THE EFFECTIVENESS OF AUDIT COMMITTEES IN THE PRIVATE SECTOR

by

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I declare that the above thesis 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.

I further declare that I submitted the thesis to originality checking software and that it falls within the accepted requirements for originality.

I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.

14 April 2022

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ABSTRACT

The objective of this study was to develop a graphical and narrative framework to promote the overall effectiveness of audit committees in private sector companies in South Africa. Audit committees play an important role in promoting corporate governance principles and reducing fraud and irregularities through their monitoring and oversight function. The recent increase in corporate governance failures in South Africa suggested that audit committees may be experiencing problems in being effective. The research was motivated by several gaps in the literature, the main gap being the need to augment the requirements of the Companies Act and King IV™, to promote more effective audit committees and better corporate governance.

This study adopted a post-positivist paradigm and a qualitative approach using two focus groups comprising 29 audit committee members and stakeholders to identify determinants of audit committee effectiveness, together with a literature review. Thirty-four affinities (themes) and 365 sub-affinities were identified. These were refined into 12 themes and six meta-themes using primary data from focus groups and the literature review. Interactive Qualitative Analysis (IQA) was used to analyse data into a hierarchy of drivers, a pivot, and outcomes. This formed the basis of a unique hierarchical three-tiered graphical framework reflecting 24 interrelationships among six meta-themes. Affinities, themes and meta-themes were defined, and a general definition of an effective audit committee was formulated. In the narrative framework, meta-themes were expressed as six principles comprising 12 themes, supported by 124 guidelines.

Although an inherent limitation of the research is that findings cannot necessarily be generalised to other countries, the role of audit committees is similar across the world, and South Africa is arguably a leader in the field of corporate governance.

This study is unique because it is the first to develop two interrelated frameworks of audit committee effectiveness for the private sector using focus groups and IQA. Findings are expected to be of significance to audit committee members and stakeholders, boards, management, internal auditors, external auditors, shareholders, legislators, the Institute of Directors, Institute of Internal Auditors, and the South African Institute of Chartered Accountants, and to provide guidelines to the international community.

Key terms:

Audit committees, audit committee effectiveness, corporate governance, focus groups, Interactive Qualitative Analysis (IQA), principles and guidelines for audit committee effectiveness, companies, private sector, South Africa

OPSOMMING

Die doelwit van hierdie studie was om ’n grafiese en narratiewe raamwerk te ontwikkel om die algehele doeltreffendheid van ouditkomitees in privaatsektormaatskappye in Suid-Afrika te bevorder. Ouditkomitees speel ’n belangrike rol om beginsels van korporatiewe beheer te bevorder en bedrog en onreëlmatighede te verminder deur die monitor- en toesigfunksie wat hulle verrig. Die onlangse toename in korporatiewe-beheer-mislukkings in Suid-Afrika het gedui op moontlike doeltreffendheidprobleme onder ouditkomitees. Die navorsing is aangewakker deur verskeie gapings in die literatuur, in die besonder die nodigheid om die voorskrifte van die Maatskappyewet en King IV^{TM} uit te brei, om meer doeltreffende ouditkomitees en beter korporatiewe beheer te bevorder.

In hierdie studie is ’n post-positivistiese paradigma en ’n kwalitatiewe benadering gevolg deur twee fokusgroepe bestaande uit 29 ouditkomiteelede en belanghebbers te gebruik, tesame met ’n literatuuroorsig, om determinante van ouditkomiteedoeltreffendheid te identifiseer. Vier-en-dertig affiniteite (temas) en 365 sub-affiniteite is geïdentifiseer en dit is verfyn tot 12 temas en ses metatemas, met behulp van primêre data van fokusgroepe en die literatuuroorsig. Interaktiewe, kwalitatiewe ontleding bekend as Interactive Qualitative Analysis (IQA) is gebruik om data te ontleed in ’n hiërargie van aandrywers, ’n middelpunt, en uitkomste. Dit het die basis gevorm van ’n unieke hiërargiese drielaag-grafiese raamwerk wat 24 onderlinge verwantskappe tussen ses metatemas weerspieël. Affiniteite, temas en metatemas is omskryf, en ’n algemene definisie van ’n doeltreffende ouditkomitee is geformuleer. In die narratiewe raamwerk is metatemas uitgedruk as ses beginsels wat uit 12 temas bestaan en deur 124 riglyne ondersteun word.

