14). In addition, the supervisors who guided the researcher through the research process were qualified and experienced. Ethical clearance was also obtained from the Research Ethics Review Committee in UNISA’s College of Accounting Science and the researcher attended a training course on ethical considerations in qualitative research.

Justice – Justice refers to “equal share and fairness” (Orb, Eisenhauer & Wynaden, 2000:95). In other words, “avoiding exploitation and abuse of participants” (Orb et al., 2000:95). This requirement for justice was complied with by the researcher providing participants with a participant information sheet (appendix C) and presenting findings in a manner that is accurate and objective and does not deceive the readers.

4.5 CONCLUSION

This chapter explained that an explorative qualitative research design was suitable to understand the way in which the AC adds value to an AltX listed company and its stakeholders (§ 4.2). To complement this design, a case study approach was selected. The research site and research participants were purposefully selected on the basis of predetermined selection criteria (§ 4.3.1). Accordingly, an AltX listed company which was accessible to the researcher and that had been listed for at least the same
timeframe as the average listing duration of AltX listed companies was selected as the research site. Participants included the AC members, a member of the board, members of management, the company secretary and the designated advisor. The collection of data from a number of sources using semi-structured interviews, field notes and company documents contributed to the trustworthiness of the study (§ 4.3.2). Data sources were analysed using descriptive open coding techniques and Atlas.ti was used as a supportive tool when analysing interview transcripts (§ 4.3.3). Data were stored in such a way that confidentiality was safeguarded (§ 4.3.4). A number of strategies were implemented to ensure the trustworthiness and increase the rigour of the study during both the data collection and analysis phase (§ 4.3.5). Internationally accepted ethical principles were also applied during this study (§ 4.4).

Chapter 5 will discuss the empirical findings of the study. These findings are based on the analysis of data obtained from the semi-structured individual interviews held with the research participants, as well as field notes and company documents.
CHAPTER 5

PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

5.1 INTRODUCTION

The preceding chapter explained that an explorative qualitative research design and case study approach were applied to understand the way in which value is added by an AltX listed company’s AC. Chapter 4 also described the method used in selecting both the research site and the participants, as well as data collection and analysis, and the management of data. The measures implemented to ensure the trustworthiness of the study were also dealt with. The chapter concluded with a discussion of the ethical considerations applied during the current study.

This chapter presents an analysis and discussion of the research findings. Semi-structured in-depth individual interviews, observations in the form of field notes and relevant company documents were used in order to achieve the research objectives. In this chapter, the interpretation and reporting style will be discussed (§ 5.2) followed by a description of the interview context (§ 5.3). Thereafter, the empirical findings will be presented within the context of the theoretical framework of the three components influencing the value of an AC, as explained in chapter 3. These components include the characteristics of AC members, the fulfilment of AC responsibilities through optimised activities and the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers (§ 5.4).

5.2 INTERPRETATION AND REPORTING STYLE

As discussed in chapter 4 (§ 4.3.3), data were firstly analysed by reading the hard copies of the eight transcribed interviews, the field notes and the company documents in order to identify preliminary codes. These codes were then written next to the relevant text in the right-hand margins. During this first-coding phase, descriptive open coding techniques were used. During the second-coding phase, the researcher used Atlas.ti, Computer Assisted Qualitative Analysis software, to assign codes to the imported transcribed interviews. Second-coding was also done on the hard copies of field notes and company documents. Codes which were initially assigned during the
first-coding phase were revised and changed if deemed necessary. Similar descriptive codes were then grouped and assigned to a specific descriptive category (Babbie, 2010:401; Saldaña, 2011:104). The interrelationships among these categories were explored (Saldaña, 2011:92) and common themes identified in order to bring the value added by the AC into context.

After second-coding was completed, a co-coder was assigned to co-code the transcribed interviews independently. However, this person did not review the theoretical framework (ch 3, fig 3.1) which guided the theming and categorising of data. His/her input was merely to increase the reliability of the findings.

An inductive reasoning process was followed during the analysis and interpretation of the data obtained during the data collection phase (Creswell, 2007:17). During this phase, the researcher made observations and aligned them to theories relating to the value added by the AC of a specific AltX listed company and its stakeholders (Bendassolli, 2013:2). Although themes and categories were developed on the basis of the theoretical framework, an inductive reasoning process in terms of a constructivist paradigm was followed during the analysis and interpretation of data.

Transcribed interviews were imported into Atlas.ti as primary documents in the order in which the interviews were conducted and transcribed, for example primary document 1 corresponds with the first interview conducted and transcribed. Verbatim quotes from research participants were used to support the findings. The referencing method used to present the findings of the study was created by Atlas.ti. For example, the reference “P1:31” refers to the following: “P” means “participant”, number “1” refers to the primary document number and number “31” represents the quotation number in the primary document. Verbatim quotes used during the presentation of findings were indented and indicated in italics. Shorter verbatim quotes that were used as part of the researcher’s paraphrasing were not presented in italics but were displayed in inverted commas. Instances where readers would be unable to understand the quote without reading a larger section of the transcribed interview, for example where participants referred to “they” or “them”, were replaced with the appropriate word(s) in brackets to ensure that readers have a clear understanding of the specific individual/group referred to by the participant. In addition, where participants referred to themselves during the interviews and a reader might be able to identify the participant, the researcher replaced words
such as “I”, with the participant’s role in the company in brackets (e.g. the [chairperson of the AC]), to protect participants’ anonymity. To protect anonymity further, verbatim quotes that revealed gender, such as “he” or “his”, were supplemented with the inclusion of “she” or “her” and also indicated in brackets. An additional word(s) or a letter was also included in brackets where the participant erroneously excluded a word or made a language error which hampered comprehension. To further protect the anonymity of the participants, findings were reported from two broad perspectives, namely, AC members and non-AC members. The following table provides a summary of the participant groups and the references included in the empirical findings to support assertions:

**Table 5.1 Participant groups and references used**

<table>
<thead>
<tr>
<th>Participant groups</th>
<th>References used</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC members (including the chairperson of the AC)</td>
<td>P2, P6, P8</td>
</tr>
<tr>
<td>Non-AC members (chairperson of the board, CEO, CFO, company secretary, designated advisor)</td>
<td>P1, P3, P4, P5, P7</td>
</tr>
</tbody>
</table>

One interview was conducted in Afrikaans and was subsequently translated to present the study in one language only.

In chapter 2 (§ 2.2.3.2), the researcher argued that AltX listed companies with the main goal of growing their businesses in the long term could achieve maximum growth and wealth by considering the interests of all stakeholders during the companies’ decision-making processes and business operations. It was therefore expected that the AltX listed company is this study, which had a long-term vision to grow its business, as evidenced by its listing duration of 7.74 years (Maluleka, 2015) and the strategic practices reflected in its integrated report (ABC Limited, 2014a:7), would embrace stakeholder theory. The AC participants were, however, of the opinion that the beneficiaries of the AltX listed company are primarily shareholders. For this reason, when reporting on the findings, except where otherwise indicated, reference is made to shareholders and not stakeholders.

In qualitative research, where the researcher is regarded as the primary data collection instrument, he/she needs to document what he/she comprehends and feels during the
research process (Saldaña, 2011:32). As a result, a first-person writing style is generally used during the presentation of the findings (Creswell, 2007:17). However, for the purpose of this study, a third-person writing style was chosen for presenting and discussing the findings because a co-coder was used to prevent findings from being biased. In addition, the information obtained during the interviews was validated, where possible, with information from company documents. These documents provided factual data and were therefore not based on the researcher’s observations and conclusions. Lastly, although field notes are regarded as subjective, they were only used to provide readers with background on the observations made during the interviews (§ 5.3).

5.3 CONTEXT OF THE INTERVIEWS

Ten participants, namely, all seven board members, the external auditor, the company secretary and the designated advisor were invited to participate in the study and showed an interest in participating. However, one participant later withdrew owing to anonymity concerns, whilst another participant’s busy work schedule prevented him/her from participating in the study. This resulted in eight interviews being conducted. Interviews were held with all three members of the AC, the chairperson of the board, the CEO and the CFO, the company secretary and the designated advisor. Table 5.2 provides the ten participants’ designations, their involvement in the AC and their participation in the study.

Table 5.2 Participants’ designations, their involvement in the AC and their participation in the study

<table>
<thead>
<tr>
<th>Designation</th>
<th>Member of the AC (yes/no)</th>
<th>Invitee to the AC meetings (yes/no)</th>
<th>Participated in the study (yes/no)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive, independent board member</td>
<td>Yes</td>
<td>Not applicable as member served on AC</td>
<td>Yes</td>
</tr>
<tr>
<td>Non-executive, independent board member</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Non-executive, independent board member</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Chairperson of the board (Non-executive)</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Non-executive board member</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Designation</td>
<td>Member of the AC (yes/no)</td>
<td>Invitee to the AC meetings (yes/no)</td>
<td>Participated in the study (yes/no)</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------</td>
<td>-------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Executive board member (CEO)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Executive board member (CFO)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>External auditor</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Company secretary</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Designated advisor</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3</strong></td>
<td><strong>6</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>

The researcher noted the recurring themes and categories that emerged during the interview process and believes that data saturation was reached on conclusion of these interviews. Thus, no further interviews were deemed necessary.

As indicated in chapter 4, field notes are also regarded as data and contributed to an understanding of the value added by the AC. The field notes further enhanced the trustworthiness of the study (Saldaña, 2011:76). The researcher used her field notes to describe her experiences with the research participants who formed part of this study.

During the interviews the researcher observed strong bonds between participants. Such closeness was perceived to be similar to the closeness that exists in a family-owned business. These strong bonds may be attributable to the size of the AltX listed company as only seven members served on the board. A family-owned business is also characterised by shares being held by family members who manage the company. Like the shareholding of a family-owned business, the majority of the shares (52.1%) of the AltX listed company in this study were held by both executive and non-executive board members (ABC Limited, 2014a:27).

The field notes were used to provide background on the interviews. Table 5.3 gives some background on each of the eight participants.
Table 5.3  Background of the interviews

**Participant 1:** The interview was confirmed directly with the participant and was conducted at a coffee shop during office hours because the meeting room on the company’s premises was booked. The researcher was nervous as it was her first interview. However, the interview setting assisted in creating a relaxed atmosphere. Although the participant had a work deadline to meet, he/she answered the interview questions in detail and provided many examples to support his/her responses. The researcher wondered whether this thoroughness would also be an indication of his/her thoroughness in preparing for an AC meeting. This participant mentioned that the following participants, in addition to the three AC members, the company secretary and the designated advisor, also attended AC meetings: a non-executive board member, the CEO, the CFO and the external auditor. The researcher had initially expected that AC meetings would only be attended by the three AC members, the company secretary and the designated advisor, with the presence of management and the external auditor only being requested on occasion. In addition, after covering all the questions the researcher felt that the participant wanted to share more information. A general question was thus posed: Is there anything else that you want to add regarding the value of the AC? In response the participant provided additional information. This general question was also included in the other interview schedules as the researcher wanted to reduce the risk of missing information about the value of the AC that the original interview questions might not have covered. Additionally, the information obtained in this interview was used to refine the questions in the other interview schedules.

**Participant 2:** The interview was confirmed directly with the participant. The meeting was conducted in a meeting room during office hours with no interruptions. The participant requested that the interview be conducted in Afrikaans. The participant was tired and yawned several times during the interview. The researcher wondered if this could be as a result of the participant’s busy work schedule. Despite this observed fatigue, the researcher found that the participant was at ease during the interview, which might have been because it was conducted in his/her mother-tongue. The participant considered each of the questions carefully before responding.

**Participant 3:** The interview was confirmed via the participant’s personal assistant. However, on arrival at the arranged interview venue the researcher was disappointed to find that the interview had been cancelled. Nevertheless, the interview did eventually take place approximately 30 minutes later than scheduled. The interview was conducted in a meeting room during office hours with no interruptions. The researcher considered the responses obtained from this participant to be honest, frank and to the point.
Participant 4: The interview was confirmed directly with the participant. Owing to a misunderstanding about the venue where the interview was to be conducted, the interview started approximately an hour later than scheduled. This misunderstanding made the researcher anxious. However, the participant stated that his/her work schedule could accommodate the postponed interview. The interview was conducted in a meeting room with no interruptions. Before the commencement of the interview, the participant was concerned about his/her anonymity. The researcher assured him/her that his/her anonymity would be safeguarded. However, such a concern may have influenced his/her responses to the questions. During the interview he/she came across as being very knowledgeable and competent. The researcher anticipated that his/her knowledge contributed to the value added by the AC. This impression was subsequently confirmed by other participants.

Participant 5: The interview was confirmed directly with the participant and was conducted in a meeting room after office hours with no interruptions. The researcher immediately felt comfortable in the participant’s presence. During the course of the interview the researcher’s perception of the participant’s openness was confirmed as documents to support his/her responses were shown.

Participant 6: The interview was confirmed via the participant’s personal assistant and was conducted in a meeting room during office hours. The interview was interrupted by the participant’s cell-phone whereupon the participant apologised and explained that he/she had to take the call. He/she did not leave the meeting room and the call lasted approximately 30 seconds. In response to the questions, the participant replied at length and gave rich descriptions. The researcher found the participant to be open-minded and felt that he/she made a valuable contribution to the AC. This assumption was confirmed by the responses of the other participants. The researcher was also impressed by the interest shown by the participant in the current study.

Participant 7: The original interview with this participant was rescheduled as he/she had to attend to work responsibilities. It was clear that this participant was very busy. The interview was confirmed via the participant’s personal assistant and was conducted in the participant’s office with no interruptions. On arrival for the interview, the personal assistant informed the researcher that the participant would be late for the interview owing to other work commitments. As a result, the interview started approximately 30 minutes later than scheduled. The participant displayed good people skills, opening the interview by asking the researcher to share information about his/her background. The researcher’s perception of the participant as being truthful in answering the questions was confirmed when documents supporting his/her responses were shown. The researcher considered this participant to be highly skilled and driven to succeed.
Participant 8: The participant was initially hesitant to participate in the study as he/she was of the opinion that his/her contribution to the study would be insignificant. However, as he/she met the selection criteria, the researcher persuaded him/her to participate. Further difficulty was experienced when scheduling the interview as a result of the participant's busy work schedule. Eventually the interview was conducted at a coffee shop, after hours. The researcher was impressed with the professionalism of this participant.

5.4 EMPIRICAL FINDINGS

The information obtained from the eight transcribed interviews and the company documents (AFS for the year ending 2008, annual report for the year ending 2010, integrated report for the year ending 2014, attendance registers for the AC meetings held during the 2014 calendar year, the AC’s terms of reference and the AC work plan) were used to present the empirical findings of this study. In addition, information obtained from these two data sources (transcribed interviews and company documents) were corroborated manually where possible to increase the trustworthiness of the study. The empirical findings will be presented within the context of the theoretical framework set out in figure 3.1 (ch 3), consisting of attributes influencing the value added by an AC, namely, the characteristics of AC members (§ 5.4.1), the fulfilment of AC responsibilities through optimised activities (§ 5.4.2) and the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers (§ 5.4.3). Each section (§§ 5.4.1–5.4.3) will commence with a table summarising the themes and categories in the relevant empirical findings. Thereafter a detailed discussion of these themes and categories will follow. The themes and categories emerged during the data analysis phase using descriptive open coding techniques (§ 5.2). The co-coder also assisted the researcher in the finalisation of the themes and categories that emerged from the data analysis.

5.4.1 The characteristics of audit committee members

The characteristics of AC members are a fundamental component of the AC if it is to operate as a value-adding committee for the company and its stakeholders (ch 3, § 3.2). Table 5.4 provides a summary of the themes and categories that emerged from the analysis of findings relating to the characteristics of AC members.
Table 5.4 Themes and categories of the empirical findings related to the characteristics of AC members

<table>
<thead>
<tr>
<th>Themes</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence § 5.4.1.1</td>
<td>• Status of AC members’ independence</td>
</tr>
<tr>
<td></td>
<td>• Measures taken by the company to ensure independence</td>
</tr>
<tr>
<td></td>
<td>• Manner in which independence could be jeopardised</td>
</tr>
<tr>
<td></td>
<td>• Value added by independent members serving on the AC</td>
</tr>
<tr>
<td>Leadership § 5.4.1.2</td>
<td>• Participants’ perspectives on the AC chairperson’s leadership role</td>
</tr>
<tr>
<td></td>
<td>• Value added by the leadership displayed by the AC chairperson</td>
</tr>
<tr>
<td>Qualifications § 5.4.1.3</td>
<td>• Status of qualifications held by AC members</td>
</tr>
<tr>
<td></td>
<td>• Value added by qualified members serving on the AC</td>
</tr>
<tr>
<td></td>
<td>• Suggestions made regarding qualifications held by AC members</td>
</tr>
<tr>
<td>Experience § 5.4.1.4</td>
<td>• Status of AC members’ experience levels</td>
</tr>
<tr>
<td></td>
<td>• Involvement in other companies’ boards and/or ACs</td>
</tr>
<tr>
<td></td>
<td>• Serving on other committees of the same company</td>
</tr>
<tr>
<td></td>
<td>• Attendance of training programmes and/or “on-the-job” training</td>
</tr>
<tr>
<td></td>
<td>• Value added by experienced members serving on the AC</td>
</tr>
<tr>
<td></td>
<td>• Status of the combination of “established” and “new” members serving on the AC</td>
</tr>
<tr>
<td></td>
<td>• Value added by the appointment of a “new” AC member</td>
</tr>
<tr>
<td></td>
<td>• Suggestions made regarding the rotation of AC members</td>
</tr>
<tr>
<td></td>
<td>• Process for appointing and re-electing an AC member</td>
</tr>
<tr>
<td>Number of AC members § 5.4.1.5</td>
<td>• Adequacy of the number of AC members</td>
</tr>
</tbody>
</table>

5.4.1.1 Independence

All the members serving on the AC were independent, non-executive directors (ABC Limited, 2014a:15). The AltX listed company in this study therefore complied with the requirements of the Companies Act (RSA, 2009:s 94(4)(b)(i)–(iii)) and the JSE listing requirements for AltX listed companies (JSE Limited, 2014b:21.5(i)) and followed the recommendations of King III (IOD, 2009a:22, principle 2.6; IOD, 2009a:31, recommended practice 3.2.1; IOD, 2009a:32, principle 3.3). A review of the integrated report found that AC members did not hold shares in the company (ABC Limited, 2014a:27), which supported their independence status. Furthermore, at every AC meeting AC members were prompted to declare their interest in the company in writing.
on the attendance register. A review of these attendance registers (for AC meetings held during the 2014 calendar year) revealed that AC members did not declare any interest in the company (ABC Limited, 2014b; ABC Limited, 2014c; ABC Limited, 2014d; ABC Limited, 2014e). This practice further supported the assertion that AC members are expected to be independent from the AltX listed company.

The importance of paying AC members a fair remuneration whilst being cautious that such payments do not negatively affect their independence towards the company was highlighted by an AC participant (P6:258). The same participant further remarked that there is a relationship between an AC member’s remuneration and his/her ability to engage in robust discussions (§ 5.4.3.2). However, he/she also stated that the remuneration paid to AC members by the AltX listed company in this study was fair and did not impede their independence or hamper the AC members’ ability to engage in robust discussions (P6:252). This finding is consistent with the researcher’s argument in chapter 3 (§ 3.2.1) that companies should remunerate AC members fairly as recommended by King III (IOD, 2009a:30, principle 2.25, recommended practice 2.25.4) in order to safeguard members’ independence. The AC participant commented:

\textit{One thing that I found is if independent non-executive director[s] [are] … dependent on the fees to maintain their standard of living, I find that the discussions are not robust (P6:250).}

Further investigation into this issue does not fall within the scope of the study. The researcher thus proposes that further research should be performed on the relationship between an AC member’s remuneration and his/her ability to engage in robust discussions.

Independent AC members were perceived by an AC participant and some non-AC participants to add value as they monitored information prepared by management and guided management in running the company. This finding is in agreement with the literature which states that an independent AC is able to monitor management’s skills, decisions and actions (Menon & Williams, 1994:125). This finding is illustrated by the following:
As the independent eyes … [the AC] come in with fresh eyes to look at information data, the financials, and they pick up things …. So I think, as … [an] independent, not related party in the company, it's very important to have the AC. That's how they add value for me (P3:2).