Hoewel die navorsing die inherente beperking het dat bevindinge nie noodwendig na ander lande veralgemeen kan word nie, is die rol van ouditkomitees wêreldwyd soortgelyk. Suid-Afrika is stellig ’n voorloper op die gebied van korporatiewe beheer.

Hierdie studie is uniek omdat dit die eerste is om twee onderling verwante raamwerke van ouditkomiteedoeltreffendheid vir die privaat sektor te ontwikkel deur middel van fokusgroepe en IQA. Daar word verwag dat die bevindinge waardevol sal wees vir

ouditkomiteelede en belanghebbers, rade, bestuur, interne ouditeure, eksterne ouditeure, aandeelhouers, wetgewers, die Instituut van Direkteure, die Instituut van Interne Ouditeure, en die Suid-Afrikaanse Instituut van Geoktrooieerde Rekenmeesters, en dat dit riglyne aan die internasionale gemeenskap sal verskaf.

Sleutelterme:
Ouditkomitees, ouditkomiteedoeltreffendheid, korporatiewe beheer, fokusgroepe, Interactive Qualitative Analysis (IQA), beginsels en riglyne vir ouditkomiteedoeltreffendheid, maatskappye, privaat sektor, Suid-Afrika

ISIFINQO

Inhloso yalolu cwaningo bekuwukusungula uhlaka olunezithombe kanye nokulandisa ukuze kuthuthukiswe ukusebenza ngempumelelo kwamakomiti ocwaningomabhuku ezimali ezinkampanini ezizimele eNingizimu Afrika. Amakomidi ocwaningomabhuku ezezimali adlala indima ebalulekile ekukhuthazeni imigomo yokuphatha ngokubambisana kanye nokunciphisa ukukhwabanisa nokungahambi kahle ngomsebenzi wawo wokuqapha nokwengamela. Ukwenyuka kwakamuva kokwehluleka kokubusa kwebhizinisi eNingizimu Afrika kuphakamise ukuthi amakomiti abacwaningi mabhuku angase abe nezinkinga ekusebenzeni ngempumelelo. Ucwaningo lugqugquzelwe amagebe ambalwa emibhalweni, igebe elikhulu liyisidingo sokwengeza izidingo zoMthetho Wezinkampani kanye neKing IV™, ukukhuthaza amakomiti abacwaningi mabhuku ezimali asebenza ngempumelelo kanye nokubusa okungcono kwebhizinisi.

Lolu cwaningo lwamukele iparadimu enzeke ngemuva eqhamile kanye nendlela esezingeni eliphezulu lapho kwabe kusetshenziswa amaqembu amabili okugxilwe kuwo anamalungu angama-29 wamakomiti abacwaningi mabhuku bezimali kanye nababambiqhaza ukuze kuhlonzwe izinkomba zokuphumelela kwekomidi lokucwaningwa kwamabhuku ezimali, kanye nokubuyekezwa kwemibhalo. Kuhlonzwe izinhlobo ezingamashumi amathathu nane (izindikimba) kanye nezincane ezingama-365. Lokhu kucwengisiswe kahle kwaba yizindikimba eziyi-12 kanye nezindikimba zemetha eziyisithupha kusetshenziswa idatha eyinhloko evela emaqenjini okugxilwe kuwo kanye nokubuyekezwa kwezincwadi. Ukuhlaziya Okuyikwalithi Okuhlangene (UOO) kwasetshenziselwa ukuhlaziya idatha ibe isigaba sabaholi bayo, iphayivothi, kanye nemiphumela. Lokhu kwakha isisekelo sohlaka lwesithombe olunezigaba ezintathu oluhlukile olubonisa ukuhlobana okungama-24 phakathi kwezihloko zamametha ayisithupha. Ukuhambisana, izindikimba kanye nezihloko zemetha ziye zachazwa, futhi kwasungulwa nencazelo evamile yekomidi locwaningomabhuku lezimali elisebenza ngempumelelo. Ohlakeni lokulandisa, izihloko zamametha zavezwa njengezimiso eziyisithupha ezihlanganisa izingqikithi eziyi-12, ezisekelwa imihlahlandlela eyi-124.