… you need somebody from the outside to give a more untainted view …. Every day [management are] running these numbers … [management are] doing the same thing, and [management] do it because that’s how [they] have always done it … Sometimes you need somebody from the outside to come in and say have you looked at it this way? Could you not possibly do it better if you do it this way? (P8:38).

A review of the AC’s work plan indicated that a meeting with the external auditor, without the presence of management, did take place (§ 5.4.3.1) (ABC Limited, 2014g:6). One AC participant claimed that during this meeting the external auditor could share his/her “issues” (P6:144) regarding management with the AC. Arguably, this practice could be attributable to the independence of the AC as confirmed by findings in the literature (Menon & Williams, 1994:125) that state that an independent AC provides the external auditor with an opportunity to express his/her views and concerns about management openly.

A review of the integrated report (ABC Limited, 2014a:16) revealed that the AC was responsible for recommending the appointment of the external auditor to the board. In the case of the company in this study, the AC recommended a firm of external auditors that was on the JSE list of accredited auditors (JSE Limited, 2015:2). This therefore implies that the AC of the AltX listed company in this study added value by recommending an external auditor with a good reputation. This finding is in keeping with what was revealed by Archambeault and DeZoort (2001:33–34, 46–47) that an independent and experienced AC will recommend the appointment of an external auditor who has a reputation for delivering high quality services.

One non-AC participant stated that AFS fraud was less likely to occur with independent members serving on the AC (P3:16), which correlates with the findings of Beasley et al. (2000:450, 452–453). As such, an independent AC adds value by increasing the quality of the AFS (Carcello & Neal, 2003:290; Pucheta-Martinez & De Fuentes, 2007:1407).
The findings suggest that the company regarded the independence of their AC members as important, since they were requested to declare their interest in the company prior to an AC meeting. Furthermore, the remuneration paid to them was fair and therefore did not influence their independence. This quality of independence in the AC members enabled them to add value to the company, its management, the external auditor and the shareholders, as the AC monitored information prepared by management and guided management in running the company. They also provided an opportunity for the external auditor to openly express his/her views and concerns about management. The AC further recommended an external auditor with a good reputation and reduced the potential for AFS fraud by increasing the quality of the AFS.

5.4.1.2 Leadership

Participants repeatedly commented on the excellent leadership qualities of the AC chairperson. One non-AC participant explained that the chairperson had the ability to ensure that AC members were adequately prepared for the AC meetings (§ 5.4.2.6) (P5:224). Two of the AC participants (which excluded the AC chairperson) and one non-AC participant further stated that the chairperson added value by controlling AC meetings efficiently and effectively (§ 5.4.3.2) (P2:112; P5:242; P8:128). This finding is in agreement with the Audit Committee Forum (ACF) (2005:3), which states that the AC chairperson should play a role in leading AC meetings so that there is open and constructive dialogue. This is what an AC participant had to say about the AC chairperson:

\[\text{\ldots everybody speaks through the chair. So an item will be brought up, the chairperson will say item number four, give us a short couple of sentences and then [the AC chairperson will] invite people to make comments, to add, make suggestions. If there\’s a discussion \ldots sometimes people are quite passionate, [the AC chairperson] will come as a mediator to say we\’re not gonna agree on this, let\’s park it or let\’s have another discussion maybe at the end but let\’s move through the agenda. So [the AC chairperson] will manage the meeting to make sure it runs smoothly (P8:128).}\]

Some non-AC participants stated that the AC chairperson added value by encouraging all members present at AC meetings to participate in a disciplined and structured manner (P4:150). In support of this finding, the ACF (2005:3) and Nkonki (2014:55)
opine that an AC chairperson should ensure that all members of the AC participate and provide their inputs during AC meetings. This is supported by DeZoort et al. (2002:43), who maintain that the chairperson’s leadership will contribute to successful teamwork being displayed by the AC. To illustrate this, a non-AC participant said in this regard:

… no one is allowed to talk simultaneously … [he/she] will actually give each person the opportunity to say [his/her] say and to add their value and to ask questions if need be (P1:220).

As AC meetings are the platform used by the AC to fulfil its responsibilities, it can be argued that the leadership qualities that the AC chairperson displayed during these meetings positively influenced the way in which the AC fulfilled its responsibilities.

The AC chairperson had healthy relationships with information providers which enabled the AC to fulfil its responsibilities (§ 5.4.3). The researcher is of the opinion that the chairperson’s leadership qualities enabled him/her to interact with information providers effectively. This is consistent with Spira’s (1999a:245) findings, which show that an AC chairperson needs to have a “strong” character to enable him/her to identify and manage information providers.

The chairperson’s leadership qualities may be one of the reasons why he/she added value to management by offering the CFO training and guidance on technical and soft skills. Although King III recommends that directors who lack adequate experience should be assigned to a mentorship programme (IOD, 2009a:27, recommended practice 2.20.2), this recommendation was not implemented by the company studied here. Instead, the AC chairperson played a mentorship role. The researcher is of the opinion that the role played by this chairperson is unique to the AltX listed company in this study and falls outside the scope of the responsibilities reflected in the company’s AC charter (ABC Limited, 2014f:1–6). This finding is evidenced by the following views voiced by two non-AC participants:

… [the AC chairperson] likes to add value to [the CFO’s] expertise and to guide [the CFO] and take [his/her] hand and leading the [CFO] in knowing what to present, how to present it [at the AC meetings] … (P1:18).
We're quite fortunate to have [an AC chairperson], who's currently at [an audit firm]. So [he/she] would on a continuous basis mention that there's for example training happening at [the audit firm] and then [he/she] would invite ... the [CFO] ... and the accountant to come and attend the training (P7:38).

The description of the chairperson’s leadership qualities given by the participants implies that he/she acted in a disciplined and responsible manner, which was in keeping with the characteristics associated with good CG as reported in chapter 2 (§ 2.3.3.3).

In summary, the findings suggest that the participants respected the AC chairperson for his/her leadership qualities which enabled him/her to add value to the way AC meetings were conducted and its responsibilities carried out. These leadership qualities also enabled the chairperson to interact effectively with information providers and to act as a mentor to the CFO.

5.4.1.3 Qualifications

Two of the three AC members were chartered accountants (CA)s\textsuperscript{13} registered with SAICA (ABC Limited, 2014a:4). The third had a Baccalaureus Commercii (BCom) degree and held a postgraduate diploma in Property Development (ABC Limited, 2014a:4). Therefore, AC members were adequately qualified as required by section 94(5) of the Companies Act (RSA, 2009) and the 2011 regulation issued by the minister (RSA, 2011:51) and as recommended by King III (IOD, 2009a:32, recommended practice 3.2.4). One AC participant stated that his/her experience of serving on a number of ACs (§ 5.4.1.4) had shown him/her that many directors are not sufficiently aware of their responsibilities as directors of a company. Accordingly, he/she was (at the time of conducting the interview) in the process of writing a paper, for distribution to company directors, which consolidated all the directors’ responsibilities in terms of the Companies Act, the JSE listing requirements and King III (P6:413, 415, 417). This would seem to show that this particular AC member was knowledgeable in areas relating to the law, the JSE listing requirements and voluntary codes. One of the non-AC

\textsuperscript{13} A CA is defined as a person who has completed the required university qualification, learning programme and the South African Institute of Chartered Accountants (SAICA’s) professional examinations and who is therefore entitled to use the designation Chartered Accountant (South Africa) (CA(SA)) after registering at SAICA (SAICA, 2015b).

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participants supported this finding.

According to section 94(5) of the Companies Act (RSA, 2009), King III (IOD, 2009a:32, recommended practice 3.2.4) and a study conducted by DeZoort et al. (2002:41–42), an AC with members who collectively have sufficient qualifications and experience (§ 5.4.1.4) is able to add value to the company and its shareholders by fulfilling its responsibilities. As reported in section 5.4.2, this particular AC had fulfilled its responsibilities as set out in the Companies Act, the JSE listing requirements for AltX listed companies and King III. As such, the members’ qualifications contributed greatly to the fulfilment of AC responsibilities.

One non-AC participant suggested that there was a direct relationship between AC members being financially qualified and members adding value to the company by being actively involved in debates during AC meetings (§ 5.4.3.2). This is what this non-AC participant had to say:

… I've seen ACs where there's one strong financial person who probably chairs that AC meeting and then … the other two members often have very little interaction, they [are] not necessarily that financially strong … but in the context of [this company], I think all three members have a fairly strong financial background and are fairly active in the debates and discussions that take place in that [AC] meeting (P4:150).

In addition, it is important for the AC to provide the board with feedback on the manner in which the AC has discharged its responsibilities (IOD, 2009a:35, principle 3.10). One of these responsibilities requires the AC to issue an opinion on the company’s AFS (IOD, 2009a:35, recommended practice 3.10.2.3; ABC Limited, 2014a:25–26). In this regard, one non-AC participant stressed the importance of the AC chairperson’s approval of the AFS prior to their release (P3:10). It is therefore probable that the AC chairperson’s technical abilities helped him/her to add value to the board by reviewing the AFS (P2:162; P4:242). Furthermore, the independent auditors’ report on the company awarded it an unmodified opinion (ABC Limited, 2014a:29), which, it is submitted, was as a result of the oversight exercised by financially qualified AC members (particularly the chairperson) in reviewing the AFS. These findings are aligned to the findings of Kalbers and Fogarty (1993:37, 45) and Krishnan and Lee (2009:243),
who found that, in light of the AC’s responsibility to review the AFS, it is important for members to have financial and accounting qualifications.

In chapter 2 (§ 2.2.4), the argument was raised that AltX listed companies with a long-term vision to grow their business and create wealth may be less price-sensitive than those with the short-term goal of growing their business. However, the AltX listed company in this study (which had a long-term vision to grow its business as evidenced by its listing duration of 7.74 years [Maluleka, 2015] and the strategic practices reflected in its integrated report [ABC Limited, 2014a:7]) does not support this argument and was accordingly price-sensitive. Such price-sensitivity was noted, as one participant on the AC suggested that the value of the AC could be increased by including members who have expertise in areas relating to IT and the law (P6:82). However, this suggestion had not been implemented by the company owing to budgetary constraints. The researcher is of the opinion that such absence of adequate legal expertise was compensated for by the support provided by the company secretary and, to a lesser extent, the designated advisor (§ 5.4.3.2).

In summary, the researcher found that AC members were adequately qualified which enabled them to add value to the company, the board and the company’s shareholders, as evidenced by the fact that the AC had fulfilled its responsibilities and that AC members participated actively during AC meetings, as well as the fact that an unmodified audit opinion was issued on the AFS. Nevertheless, such value could be increased further if members with a legal or an IT background were to serve on the AC.

5.4.1.4 Experience

The AC chairperson had been employed as a partner at two auditing firms since 2007 (ABC Limited, 2014a:4). The second AC member had a corporate finance background and he/she was the CEO of a training institute. During 2005, he/she received a businessperson award and had international business experience. His/her expertise lies in industry consolidation, the establishment of new businesses and an involvement in companies that were in the process of being listed (ABC Limited, 2014a:4). The other AC member had 14 years’ banking experience and his/her main focus included property finance and structured lending (ABC Limited, 2014a:4). Thus, AC members were adequately experienced as required by the Companies Act regulation (RSA, 2011:51)
and recommended by King III (IOD, 2009a:32, recommended practice 3.2.4) to fulfil AC responsibilities.

Two of the three AC members were also involved on the boards of other companies and/or on other ACs. The AC chairperson served as an independent, non-executive member on the boards of a number of companies (ABC Limited, 2014a:4) and had also acted, for “about seven years” (P6:12), as the chairperson of several boards. Most of these companies were “listed and most of them [were] on the AltX” (P6:14). The second AC member served on the “ACs of various companies” (P2:3). These companies were “all smaller unlisted companies or private companies” (P2:3). As these AC members were particularly involved in AltX listed or smaller unlisted companies, they had been exposed to the AC practices followed in smaller business environments. As such, these members were familiar with good AC practices and applied them to the AltX listed company in this study (P7:112, 114). Therefore, the AC members’ business backgrounds enabled them to add value by providing better quality guidance to management (P7:112, 114).

In this study, the company’s audit, risk, nomination and remuneration committees, and the social and ethics committee, were appointed by the company’s board (ABC Limited, 2014a:15). The following table indicates the members of the AC and their involvement in these committees (ABC Limited, 2014a:5, 17–18):

Table 5.5 AC members’ involvement in the risk, nomination and remuneration committees and the social and ethics committee

<table>
<thead>
<tr>
<th>AC member</th>
<th>Risk committee</th>
<th>Nomination and remuneration committee</th>
<th>Social and ethics committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>First member and chairperson</td>
<td>Member</td>
<td>Member</td>
<td>None</td>
</tr>
<tr>
<td>Second member</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Third member</td>
<td>Chairperson</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

As indicated in table 5.5, two of the three AC members’ understanding of the company and its risks resulted from their involvement in the risk and/or nomination and remuneration committees. Such an understanding of the company’s business,
especially where related to the company’s risks, improved the AC’s ability to fulfil its risk oversight responsibilities, which accordingly enabled it to add value to the company (P3:45).

One non-AC participant indicated that the external auditor perceived the AC as a powerful body (§ 5.4.3.3) owing to the experience of the AC chairperson. Furthermore, the majority of AC participants indicated that the diversity of experience of the individual AC members enabled them to add value to the company by viewing matters from different perspectives. Members with different experience levels prevented a focus on certain areas only. In this regard one AC participant indicated:

… like-minded people but bringing something different which is really great because then you don’t get bogged down in one certain detail … (P8:12).

The individual experience levels of AC members also enabled them to add value as this stimulated debates during meetings (§ 5.4.3.2) (P8:10). The ability of members to ask probing questions (relating to their responsibilities) during AC meetings was also linked to their years of experience in the companies in which they were permanently employed (P6:104; P7:106).

Executive and non-executive directors of AltX listed companies (which include AC members) are required to attend a compulsory Directors Induction Programme (JSE Limited, 2014b:par. 21.3(d)) at the IOD (IOD, 2015a) and all the AC members of the company in this study had attended this programme (P2:13; P6:80; P8:20). Attendance of such a programme adds value to both the AC and the company, as it provides a valuable learning opportunity. The JSE (JSE Limited, 2012c) also reports that the Directors Induction Programme improves directors’ knowledge of the Companies Act, the JSE listing requirements for AltX listed companies and CG practices. This finding was substantiated by the following verbatim quotes:

It gives you a feel for governance, it gives you a feel for your duties as a director (P6:80).

So that also gives you a very good broad outline right in the beginning as … what is required from you (P7:40).
As noted above, while all “new” directors need to attend the compulsory Directors Induction Programme, the programme does not focus exclusively on the responsibilities and best practices of ACs. In view of this, the researcher believes that this learning opportunity could be improved by offering an induction course specifically for AC members.

The structured induction provided by the IOD was complemented by “on-the-job” induction provided by the company’s management and the company secretary (P1:240). This “on-the-job” induction provided by the company secretary is implied by recommended practice 2.21.6 in King III (IOD, 2009a:27). The AC member who was appointed during 2014 (ABC Limited, 2014a:12) visited the company (P8:20) and studied relevant company documentation (P8:72) to improve his/her understanding of the company’s business. KPMG (2014:15) confirms that site visits enhance an AC member’s understanding. Although the company does not formally assign the “new” inexperienced AC member to a mentorship programme (IOD, 2009a:27, recommended practice 2.20.2), “on-the-job” training is provided for both “new” and “established” AC members. One AC participant remarked:

   The committee are constantly learning from one another. You have a mix of individuals (P8:4).

   … there’s a lot of support from the people who are already in the committee … (P8:20).

Two of the three AC members were CAs (SA) (§ 5.4.1.3). Being a CA(SA) implies that members should comply with SAICA’s continuing professional development (CPD) policy and develop and maintain professional proficiency (SAICA, 2015a:1) by undertaking appropriate activities (SAICA, 2015a:3) such as attending training programmes and meetings, as well as undertaking practical activities such as developing systems and processes (SAICA, 2015a:5–6). Individuals need to keep a record of these activities as proof that they have complied with the CPD policy (SAICA, 2015a:3). One AC participant asserted that they maintained their professional competence by undertaking activities prescribed by SAICA’s CPD policy. Another AC participant indicated that they also maintained their competence level through the experience they gained in their workplace. This AC participant explained:
But most of the AC members’ training comes from their exposure that they have, daily, in the specific area where they operate in (P2:19).

One of the AC participants who supported the notion of “new” directors attending an induction course questioned the attendance of ongoing training courses as recommended by King III (IOD, 2009a:27, principle 2.20, recommended practice 2.20.4; IOD, 2009a:32, recommended practice 3.2.5). This AC participant stated the following:

I’m not sure how [training courses] would actually help because the AC … the crux of [serving on the AC] is understanding the business, understanding what’s going on in the business … and the financial aspects of the business and then making sure that, from [a] CG perspective, all those requirements are met. So I … being on the AC I’m not sure outside of what are the requirements of how to appoint somebody on an AC, how it needs to be constituted, your responsibilities on the committee, which the IOD’s [Directors Induction Programme] showed us and taught us, I don’t think there’s more you can really study for (P8:24).

The above perception is not supported by the researcher as it is submitted that maintaining an understanding of the business alone is not sufficient to fulfil AC responsibilities. This is based on the researcher’s own experience as a lecturer in the Department of Auditing at a university where study material is updated regularly as a result of the fact that the risks involved, as well as the laws, listing requirements, and voluntary codes change frequently in a business environment. The researcher thus supports the recommendation of King III.

AC members had been offered an opportunity to identify applicable training courses to maintain their experience level. Although the attendance of such courses was supported and paid for by the company, this was only to the extent that the company’s limited training budget would allow (P2:19). One non-AC participant commented as follows:

What we did last time, but it was more on a board level, said to all the members you can go to the IOD to see if there’s anything that you would like to do there and attend any of those programmes (P7:38).

However, with regard to training, the price-sensitivity of the company (§ 5.4.1.3) once again came to the fore, as one AC participant acknowledged that there were limited
financial resources available to provide AC members with training (P2:19). In the face of limited financial resources, one non-AC participant pointed out that AC members should take responsibility for their own training needs and develop these needs accordingly:

… what I have seen with [board members], we’re all very much on our own growth path where we wanna grow and we wanna learn and make sure that we stay up-to-date (P7:38).

The AC consisted of two “established” and one “new” member. The two “established” members were appointed in 2009 (ABC Limited and its subsidiaries, 2008:7) and 2010 (ABC Limited, 2010:83), whilst the “new” member was appointed in April 2014 (ABC Limited, 2014a:12, 78) to replace the member who resigned. One AC participant and some of the non-AC participants revealed that the new AC appointment had added value to the way the AC fulfilled its responsibilities as he/she brought a new perspective, asking challenging questions during AC meetings (P1:246; P2:70; P5:208). One non-AC participant referred to the “new” AC member as “a new broom” (P1:240) in reference to the idiom, “a new broom sweeps clean”, meaning that a person in a new position will do a thorough job to prove that he/she is capable. DeZoort (1998:19) came to a similar conclusion, stating that “new”, inexperienced members are often more careful and critical in fulfilling their allocated responsibilities. However, two non-AC participants did not agree with this finding (P4:328, 330, 332; P7:54).

Accordingly, one non-AC participant pointed out that the “established” members enabled the AC to add value to the company as they were acquainted with the company’s risk areas and knew where to challenge management and the external auditor. This non-AC participant framed the situation as follows:

I think what comes with experience is sort of the knowing what type of questions to ask, knowing which boundaries need to be tested, knowing where there … in the past [there] were mistakes (P5:208).

Based on the value added by the “new” AC member described above, a non-AC participant suggested the rotation of AC members, which is in line with the suggestion made by KPMG (2013:3). The non-AC participant suggested:
… after a three-year term that it should be assessed to bring in a “new” member just to have a breath of fresh air and new challenging questions [being asked] (P1:246).

King III proposes that at least one-third of non-executive directors should retire annually (IOD, 2009a:26, recommended practice 2.18.6). The company in this case study follows this recommendation to a certain extent as its memorandum of incorporation states that at least one-third of the non-executive directors should retire from the company at each AGM (ABC Limited, 2014a:14). However, these directors may be reappointed by the shareholders (ABC Limited, 2014a:14). This implies that, at the AGM, if non-executive directors indicate their willingness to continue serving in that role and are reappointed by shareholders, they will not be rotated. Accordingly, there may be a risk of only “established” members serving on the AC, which could impede AC independence. Such a risk was not at issue for the AltX listed company in this study as a “new” AC member had been appointed during 2014.

Before being appointed, the “new” board member (who also served on the AC) was interviewed by a non-executive director (chairperson of the board) and two executive directors (CEO and CFO) (P8:14). However, in view of the fact that the chairperson and the CEO are major shareholders, holding 22.6% and 10.1% of the shares respectively (ABC Limited, 2014a:27), they are not independent as advocated by King III (IOD, 2009a:24, principle 2.16; ABC Limited, 2014a:11). Arguably, this raises the risk that the chairperson and the CEO as shareholders may influence the CFO to appoint a particular person. As the interview was followed up with discussions with board members and, subsequently, the approval of all board members (P1:240; P7:6), they could conceivably have been influenced by the CEO and the chairperson. Under these circumstances, the new member’s independence may be called into question, and they may ultimately land up being controlled by the chairperson of the board, the CEO and the CFO, in turn resulting in the AC’s responsibility to obtain assurance from management (IOD, 2009b:62, par. 46) being weakened as a result of a possible “closeness” between the AC member and management (in this case the CEO and CFO). This risk is in line with Mäntysaari’s (2005:151) and Bhasa’s (2004:9) findings that a major shareholder may excessively monitor and influence the board (ch 2, § 2.2.4). In this company, the major shareholders were also board members (§ 5.3), which implies that the board members could use its influence to make decisions (in this case appoint a board member) that are to their own benefit, to the potential detriment of
the minority shareholders. However, in this study abuse of power by the board was not mentioned by the participants during the interviews.

The company followed a “formal” (P7:6, 17; P8:14) appointment process, as interviews were conducted and all board members were involved. The company therefore followed the recommendation of King III that directors should be appointed through formal procedures (IOD, 2009a:26, principle 2.19). Furthermore, sections 70(3)(b)(i) and 94(2) of the Companies Act were complied with (RSA, 2009) and the King III recommendation applied (IOD, 2009b:40, par. 80), which refer to the shareholders’ involvement in appointing board members, as the company’s integrated report stated that the appointment of the “new” board member (who also acted as an AC member) was subject to shareholders’ confirmation (ABC Limited, 2014a:78). Because the “new” AC member’s position was only approved by shareholders during the AGM held in September 2014 (ABC Limited, 2014a:78), he/she acted in the position of both board and AC member for approximately five months without the shareholders’ consent. This practice is nevertheless acceptable, because King III (IOD, 2009b:58, par. 17) recommends that the board fill an AC vacancy as soon as one arises, subsequently obtaining approval by the shareholders for the appointment at the next AGM. The concerns raised by Barton and Wong (2006:36) and Nkonki (2014:6) that AltX listed companies may find it difficult to attract qualified and experienced AC members were not seen to be an issue, since none of the participants mentioned that difficulties were experienced when appointing the “new” member.

The re-election of an AC member at the AGM (IOD, 2009b:40, par. 80; RSA, 2009:s 94(2)), was proposed by the board (ABC Limited 2014a:15, 78). One AC participant asserted that lack of support by the CEO (who was one of the major shareholders in the company) could hamper an AC member’s chances of being re-elected. The AC participant articulated the following:

‘Cause the [CEO] is a major shareholder as well and maybe irritating [him/her] too much could result in [an AC member] not being re-elected (P6:250, 252).

Accordingly, the influence of majority shareholders was not only present when “new” appointments were made, but was also an issue when AC members stood for re-election. In this AltX listed company, the board members that did not form part of the AC
(which include the CEO) collectively held the majority of shares in the company (ABC Limited, 2014a:27). Thus, there is the risk that these board members might use their power to re-elect AC members based on their own preference. This could undermine the role played by the AC and the power it wields, to the potential detriment of the minority shareholders.

The findings suggest that the experience of the AC members was adequate as they had extensive experience resulting from their full-time occupations, they also served on the boards of other companies and/or ACs, and had sufficient knowledge of the company’s business. Accordingly, this experience enabled the AC to add value to the company, the management and the shareholders as it was able apply the good practices applied in other companies to the AltX listed company in this study, thus being able to give guidance to management. In addition, AC members’ involvement in the risk committee enabled them to add value by fulfilling the AC’s risk oversight responsibilities. AC members’ different individual experience levels has also enabled them to add value to the company, as matters can be viewed from various perspectives which stimulates the asking of probing questions and debates at AC meetings. AC members’ business knowledge have been enhanced by both formal and informal training programmes, which have also improved the way in which they fulfil their responsibilities.

Also, the collective experience of the AC members enabled them to add value to the company and its shareholders because the “new” AC member in particular asked fresh challenging questions during AC meetings, whilst the “established” AC members challenged management and the external auditor on the risk-related areas with which they were familiar. Therefore, the balance between the “established” and “new” members serving on the AC was satisfactory. To increase this balance it was suggested that AC members should be rotated. Furthermore, the appointment of “new” AC members and the re-election of “established” members could be biased as a result of the power wielded by non-AC board members who are major shareholders of the company. Accordingly, there is a risk that the role played and power wielded by the AC could be undermined to the possible detriment of the minority shareholders. However, none of the participants mentioned the abuse of the board’s power during the interviews and it would seem that no difficulties were experienced in filling the vacant positions on both the board and the AC.
5.4.1.5 Number of audit committee members

The company’s AC consisted of three independent, non-executive members (ABC Limited, 2014a:15) which was in agreement with the requirements of section 94(2) of the Companies Act (RSA, 2009) and the recommendation of King III (IOD, 2009a:31, recommended practice 3.2.2). However, the price-sensitivity of the company essentially precludes the appointment of two additional AC members (as noted in § 5.4.1.3).

King III (IOD, 2009a:28, principle 2.23) recommends that the board should delegate certain of its responsibilities to committees. The company in this study had established an audit, a risk, a remuneration and nomination committee, as well as a social and ethics committee (ABC Limited, 2014a:15). Members of these committees were elected from the company’s board, which, in the AltX listed company in this study, comprised seven members (§ 5.3, table 5.2) (ABC Limited, 2014a:5, 16–19). It should be noted that the non-executive directors of the AltX listed company in this study could not serve on all the committees as they had full-time occupations. Based on this argument, the researcher is of opinion that the three members serving on the AC were sufficient in view of the size of the company’s board.

The literature suggests that a small AC, consisting of three to five members, works more efficiently than a larger one (Nkonki, 2014:13). However, there should be enough members serving on the AC to fulfil its responsibilities effectively (DeZoort, 1998:2; DeZoort et al., 2002:42, 44). The findings of this study support the literature as none of the participants mentioned that difficulties were experienced with the AC’s efficiency levels. In addition, the three members who served on the AC enabled the AC to add value to the company and its shareholders by meeting its responsibilities through optimised activities (§ 5.4.2) and by maintaining healthy relationships (§ 5.4.3).

5.4.2 The fulfilment of audit committee responsibilities through optimised activities

The AC work plan and the company’s integrated report were used to determine whether the AC fulfilled its responsibilities as set out in the Companies Act, the JSE listing requirements for AltX listed companies and King III (ch 2, §§ 2.3.2, 2.3.3.4, 2.3.4). As noted in chapter 2, section 2.3.4, the JSE listing requirements for AltX listed companies
state that such companies should have an independent AC, but do not refer to further composition requirements or responsibilities in line with the Companies Act and King III (IOD, 2009a:22, principle 2.6; JSE Limited, 2014b:par. 21.5(i)–(ii)). Table 5.6 provides a summary of the responsibilities of the AC and their fulfilment.
<table>
<thead>
<tr>
<th>AC responsibilities</th>
<th>Required by the Companies Act (Yes/No)</th>
<th>Required by the JSE listing requirements for AltX listed companies (Yes/No)</th>
<th>Recommended by King III (Yes/No)</th>
<th>Compliant (C) or Not compliant (NC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominate the external auditor for appointment and verify the independence of the external auditor.</td>
<td>Yes (RSA, 2009:s 94(7)(a))</td>
<td>No</td>
<td>Yes (IOD, 2009a:34, recommended practices 3.9.1, 3.9.3)</td>
<td>C (ABC Limited, 2014a:25; ABC Limited, 2014g:3)</td>
</tr>
<tr>
<td>Determine the audit fee and scope (terms of reference) of the external auditor's appointment.</td>
<td>Yes (RSA, 2009:s 94(7)(b))</td>
<td>No</td>
<td>Yes (IOD, 2009a:34, recommended practice 3.9.2)</td>
<td>C (ABC Limited, 2014a:25; ABC Limited, 2014g:3)</td>
</tr>
<tr>
<td>Determine the nature and extent of non-audit services to be rendered by the external auditor.</td>
<td>Yes (RSA, 2009:s 94(7)(d))</td>
<td>No</td>
<td>Yes (IOD, 2009a:34, recommended practice 3.9.4)</td>
<td>C (ABC Limited, 2014a:25; ABC Limited, 2014g:2)</td>
</tr>
<tr>
<td>Pre-approve any non-audit services rendered by the external auditor.</td>
<td>Yes (RSA, 2009:s 94(7)(e))</td>
<td>No</td>
<td>Yes (IOD, 2009a:34, recommended practice 3.9.4)</td>
<td>C (ABC Limited, 2014a:25; ABC Limited, 2014g:2)</td>
</tr>
<tr>
<td>Include a report in the AFS or report to shareholders at the AGM on the manner in which the AC has fulfilled its responsibilities, the independence of the external auditor</td>
<td>Yes (RSA, 2009:s 94(7)(f))</td>
<td>No</td>
<td>Yes (IOD, 2009a:32, recommended practice 3.9.4)</td>
<td>C (ABC Limited, 2014a:25–26, 75–82)</td>
</tr>
<tr>
<td>AC responsibilities</td>
<td>Required by the Companies Act (Yes/No)</td>
<td>Required by the JSE listing requirements for AltX listed companies (Yes/No)</td>
<td>Recommended by King III (Yes/No)</td>
<td>Compliant (C) or Not compliant (NC)</td>
</tr>
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<tr>
<td>and the quality of the AFS, the appropriateness of the accounting practices adopted by the company, and whether the company has implemented suitable internal financial control measures.</td>
<td></td>
<td></td>
<td>practice 3.4.2; IOD, 2009a:35, principle 3.10, recommended practices 3.10.2–3.10.2.4; IOD, 2009b:67, par. 84)</td>
<td>ABC Limited, 2014g:2</td>
</tr>
<tr>
<td>Deal appropriately with complaints received from individuals within or outside the company, which may include queries relating to accounting matters.</td>
<td>Yes (RSA, 2009:s 94(7)(g))</td>
<td>No</td>
<td>No</td>
<td>C Note 1</td>
</tr>
<tr>
<td>Provide suggestions to the board on financial matters (e.g. accounting policies and financial control) concerning the company.</td>
<td>Yes (RSA, 2009:s 94(7)(h))</td>
<td>No</td>
<td>No</td>
<td>C (ABC Limited, 2014a:25)</td>
</tr>
<tr>
<td>Review the integrated report.</td>
<td>No</td>
<td>No</td>
<td>Yes (IOD, 2009a:32, principle 3.4)</td>
<td>C (ABC Limited, 2014g:5)</td>
</tr>
<tr>
<td>Ensure that the company follows a combined assurance model in order to identify and deal appropriately with significant risks faced by the company.</td>
<td>No</td>
<td>No</td>
<td>Yes (IOD, 2009a:33, principle 3.5, recommended practice 3.5.1)</td>
<td>C (ABC Limited, 2014g:5–6)</td>
</tr>
<tr>
<td>Ensure that the company’s finance function is of a high standard in terms of sufficient resources, qualifications and experience.</td>
<td>No</td>
<td>No</td>
<td>Yes (IOD, 2009a:33, principle 3.6)</td>
<td>C (ABC Limited, 2014g:6)</td>
</tr>
<tr>
<td>AC responsibilities</td>
<td>Required by the Companies Act (Yes/No)</td>
<td>Required by the JSE listing requirements for AltX listed companies (Yes/No)</td>
<td>Recommended by King III (Yes/No)</td>
<td>Compliant (C) or Not compliant (NC)</td>
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</tr>
<tr>
<td>Oversee the internal audit function by being involved in the appointment, dismissal and performance review of the CAE.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Note 2</td>
</tr>
<tr>
<td>Review and approve the internal audit plan.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Note 2</td>
</tr>
<tr>
<td>Ensure that the internal audit function is exposed to an independent quality review to measure its effectiveness.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Note 2</td>
</tr>
<tr>
<td>Play a role in the company’s risk management processes with specific reference to the financial reporting risks, internal financial controls designed to mitigate risks, as well as fraud risks and IT risks related to financial reporting.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>C (ABC Limited, 2014g:2)</td>
</tr>
<tr>
<td>Stay up-to-date on reportable irregularities recognised and reported on by the external auditor.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>C (ABC Limited, 2014a:25; ABC Limited, 2014g:3)</td>
</tr>
<tr>
<td>AC responsibilities</td>
<td>Required by the Companies Act (Yes/No)</td>
<td>Required by the JSE listing requirements for AltX listed companies (Yes/No)</td>
<td>Recommended by King III (Yes/No)</td>
<td>Compliant (C) or Not compliant (NC)</td>
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</tr>
<tr>
<td>Review the quality of the external audit process.</td>
<td>No</td>
<td>No</td>
<td>Yes (IOD, 2009a:34, recommended practice 3.9.6)</td>
<td>C (ABC Limited, 2014a:25; ABC Limited, 2014g:3)</td>
</tr>
<tr>
<td>Use the integrated report to provide information about the AC’s role, composition, meetings and activities.</td>
<td>No</td>
<td>No</td>
<td>Yes (IOD, 2009a:35, recommended practice 3.10.3)</td>
<td>C (ABC Limited 2014a:15–16, 25–26, 75–82)</td>
</tr>
<tr>
<td>The company’s designated advisor must be invited to and should attend all AC meetings as an observer and must support the AC to ensure the company’s compliance with the JSE listing requirements (for AltX listed companies) for one of the following periods (depending which period is the longest): for the first year after the company has been listed; or until the date of the first publication of the AltX listed company’s AFS. Despite this regulation, a designated advisor can still continue to attend AC meetings if he/she deems it necessary.</td>
<td>No</td>
<td>Yes (JSE Limited, 2014b:par. 21.5(iii))</td>
<td>No</td>
<td>Note 3</td>
</tr>
<tr>
<td>A company applying to be listed on the AltX must appoint an executive CFO and the AC of the company must submit written confirmation to the JSE that the CFO has the appropriate skills and experience to fulfil his/her responsibilities.</td>
<td>No</td>
<td>Yes (JSE Limited, 2014b:par. 21.3(e))</td>
<td>No</td>
<td>Note 4</td>
</tr>
</tbody>
</table>
Note 1: The AC report states that the AFS “will be open for discussion at the forthcoming AGM”. As such, the AC invited shareholders to discuss queries they may have regarding the AFS (ABC Limited, 2014a:26, 75).

Note 2: Not applicable as company does not have an internal audit function (§ 5.4.3.1). The reasons for not having an internal audit function are stated in the company’s integrated report (ABC Limited, 2014a:10, 17).

Note 3: At the time of the interview with the designated advisor (3 November 2014), the company had not been notified about the changes to the JSE listing requirements for AltX listed companies which were effective from 30 September 2014. One of these changes related to the designated advisor’s attendance of AC meetings where, in the case of the company in this study, his/her presence would no longer be required. Thus, the company still followed the previous JSE listing requirements which were discontinued at the end of September 2014, stating the following: the company’s designated advisor must be invited to and should attend all the AC meetings as an observer and must support the AC to ensure the company’s compliance with the JSE listing requirements for AltX listed companies (JSE Limited, 2012a:par. 21.5(ii)). To this end, further research is required on the impact of this change on the AC’s fulfilment of its responsibilities.

Note 4: Not applicable as the company was already listed at the time of this study.
Based on the findings provided in table 5.6, the AC had fulfilled its responsibilities as set out by the Companies Act, the JSE listing requirements for AltX listed companies and King III.

Table 5.7 provides a summary of the themes and categories that emerged from the analysis of the findings relating to the fulfilment of AC responsibilities through optimised activities.

**Table 5.7  Themes and categories of the empirical findings related to the fulfilment of AC responsibilities through optimised activities**

<table>
<thead>
<tr>
<th>Themes</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary role (§ 5.4.2.1)</td>
<td>• Knowledge and acceptance of fiduciary role</td>
</tr>
<tr>
<td>Feedback to the board and shareholders (§ 5.4.2.2)</td>
<td>• Media used to provide feedback</td>
</tr>
<tr>
<td></td>
<td>• Value of the feedback processes</td>
</tr>
<tr>
<td>AC charter and work plan (§ 5.4.2.3)</td>
<td>• Information included in the AC charter and work plan</td>
</tr>
<tr>
<td></td>
<td>• Value of the AC work plan</td>
</tr>
<tr>
<td></td>
<td>• Person responsible for preparation of the AC work plan</td>
</tr>
<tr>
<td>Annual assessments (§ 5.4.2.4)</td>
<td>• Annual assessment process</td>
</tr>
<tr>
<td></td>
<td>• Value of the annual assessment process</td>
</tr>
<tr>
<td>Number of AC meetings (§ 5.4.2.5)</td>
<td>• Perceptions on the sufficiency of the number of annual AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Perceptions on the value of having four annual AC meetings</td>
</tr>
<tr>
<td>Information sent to AC members in advance of AC meetings (§ 5.4.2.6)</td>
<td>• Information included in the packs</td>
</tr>
<tr>
<td></td>
<td>• Person responsible for the preparation of the packs</td>
</tr>
<tr>
<td></td>
<td>• Timeframe provided to AC members to familiarise themselves with information included in the pack</td>
</tr>
<tr>
<td></td>
<td>• Amount of time spent by AC members on familiarising themselves with the information in the pack</td>
</tr>
<tr>
<td></td>
<td>• Perceptions of attendees with regard to AC members being adequately prepared for AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Benefits associated with being adequately prepared for AC meetings</td>
</tr>
<tr>
<td>Scheduled date, time, duration and attendance of AC meetings (§ 5.4.2.7)</td>
<td>• Perceptions on the appropriateness of the scheduled date, time and duration of AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Commitment of AC members to attending AC meetings</td>
</tr>
<tr>
<td>Minutes and action sheets of AC meetings (§ 5.4.2.8)</td>
<td>• Administrative role of the company secretary</td>
</tr>
<tr>
<td></td>
<td>• Role of the minutes of AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Role of the action sheets</td>
</tr>
</tbody>
</table>
5.4.2.1 Fiduciary role

One of the AC participants was aware of and accepted his/her fiduciary role since he/she stated that “my role is that I need to look after the interests of the company” (P6:274). Another AC participant opined that an AC member should perform his/her responsibilities with thoroughness even if no remuneration is received (P8:94). The third AC participant felt differently, stating that “If you give someone less money, then they’ll spend less time on it” (P2:76). Arguably, it is submitted that this AC participant was of the opinion that if an AC member was not sufficiently compensated, he/she would fail to fulfil his/her fiduciary role, consequently facing possible legal action. This concern was reduced, however, when this participant went on to state that “I think in [the company’s] case, we are reasonably compensated” (P2:76) (§ 5.4.1.1). Further research on this matter is suggested, as the relationship between the fulfilment of AC members’ fiduciary role and the compensation of AC members falls outside the scope of this study. Thus, all the AC participants reiterated their commitment to act diligently during the fulfilment of their responsibilities. This commitment is in line with section 76(3) of the Companies Act (RSA, 2009), scholarly literature (DeZoort et al., 2002:45) and the perspective of an accounting firm (Nkonki, 2014:5, 7).

Section 77(2) of the Companies Act states that an AC member can be held personally liable if he/she fails to act diligently (RSA, 2009). One of the AC participants stressed that his/her fiduciary role is fulfilled by focusing on risks rather than cosmetic changes during AC meetings (P6:156) and that he/she was adequately prepared for AC meetings to avoid the risk of being held liable (P6:170, 172). Such preparation was done by reviewing the AC pack (§ 5.4.2.6) and holding pre-meetings with management and/or the external auditor (§ 5.4.3.1).