Nakuba umkhawulo okhona wocwaningo uwukuthi okutholiwe akukwazi ukwenzeka nakwamanye amazwe, indima yamakomiti abacwaningi mabhuku bezimali iyafana emhlabeni wonke, futhi iNingizimu Afrika ngokungangabazeki ingumholi emkhakheni wokuphatha ngokubambisana.

Lolu cwaningo luhlukile ngoba lungolokuqala ukwenza izinhlaka ezimbili ezihambisanayo zokusebenza kwekomidi locwaningomabhuku ezimali lomkhakha ozimele kusetshenziswa amaqembu okugxilwe kuwo kanye ne-UOO. Okutholakele kulindeleke ukuthi kube semqoka kumalungu ekomidi lokucwaninga amabhuku ezimali kanye nababambiqhaza, amabhodi, abaphathi, abacwaningi bamabhuku bezimali bangaphakathi, abacwaningi mabhuku bezinali bangaphandle, abanikazi bamasheya, abashayamthetho, Isikhungo Sabaqondisi, Isikhungo Sabahloli Bamabhuku Ezimali Bangaphakathi, kanye neSikhungo saseNingizimu Afrika Somgcinimabhuku Oqashiwe, kanye nokuhlinzeka. imihlahlandlela emphakathini wamazwe ngamazwe.

Amagama abalulekile:
Amakomidi okucwaninga amabhuku ezimali, ukusebenza kahle kwekomiti locwaningomabhuku ezimali, ukubusa kwebhizinisi, amaqembu okugxilwe kuwo, Ukuhlaziya Okuyikwalithi Okuhlangene(UOO), imigomo nemihlahlandlela yokusebenza ngempumelelo kwekomidi lokucwaninga amabhuku ezimali, izinkampani, imboni ezimele, iNingizimu Afrika

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CA(SA)	Chartered Accountant (South Africa)
CIMA	Chartered Institute of Management Accountants
DART	Detailed Affinity Relationship Table
IFRS	International Financial Reporting Standards
IIASA	Institute of Internal Auditors South Africa
IoDSA	Institute of Directors in Southern Africa
IQA	Interactive Qualitative Analysis
IRBA	Independent Regulatory Board for Auditors
IRD	Interrelationship Diagram
IT	Information Technology
King IV™	King IV Report on Corporate Governance for South Africa, 2016
JSE	Johannesburg Stock Exchange
SAICA	South African Institute of Chartered Accountants
SID	System Influence Diagram
UNISA	University of South Africa

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

This section provides a background of the role and motivation for the introduction of audit committees to improve monitoring and oversight of financial reporting. The terms “private sector” and “effectiveness” are also explained in the context of audit committees and this study. The spate of corporate governance failures in South Africa over the last decade, despite the presence of audit committees, is thereafter discussed in relation to the topic of audit committee effectiveness.

1.1.1 Role of audit committees

While there are many descriptions of the role of an audit committee across the world, these broadly agree that an audit committee is in essence a subcommittee of the board of directors (hereinafter the board), which assists the board in matters concerned with external audit, internal audit and financial reporting matters (Spira 1998:30; Badolato, Donelson & Ege 2014:210; Samaha, Khlif & Hussainey 2015:15; Oussii, & Taktak 2018:37-38). The King IV Report on Corporate Governance for South Africa, 2016 (hereinafter King IV™), similarly states that the role of an audit committee is to provide independent oversight of the integrity of annual financial statements, external audit, internal audit and the finance function (IoDSA 2016:55). King IV™ is a report that includes a code aimed at achieving good corporate governance. It applies to companies and other organisations. The Companies Act No. 71 of 2008 (hereinafter the Companies Act) contains the legislation applicable to South African companies. Section 94(7) of the Companies Act specifies the duties of an audit committee, which broadly includes oversight of financial reporting quality, external audit quality and internal audit quality. The literature, King IV™ and the Companies Act therefore resonate with each other and provide similar descriptions of the broad roles of audit committees.