In chapter 2 (§ 2.2.3.2), the researcher argued that AltX listed companies with the main goal of growing their businesses in the long term could achieve maximum growth and wealth by considering the interests of all stakeholders during the companies’ decision-making processes and business operations. It was therefore expected that the AltX listed company is this study, which had a long-term vision to grow its business, as evidenced by its listing duration of 7.74 years (Maluleka, 2015) and the strategic practices reflected in its integrated report (ABC Limited, 2014a:7), would embrace stakeholder theory. Surprisingly, and in contrast to the researcher’s expectations, two
AC participants articulated that they were responsible to the shareholders of the company, which suggested that they perceived their fiduciary role to apply to the shareholders of the company only. This finding suggests that the AC added value to the company and its shareholders and not to its wider stakeholders. One AC participant had this to say in this regard:

*We're there to protect the small shareholder, that's our big role* (P2:104).

Another AC participant had a different insight, feeling that the AC is ultimately responsible to the board. The board then in turn has a responsibility towards the company and its shareholders (P8:166). King III also recommends that the AC should report to the board (IOD, 2009a:35, principle 3.10) and that the board remains responsible for the responsibilities delegated to the AC (IOD, 2009a:28, principle 2.23). This implies that the AC indirectly, through the board, added value to the company and its shareholders. Nevertheless, the company’s AFS and integrated report were public information which could be accessed by stakeholders. Publicly available company information could expose company practices to the potential detriment of stakeholders, resulting in the company not being regarded as a responsible corporate citizen. Arguably, this implies that the AC was indirectly also of value to the company’s stakeholders, as the AC would consider such stakeholders in terms of enlightened shareholder theory. Such consideration stems from the fact that possible legal action taken by a neglected stakeholder could decrease the company’s market value and threaten its continued existence.

Responses obtained from participants on the fulfilment of AC members’ responsibilities through optimised activities (§§ 5.4.2.2–5.4.2.8) and by maintaining healthy relationships with the board and information providers (§ 5.4.3) provided further evidence that AC members accepted their fiduciary role and acted in accordance with this role.

### 5.4.2.2 Feedback to the board and shareholders

At every board meeting an agenda item was included where feedback from the AC was required (P2:146; P8:110). The AC chairperson, on behalf of the AC, then reported “verbally” (P6:212; P7:60) to the board. This reporting procedure was also included in
the AC charter (ABC Limited, 2014f:6, par. 7.2) and is congruent with the literature offered by Nkonki (2014:14) and King III (IOD, 2009b:58, par. 19). Written feedback was also provided in the form of the “minutes of the AC meeting” (P8:114) which were included in the “board packs” (P3:18). A review of the AC charter confirmed this finding (ABC Limited, 2014f:6, par. 7.1). Feedback provided in the form of the minutes of AC meetings is acknowledged by Spira (1999b:269) and Nkonki (2014:10, 14). One AC participant stated that the board meeting was where the board was reassured that the AC was fulfilling its responsibilities (P8:111). Although none of the participants mentioned that the AC present a formal report every year for the board on its statutory responsibilities as well as those allocated to it by the board, this reporting procedure was included in the AC charter (ABC Limited, 2014f:6, par. 7.3).

One non-AC participant commented on the level of trust (P3:30) between the board members (who did not serve on the AC, in particular the one board member who did not attend the AC meetings as an invitee (§ 5.3, table 5.2)) and AC members. This was linked to a unique characteristic of AltX listed companies, namely, the small number of board members in comparison with companies listed on the main board of the JSE. The level of trust between the board of the AltX listed company in this study and the AC was compared to a patient that trusts the feedback provided by his/her specialist. Like this patient-specialist relationship, the board trusted the feedback provided by the AC on the fulfilment of its responsibilities (P3:34). Although a number of media was used by the AC in providing feedback to the board, the trustworthiness of such feedback was enhanced by this trust relationship. In particular, the non-executive board member (who did not attend the AC meetings as an invitee but nevertheless was also one of the major shareholders of the company) stated that, owing to this trust relationship, he/she valued the AC feedback which assured him/her that his/her shareholding was adequately managed. Such a trust relationship also indirectly protects the minority shareholders of the company, who like this non-executive board member, were not involved in the management of the company and did not attend AC meetings. In other words, the non-executive board member’s safeguarding of his/her majority shareholding indirectly improved the board’s accountability to the company’s minority shareholders. This finding is in keeping with Spira (1999a:253), who also found that feedback provided by the AC to the board enables the former to add value to the board by illustrating its accountability to the company’s shareholders.
Two media were used by the AC to communicate with the company’s shareholders. Firstly, the AC used the integrated report to report formally to shareholders on the fulfilment of its responsibilities (ABC Limited, 2014a:25–26). This is in line with the requirements of section 94(7)(f) of the Companies Act (RSA, 2009). Secondly, the AC chairperson attended the AGM where he/she interacted with shareholders by responding to questions (ABC Limited, 2014f:2:par. 2.7). Feedback by the AC chairperson at the AGM is also recommended by King III (IOD, 2009b:67, par. 84). As such, the AC’s feedback practices enabled it to add value to the company’s shareholders as they were given an opportunity to obtain information about the AC’s oversight responsibilities.

As discussed in section 5.4.2.1 the company’s AFS and integrated report were public information which was available for perusal by the company’s stakeholders. Hence, this implies that ABC Limited also provided feedback to its stakeholders in terms of enlightened shareholder theory.

The findings suggest that the media used by the AC to provide feedback to the board and the company’s shareholders were sufficient, as recommended by King III (IOD, 2009a:35, principle 3.10). The AC’s feedback enabled it to add value to the board and the company’s shareholders as it illustrated that the AC’s responsibilities had been fulfilled. The company’s AFS and integrated report were also publicly available which could be accessed by its stakeholders in terms of enlightened shareholder theory. Furthermore, the relationship of trust between the board and the AC enabled the latter to add value to the board (in particular the non-executive board member who was a major shareholder and did not attend AC meetings), as it strengthened the trustworthiness of the feedback provided by the AC about the fulfilment of its responsibilities.

5.4.2.3 Audit committee charter and work plan

The existence of an AC charter was confirmed as the researcher was given a copy of this document during the data collection phase. The charter was also referred to as the AC’s terms of reference. These terms of reference cover areas relating to AC membership, attendance of meetings, frequency of meetings, authority, responsibilities, reporting procedures and the annual assessment process (ABC Limited, 2014f:1–6).
King III (IOD, 2009a:31, recommended practice 3.1.3), and the scholarly literature (e.g. Kalbers & Fogarty, 1993:36, 45; DeZoort et al., 2002:44, 55) supports the existence of an AC charter articulating the AC’s responsibilities.

The AC charter was used to compile an annual AC work plan. This was presented in the form of a table in which the first column gave a description of the AC’s responsibility (in line with the responsibilities as stipulated by the Companies Act, the JSE listing requirements for AltX listed companies and as recommended by King III (P1:8; P5:66; P6:170)) and the second column identified the person responsible for assisting the AC in carrying out the specific responsibility (ABC Limited, 2014g:1–6). The third column described the manner in which such assistance should be provided (e.g. verbal feedback, report, questionnaire) (ABC Limited, 2014g:1–6), while the last column stated the progress made by the AC in respect of fulfilling the specific responsibility (ABC Limited, 2014g:1–6). In the “Progress” column, the date of the AC meeting where such responsibility was dealt with was mentioned (ABC Limited, 2014g:1–6). Thus, at the end of the financial year, all responsibilities were dealt with by referring to either one of the four AC meetings in the “Progress” column. Accordingly, the annual work plan was described as being “structured and very formal” (P8:4), a tracking tool (P7:72) and of “great assistance” (P7:114), as it played a role in ensuring that the AC responsibilities required by the Companies Act and the JSE listing requirements for AltX listed companies, and recommended by King III were fulfilled (P7:114). It was also valuable in the sense that it was used to compile the agenda for AC meetings (§ 5.4.3.2).

In the company being studied, the AC work plan was prepared by the company secretary (P1:258). In support of this practice, King III (IOD, 2009a:27, recommended practice 2.21.11) recommends that the company secretary should contribute to drafting a yearly work plan in line with the AC charter, whilst section 88(a) of the Companies Act (RSA, 2009) requires that the company secretary should support the AC in its responsibilities. The AC work plan was finalised after discussions and input from the AC and the CFO to ascertain that “everything is covered” (P5:84). In this case, the AC, the CFO and the company secretary worked together to finalise the plan (P2:86). King III (IOD, 2009a:32, recommended practice 3.2.4), the Blue Ribbon Committee (BRC)\(^\text{14}\)

\(^{14}\) The BRC issued its report and recommendations on improving the effectiveness of corporate audit committees in 1999 in the USA (Olson, 1999:1097).
(1999:27) and an AC guideline issued by Nkonki (2014:13) advocate that the AC should not accept responsibilities for which members are not qualified, or that fall outside the committee’s scope. In addition, the literature (Olson, 1999:1102; Nkonki, 2014:13) emphasises that the AC should not accept responsibilities that it does not have time to fulfil. However, none of these risks were highlighted during the interviews, as the AC was at that time involved in the finalisation of its work plan. Furthermore, as advocated by the literature (Nkonki, 2014:10), the practice of involving the AC in the finalisation of the work plan also provides it with an opportunity to clarify uncertainties with regard to the responsibilities assigned to it. Hence, by including fair and clear responsibilities in the AC work plan (DeZoort, 1997:222), the AC should be capable of fulfilling its responsibilities (§ 5.4.2, table 5.6) and adding value to the company and its shareholders. A non-AC participant explained the preparation and finalisation of the AC work plan as follows:

… have a meeting with the CFO once a year … review the [AC work plan], whether it worked during that meeting, should it be moved to another meeting, … add extra items, items that’s specific to that company … . And then once a year, the [AC] will actually review this [AC work plan] and then make their amendments or adjustments or recommendations regarding this document (P5:80).

Both an AC participant and a non-AC participant acknowledged that the contribution of the company secretary was valuable as he/she ensured that all legal requirements were adequately addressed in the AC work plan (P1:258; P6:232). King III also recommends (IOD, 2009a:27, recommended practice 2.21.8) that the company secretary accepts responsibility for ensuring that an AC work plan is kept up-to-date. Accordingly, the company secretary’s role in updating the AC work plan enabled him/her to indirectly add value to the company by ensuring that the latest AC responsibilities, in terms of legal requirements, were reflected in the plan. The company secretary was not a member of the AC, but in terms of this study, an information provider and an invitee at AC meetings who provided support for the AC (ABC Limited, 2014a:13, 16).

The AC work plan was included in the pack which was circulated to AC members prior to AC meetings (§ 5.4.2.6) (P1:14). Thus, the AC members were able to reflect on their responsibilities at least four times a year (AC meetings were conducted four times per annum) and accordingly knew what was expected of them. This practice of being
knowledgeable about what was expected of the AC is in line with what was uncovered by the BRC (1999:27).

The findings suggest that the manner in which the AC work plan is compiled and distributed to the AC on a quarterly basis supports the AC in the fulfilment of its responsibilities, enabling it to add value to the company and its shareholders. The researcher reviewed both the AC charter and the AC work plan and is of the opinion that these documents addressed the AC’s responsibilities as required by the Companies Act and the JSE listing requirements for AltX listed companies and as recommended by King III. These documents were also found to be presented in a user-friendly format.

5.4.2.4 Annual assessments

A review of the AC charter and work plan revealed that the AC’s activities and effectiveness were assessed on an annual basis (ABC Limited, 2014f:6, par. 8; ABC Limited, 2014g:6) as required by the JSE listing requirements for AltX listed companies (JSE Limited, 2014b:21.5(i)) and recommended by King III (IOD, 2009a:28, principle 2.22). Two assessments of the AC (which were not reviewed by the researcher owing to their confidential nature) had been carried out. In one assessment the board was requested to assess whether the AC added value to the board (P6:40), while the other assessment was carried out on an AC level (P6:40). Questionnaires for both assessments were prepared by the company secretary (P5:304; P7:24) as recommended by King III (IOD, 2009a:28, recommended practice 2.21.13). The format of the questionnaire, which was administered on an AC level, was described as follows:

... listing everything from the composition [of the AC] to the culture in the [AC] meeting itself, to obviously all the duties that [the AC has to] comply to and then they can rate themselves from one, being the lowest to four being highest and they also have a comment column for suggesting how to improve something … (P5:302).

The process began with the questionnaire being “done independently by each [AC] member” (P2:9–10; P5:302; P6:34) where each AC member “anonymously” (P5:306) “assess themselves” (P2:9–10; P6:34; P7:25) and the other AC members (P6:34; P7:26). Such assessment of AC members was also completed by all the invitees to the
AC meetings (§ 5.3, table 5.2) (P2:9–10; P6:40). This process was concluded with the calculation of “an average score that [the AC] receives based on those ratings” (P5:320; P6:34). These average scores were presented at the next AC meeting (P5:320; P7:28). The board was also notified of the outcome of the AC’s annual assessment process (ABC Limited, 2014f:6, par. 8; P5:330).

The aim of the annual assessment process was to ascertain whether the AC was fulfilling its responsibilities, as well as the way in which its responsibilities were being fulfilled (P5:300). It also provided an opportunity to measure the individual AC member’s ability to add value to the company through his/her involvement during the AC meetings (P7:26). One AC participant had this to say:

*The main reason for [the annual assessment] is to measure whether the directors who are involved with the [AC] meeting, all have a reasonable contribution to the process in the AC [meeting] (P2:9).*

The annual assessment process also served as an indication of how well the AC had performed as well as highlighting areas for improvement (P5:320; P6:24; P7:24). Remedial actions taken to address areas for improvement, as highlighted by the annual assessment, increased the AC’s value to the company and its shareholders. An example of an area highlighted by the annual assessment process, where the AC has taken remedial action, was the issue of not having an internal audit department (P6:24). Compensating measures were subsequently put in place and are discussed in section 5.4.3.1.

A review of the company’s integrated report (ABC Limited, 2014a:11) revealed that a self-assessment of the AC was done and that the board will focus on areas for improvement. One AC participant acknowledged that the annual assessment process is “not mature” (P6:24), which may explain why the results of the self-assessment, as recommended by King III (IOD, 2009a:28, recommended practice 2.22.4) and the integrated reporting framework (IIRC, 2013:25), were not included in the integrated report.

In summary, the assessment of AC members’ performance uncovered areas for improvement. Consequently, remedial action taken to address these areas increased
the AC’s value to the company and its shareholders. However, the findings suggest that the annual assessment process was not mature, therefore an improved annual assessment process could arguably enhance the AC’s value for the company and its shareholders.

5.4.2.5 Number of audit committee meetings

The AC in this study met quarterly (ABC Limited, 2014b; ABC Limited, 2014c; ABC Limited, 2014d; ABC Limited, 2014e; ABC Limited, 2014g; P1:192). This holding of quarterly meetings is in line with the number of AC meetings held in rapidly growing New Zealand companies (Sharma et al., 2009:249), which meet on average 3.76 times per year. Thus, the perception of the researcher (ch 3, § 3.3.5) that rapidly growing AltX listed companies should meet at least four times annually was confirmed.

Although the price-sensitivity of the company was highlighted in sections 5.4.1.3 and 5.4.1.4, two of the AC participants stated that they preferred to meet four times per annum as opposed to the two meetings recommended by King III (IOD, 2009a:31, recommended practice 3.1.4), because it resulted in shorter and more effective meetings, where AC members remained focused. The researcher is of the opinion that effective and focused meetings improve AC practices and enable the AC to add value to the company and its shareholders. One AC participant pointed out:

… if you combine it in two meetings, firstly I don’t think you will get the job done properly. … I think the focus will not be there … there’s a work plan, it’s focused on specific things. The meetings are shorter, you get more buy-in and you get the work done (P6:204).

An AC participant further stated that if only two annual AC meetings were held, it would limit the AC’s knowledge of the business and its insights into the company’s AFS. This lack of knowledge and insights would in turn hamper the AC in the fulfilment of its financial oversight responsibility (P2:82) and accordingly less value would be added to the company and its shareholders. Archambeault and DeZoort (2001:34, 46–47) share similar findings, as they found that an increase in the number of meetings held annually is associated with higher quality AFS. This participant mentioned:
Let me put it like this, any person that looks at a business twice a year would have no idea what the business is about (P2:80).

The same AC participant further stressed that spending more time on AC responsibilities by attending more meetings reduces the risk of being held personally liable (§ 5.4.2.1) (P2:82).

The third AC participant was initially uncertain as to the reasons why four AC meetings were held. The participant later commented that conducting more than two meetings every year emanated from recent company acquisitions, new product launches and the product changes that had taken place (P8:66). These changes required the AC to meet more regularly than previously to ensure the successful implementation of these changes and consequently to enable it to add value to the company and its shareholders. This AC participant stated the following in this regard:

... and because there are things that are being implemented all the time we wanna meet ... more often until those things are ironed out (P8:68).

A non-AC participant agreed with the AC participants' views that two AC meetings a year would be insufficient. He/she stated that the AC has too many responsibilities to be able to deal with them in two meetings only. This is in agreement with Menon and Williams (1994:124), who found that an AC can only be of value if it meets regularly. The non-AC participant further stated that material risks could only be detected and addressed by the AC if it met regularly, that is, four times a year, and commented in this regard that with quarterly meetings:

... quicker actions can be taken if there is really a risk in some of the issues that needs to be addressed (P1:192).

Although the reasons justifying quarterly AC meetings differed, the findings suggest strong support for four AC meetings a year as this gives the AC more time to add value to the company and its shareholders. Quarterly meetings enable the AC to take better decisions because the meetings are more effective and focused, improve its knowledge of the company’s business and provide insights that increase the quality of the AFS, as well as ensure the successful implementation of changes by the company. Furthermore,
a sufficient number of meetings enabled the AC to fulfil its responsibilities and to detect and address material risks in a timely fashion.

5.4.2.6 Information sent to audit committee members in advance of audit committee meetings

Information sent to AC members and invitees in advance of AC meetings included “the minutes from the previous [AC] meetings” (P8:72) (§ 5.4.2.8), “the annual work plan” (P1:26) (§ 5.4.2.3), the “agenda” (P1:28; P8:72) (§ 5.4.3.2), the “action sheet” (P1:28) (§ 5.4.2.8) and the feedback that was requested by the AC in terms of the action sheet (P8:73). The AC work plan further guided the choice of information included in the pack, which consisted mainly of financial information, audit planning and risk information (ABC Limited, 2014g:2–6; P2:61; P6:170). Some of the AC participants indicated that if additional information (other than the information already supplied in the pack) was required to prepare for the AC meeting, such a request was made prior to the meeting (P2:61; P6:176). As such, the company followed the practices advocated by Deloitte Development LLC (2012:5), which states that meeting material should include all the information that will be discussed at the AC meeting.

The pack was prepared by the CFO with input from the AC chairperson, the external auditor and the company secretary (ABC Limited, 2014g:1–6; P1:258; P5:100; P7:80) which was supplied in a sound and concise manner (P4:214), and then sent to the AC members and invitees to the AC meeting approximately a week prior to the AC meeting (P1:14; P6:172). Spira (1999a:242), Nkonki (2014:11) and KPMG (2014:6) also support the notion that AC members should receive information prior to the AC meeting to enable them to prepare effectively for it.

The researcher found it interesting to note that although the pack was circulated to AC members a week prior to the AC meeting, only a few hours were spent on reading and analysing the information in the pack, as evidenced by the responses provided by AC participants. One of the AC participants (who had been involved with the company for a number of years) indicated that although the information included in the pack “could be voluminous” (P2:61), he/she did not spend much time preparing for the meeting. The AC participant stated in this regard: “You probably have to spend two to three hours on it” (P2:68). The reason for this was probably the simplicity of the company’s business
The same participant indicated that the preparation time could be even further reduced to “an hour” (P2:68), depending on whether the pack showed that a risk area, which had been previously discussed, would be dealt with (P2:68). According to King III, the AC is responsible for overseeing the risk management processes within the company (IOD, 2009a:34, principle 3.8), specifically overseeing risks relating to financial reporting, fraud and IT (IOD, 2009a:34, recommended practice 3.8.2). The researcher is of the opinion that the fulfilment of the AC’s risk oversight responsibilities is crucial, because in the event of risks not being adequately identified and addressed the continued existence of a company could be at risk. To this end, the focus on risks by the AC enabled it to add value to the company and its shareholders. The AC participant explained:

… we have managed the [information included in the pack] carefully so that we focus on risks rather than to just rubber-stamp a whole lot of papers (P2:61).