In a company, the board is the governing body that is primarily accountable for the governance of the organisation (IoDSA 2016:12), however in terms of section 72 of the Companies Act, the board delegates responsibility for monitoring and oversight of financial reporting to the audit committee. Since this is one of the most important aspects of corporate governance (Gerayli, Pitenoei & Abdollahi 2021:254), it follows that an audit committee is an important mechanism of the board in achieving good corporate governance and protecting stakeholder interests (Collier 1993a:421; Tai, Lai & Yang 2020:2-3). In the United States, the Blue Ribbon Committee Report (1999:1071) confirmed that the audit committee's position within the larger corporate governance system is the monitoring and oversight of financial reporting, and that in carrying out its task, the audit committee places reliance on management, internal auditors and external auditors. The report emphasised that a proper and well-functioning system of corporate governance exists when these three groups, the audit committee, internal auditors, and external auditors, *"form a three-legged stool that supports responsible financial disclosure and active and participatory oversight"*. Most importantly, the Blue Ribbon Report stated that the *"audit committee must be first among equals"* in the process of corporate governance because it is an extension of the board, and therefore the ultimate monitor of the process (Blue Ribbon Committee 1999:1071). Thus, the audit committee plays the most important role in corporate governance as it relates to financial monitoring and oversight. The audit committee is also central to many other relationships relating to corporate governance, including internal audit, external audit, management and the board (Mihret & Admassu 2011:67). It therefore follows that audit committees can play a significant role in reducing incidents of fraud and financial misrepresentation. Or simply, as Rupley, Almer and Philbrick (2011:138) state, *"effective audit committees provide numerous public benefits including better financial reporting and reduced corporate fraud"*.

1.1.2 Motivation for audit committees

The connection between audit committees and corporate governance failures can be traced back to the original motivation for audit committees. Audit committees were originally a voluntary board subcommittee, but later evolved to become a statutory committee. This was driven mainly by incidents of fraud and financial misrepresentation that raised concerns about the credibility of financial reporting (Spira 1998:30). In the United Kingdom, the dominant motivation for establishing audit committees was to achieve good corporate governance, specifically with regard to financial reporting, due to the number of corporate governance failures (Collier 1993b:29; Spira 1998:29). Using a survey, Collier (1993b:26) identified other motivations for an audit committee. These included assisting the board in discharging its statutory responsibilities relating to financial reporting, increasing the confidence of investment analysts and other stakeholders in the objectivity and credibility of financial statements, and assisting management in preventing fraud, irregularities and errors. Spira (1998:31) therefore asserted that one of the roles of the audit committee was explicitly to prevent fraud, irregularities and errors and increase the credibility of financial reporting.

Similarly, in the United States, the Treadway Report of 1987 emphasised that the primary role of an audit committee was to prevent fraudulent financial reporting and reduce illegal activity (Spira 1998:31). These echo the findings of a New Zealand study by Bradbury (1990:21), who found that the motivation for an audit committee was to increase the credibility of annual audited financial statements, assist the board in meeting its responsibilities over financial matters, and enhance auditor independence. Thus, audit committees were historically established in various countries to serve as a monitoring and oversight mechanism to enhance financial reporting quality, external audit quality and internal audit quality, and to reduce incidents of corporate failure (Bradbury 1990:21; Collier 1993a:421; Spira 1998:31). Turley and Zaman (2004:323) assert that in an environment of major corporate scandals, an investigation into audit committee effectiveness is warranted.

1.1.3 Private sector

In South Africa, section 94(2) of the Companies Act provides that all listed companies must have an audit committee. King IV™ advises that it is best practice for any organisation that issues audited financial statements to establish an audit committee (IoDSA 2016:55). This implies that all companies that issue audited financial statements should have an audit committee. This study therefore focusses on both listed and unlisted companies, as it is expected that principles of audit committee effectiveness will benefit both. This also follows the approach of "universal applicability" described in King IV™, which states that principles of good governance are equally valuable to all organisations (IoDSA 2016:6). Further, most listed companies have subsidiaries that are unlisted companies, and principles that apply to holding companies are generally applied across subsidiaries. In this study, the term "private sector" companies therefore refer to both listed and unlisted companies.

1.1.4 Audit committee effectiveness

Despite the strong motivation for an audit committee, Spira (1998:29) explained that the *"establishment of an audit committee does not guarantee its effectiveness"* as the committee may be passive, ineffective and superficial. In 2009 in South Africa, Marx (2009a:13-16) stated that audit committees experience significant challenges, threats and limitations, including increased exposure to a variety of ever-increasing new risks, and a scarcity of competent audit committee members. Since 2009, there has been an even greater increase in corporate governance failures in South Africa, suggesting that audit committees may be experiencing problems in meeting their obligations to provide adequate monitoring and oversight of financial reporting. In other words, audit committees may be facing challenges in being "effective" and not fulfilling their role and purpose.

According to the Oxford English Dictionary, the definition of the word "effective" is *"producing an intended result"* (Dictionary 2002:261). The word "effectiveness" in the context of audit committees therefore means the degree to which audit committees are successful in producing an intended result. This intended result can be viewed as fulfilling the duties that the audit committee is contracted to perform, or simply fulfilling its monitoring and oversight responsibilities. These duties are generally stated in the audit committee charter, the Companies Act and King IV™.

The literature also offers a few definitions of audit committee effectiveness. Kalbers and Fogarty (1993:27) defined audit committee effectiveness as *"the competency with which* *the audit committee carries out its specified oversight responsibilities"*. This definition focussed on the competency of the audit committee and is similar to the dictionary meaning. A decade later, DeZoort, Hermanson, Archambeault and Reed (2002:38) defined an effective audit committee as one that has *"qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent efforts"*. This definition went a step further and identified specific responsibilities of the audit committee (reliable financial reporting, internal controls, and risk management). It also introduces the idea of protecting stakeholders from losses such as those arising out of corporate governance failures. Examples of losses include declining share prices, loss of credit lines and loss of jobs for employees. This definition was based on a review of quantitative studies. None of these definitions are current, and this study therefore later offers a definition based on the qualitative findings of this study.

DeZoort et al (2002:40) explained that audit committee effectiveness increased in importance because of the successive waves of financial irregularities, prompting stakeholders to turn their attention to how audit committees can be more effective. The next section describes the recent waves of corporate governance scandals in South Africa, and motivates this study on audit committee effectiveness.

1.1.5 Recent corporate governance failures in South Africa

In recent decades, both anecdotal evidence and the literature reflect numerous corporate governance scandals in the private sector both internationally and in South Africa (Maroun 2015:19). As far back as the early 2000s, scandals at prominent companies such as Enron, Worldcom, Tyco, Parmalat, Lehman Brothers and HealthSouth lead to plummeting share prices and a decline in investor confidence, which brought the role and effectiveness of audit committees under the spotlight (Turley & Zaman 2007:765-766; Agrawal & Cooper 2015:169; Ghafran & Sullivan 2017:578-579; Cole, Johan & Schweizer 2021:1-2). In South Africa, the last decade has seen an alarming increase in corporate governance scandals that damaged local and international investor confidence, the economy and the country as a whole. The biggest corporate governance failure in the history of South Africa was the near-collapse of Steinhoff International Holdings N.V. (hereinafter Steinhoff) in December 2017 (Rossouw & Styan 2019:164). Steinhoff inflated its profits and assets by approximately R250 billion, which affected the jobs of almost 130 000 employees across the world (Lungisa 2017:1; Business Insider SA 2020:1). Although Steinhoff is listed on the Johannesburg Stock Exchange (JSE), it has subsidiaries across the world, resulting in implications for both local and international stakeholders. Rossouw and Styan (2019:164) explained that Steinhoff was among the top 10 largest companies listed on the JSE in terms of its market capitalisation prior to its demise, with a share price that *"peaked at R96.85 on 31 March 2016, when Steinhoff – with a market capitalisation of around R300 billion".* The share price as at 25 February 2022 was trading at R3.78 (Moneyweb 2022:1), reflecting a loss of about 96.1 percent. Rossouw and Styan (2019:164) elaborated that most pension and provident funds were invested in Steinhoff because it was one of the tenth largest companies, therefore innocent employees invested in these retirement funds were arguably the biggest victims. Lungisa (2017:1) estimated that 1.2 million government employees invested in the Government Employees Pension Fund alone, lost R12 billion since the plunge in share price. Rossouw and Styan (2019:164) reasoned that the financial fraud and misstatements had remained undetected for a long period as the annual financial statements for 2015 and 2016 had to be restated because these could not be relied upon.