The same AC participant then explained that there is also a correlation between an AC member’s experience level (§ 5.4.1.4) and the time required to prepare for a meeting. The participant framed the situation as follows:

So, my experience in [the company’s] industry, in my own business and of course, my background with [the company], the time that I spend may be a little less, because my intuition has grown a lot. So, my experience is much more. A “new” [AC] member … would probably spend more time … than I would (P2:68).

When another AC participant was asked whether two full days were spent studying the information included in the pack, he/she responded categorically, “no” (P8:80). Although he/she did not say how long was spent, he/she did mention that it took a lot less time than that.

The concern felt by the researcher regarding the limited time AC members spent preparing for meetings was reduced as evidence of their active participation during these meetings became apparent (§ 5.4.3.2), as well as on the basis of the opinions expressed by a few non-AC participants (who were also invitees to the AC meetings). For example, one non-AC participant noted:
A non-AC participant further stated that when AC members were adequately prepared for meetings, the efficiency of such meetings improved (P5:224), which implies that when AC members are well prepared, the AC makes better informed decisions. Hence, this improved efficiency of AC meetings has enabled the AC to add value to the company and its shareholders and reduce the duration of AC meetings (§ 5.4.2.7).

In summary, the researcher found that the information included in the pack enabled the AC members to be adequately informed about areas which fall within the AC’s scope of responsibilities. The researcher also found that although the pack was circulated to AC members a week prior to the AC meeting, only a few hours were spent on analysing the information it contained. Further, the information was analysed from a risk perspective which enabled the AC to add value to the company and its shareholders. The researcher consequently considered this preparation time to be sufficient based on the positive comments made by the invitees to the AC meetings and the AC members’ active participation during AC meetings. Finally, when AC members were adequately prepared for AC meetings, the efficiency of AC meetings increased, which again enabled them to add value to the company and its shareholders because better informed decisions could be made.

5.4.2.7 Scheduled date, time, duration and attendance of audit committee meetings

Quarterly AC meetings were conducted (§ 5.4.2.5), supported by the AC’s annual work plan (ABC Limited, 2014g:2–6), as highlighted in section 5.4.2.3. The AC guideline issued by Nkonki (2014:14) suggests that one AC meeting should be held before the commencement of the interim audit and another after the interim audit. The company in this study, however, met only once during the interim audit period, that is, before the board approved the interim financial results (ABC Limited, 2014f:2). Furthermore, Nkonki’s AC guideline (2014:14) states that another AC meeting should be held after the completion of the year-end audit and prior to reporting. By contrast, the company in this study met three times during the year-end audit and reporting period, that is, before the annual external audit commenced, after the annual external audit was completed.
and before the board had approved the AFS and the integrated report (ABC Limited, 2014f:2). The researcher supports the company’s scheduled AC meeting dates, because an AC’s responsibilities increase during the periods of interim financial reporting, the commencement and completion of the external audit, as well as prior to the release of the AFS and integrated report. Hence, these meeting dates were considered appropriate and enabled the AC to add value to the company and its shareholders.

AC meetings were scheduled between two to seven days prior to the board meetings (P2:149; P6:214; P7:102; P8:104). One AC participant and some non-AC participants commented that such a “big gap” (P6:218) provided ample time for the responsible persons to amend documentation, as suggested during AC meetings, prior to it being presented at the board meeting. Arguably, the presentation of amended documentation at the board meeting could provide the board with a clear picture of the current state of affairs and allow it to make informed decisions. Accordingly, when the board can base its decisions on documentation presented by the AC that is reliable, value is added to both the company and its shareholders. This finding correlates with findings in the literature, which show that AC meetings should not be scheduled directly before board meetings (Spira, 1998:34–35; Spira, 1999a:246). One non-AC participant explained in this regard:

... having that gap allows them to actually go and action and resolve questions on financials and get the disclosure out ... especially when there’re results announcements coming out, have that sort of tied up and cleaned up and in a final form by the time the board meeting takes place to approve that (P4:256).

The AC meetings were scheduled in the mornings, at the latest 11 o’clock (ABC Limited, 2014b; ABC Limited, 2014c; ABC Limited, 2014d; ABC Limited, 2014e). One AC participant maintained that having these meetings in the morning allowed the committee members, who were all employed by other companies, to manage their time wisely as they could still return to their workplace and work for the rest of the day (P8:96).
The duration of AC meetings varied between two to four hours (P1:198; P6:206). Such duration was regarded as sufficient to cover the items included in the agenda (P1:194). One AC participant had the following to say about this:

"... it's long enough to get everything done ... it's not dragged out too long (P8:102)."

The reasons for not having longer meetings, as well as the value added to the company and its shareholders when shorter AC meetings are held, were dealt with in section 5.4.2.5. The AC chairperson was also identified as being instrumental in ensuring that the duration of AC meetings was reasonable. Refer to section 5.4.1.2 where the leadership qualities of the AC’s chairperson are described.

Apart from the participants being satisfied with the AC meetings’ dates, scheduled times and duration, an AC can only be of value to the company and its shareholders if its members and invitees attend these meetings. This is because AC meetings are regarded as the platform where the AC fulfils its responsibilities and where the collective input of all AC members and invitees enables the AC to improve the manner in which the committee fulfils its responsibilities (§ 5.4.3.2). A review of the company’s attendance registers for AC meetings held during the 2014 calendar year revealed that these meetings were well attended. Arguably, this good attendance was because both AC members and invitees were satisfied with the scheduled date, time and duration of the meetings. The attendance of AC meetings is summarised in table 5.8 (ABC Limited, 2014b; ABC Limited, 2014c; ABC Limited, 2014d; ABC Limited, 2014e).

### Table 5.8 AC meetings: attendance by AC members and invitees

<table>
<thead>
<tr>
<th></th>
<th>Meeting 1</th>
<th>Meeting 2</th>
<th>Meeting 3</th>
<th>Meeting 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC member: 1</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>AC member: 2</td>
<td>Present</td>
<td>Apology</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>AC member: 3</td>
<td>Not yet member of the AC (Note 1)</td>
<td>Present</td>
<td>Apology</td>
<td>Present</td>
</tr>
<tr>
<td>Non-executive board member</td>
<td>Present</td>
<td>Apology</td>
<td>Present</td>
<td>Apology</td>
</tr>
<tr>
<td>CEO</td>
<td>Present</td>
<td>Present</td>
<td>Apology</td>
<td>Present</td>
</tr>
<tr>
<td>CFO</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>External auditor: partner</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Apology</td>
</tr>
</tbody>
</table>

(Notes: 1)
<table>
<thead>
<tr>
<th></th>
<th>Meeting 1</th>
<th>Meeting 2</th>
<th>Meeting 3</th>
<th>Meeting 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External auditor: manager</strong></td>
<td>Apology</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td><strong>Company secretary</strong></td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td><strong>Designated advisor</strong></td>
<td>Present</td>
<td>Present</td>
<td><strong>Note 2</strong></td>
<td>Present</td>
</tr>
</tbody>
</table>

**Note 1:** The previous AC member did attend this meeting.

**Note 2:** The company’s designated advisor could not attend the meeting, however the company which provided the company with the designated advisor services did send another representative to attend the meeting on his/her behalf.

Overall, the researcher found that the quarterly AC meetings were conducted on dates when the AC’s oversight responsibilities increased. Also, the scheduling of the AC meetings a week prior to the board meetings enabled it to present reliable documentation to the board which would assist it to make informed decisions to the benefit of the company and its shareholders. AC members and invitees were satisfied with the scheduled date, time and duration of AC meetings which resulted in the meetings being well attended. Since meetings were well attended, the AC could in turn, with the input of all its members and invitees, fulfil its responsibilities to the benefit of the company and its shareholders.

### 5.4.2.8 Minutes and action sheets of audit committee meetings

As reported earlier (§ 5.4.2.6), the minutes of the previous AC meeting were also included in the pack circulated to AC members and invitees prior to the meeting. This practice is in line with the thinking of Spira (1999a:242), King III (IOD, 2009a:27, recommended practice 2.21.12) and the AC guideline issued by Nkonki (2014:14, 60), which support the notion that decisions taken at each AC meeting should be included in the minutes of the meeting. It was also in keeping with King III (IOD, 2009a:27, recommended practice 2.21.12), which recommends that the minutes should be distributed to AC members in a timely fashion.
To ensure the validity of such minutes, all members present at the AC meetings were asked if they were satisfied with their content (P1:206; P5:180). Although the minutes were approved, their accuracy was further increased by the presence of a “strong company secretary” (P1:258), as he/she was responsible for compiling them (P5:56; P8:50). This responsibility of the company secretary is also required by section 88(d) of the Companies Act (RSA, 2009) and recommended by King III (IOD, 2009a:27, recommended practice 2.21.12). One AC participant acknowledged how important it was for minutes to be a true reflection of meetings, as they demonstrate whether an AC member has acted diligently or not. As such, the AC meeting’s minutes could reveal instances where AC members failed to act diligently and could serve as proof to hold AC members personally liable (RSA, 2009:s 77). Therefore, the minutes of AC meetings could serve as an accountability tool, encouraging diligent behaviour and thus enabling the AC to add value to the company and its shareholders. This non-AC participant described the situation as follows:

… there is [also] a great risk for the AC and its members to have incorrect information published in minutes that one day if there might be something standing up in court, your minutes is not complete so I must say [taking proper minutes] is very important (P1:258).

The pack also contained an action sheet (matters arising from the previous meetings) (§ 5.4.2.6). One non-AC participant described an action sheet as follows:

… action sheet information is what came out of the previous [AC] meeting that needs to be addressed, what needs to be changed, where do [the AC] require additional information (P1:28).

The action sheet contained columns stating the date of the AC meeting where the action was requested (P1:110; P5:380), a reference to the agenda item that initiated such action (P5:382), a description of the action required (P1:110; P5:384), the responsible officer (P5:386) and an explanation of the action taken (P5:180). The AC expected these actions to be implemented before the following AC meeting and the responsible person was required to provide written feedback for inclusion in the pack for the next meeting and oral feedback at the meeting (P1:112; P8:74).
Two non-AC participants stated that the action sheets were taken seriously because they were acted upon (P4:152, 154; P7:58). Another non-AC participant remarked that action sheets were taken seriously because the AC chairperson was “strict” (P1:212). Thus, the researcher is of the opinion that the AC’s role was respected (§ 5.4.3.3). To this end, the researcher supports the use of an action sheet because, like the minutes of AC meetings, it served as an accountability tool, encouraging diligent behaviour by AC members.

However, in certain cases action was required immediately before the board meeting was held and before the following AC meeting. In such cases, an alternative process was followed where actions were approved via e-mail. One AC participant explained this alternative process as follows:

*If it's a critical document that pertains to the financial information that has to go out, then we’ll have it fixed immediately. Then it has to happen within three days or within a week, maximum, so that we take a round robin, until everyone is happy with the document so that we can discuss it at the board meeting (P2:140).*

Overall, the researcher found that the minutes of AC meetings were properly recorded and were approved at the following meeting. Participants acknowledged the supportive role played by the company secretary in compiling accurate minutes. Matters requiring action were formally noted on an action sheet and both the minutes and the action sheets served as accountability tools for encouraging diligent behaviour on the part of AC members to the benefit of the company and its shareholders.

5.4.3 The fulfilment of audit committee responsibilities by maintaining healthy relationships with the board and information providers

As noted in chapter 3 (§ 3.4), the AC’s relationship with the board and information providers should also be reflected on to conclude on whether it enabled the AC to add value to the company and its stakeholders. Information providers include, inter alia, management, and the internal and external auditors. Management, the internal and external assurance providers (which may include internal and external auditors) are referred to as the three lines of defence that provide assurance to the AC with regard to the risks faced by the company. These three lines of defence are advocated by the
combined assurance model of King III (ch 3, § 3.4) (IOD, 2009b:62, par. 46). Table 5.9 provides a summary of the themes and categories that emerged from the analysis of the findings relating to the maintenance of healthy relationships with the board and information providers.

### Table 5.9 Themes and categories of the empirical findings related to the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers

<table>
<thead>
<tr>
<th>Themes</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal interaction and ad hoc meetings with management and assurance providers (§ 5.4.3.1)</td>
<td>• Reasons for not appointing an internal auditor</td>
</tr>
<tr>
<td></td>
<td>• Compensating measures instituted to decrease the risk of not appointing an internal auditor</td>
</tr>
<tr>
<td></td>
<td>• Good working relationship, interaction and synergy among the AC and management, and the AC and the external auditor</td>
</tr>
<tr>
<td></td>
<td>• Open-door culture where informal interactions took place between the AC and management, and the AC and the external auditor</td>
</tr>
<tr>
<td></td>
<td>• Meetings that were held prior to the AC meeting between the AC chairperson and management, and the AC chairperson and the external auditor</td>
</tr>
<tr>
<td></td>
<td>• Meetings that were held after the AC meeting between the AC and management, and the AC and the external auditor</td>
</tr>
<tr>
<td></td>
<td>• Separate meetings held by the AC with management and the external auditor respectively</td>
</tr>
<tr>
<td>Agendas, tone of and procedures followed at AC meetings (§ 5.4.3.2)</td>
<td>• Involvement of multiple parties when compiling the agenda of the AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Tone of and procedures followed at AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Value of management and external auditor being present at AC meetings</td>
</tr>
<tr>
<td></td>
<td>• Role of the company secretary and designated advisor who also attend AC meetings</td>
</tr>
<tr>
<td>Perception of the value of the AC (§ 5.4.3.3)</td>
<td>• Understanding and respect for the role of the AC</td>
</tr>
</tbody>
</table>

#### 5.4.3.1 Informal interaction and ad hoc meetings with management and assurance providers

The only way in which the AC can fulfil its responsibilities is to engage with and obtain combined assurance from management (Zanni & Terrel, 2002:54; KPMG, 2014:7, 9;
Nkonki, 2014:26) and assurance providers (Olson, 1999:1106; KPMG, 2014:7, 9; Nkonki, 2014:26). At the time of collecting the data, the AC was dependent on just one assurance provider, namely, the external auditor. Thus, to assist in fulfilling its responsibilities, the AC obtained assurance and information only from the external auditor and management (ABC Limited 2014g:2–6). The reasons for not appointing an internal auditor (who would then also act as an assurance provider) and the compensating measures instituted are discussed in the following paragraphs.

When the issue of an internal auditor was raised, the price-sensitivity of the company (§§ 5.4.1.3–5.4.1.4) was again reiterated, bearing in mind the company’s size and budget constraints (ABC Limited, 2014a:10; P5:284; P6:24; P7:88). Since these reasons are reflected in the company’s most recent integrated report (ABC Limited, 2014a:10), the company accordingly followed King III’s apply or explain principle (IOD, 2009a:6). One AC participant mentioned another reason for the company not using an internal auditor. He/she referred to management as being “hands-on” (P2:108) and felt strongly that the services of an internal auditor were not necessary. The AC participant framed the situation within the company as follows:

*Here we have a small company, where the financial department is extremely small, you can see everything in front of you, things are controlled immediately, and decisions are made immediately. So, there’s not really a big drive or economic justification to have an internal [auditor]. ... the “hands-on” of management is actually so immediate and direct* (P2:108).

Nevertheless, one non-AC participant acknowledged that the lack of such an independent assurance function raised the risk of management manipulation (P3:51). In this AltX listed company, three of the four non-AC board members collectively hold most of the shares in the company, that is, 52.1%, as noted in section 5.3 (ABC Limited, 2014a:27). One of these board members includes a member of management (CEO). Arguably, the AltX listed company’s management (in this case, the CEO), with the support of the other non-AC board members, might use their influence to manipulate the AC, to the potential detriment of minority shareholders. Such manipulation could result from providing a false sense of assurance over the effectiveness of the internal controls that address the risk areas in the company. The power wielded by the board, which could be to the potential detriment of minority shareholders, was also noted in section
5.4.1.4. However, during the interviews, none of the participants mentioned that the board had in any way exploited its power.

This concern was further reduced by the company’s implementation of compensating measures to “fill that gap” (P6:24). One of these measures included a risk matrix compiled by the risk committee (the AC chairperson and one member of the AC also served on the risk committee) (ABC Limited, 2014a:10) based on the input provided by the company’s divisional heads or line managers (P6:122). This matrix was used by both the company’s financial department and the external auditor to test whether the controls relating to the major risks were effective. The results were then reported to the risk committee and the AC, which in turn compared the results of these reports, thus gaining assurance on the risks facing the company (P6:48, 50; P7:90). However, this compensating measure was confined to the financial risks faced by the company. Other risks (business and operational risks) were monitored by the AC through feedback provided by the risk committee (ABC Limited, 2014g:2). One non-AC participant acknowledged that the risk committee played a role in compensating for the lack of an internal auditor. However, he/she expressed concern about the way in which the risk committee identified the risks included in the risk matrix as follows:

…it sort of leaves an opportunity for things to fall through the cracks if you do not have the internal audit process … and their risk assessment is still very fresh, very new, so it’s not been tested and tried (P5:280).

Despite this opinion, the effectiveness of the company’s risk assessment had improved as risk training had been presented by the AC chairperson to all members of staff (P1:136). The monthly fee paid to members of the board implies that board members should add value to the company and its shareholders. Thus, the AC chairperson presented risk training as part of his/her “value-adding” initiative and was accordingly indirectly remunerated through his/her monthly board fee. Arguably, the rendering of this service by the AC chairperson could influence his/her independent status (§ 5.4.1.1). However, none of the participants mentioned a lack of independence on the part of the AC chairperson during the interviews.

This risk training was used as a platform to explain to staff the reasons for identifying risks and the impact and assessment of risks. Accordingly, the training contributed to
management increasing its appreciation of the role of the AC (§ 5.4.3.3). The training also contributed to improving the risk committee’s risk assessment process and compiling a more accurate risk matrix. An AC participant explained:

And you could clearly see once [the AC chairperson] did the training how the risk matrix actually changed because now [staff] understood what’s the impact of [the risks] (P6:128).

Although the researcher previously reported that one participant had raised concerns about the immaturity of the risk management process, which was not tried and tested, the provision of risk training resulted in an improved risk matrix. Arguably, such an improved risk matrix enhanced the company’s risk management and accordingly assisted the AC in fulfilling its risk responsibilities (IOD, 2009a:33, recommended practice 3.5.1; IOD, 2009a:34, principle 3.8; IOD, 2009b:62, par. 48; ABC Limited, 2014g:2).

One non-AC participant further explained that another compensating measure instituted to decrease the risk of not appointing an internal auditor was to engage the services of an IT specialist to assist the company in improving its IT procedures and controls (P7:88, 96). As such, improved IT procedures and controls supported the AC in the fulfilment of its oversight responsibility relating to IT risk (IOD, 2009a:34, recommended practice 3.8.2.4; ABC Limited, 2014g:2). Although these services had been obtained, one of the AC participants acknowledged that there was still room for improving the company’s IT governance (P6:278).

The literature (BRC, 1999:30; KPMG, 2014:5) points out that there should be a good working relationship, open channels of communication, and informal meetings between the AC and management, and the AC and assurance providers. These aspects all existed in ABC Limited because participants mentioned the good working relationships, interaction and synergy between the company’s AC and management, as well as AC and the external auditor. This is what a non-AC participant had to say:

… [the AC] are very open in helping and contributing and giving their feedback and if not possible, they will also refer [the CFO] to someone that can help (P1:236).
Likewise, the working relationship between the AC and the external auditor was commendable. An AC participant articulated the following:

… I have a good working relationship with the external auditor. ...so far I've never received … any negative feedback where they can’t meet with me or they gonna charge extra for that … our relationship is strong (P6:166).

Coupled with this open-door culture were the informal interactions that took place between the aforementioned individuals. All of the AC participants testified to the informal interaction with management (P8:80) that came in different forms, such as telephonic conversations (P6:138; P8:56, 84), communication via emails (P2:53) and informal meetings (P6:136, 140). This informal interaction with the AC was also confirmed by non-AC participants (P1:76, 78; P7:60). One AC participant also mentioned informal interaction with the external auditor through telephonic conversations (P6:144). Hence, these informal interactions enabled the AC to stay fully informed on matters affecting the fulfilment of its responsibilities.