Shortly before the Steinhoff incident, another large South African listed company, Naspers Limited, was accused of corrupt dealings with Multichoice Group Limited (Lungisa 2017:1). An even more recent corporate governance scandal involved South Africa's largest sugar producer, Tongaat Hulett Limited, which admitted that its financial results were overstated by between R3.5 billion and R4.5 billion for the 2018 financial year (Business Insider SA 2020:1). Naidoo (2020:1) explained that these accounting irregularities were so severe that it resulted in the share price falling by approximately 75 percent and in the shares being suspended from trading on the JSE for almost eight months, between 10 June 2019 and 3 February 2020.

Other instances of corporate governance failures included Gupta family owned companies, including Oakbay Investments (Pty) Limited, Sahara Computers (Pty) Limited and Tegata Exploration and Resources (Pty) Limited (Business Insider SA 2020:1). The Gupta family were accused of having an influence over high ranking government officials, including Ministers and the President of the South Africa at the time, Jacob Zuma (Wessels 2017). Business Insider SA (2020:1) identified other significant failures in corporate governance including SAP South Africa (Pty) Limited (a software giant), Sharemax Investments (Pty) Limited (an investment company), EOH Holdings Limited (one of the largest information technology service providers in Africa), Gold Fields Limited, Sasol Limited, and numerous construction companies. They explained that each incident involved substantial sums of money. For example, SAP South Africa (Pty) Limited admitted in 2018 that it paid R128.6 million to obtain contracts with Eskom and Transnet. EOH Holdings Limited was involved with transactions totalling approximately R1.2 billion that lead to large write-offs due to fraud. Fifteen construction companies (including WBHO Limited, Aveng Limited, Murray & Roberts Holdings Limited, Group 5 Limited, Basil Read Holdings Limited, Raubex Group Limited and Stefanutti Stocks Holdings Limited) were found guilty of collusive tendering relating to the construction of World Cup soccer stadiums in 2011, and agreed to pay fines totalling R1.4 billion (Business Insider SA 2020:1).

Even banks that are generally known to be highly regulated, were not immune to corporate governance scandals. VBS Mutual Bank was declared insolvent, bankrupt, and placed under curatorship in 2018 after being defrauded of approximately R2 billion (de Wet 2018:1; Business Insider 2020:1). African Bank Limited was also placed under curatorship, resulting in considerable losses to investors. The Myburgh Report (2016:112-136) provided important findings relating to African Bank. It identified that there were many warning signs that ought to have raised red flags to the audit committee and the board. For example, the provision for doubtful debts was understated by between R150 million and R250 million and there was continued reckless funding of a subsidiary (Ellerine Furnishers) with unsecured loans of R1.4 billion. It also found that a person with inadequate qualifications was employed as the chief risk officer for a period of ten years between 2004 and 2014 (Myburgh Report 2016:376).

KPMG South Africa, one of the “Big Four” audit firms, was also implicated by revelations about its association with Gupta owned companies between 2002 and 2016, and its role as auditors of VBS Mutual Bank (Business Insider SA 2020:1). KPMG’s interim chair of the auditor’s policy board at the time, Gary Pickering, conceded that despite red flags, KPMG South Africa did not address these with enough vigour and that auditors who worked on the Gupta owned entities lacked professional scepticism while engaged in their work (Peyper 2017:1). Following these revelations, a host of listed companies and other organizations terminated their relationship with KPMG South Africa (Wessels 2017:1). The KPMG South Africa debacle is further evidence of the decay in the ethical fabric of corporate governance in South Africa.

These numerous incidents of corporate governance failures in the private sector involving large sums of money that remained undetected for a long period of time, caused significant losses to various stakeholders and damage to investor confidence and the country in general. When considering the original role and motivation for audit committees, this suggests that audit committees may not be as effective as originally envisaged.

1.2 MOTIVATION AND GAPS IN THE LITERATURE

This section presents the gaps identified in the literature and the motivation for this study, specifically in South Africa.

1.2.1 Motivation and gaps

There are several gaps in the literature that motivate this study. The first gap is that neither the Companies Act nor King IV™ presents a framework for audit committee effectiveness, as the focus of these is mainly on the legal constitution and duties of audit committees. Ghafran and Sullivan (2013:381) found significant evidence that best practice and regulations on audit committee effectiveness do in fact positively influence it. This finding suggests that a framework is likely to have a positive influence on audit committee effectiveness and benefit various stakeholders. Further support for this study came from the findings of the Myburgh Report (2016) regarding the African Bank debacle, which suggested that certain matters should have raised red flags to the audit committee. This suggested that the audit committee was not as effective as is should have been. Given the recent increases in corporate governance failures in South Africa, a framework appeared to be timely.

A second gap identified was the general paucity of qualitative studies on audit committee effectiveness, as most studies were quantitative in nature (Bédard & Gendron 2010:174-175). Inherent limitations of quantitative studies include the inability to obtain a deeper understanding of determinants of audit committee effectiveness and the use of certain proxies that are crude indicators (DeZoort et al 2002:43; Turley & Zaman 2004:326; Bédard & Gendron 2010:196). Findings from quantitative studies are also sometimes conflicting and inconclusive (for example Klein 2002; Xie, Davidson & DaDalt 2003; Vafeas 2005; Lin, Li & Yang 2006). Another inherent shortcoming of quantitative studies is that they do not allow the researcher to probe into the determinants of audit committee effectiveness because there is no interaction with audit committee stakeholders to understand themes that influence audit committee effectiveness. Thus, the focus is from an “outsider-perspective” rather than an “insider-perspective”. It was expected that the complexities, richness and diversity of factors influencing audit committee effectiveness would best be captured and understood within a qualitative research framework. Bédard and Gendron (2010:175) identified that research was also needed to extend boundaries methodologically and geographically. Thus, within qualitative studies, there is also a need to explore the use of different methods to collect and analyse data.

A third gap identified was the unexplored overlap and interrelationships among determinants of audit committee effectiveness, which was expected to provide a deeper understanding of audit committee effectiveness (DeZoort et al 2002:43; Turley & Zaman 2004:307; Bédard & Gendron 2010:175). DeZoort et al (2002:43) explained that quantitative studies may identify certain determinants, but cannot explore interrelationships among determinants.

A fourth gap was the need for studies on audit committees in international settings other than the United States since most studies used United States data (DeZoort et al 2002:68;

Bédard & Gendron 2010:175; Lin & Hwang 2010:71). Linked to this, a fifth gap was the need for studies among different cultures, economies, education, training and legislation, other than the United States (DeZoort et al 2002:68; Bédard & Gendron 2010:196).

Finally, a sixth gap was the general paucity of literature on South African audit committees. Most prior studies generally examined the compliance of audit committees with governance codes (such as the King II and King III reports) and are not current as they predate King IV™, which was released in November 2016. For example, studies examined the role of audit committees in supporting external audit, strengthening business ethics, relationships with internal audit and views of chief financial officers and audit committee chairs on audit committees (e.g. Marx 2009a:13; Marx 2009b:32; Marx & Els 2009:5; Marx & Lubbe 2010:86). This suggested the need for a more current study, since the roles and duties of audit committees are constantly evolving, and the "modern" audit committee has greater responsibilities and work than in the past that present new challenges (Marx 2009b:32). Further, the complexity of interpreting and applying accounting standards also increased with International Financial Reporting Standards (IFRS). More recently, audit committees were also tasked with oversight of integrated reporting as required by King IV™ (Solomon & Maroun 2012:6; de Villiers, Rinaldi, Unerman 2014:1042; McNally, Cerbone & Maroun 2017:483). Therefore, these several gaps in the literature motivated the present study.