In addition to these informal discussions, there was also a tendency to have “one-on-one” meetings between the AC chairperson and the CFO “two weeks or three weeks” (P1:20) prior to the AC meeting. One non-AC participant described such pre-meetings as being beneficial to both management and the AC, as they provided mentorship to management (§ 5.4.1.2), and the AC chairperson could confirm that the AC pack was complete and the documents included in the AC pack complied with all the relevant requirements (P1:8, 18). Furthermore, these pre-meetings enabled the AC chairperson to identify, understand and prepare to discuss areas of concern at the AC meeting (P6:140, 172). This is in line with the literature which notes that pre-meetings enable the AC chairperson to plan for AC meetings (Nkonki, 2014:55) and limit unpleasant surprises at the meeting itself (CAQ et al., 2013:7; KPMG, 2014:14). As such, the time required by the AC chairperson to analyse the pack prior to the AC meetings was reduced (§ 5.4.2.6) and these pre-meetings resulted in more focused and shorter AC meetings (§ 5.4.2.7). This finding is in keeping with the AC guideline issued by Nkonki (2014:55) which states that pre-meetings enable the AC chairperson to steer AC meetings effectively (§ 5.4.1.2).
Responses provided by two members of the AC indicated that pre-meetings with the external auditor took place if there was “a problem that [the AC] wants to discuss [with the external auditor]” (P2:57) or “if [the AC chairperson does] have an issue in the [audit] report that [the AC chairperson] need[s] to specifically understand before the AC [meeting]” (P6:166). As a result, these pre-meetings did not happen as a rule, although “the opportunity exists” (P2:57) for scheduling such a meeting. An AC participant indicated that pre-meetings with the external auditor contributed to focused AC meetings as the AC chairperson was aware of all issues raised by the external auditor by the time an AC meeting commenced (P6:172). Like the benefit of pre-meetings between the AC and management, pre-meetings between the AC and the external auditor assisted the AC chairperson to plan for AC meetings (Nkonki, 2014:55) and limit unpleasant surprises (CAQ et al., 2013:7; KPMG, 2014:14).

Meetings between the AC and management, and between the AC and the external auditor, were generally not scheduled after AC meetings (P1:32; P6:146). However, in certain cases a post-meeting was scheduled to unpack matters which were discussed during the AC meeting. For example, where the AC chairperson and a member of management agreed during the AC meeting on certain actions to be taken, a post-meeting would be conducted to work out an action plan (P6:146). Another example referred to a post-meeting being conducted when a matter could not be resolved during the AC meeting. In this case, separate post-meetings were conducted, followed by an e-mail to report back on the outcome. One AC participant commented as follows:

… if it’s a matter that is contentious and it’s not going to be finished today [during the AC meeting] … we have a special meeting to discuss [the matter]. [The AC will] have certain people who’ll be nominated to say so-and-so and so-and-so will meet and discuss it and iron it out and then report back to [the AC] via e-mail to say this is what the conclusion was and then [the AC] all say we’re happy with it or not (P8:60).

The researcher is of the opinion that these separate post-meetings ensured that the AC members remained focused during meetings, enabling them fulfil the AC’s responsibilities.

During one of the quarterly AC meetings, private sessions with management and the external auditor were included in the agenda (ABC Limited, 2014g:6; P1:32; P2:132;
This practice is consistent with recommended practice 3.1.5 of King III (IOD, 2009a:31). “Openhearted” (P2:132) discussions among the AC and the external auditor (without the presence of management) enabled the AC to manage the relationship between management and the external auditor effectively (P1:50). It also allowed the external auditor to voice his/her concerns “if they feel management is restricting them” (P2:132) and when management failed to provide “all the relevant information that the auditors needed” (P1:54). Based on these concerns, the AC could either take the matter further if they considered it to be a valid concern or guide the external auditor in the right direction if the issues raised were minor. An AC participant asserted in this regard:

If [the external auditor] say they need help, they don’t understand something, management is difficult with that, and it looks like a risk, and then [the AC will], … come in strong and tell management, but you can’t do that. You need to do it like this … If [the AC] feel[s] that the auditors are oversensitive or they don’t understand what’s going on, then [the AC] help[s] the audits in the right direction (P2:132).

The process followed after these separate meetings were conducted was explained by an AC participant as follows:

… [the AC will] get [management and the external auditor] together and explain to everyone in a proper manner, this is what happened, this is the dynamics, and this is how we go forward (P2:132).

The exchange of confidential information (P6:144) in separate meetings with management and the external auditor is also advocated in the literature published by Gendron et al. (2004:166) and Nkonki (2014:46). Arguably, this exchange of confidential information could contribute positively to the effectiveness of the external audit process. Hence, a more effective external audit process improves the quality of the AFS (BRC, 1999:33; KPMG, 2014:8).

Overall, the researcher found that the AC used management and the external auditor to assist it in fulfilling its responsibilities. As explained previously, an internal auditor had not been appointed owing to the company’s size, budget constraints and management being “hands-on” regarding risks and controls. Nevertheless, management’s “hands-on-approach” could create an opportunity for manipulation, to the potential detriment of the
minority shareholders. This risk of abuse of power on the part of management was not voiced by the participants during the interviews, however. Compensating measures instituted were, for example, the AC chairperson providing risk training for the company’s employees to improve the risk matrix. Arguably, the provision of risk training could impair the AC chairperson’s independence. However, this was not mentioned during the interviews. An improved risk matrix enhanced the company’s risk management and accordingly assisted the AC in fulfilling its risk oversight responsibilities. Informal interactions, meetings held both prior to and after the AC meetings, as well as separate meetings held by the AC with management and the external auditor, provide evidence that healthy interactions and relationships were maintained which assisted the AC to stay informed about matters affecting its responsibilities and contributed to their diligent fulfilment. Such diligence enabled the AC to add value to the company and its shareholders.

5.4.3.2 Agendas, tone of and procedures followed at audit committee meetings

The agenda for the individual AC meetings was drawn up from the AC’s annual work plan (§ 5.4.2.3) (P1:26, 28; P2:88; P5:72; P6:220, 228) by the company secretary (P1:258; P2:104; P7:66) with input from the AC chairperson (P6:226), the CEO and CFO (P6:226; P8:116). The involvement of these people in preparing the agenda is in agreement with the literature (Spira, 1999a:242), whilst King III also recommends the involvement of the AC chairperson to finalising the agenda (IOD, 2009a:32, recommended practice 3.3.2). Attendees of the AC meeting received the agenda (which were included in the AC pack) a week in advance (P2:90) giving them the opportunity to add and/or remove points to and from the agenda before the meeting (P8:123, 124).

AC meetings follow a “structured” (P4:236) process: the chairperson welcomes all attendees (P5:180; P7:66; P8:126); receives apologies (P5:180; P8:126), and confirms that a quorum is present (P5:180; P8:126) (a quorum referred to the majority of AC members being present in person or via telecommunication facilities (ABC Limited, 2014f:1)). Once the AC meeting commences, attendees are given another opportunity to add and/or remove points from the agenda (P1:206; P5:118, 180; P8:126); this is followed by the adoption of the agenda (P1:206; P5:180; P7:66; P8:126). Items added to the agenda can be included in the work plan if they are regarded as a permanent agenda item that should be dealt with annually. Alternatively, if they are a once-off, they
are added to the agenda under “general matters” (P5:118, 120, 122). As reported in section 5.4.2.7, the time allocated for AC meetings is sufficient to cover all items included in the agenda. This is in keeping with Spira’s (1999a:242) suggestion that agendas should not be too lengthy in relation to the time allocated for the meeting. The majority of the shares (52.1%) of the AltX listed company in this study were held by the non-AC board members, specifically the non-executive chairperson of the board, a non-executive member and the CEO (§ 5.3) (ABC Limited, 2014a:27). Owing to their lack of independence, it was therefore imperative that the agenda should not be set by these board members (KPMG, 2012:12, 14). In this company’s case, the AC helped to finalise the agenda, which reduced the risk as highlighted in findings by KPMG (2014:12, 14) that an agenda set by the management of the company could hamper the AC in focusing on important areas to the potential detriment of the minority shareholders.

After the adoption of the agenda, all attendees declare whether or not they have an interest in the company (§ 5.4.1.1) (P7:66; P5:180; P8:126). The minutes of the previous AC meeting are then approved (§ 5.4.2.8) (P1:206; P5:180; P7:66). At that point, attendees are requested to report back on matters for which they are responsible that emerge from the minutes of the previous meeting (P1:206; P5:180; P7:66). The points included in the agenda are then addressed (P1:206; P5:184, 188; P7:66). Finally, the meeting adjourns with a confirmation of the next meeting date (P5:188; P7:66).

The external auditor and management were committed to attending AC meetings as indicated in table 5.8 (§ 5.4.2.7). The attendance figures cited in this table provide evidence to show that management and the external auditor discharge their responsibilities towards the company. The majority of AC and non-AC participants indicated that AC meetings were conducted in a serious and rigorous manner where the AC did not hesitate to challenge management and/or the external auditor to provide detailed explanations. Hence, a standard checklist of questions was not used, which was consistent with what is suggested by the BRC (1999:42–43, principle 4). The tone of AC meetings was also in line with what has been highlighted by other authors (e.g. Sommer, 1991:91; Nkonki, 2014:11, 26). AC participants described the tone of AC meetings as follows:
The culture that [the AC] created is that [the AC meeting is] serious (P2:39).

I think the [CFO] and the [CEO] are put under a lot of pressure all the time and for obvious reasons … we challenge [management] all the time to make sure that every single top process is being driven properly and being thought about. And all angles are being thought about before any decision is being made (P6:240).

One non-AC participant acknowledged that management’s input during AC meetings contributed to reducing the risk of AC members being held liable for not acting diligently (§ 5.4.2.1) (P1:88). Furthermore, both an AC participant and a non-AC participant highlighted the fact that management’s role in attending AC meetings is to provide AC members with more “insight” (P1:86) into the financial documents distributed in the packs and to provide management with an opportunity to respond to the recommendations of the AC. One AC participant stated:

… they can give feedback to [the AC] and [management] can answer the questions that [the AC] raise where [the AC] look at the financials and say what happened here? … [Management is] there to discuss it, talk about it, and iron it out [at the AC meetings] (P8:30).

During meetings management assisted the AC by responding to its questions and commenting on the feasibility of its recommendations, as mentioned above. On the other hand, the AC assisted management by giving guidance. One AC participant commented:

… it’s a mutually beneficial relationship. So they [management] come to us [AC] for guidance, we [AC] go to them for questions, we work together to make it all work (P8:36).

The external auditor’s contribution during AC meetings focused on the external audit process which resulted in improving the quality of the AFS. This is consistent with the AC guideline issued by Nkonki (2014:26) and the recommendation of the BRC (1999:33), which emphasise that the responses provided by the external auditor could be used to assess the quality of the AFS. An AC participant stated in this regard:
During the interviews, participants pointed out that apart from management and the external auditor, the attendance of the company secretary and the designated advisor at AC meetings (§ 5.4.2.7, table 5.8) assisted the AC to fulfil its responsibilities. As the company secretary and the designated advisor were external parties, it can be argued that they also contributed to AC independence. The role played by the company secretary encompasses more than merely providing the AC with administrative support, as he/she also reviewed the AC pack prior to the AC meeting from a compliance point of view (P5:226; P7:114). This enabled him/her to provide input during AC meetings on compliance with legislation and areas of CG (P1:258; P2:72, 106; P5:162). The company secretary’s role in making the AC aware of laws affecting the company is in keeping with section 88(b) of the Companies Act (RSA, 2009). In addition, the company secretary’s guiding role in terms of CG is also supported by King III (IOD, 2009a:27, recommended practice 2.21.7). Apart from providing input during AC meetings, the company secretary also played an advisory role outside AC meetings (P5:162). Accordingly, an AC participant remarked:

… [he’s/she’s] always open to say if there’s anything [the AC] don’t understand from a governance point of view please talk to me. I can guide you through it (P8:144).

The strong “guiding” (P5:215) and “advisory” (P5:156) roles played by the company secretary were supported by the company secretary’s qualifications and experience. He/she has a BCom Law, as well as a Bachelor of Laws (LLB) degree and is an admitted attorney of the High Court (P5:6). He/she has also acted as company secretary for a number of listed companies (ABC Limited, 2014a:14). The statutory duty included in section 88(b) of the Companies Act, requiring the company secretary to keep the directors updated on legislative changes (RSA, 2009), further clarifies the strong advisory role played by the company secretary as he/she could “be held personally liable” (P5:174) if he/she fails to comply with this statutory duty.

In terms of the working relationship between the AC and the designated advisor, the designated advisor primarily dealt with management outside the AC meetings (P4:156).
He/she would only go “around management” (P4:168), directly to the AC, if the company was a “troubled company” (P4:170) where “business rescue” (P4:168) proceedings or “applications for liquidation” (P4:168) had been instituted. In the case of this company, the designated advisor had no reason to bypass management and approach the AC directly (P4:160). As such, the AC and the designated advisor only engaged at AC meetings. Many participants indicated that the designated advisor was not a “silent-attendee” during AC meetings (P1:266; P2:104; P7:128; P8:154), but acted as an “additional set of brains” (P1:268) and an “advisor” (P4:84) who provided support for “CG requirements” (P4:62), as well as compliance with and updates on the JSE listing requirements for AltX listed companies which affected the AC’s responsibilities (P1:266; P2:104; P6:232; P7:126). Such an advisory role is in keeping with the JSE listing requirements (JSE Limited, 2014b: par. 21.5(iii)). The participants’ views pertaining to the fact that the designated advisor was a valuable source of information are supported by the fact that this person is a CA(SA) (P4:56) who is familiar with the company because at the time of the study he/she had been appointed for approximately six years (P4:50). Furthermore, he/she was providing services to about five other AltX listed companies at the time of the interview (P4:52). Accordingly, the designated advisor’s experience and input during AC meetings were highly regarded.

The findings presented in this section suggest that the agendas of the AC meetings were not too lengthy in relation to the time allocated for meetings. Hence, agendas were manageable which enabled the AC to remain focused. Many participants, including the AC chairperson, were involved in compiling the agenda, which prevented a scenario in which the agenda could be manipulated by management, leading to the omission of important matters to the potential detriment of the minority shareholders. Such a detailed agenda laid the platform for an effective AC meeting where robust discussions took place and the external auditor was challenged. Consequently, the input provided by management and the external auditor enabled the AC to fulfil its responsibilities diligently, without following a standard checklist approach. These AC meetings also enabled the AC to add value to management by providing guidance. Many participants further agreed that the company secretary and designated advisor supported the AC in the fulfilment of its responsibilities in terms of legislation, the JSE listing requirements for AltX listed companies and CG recommendations.
5.4.3.3 Perception of the value of the audit committee

The support from the board was referred to by an AC participant as the “make or break of the AC” (P2:167). One non-AC participant acknowledged that the AC “[does] add value with advice to the board” (P3:2). This acknowledgement correlates with the AC guideline issued by Nkonki (2014:5) and the recommendations of King III (IOD, 2009a:5) which state that the board should not view the AC as a liability formed only in order to comply with legislation. Another non-AC participant characterised the AC as a “good solid AC” (P7:60) that made “the right decisions” (P7:60).

A non-AC participant also perceived the AC as a valuable committee as it assisted the board in fulfilling its responsibilities to the letter. This is what the participant had to say:

*I must say our [AC] is really adding value and giving their feedback and to assist me in presenting the correct stuff, to ensure compliance, to know that all the risk is identified and also that helps to mitigate my risk as [an] executive director (P1:250).*

The following words of an AC participant confirm management’s respect for the role of the AC:

*And you could see that [management] really respect the need for an AC and understand why there’s an AC and they use their AC to its fullest extent (P6:152).*

One non-AC participant emphasised the excellent problem-solving abilities of the AC with the following words:

*[The AC] don’t wanna drag on about nonsense. They wanna get to the crux of the issue and deal with it and sort out the root of the issue, not try to just put a Band-Aid on the problem, so they, sort of, very efficient in identifying the problem, then finding a way to mitigate the risk (P5:242).*

From the above, it would seem that the non-AC participants respected and valued the role of the AC. Such a positive view of the value of the AC was a result of its ability to provide the board with assurance on the fulfilment of its responsibilities and its assistance in fulfilling management’s responsibilities. The AC was also viewed as
having good decision-making and problem-solving abilities. The literature (Nkonki, 2014:5) states that respect for the role of the AC would result in communication and interaction between the AC and information providers being strengthened. In this study, the AC’s informal interaction, ad hoc meetings (§ 5.4.3.1) and interaction at AC meetings (§ 5.4.3.2) with information providers were recognised by the research participants which could be the result of information providers’ understanding and respect for the AC’s role.

5.5 CONCLUSION

The purpose of this chapter was to report on the findings of the current study. These findings were related to the purpose of the study, namely, to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders. The data were obtained by conducting individual semi-structured interviews with the AC members, a board member, members of management, the company secretary and the designated advisor. The researcher’s field notes and the company’s integrated report, attendance registers of AC meetings, the AC charter and the AC work plan were studied.

The interpretation and reporting style followed in this chapter were described in section 5.2. Section 5.3 discussed the observations made during the interviews while section 5.4 described the findings within the context of the theoretical framework, which consisted of the attributes influencing the value added by an AC, as explained in chapter 3. This theoretical framework relates firstly to the characteristics of AC members, secondly, to the fulfilment of AC responsibilities through optimised activities and, finally, to the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers.

In terms of the first component of the theoretical framework, namely, the characteristics of AC members, a number of findings came to light. AC members were independent and such independence was regarded as important by participants as they reported on the advantages of this (§ 5.4.1.1). Participants acknowledged that the AC chairperson’s leadership qualities made a positive contribution to the company and to the development of management’s skills (§ 5.4.1.2). Findings indicate that the AC members
were adequately qualified which enabled them to add value to the company, the board and the company’s shareholders. However, one participant claimed that AC members lacked legal and IT qualifications, which hampered them in adding value in areas concerning law and IT. This lack of legal expertise was compensated for by the support provided by the company secretary and the designated advisor (§ 5.4.1.3). The findings suggest that the experience levels of individual AC members were adequate as participants acknowledged that their full-time occupations, involvement in other companies’ boards and/or ACs, the fact that they serve on other committees of ABC Limited besides the AC, their attendance of formal training programmes and the informal training they received increased their experience which, in turn, enabled them to add value to the company, its management and its shareholders. Participants also perceived the collective experience of the AC to be adequate, as a “new” AC member had been recently appointed which resulted in a combination of “established” and “new” AC members serving on the AC. Such collective experience enabled the AC to add value to the company and its shareholders. As the non-AC members on the board held the majority of shares in the company, the researcher argued that the board may use its power when appointing and re-electing AC members. Accordingly, the board could undermine the role and power of the AC to the potential detriment of the minority shareholders. However, the risk of the board abusing its power was not raised by the participants during the interviews (§ 5.4.1.4). It would also seem that the number of members serving on the AC can be deemed adequate in relation to the size of the board (§ 5.4.1.5).

In terms of the second component of the theoretical framework, namely, the fulfilment of AC responsibilities through optimised activities, the AC fulfilled its responsibilities (as required by the Companies Act, the JSE listing requirements for AltX listed companies, and recommended by King III) diligently as all members acknowledged the fiduciary role they play within the company and acted in accordance with this role. The researcher predicted that the AltX listed company in this study would embrace stakeholder theory. The opposite was found, as the AC accepted its fiduciary role in terms of the shareholders of the company, accordingly fulfilling its responsibilities so as to enable it to add value to the company and its shareholders. However, since the company's AFS and integrated report were public information which could be accessed by stakeholders, it implies that the AC would consider its wider stakeholders, in terms of enlightened shareholder theory (§ 5.4.2.1). The AC used a number of media to provide feedback on
the fulfilment of its responsibilities. Such feedback enabled it to add value to both the board, shareholders and its stakeholders (in terms of enlightened shareholder theory) as it enabled them to ascertain whether its responsibilities had been fulfilled (§ 5.4.2.2). These responsibilities were met with the assistance of an AC charter and work plan (§ 5.4.2.3). The annual AC assessment process, despite being regarded as immature, was used to highlight areas for improvement. Such areas were subsequently targeted for remedial action (§ 5.4.2.4). The number of AC meetings held (§ 5.4.2.5), the information sent to AC members and invitees in advance of AC meetings (§ 5.4.2.6) and the scheduled date, time, duration and attendance of AC meetings (§ 5.4.2.7) were sufficient to enable the AC to fulfil its responsibilities diligently. Meetings were minuted and suitable action sheets drawn up after each meeting; these minutes and action sheets serving as accountability tools for promoting diligent behaviour on the part of AC members to the benefit of the company and its shareholders (§ 5.4.2.8).

In terms of the third component of the theoretical framework, namely, the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers, a number of findings were reported. Participants claimed that management and the external auditor assisted the AC in the fulfilment of its responsibilities. An internal auditor was not appointed due to the company’s size and budget constraints, as well as management being “hands-on” regarding risks and controls. Management’s influence creates a risk of management manipulation regarding the company’s risks and controls, to the potential detriment of the minority shareholders. This risk of management’s abuse of their power was not brought to the fore by the participants during the interviews. Other compensating measures were instituted, for example the AC chairperson provided risk training to the company’s employees to improve risk management. Arguably, the provision of risk training could impair the AC chairperson’s independence. The risk of the influence on the AC chairperson’s independence was also not highlighted by participants during the interviews.

Participants acknowledged that they maintained good working relationships with management and the external auditor through informal interactions and formal meetings. Such a good working relationship assisted the AC to stay informed about matters affecting its responsibilities and contributed to the diligent fulfilment of its responsibilities. The diligence shown by the AC during the fulfilment of its responsibilities enabled it to add value to the company and its shareholders (§ 5.4.3.1).
The agendas of the AC meetings were manageable which enabled the AC to remain focused. Many participants, including the AC chairperson, were involved in compiling the agenda for the meetings. Accordingly, this prevented a scenario where the agenda could be manipulated by the management of the company where important matters to be considered would not be included, to the potential disadvantage of the minority shareholders. Such a thorough agenda laid the platform for an effective AC meeting where robust discussions took place and the external auditor was challenged. The input provided by management and the external auditor during the AC meetings enabled the AC to fulfil its responsibilities. These meetings also enabled the AC to add value to management as it provided guidance to management.

Many participants agreed that the company secretary and designated advisor supported the AC in the fulfilment of its responsibilities that are affected by legislation, JSE listing requirements for AltX listed companies as well as CG recommendations (§ 5.4.3.2). The board and the AC’s information providers respected the role of the AC and acknowledged the value that resulted from informal interaction, ad hoc meetings and interactions at AC meetings (§ 5.4.3.3).

The next chapter presents an overview of the study and the research conclusions following the findings reported in this chapter.
CHAPTER 6

CONCLUSION OF THE STUDY

6.1 INTRODUCTION

Chapter 5 presented the empirical findings of the study within the context of the theoretical framework, which consisted of the attributes influencing the value added by an AC.

This chapter presents an overview of the study (§ 6.2). Conclusions are made relating to the value being added by an AltX listed company’s AC (§ 6.3) and the limitations of the study (§ 6.4) are described. The chapter concludes by making a number of recommendations for further research (§ 6.5) as well as supporting the importance of the study (§ 6.6).

6.2 OVERVIEW OF THE STUDY

As indicated in chapter 1, an AC is a “critical component in the overall corporate governance process” (KPMG, 2005:1). Accordingly, it would seem that if an AltX listed company has an ineffective AC it would not be able to enhance the company’s CG practices or provide the company and stakeholders groups with the protection they require. The following purpose statement was consequently formulated for this study: To understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders.

On the basis of this statement, the following objectives were identified for this study:

- to investigate the characteristics of AC members that enable them to add value
- to investigate the way the AC fulfils its responsibilities through optimised activities
- to investigate the way the AC fulfils its responsibilities by maintaining healthy relationships with the board and information providers
Chapter 2 provided an overview of CG. As this study focused on the way in which the AC adds value, this overview provided some background on the CG practices of which an AC forms part. The researcher argued that an AltX listed company with the primary goal of creating maximum shareholder wealth in the short term would embrace enlightened shareholder theory. Where AltX listed companies have the main goal of growing their businesses in the long term, it was argued that these companies would adopt stakeholder theory. Chapter 2 further highlighted the fact that the board’s implementation of CG practices may be influenced by the group that holds the majority of the company’s shares, which could hamper the implementation of CG practices to the potential detriment of the minority shareholders. The researcher also argued that an AltX listed company with a short-term goal of growing its business may be more price-sensitive and therefore less inclined to implement CG practices, whilst an AltX listed company which intends to grow its business in the long term may be less price-sensitive and therefore willing to invest more in implementing good CG practices. Whatever the case, good CG practices would be of benefit to all AltX listed companies and its stakeholders.

Chapter 2 furthermore described CG and AC practices in South Africa by referring to legislation, codes and reports, as well as listing requirements. The ACs of AltX listed companies must comply with the provisions of the Companies Act and the JSE listing requirements for AltX listed companies, as well as apply the King III principles. This legislation, the listing requirements and the recommendations of King III were used to develop a theoretical framework consisting of the attributes that influence the value added by an AC.

Chapter 3 provided such theoretical framework consisting of the attributes that influence the value added by the AC of an AltX listed company, the three components being the characteristics of AC members, the fulfilment of AC responsibilities through optimised activities and the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers.

Chapter 4 described the research design and approach, as well as the method applied to understand the way in which the AC of an AltX listed company adds value. In this study, a qualitative, explorative research design and case study approach were applied. Accordingly, an AltX listed company and research participants were selected on the
basis of predetermined selection criteria. Data were collected using semi-structured individual interviews, field notes made by the researcher and company documents. Ten participants were initially identified, although only eight agreed to participate. These participants included three AC members, the chairperson of the board, the CEO, the CFO, the company secretary and the designated advisor, who were all interviewed individually. On concluding these interviews, it was deemed unnecessary to interview anyone else, as data saturation had been reached.

Interviews took between 14 and 68 minutes each and were audio recorded. These interviews in total amounted to 379 minutes of conversation, which subsequently formed 192 transcribed pages. The transcribed data, field notes and company documents were analysed using open descriptive coding techniques. In addition, Atlas.ti was used to improve the coding of the transcribed data and as a repository for the transcribed interviews. This chapter also discussed the measures applied to ensure the trustworthiness of the results and made reference to the ethical principles adhered to.

The following section describes the conclusions of the study with respect to the way in which the AC of an AltX listed company adds value to the company and its stakeholders, based on the analysis and discussion of the findings reported in chapter 5.

6.3 CONCLUSIONS ON THE VALUE ADDED BY THE AUDIT COMMITTEE OF THE ALTERNATIVE EXCHANGE LISTED COMPANY

The conclusions on the way in which the AC adds value will be presented within the context of the theoretical framework of attributes influencing the value added by an AC, namely, the characteristics of AC members, the fulfilment of AC responsibilities through optimised activities and the fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers.
Figure 6.1 Theoretical framework for an AC

- **Attributes influencing the value added by an AC**
  - Independence (§ 6.3.1)
  - Leadership (§ 6.3.1)
  - Qualifications (§ 6.3.1)
  - Experience (§ 6.3.1)
  - Number of AC members (§ 6.3.1)

- **The characteristics of AC members (§ 6.3.1)**

- **The fulfilment of AC responsibilities through optimised activities (§ 6.3.2)**
  - Fiduciary role (§ 6.3.2)
  - Feedback to the board and stakeholders (§ 6.3.2)
  - AC charter and work plan (§ 6.3.2)
  - Annual assessments (§ 6.3.2)

- **The fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers (§ 6.3.3)**
  - Informal interaction and ad hoc meetings with management and assurance providers (§ 6.3.3)
  - Perception of the value of the AC (§ 6.3.3)

- **The characteristics of AC members (§ 6.3.1)**
  - Information sent to AC members in advance of AC meetings (§ 6.3.2)
  - Number of AC meetings (§ 6.3.2)
  - Scheduled date, time, duration and attendance of AC meetings (§ 6.3.2)
  - Minutes and action sheets of AC meetings (§ 6.3.2)

- **The fulfilment of AC responsibilities by maintaining healthy relationships with the board and information providers (§ 6.3.3)**
  - Agendas, tone of and procedures followed at AC meetings (§ 6.3.3)
6.3.1 Conclusions on the characteristics of AC members

All the members serving on the AC were independent. This attribute enabled them to add value to the company, its management, the external auditor and the shareholders, as the AC monitored information prepared by management and guided management in running the company. The AC also provided the external auditor with an opportunity to openly express his/her views and concerns regarding management. The AC further demonstrated its independence by recommending that an external auditor with a good reputation be appointed and reduced AFS fraud by increasing the quality of the AFS.

The AC chairperson’s leadership qualities enabled him/her to add value to the manner in which AC meetings were conducted because he/she ensured that attendees were properly prepared for meetings, controlled the meetings efficiently and effectively and encouraged all members to participate in a disciplined and structured manner. The disciplined way in which the AC meetings were handled had a positive influence on the AC’s work and ultimately the way it fulfilled its responsibilities. The chairperson’s leadership qualities also enabled him/her to interact effectively with information providers and may be a reason why he/she provided training and guidance to management on technical and soft skills. Although King III recommends that directors who lack adequate experience should be assigned to a mentorship programme, this recommendation was not implemented by the AltX listed company in this case study. As an alternative, mentorship was provided by the chairperson of the AC. The researcher is of the opinion that this mentorship role of the AC chairperson is not usually associated with ACs and is unique to the AltX listed company in this study.

AC members were suitably qualified which enabled them to add value to the company, the board and the company’s shareholders, as was evidenced by the AC’s fulfilment of its responsibilities, the members’ active participation in AC meetings and the unmodified audit opinion that was issued on the AFS. The AltX listed company in this study had a long-term vision to grow its business as evidenced by its listing duration of 7.74 years and the strategic practices reflected in its integrated report. Prior to conducting the data collection phase, the researcher was of the opinion that AltX listed companies with a long-term vision to grow their business and create wealth would be less price-sensitive. However, the findings of this research contradicted this initial opinion, as the company’s price-sensitivity resulted in it not appointing AC members with a legal or IT background.
Although the number of members serving on the AC was sufficient compared to the size of the company’s board, an increase in the number of AC members (with a legal or IT background) could increase AC efficiency and result in an improvement in the manner in which the AC fulfilled its legal and IT-related responsibilities. Nevertheless, the lack of legal expertise was compensated for by the support provided by the company secretary and, to a lesser extent, the designated advisor.

AC members had extensive experience as a result of their full-time occupations, involvement in other companies’ boards and/or ACs, and knowledge of the company’s business. As such, the AC members’ experience enabled the AC to add value to the company, management and shareholders, as it was able to apply the good practices followed by other companies to the AltX listed company in this study and provide management with quality guidance. Furthermore, AC members’ involvement in the risk committee enabled them to add value through the fulfilment of the AC’s risk oversight responsibilities. In addition, the members’ individual experience levels also enabled the AC to view matters from various perspectives, which resulted in probing questions being asked and strenuous debates occurring at meetings. Lastly, AC members’ business knowledge was enhanced by both formal and informal training; further improving the manner in which they fulfilled their responsibilities. As mentioned in the previous paragraph, because the company was price-sensitive the AC members took responsibility for their own training needs.

The AC in this study consisted of two “established” and one “new” AC member. The AC members’ collective experience enabled the AC to add value to the company and its shareholders as the “new” member was more careful and critical about fulfilling the AC’s responsibilities, whilst “established” AC members had better knowledge of the company’s risk areas and challenged management and the external auditor in this regard. Although the “new” AC member was appointed through a formal appointment process, the influence of individual board members, as the major shareholders of the company, was highlighted as a potential risk. This potential risk implies that the board may use its power and make biased appointments which could influence the quality of the activities carried out by the AC, as well as the independence of the newly appointed AC member. This potential risk was also present when re-electing AC members. Hence, the influence of the individual board members (as the major shareholders of the company) on the AC may undermine the role and authority of the latter to the potential
detriment of the minority shareholders. However, the risk of abuse of power by the board was not mentioned by the participants during the interviews. The AC itself consisted of three members, which was deemed adequate in relation to the size of the board.

6.3.2 Conclusions on the fulfilment of audit committee responsibilities through optimised activities

The company complied with the AC responsibilities required by the Companies Act and the JSE listing requirements for AltX listed companies. The company also applied the AC responsibilities recommended by King III. The study found that the AC fulfilled these responsibilities diligently as all members acknowledged and accepted their fiduciary role. It was expected that the AltX listed company in this study, which had a long-term vision to grow its business, as evidenced by its listing duration of 7.74 years and the strategic practices reflected in its integrated report, would embrace stakeholder theory. Quite the reverse was found, however, as the AC accepted its fiduciary role in terms of the shareholders of the company, accordingly fulfilling its responsibilities so as to enable it to add value to the company and its shareholders. However, since the company’s AFS and integrated report were public information which could be accessed by stakeholders, it implies that the AC would consider its wider stakeholders, in terms of enlightened shareholder theory, and therefore act as a responsible corporate citizen.

The AC feedback practices enabled it to add value to the company’s board, shareholders and its stakeholders (in terms of enlightened shareholder theory) as it used various media to provide feedback on the fulfilment of its responsibilities. A relationship of trust was found to exist between the non-AC members serving on the board and the AC. Although a number of media were used by the AC to provide feedback to the board, the trustworthiness of such feedback was enhanced by this trust relationship. In particular, the non-executive board member (who was one of the major shareholders of the company but did not attend the AC meetings) valued the feedback provided by the AC resulting from this trust relationship, as it assured him/her that his/her shareholding was being adequately managed. This trust relationship also indirectly protected the minority shareholders, who, like this non-executive board member, were not involved in the management of the company and did not attend AC meetings. Hence, the non-executive board member’s safeguarding of his/her majority
shareholding indirectly improved the board’s accountability to the company’s minority shareholders.

The AC work plan was compiled in a transparent and thorough manner as a result of the AC and company secretary’s involvement. The AC’s involvement ensured that the responsibilities included in the AC work plan were clear and fair, while the company secretary’s involvement meant that the work plan was in line with the latest legal requirements. The drafting of the AC agendas based on the AC work plan and the distribution of the work plan prior to the quarterly AC meetings supported the AC in fulfilling its responsibilities and helped it to add value to the company and its shareholders.

In the company, a formal annual assessment is performed to ascertain whether the composition of the AC, the tone of AC meetings, the fulfilment of the AC’s responsibilities, the manner in which AC responsibilities were fulfilled, as well as AC members’ involvement in AC meetings are all to the benefit of the organisation. This assessment also highlighted areas for remedial action to enable the AC to increase its value for the company and its shareholders. However, the results of the annual assessment were not included in the integrated report, which prevented the AC from revealing its value to the company and its shareholders. Furthermore, because the annual assessment process was regarded as immature, an improved annual assessment could enable the AC to increase its value to the company and its shareholders.

Although the price-sensitivity of the company was highlighted, quarterly AC meetings were preferred as it enabled the AC to take better decisions because meetings were effective and focused. Quarterly AC meetings also improved the AC’s knowledge of the company’s business and gave insights to increase the quality of the AFS. It further enabled the AC to monitor recent company acquisitions, new launches and product changes, reduced AC members’ risk of being held personally liable and assisted the AC in detecting and addressing risks at an early stage. The wide range of AC responsibilities also necessitated four annual AC meetings. In other words, quarterly AC meetings enhanced the diligent fulfilment of AC responsibilities to the benefit of the company and its shareholders. Furthermore, the packs sent to the AC members and invitees prior to AC meetings included sufficient and relevant information to prepare for
the meetings. Because the AC members and invitees were well prepared in this regard, they could take better informed decisions to the advantage of both the company and its shareholders.

AC meetings were conducted at times when the AC’s oversight responsibilities increased. Also, the scheduling of the AC meetings a week prior to the board meetings allowed the AC to present reliable information to the board and enabled it to add value to the company and its shareholders as the board could make informed decisions. The scheduled date, time and duration of AC meetings were adequate which resulted in them being well attended by both members and invitees. Since meetings were well attended, the AC could, with the input of members and invitees, fulfil its responsibilities to the benefit of the company and its shareholders. Minutes of AC meetings and action sheets served as accountability tools which encouraged diligent behaviour by AC members to the benefit of the company and its shareholders.

6.3.3 Conclusions on the fulfilment of audit committee responsibilities by maintaining healthy relationships with the board and information providers

The AC used management and the external auditor to assist it in fulfilling its responsibilities. An internal auditor was not appointed owing to the company’s size and budget constraints, as well as management being “hands-on” regarding risks and controls. Management’s “hands-on-approach” creates an opportunity for manipulation, to the potential detriment of the minority shareholders. This risk of management’s misuse of their power was not articulated by the participants during the interviews. In order to compensate, significant risks that were included in the risk matrix were tested by both the finance department and the external auditor. Also, the AC chairperson provided employees with risk training to improve the company’s risk matrix. An improved risk matrix enhanced risk management and assisted the AC in the fulfilment of its risk oversight responsibilities.

The AC had a good working relationship with management and the external auditor, in terms of which an open-door culture existed and informal interactions took place. Pre-meetings between the AC and the CFO enabled the AC chairperson to mentor the CFO, whilst the AC chairperson could determine if the AC pack distributed before meetings was complete. These pre-meetings also enabled the AC chairperson to identify areas of
concern to be discussed at the AC meetings and thereby steer them effectively; thus reducing the time needed by the AC chairperson to prepare for the meeting. These also resulted in shorter and more focused AC meetings. If necessary, pre-meetings were also held between the AC and the external auditor so that the AC chairperson was aware of all audit-related issues by the time the meeting commenced.

Post-meetings between the AC and management, as well as the AC and the external auditor, did not generally happen. If necessary, post-meetings were scheduled to unpack matters which were raised during the AC meeting which enabled the AC to remain more focused and make better decisions regarding its responsibilities. Separate meetings held between the AC and management, and the AC and the external auditor, allowed the AC to manage its relationship with these parties. These meetings also permitted the external auditor to raise his/her concerns if he/she felt that management restricted him/her or failed to provide him/her with information. This exchange of confidential information contributed positively to the effectiveness of the external audit process and, in turn, a more effective external audit process improved the quality of the AFS. All in all, these informal interactions and ad hoc meetings provided evidence that healthy relationships were being maintained which helped the AC to stay informed on matters which affected its responsibilities and contributed to the diligent fulfilment of its responsibilities. Such diligence enabled the AC to add value to the company and its shareholders.

The agendas of the AC meetings were manageable which enabled the AC to remain focused. Many participants, including the AC chairperson, were involved in compiling the agenda for the AC meetings, which prevented a scenario where the agenda could be manipulated by the management of the company. Such things could include, for example, omitting important matters to be considered which could be to the potential detriment of minority shareholders. A detailed agenda laid the basis for effective AC meetings where robust discussion took place and management and the external auditor were challenged. The fact that management and the external auditor attended AC meetings provided evidence of them discharging their responsibilities towards the company. In addition, management’s input during AC meetings assisted the AC by giving insight into the financial affairs of the company and acting as a sounding board for the AC to ascertain the feasibility of its recommendations. The external auditor, on the other hand, assisted the AC in providing assurance on the quality of the AFS.
Hence, the input provided by management and the external auditor during AC meetings enabled the AC to fulfil its responsibilities diligently, to the benefit of the company and its shareholders, without following a standard checklist approach. These AC meetings also enabled the AC in turn to add value by providing guidance to management. Many participants further agreed that the company secretary and designated advisor supported the AC in the fulfilment of its legislative responsibilities, JSE listing requirements for AltX listed companies and CG recommendations.

The board perceived the AC as a value-adding component of CG, as it provided assurance to the board regarding the fulfilment of the AC’s allocated responsibilities. Similarly, management perceived the AC as valuable as it assisted management in the fulfilment of its responsibilities. The AC was also applauded for its effective decision-making and problem-solving abilities. The AC’s informal interactions, ad hoc meetings and interaction at AC meetings with information providers were found to be commendable, which could be due to the information providers’ understanding and respect for the AC’s role.

6.4 LIMITATIONS OF THE STUDY

In this study, non-probability sampling was performed in terms of which the specific AltX listed company and the research participants were selected on the basis of predetermined selection criteria. Accordingly, the AltX listed company and its research participants are not representative of all high-growth potential, small to medium-sized listed companies and, for this reason, the findings may not be applicable to other high-growth potential, small to medium-sized listed companies.

6.5 RECOMMENDATIONS FOR FURTHER RESEARCH

On the basis of the analysis of the findings of the current study, the researcher has identified areas for further research.

As of 30 September 2014, the JSE listing requirements for AltX listed companies have been amended, which resulted in only the application or explanation (in the case of non-application) of AC principles relating to boards and directors in terms of King III being mandated. Further investigation into the effect of this amendment relating to AC
practices on business development and the South African economy could be a possible area for further research.

In this research the researcher did not analyse historical company documents. Thus it is proposed that further research should study historical company documents, identifying the development of company processes and systems as they relate to the AC and investigating whether or not these developments affected the value of the AC. In other words, a longitudinal study of a high-growth potential, small to medium-sized listed company’s AC is suggested where the AC’s changing role in a growing company is explored.

Some participants revealed that there was a direct relationship between the following: the remuneration paid to AC members and their independence, the remuneration paid to AC members and the time AC members spend on preparing for AC meetings, the remuneration paid to AC members and their fulfilment of their fiduciary role, as well as the remuneration paid to AC members and the AC members’ ability to engage in robust discussion during AC meetings. Hence an exploration of these relationships is an area for possible further research.

At the time of the interviews, the JSE listing requirement that, in AltX listed companies, a designated advisor should be invited to and should attend AC meetings had recently changed. This change implies that it is no longer mandatory for a designated advisor to attend AC meetings, which in turn means that he/she would no longer act as an advisor at such meetings. To this end, it is recommended that further research be carried out on the effect of this change in the JSE listing requirements for AltX listed companies on the AC’s fulfilment of its responsibilities.

One of the limitations of the current study is that the in-depth descriptions of the AltX listed company provided by the research participants cannot be generalised to the value added by the ACs of other high-growth potential, small to medium-sized listed companies. Further research could therefore be conducted on other high-growth potential, small to medium-sized listed companies to investigate the value added by these companies’ ACs.
Finally, it is suggested that future research could include a comparison of the characteristics and the fulfilment of responsibilities by the AC of a specific AltX listed company and the AC of a company listed on the main board of the JSE.

6.6 IMPORTANCE OF THE STUDY

The current study contributes to the existing body of knowledge on the ACs of high-growth potential, small to medium-sized listed companies, as a component of CG practices. The study set out to apply the attributes influencing the value added by an AC to understand the way in which the AC adds value to high-growth potential, small to medium-sized listed companies, such as AltX listed companies, and its stakeholders. In addition, the study could inform the Directors Induction Programme, which could benefit from this study by using the AC practices followed by the AltX listed company in this study to develop best practice guidelines for ACs of AltX listed companies for inclusion in their training material, or alternatively to develop a separate induction programme specifically for AC members. The inclusion of this additional training material or a separate induction programme may contribute to the development of members serving on the ACs of AltX listed companies.

6.7 CONCLUSION

Guided by the objectives of the study, an overview of the study and the conclusions of the study were described in this chapter. The overview of the study highlighted the fact that a theoretical framework consisting of attributes influencing the value added by an AC was developed. These attributes were derived from legislation, JSE listing requirements for AltX listed companies, codes and reports, and scholarly literature.

The study set out to understand the way in which the AC of an AltX listed company, as an example of a high-growth potential, small to medium-sized listed company, adds value to the company and its stakeholders. Thus, by presenting the study’s conclusion within the context of the theoretical framework, consisting of the three components influencing the value of an AC, this study provided rich descriptions that revealed that the AC of the specific AltX listed company possessed attributes which enabled it to add value to the company and its stakeholders in terms of enlightened shareholder theory. This final chapter also highlighted the limitations of the study, made recommendations for further research and discussed the importance of the study.
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APPENDICES
### APPENDIX A

#### PRE-POPULATED QUESTIONS LINKED TO THE ATTRIBUTES INFLUENCING THE VALUE ADDED BY AN AC

<table>
<thead>
<tr>
<th>Attributes influencing the value added by an AC (refer to key below the table)</th>
<th>Main questions</th>
<th>Sub-questions</th>
<th>AC chairperson</th>
<th>AC members</th>
<th>Chairperson of the board</th>
<th>CEO</th>
<th>CFO</th>
<th>Company secretary</th>
<th>Designated advisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>1. Tell me about your qualifications and previous experience.</td>
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<tr>
<td>4</td>
<td>2. Tell me about your previous experience as an AC member.</td>
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</tr>
<tr>
<td>4</td>
<td>3. Describe the appointment process of an AC member.</td>
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<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>9</td>
<td>4. Describe the performance assessment process of the AC and its individual members.</td>
<td>x x x x x x x</td>
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<td>4</td>
<td>5. Tell me about the training provided to AC members.</td>
<td>x x</td>
<td></td>
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<tr>
<td>17</td>
<td>6. How does the AC add value to the company?</td>
<td>x x x x x x x x</td>
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<td>17</td>
<td>7. How does this differ from other companies and why?</td>
<td>x x x x x x x x</td>
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<td>13, 16</td>
<td>8. How do you perceive the buy-in from the external auditor and management with regards to the AC (i.e. is the governance and advisory roles of the AC taken seriously)?</td>
<td>x x x x x x x x</td>
<td></td>
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<tr>
<td>13</td>
<td>9. How are the recommendations of the AC dealt with?</td>
<td>x x x x x x x x</td>
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<td>14</td>
<td>10. How would you describe the AC’s relationship with the board/management/external auditor/company secretary/designated advisor?</td>
<td>x x</td>
<td></td>
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<tr>
<td>14</td>
<td>11. How would you describe your relationship with the AC?</td>
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<tr>
<td>14</td>
<td>12. Is there an open-door policy where you feel comfortable to contact the board/management/external auditor/company secretary/designated advisor if the need arises?</td>
<td>x x</td>
<td></td>
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<tr>
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<td>CFO</td>
<td>Company secretary</td>
<td>Designated advisor</td>
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<td>14</td>
<td>13.</td>
<td>Is there an open-door policy where you feel comfortable to contact the AC if the need arises?</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>14</td>
<td>14.</td>
<td>Do you meet informally with the board/management/external auditor/company secretary/designated advisor?</td>
<td>x</td>
<td>x</td>
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<tr>
<td>14</td>
<td>15.</td>
<td>Do you meet informally with the AC?</td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>14</td>
<td>16.</td>
<td>Tell me about your meetings, apart from the AC meetings, with the AC/management/external auditor.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
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<tr>
<td>14</td>
<td>17.</td>
<td>How often are pre-meetings held with the AC/management/external auditor (i.e. meetings before the AC meetings)?</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>14</td>
<td>18.</td>
<td>Describe the value and purpose of these pre-meetings.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
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<tr>
<td>14</td>
<td>19.</td>
<td>How often are meetings held with the AC/management/external auditor after the AC meeting?</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>14</td>
<td>20.</td>
<td>Describe the value and purpose of these meetings which are conducted after an AC meeting.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
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<tr>
<td>14</td>
<td>21.</td>
<td>How would you describe the type of questions asked by the AC during the pre-meetings (i.e. challenging questions)?</td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>14</td>
<td>22.</td>
<td>Are you of the opinion that the AC members/management/external auditor are well</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
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<td></td>
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<tr>
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<td>Sub-questions</td>
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<td>AC members</td>
<td>Chairperson of the board</td>
<td>CEO</td>
<td>CFO</td>
<td>Company secretary</td>
<td>Designated advisor</td>
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<td></td>
<td></td>
<td>prepared for your meetings with them?</td>
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<tr>
<td>2, 4, 10, 11, 12, 15, 17</td>
<td>23. Describe the manner in which the AC carries out its assigned governance responsibilities (with reference to the AC meetings).</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>24. How often do you attend AC meetings?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<tr>
<td>12, 15</td>
<td>25. How does your presence at these AC meetings impact the proceedings of the AC meeting?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>10</td>
<td>26. How many meetings will be held for the February 2015 financial year? (based on the prior year’s integrated report, it seems like one every quarter)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<td>10</td>
<td>27. King III recommends at least twice a year, why do you exceed this number of meetings?</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<tr>
<td>11</td>
<td>28. How often does the AC request information from you?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<tr>
<td>11</td>
<td>29. How often do you request information from management and the external auditor?</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>11</td>
<td>30. Do you advise management and the external auditor on the type, format, extent and due date of information required by the AC and do these aforementioned parties meet these requirements?</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<tr>
<td>11</td>
<td>31. Describe the manner in which the pack is distributed to AC members and invitees to AC</td>
<td></td>
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<td>x</td>
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<tr>
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<td>Sub-questions</td>
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<td>AC members</td>
<td>Chairperson of the board</td>
<td>CEO</td>
<td>CFO</td>
<td>Company secretary</td>
<td>Designated advisor</td>
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<tr>
<td>11</td>
<td></td>
<td>32. How much time on average do you spend to study the information provided?</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>15</td>
<td></td>
<td>33. How do you prepare for AC meetings?</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td>x</td>
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<tr>
<td>11</td>
<td></td>
<td>34. Are you of the opinion that AC members attending the AC meetings are well prepared?</td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>15</td>
<td></td>
<td>35. Are you of the opinion that the AC members and invitees attending the AC meetings are well prepared?</td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>11</td>
<td></td>
<td>36. Do you believe that your remuneration is sufficient to cover the work involved?</td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>11</td>
<td></td>
<td>37. Would you put in more effort if the compensation was better?</td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>12</td>
<td></td>
<td>38. How do you feel about the appropriateness of the date, time and duration of AC meetings?</td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
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<td>15</td>
<td></td>
<td>39. Describe the process followed for the compilation of the agenda for the AC meetings.</td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
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<td></td>
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<td>15</td>
<td></td>
<td>40. Describe the proceedings at the AC meetings.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>2</td>
<td></td>
<td>41. Describe the role played by the chairperson of the AC.</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>15</td>
<td></td>
<td>42. Who else, other than management and the external auditor assists you in fulfilling your responsibilities (i.e. advisory and supportive role)</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Attributes influencing the value added by an AC (refer to key below the table)</td>
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<td>Sub-questions</td>
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<td></td>
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<td>played by the company secretary and the designated advisor)?</td>
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<td>15</td>
<td></td>
<td>43. How would you describe the type of questions asked by the AC during the AC meetings (i.e. challenging questions)?</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>15</td>
<td></td>
<td>44. How are disagreements during the AC meeting dealt with?</td>
<td>X</td>
<td></td>
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<td>17</td>
<td></td>
<td>45. How does the non-existence of an internal audit department effect the fulfilment of the AC’s responsibilities?</td>
<td>X</td>
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<td>4</td>
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<td>46. A new AC member was recently appointed. Describe the impact of this new member on the AC?</td>
<td>X</td>
<td>X</td>
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<tr>
<td>15</td>
<td></td>
<td>47. Tell me about the seating arrangement at AC meetings and does it have an impact on the manner in which AC meetings are conducted?</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>8</td>
<td></td>
<td>48. How does the AC demonstrate its assigned governance responsibilities to the board?</td>
<td></td>
<td></td>
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<td></td>
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<td>X</td>
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<tr>
<td>6</td>
<td></td>
<td>49. Do you believe that you have any responsibilities to the public apart from your responsibilities to shareholders?</td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>17</td>
<td></td>
<td>50. What else can the AC do to increase the value being added to the company and its stakeholders?</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
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<td>17</td>
<td></td>
<td>51. Is there anything else that you want to add regarding the value of the AC?</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Key:
1  Independence (ch 3, § 3.2.1)
2  Leadership (ch 3, § 3.2.2)
3  Qualifications (ch 3, § 3.2.3)
4  Experience (ch 3, § 3.2.4)
5  Number of AC members (ch 3, § 3.2.5)
6  Fiduciary role (ch 3, § 3.3.1)
7  Feedback to the board and stakeholders (ch 3, § 3.3.2)
8  AC charter and work plan (ch 3, § 3.3.3)
9  Annual assessments (ch 3, § 3.3.4)
10 Number of AC meetings (ch 3, § 3.3.5)
11 Information sent to AC members in advance of AC meetings (ch 3, § 3.3.6)
12 Scheduled date, time, duration and attendance of AC meetings (ch 3, § 3.3.7)
13 Minutes and action sheets of AC meetings (ch 3, § 3.3.8)
14 Informal interaction and ad hoc meetings with management and assurance providers (ch 3, § 3.4.1)
15 Agenda, tone of and procedures followed at AC meetings (ch 3, § 3.4.2)
16 Perception of the value of the AC (ch 3, § 3.4.3)
17 General question linked to one or more of the attributes listed above
x* Question only posed to the new AC member
APPENDIX B

INTERVIEW SCHEDULE – AC CHAIRPERSON

1. Tell me about your previous experience as an AC member.

2. Describe the performance assessment process of the AC and its individual members.

3. Tell me about the training provided to AC members.

4. How does the AC add value to the company?
   - How does this differ from other companies and why?

5. How do you perceive the buy-in from the external auditor and management with regards to the AC (i.e. is the governance and advisory roles of the AC taken seriously)?
   - How are the recommendations of the AC dealt with?

6. How would you describe the AC’s relationship with the board, management, the external auditor, the company secretary and the designated advisor?
   - Is there an open-door policy where you feel comfortable to contact these aforementioned parties if the need arises?
   - Do you meet informally with these aforementioned parties?

7. Tell me about your meetings, apart from the AC meetings, with management and the external auditor.
   - How often are pre-meetings held with management and the external auditor (i.e. meetings before the AC meetings)?
   - Describe the value and purpose of these pre-meetings.
   - How often are meetings held with management and the external auditor after the AC meeting?
   - Describe the value and purpose of these meetings which are conducted after an AC meeting.
- Are you of the opinion that management and the external auditor are well prepared for your meetings with them?

8. Describe the manner in which the AC carries out its assigned governance responsibilities (with reference to the AC meetings).
   - How many meetings will be held for the February 2015 financial year? (based on the prior year’s integrated report, it seems like one every quarter)
   - King III recommends at least twice a year, why do you exceed this number of meetings?
   - How often do you request information from management and the external auditor?
   - Do you advise management and the external auditor on the type, format, extent and due date of information required by the AC and do these aforementioned parties meet these requirements?
   - How much time on average do you spend to study the information provided?
   - Are you of the opinion that the AC members and invitees attending the AC meetings are well prepared?
   - Do you believe that your remuneration is sufficient to cover the work involved?
   - Would you put in more effort if the compensation was better?
   - How do you feel about the appropriateness of the date, time and duration of AC meetings?
   - Describe the process followed for the compilation of the agenda for the AC meetings.
   - Describe the proceedings at the AC meetings.
   - Who else, other than the external auditor and management, assists you in fulfilling your responsibilities (i.e. advisory and supportive role played by the company secretary and the designated advisor)?
   - How are disagreements during the AC meeting dealt with?
   - How does the non-existence of an internal audit department effect the fulfilment of the AC’s responsibilities?
   - A new AC member was recently appointed. Describe the impact of this new member on the AC?
- Tell me about the seating arrangement at AC meetings and does it have an impact on the manner in which AC meetings are conducted?

9. Do you believe that you have any responsibilities to the public apart from your responsibilities to shareholders?

10. What else can the AC do to increase the value being added to the company and its stakeholders?

11. Is there anything else that you want to add regarding the value of the AC?
APPENDIX C

PARTICIPANT INFORMATION SHEET

THE VALUE OF AN AUDIT COMMITTEE AT A HIGH-GROWTH POTENTIAL, SMALL TO MEDIUM-SIZED LISTED COMPANY

Dear Prospective Participant

My name is Madeleine la Grange, a lecturer in the College of Accounting Sciences at the University of South Africa (UNISA). I am pursuing a Master's degree to understand how the audit committee (AC) of an Alternative Exchange (AltX) listed company is adding value to the company and its stakeholders. Before you decide whether or not to participate, it is important to explain what the study will involve.

WHY AM I BEING INVITED TO PARTICIPATE?

The company has been selected to participate in the study. Approval was obtained from the Chief Executive Officer to conduct the study. You were selected to participate in the study since you conform to the qualifying criterion, namely, you formed part of the AC and/or you have a relationship with the AC. Hence, individuals invited to participate include individuals from the following categories: AC members, board members, major shareholder(s), executive management, the external auditor, the company secretary, and the designated advisor. Your contact details have been obtained from the office of the Chief Financial Officer.

WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY/WHAT DOES THE RESEARCH INVOLVE?

This study involves a single one hourly semi-structured individual interview. Depending on the category of research participant being interviewed, research questions will attempt to understand participants’ perceptions about some/all of the following:

- Characteristics of AC members.
- Purpose of the AC.
- Status of the AC.
- Relationships between the AC and management, as well as between the AC and the assurance provider.
- AC meetings.
- Fulfilment of the AC’s responsibilities.
- Suggested improvements to the characteristics of the AC and the fulfilment of its responsibilities.

The interview is semi-structured and therefore the questions covering the aforementioned topics form a basic guideline for the interview. Other questions may be asked as the discussion evolves. The interview will be digitally voice-recorded to ensure the factual accuracy and completeness of the data. However, interviews will only be recorded after written consent is obtained from you, under the precondition that you may request for the voice recorder to be switched off at any time.

**CAN I WITHDRAW FROM THIS STUDY?**

Participating in this study is entirely voluntary and you are under no obligation to consent to participate. Should you decide to participate, you will be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason or being prejudiced.

**WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?**

This will be the first study that attempts to understand the way in which the AC of an AltX listed company adds value to the company and its stakeholders. Hence, the results of this study will add to the existing body of knowledge on the AC as an important component of corporate governance (CG) practices.

Executive and non-executive directors of AltX listed companies are required to attend a Directors Induction Programme to improve their knowledge regarding aspects such as the Johannesburg Stock Exchange listing requirements for AltX listed companies, CG practices and the Companies Act. The findings of this study could be used to inform the Directors Induction Programme and therefore contribute to the development of AC members.
WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?

It is understood that visiting your workplace during working hours may be inconvenient to you. I will provide you with as much notice as would be reasonably possible and be flexible in terms of the interview venues, dates and times.

WILL WHAT I SAY BE KEPT ANONYMOUS AND CONFIDENTIAL?

Your name will not be recorded anywhere and no one will be able to connect you to the answers you give. You will be given a fictitious participant number and you will be referred to in this way in the data, any publications, or other research reports. The persons transcribing and co-coding the interviews will sign a confidentiality clause to ensure that the data remain strictly confidential.

HOW WILL INFORMATION BE STORED AND ULTIMATELY DESTROYED?

Data obtained will be stored for a period of five years on a password protected computer. Information will be permanently deleted after the five-year period has expired.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

The study has received ethical approval from the Research Ethics Review Committee of the College of Accounting Sciences, UNISA. Should you need more information you may contact my supervisors Prof EM Odendaal, e-mail: odendem@unisa.ac.za, Tel: +27 12 429 4363 or Dr B Ackers, e-mail: ackerb@unisa.ac.za, Tel: +27 12 429 8993.

Kind regards

Madeleine la Grange
APPENDIX D

CONSENT TO PARTICIPATE IN THIS STUDY

I ……………………………………………………………. (Name) hereby give Madeleine la Grange consent to use the information obtained from the interview in her study as part of her Master’s degree.

- I understand that the information I provide will be treated confidential and anonymity will be maintained.

- I confirm having participated under informed consent.

- I confirm that I am aware that I may at any point during the interview cease to participate without being adversely affected.

Participant’s signature ……………………………………………………………

Date ………………………………………
APPENDIX E

ABC LIMITED – COMPANY DOCUMENTS CONSULTED


ABC Limited. 2014b. Meeting of the audit committee held on Tuesday 04 February 2014 at 10H00.

ABC Limited. 2014c. Meeting of the audit committee held on Wednesday 21 May 2014 at 11H00.

ABC Limited. 2014d. Meeting of the audit committee held on Tuesday 22 July 2014 at 09H00.

ABC Limited. 2014e. Meeting of the audit committee held on Thursday 30 October 2014 at 08H00.


ABC Limited. 2014g. Audit committee work plan: Progress report as at 23 October 2014 for the period 1 March 2014 to 28 February 2015 (financial calendar).