1.2.2 Motivation for a study in South Africa

Apart from the gap identified for a study in South Africa, this country also presented a fertile ground for a study on audit committee effectiveness for several reasons. South Africa is generally regarded as a developing economy, yet it exhibits characteristics of a developed economy in the sense that it has a well-established financial reporting environment (Maroun 2017:333) and sophisticated non-financial reporting guidelines that are regarded as better than those in some developed and leading economies (McNally et al 2017:483). The unique social, economic and political changes in South Africa between 1990 and 1994 leading to democracy, may have motivated the need for the King Reports on Corporate Governance and its focus on corporate governance to address the various challenges facing the country at the time (Solomon & Maroun 2012:6; de Villiers et al 2014:1047). South Africa has therefore been widely recognised as a pioneer and leader in corporate governance since the first King report in 1994 (Solomon & Maroun 2012:6). For example, South Africa was the first country to require integrated reports of listed companies through compliance of the King III Report on Corporate Governance (2009) (Solomon & Maroun 2012:6; de Villiers et al 2014:1042; McNally et al 2017:483).

Despite South Africa being a leader in corporate governance, corporate governance failures not only persist, but have increased over the recent decade. This makes South Africa an especially suitable setting for a study on audit committee effectiveness, as it warrants a deeper investigation into how effectiveness may be enhanced over and above the presence of a good governance code and legislation. Audit committee members in South Africa may also differ in terms of their background, skills, resources, diligence, education, training and various other factors.

1.3 RESEARCH PROBLEM AND OBJECTIVES

Section 94 of the Companies Act and King IV™ broadly provide for the constitution and responsibilities of audit committees in South Africa, however neither directly address audit committee effectiveness, nor provide a framework for audit committee effectiveness. It is therefore anticipated that a framework that addresses how audit committees in the private sector can be more effective, will benefit audit committee stakeholders and other stakeholders.

1.3.1 Research problem

Taking these gaps in the literature into account, the research problem is as follows:

> *The presence of numerous incidents of corporate governance failures suggest that the existing company legislation and code of corporate governance may not guarantee effective audit committees, and there is a need for principles and guidelines that can specifically contribute to more effective audit committees, informed by a range of stakeholder views*.

1.3.2 Research objectives

Based on the lack of a comprehensive framework for audit committee effectiveness for private sector companies in South Africa, the primary research objective of this study is as follows:

> *To develop a graphical and narrative framework that aims to promote the overall effectiveness of audit committees in private sector companies in South Africa.*

In order to achieve the primary research objective, this study will address four secondary objectives, which will be achieved through research phases as set out in Table 1.1.

Table 1.1: Secondary research objectives and research phase

	Secondary research objectives	**Research phase**
(i)	To identify affinities that influence audit committee effectiveness in private sector companies in South Africa, as perceived by audit committee professionals, based on their experience.	Phase 1: To conduct two focus group discussions to identify affinities associated with the effectiveness of audit committees. The focus groups will be asked a single question, and to "brainstorm" this to develop affinities. The question is, "*What are the 'things' that may influence the effectiveness of audit committees in the private sector?* The two focus groups will be constituted as follows: • Focus group 1: audit committee members • Focus group 2: audit committee stakeholders
(ii)	To analyse and classify affinities into a hierarchy of drivers, outcomes and pivots, and further refine affinities into themes that represent similar concepts.	Phase 2: To use Interactive Qualitative Analysis (IQA) to analyse and classify affinities into a hierarchy of drivers, outcomes and pivots. Affinities that represent similar concepts will be refined and grouped into preliminary themes and then final themes.
(iii)	To further investigate the themes identified by a literature study and to refine the themes into meta-themes.	Phase 3: To use themes identified in phase 2 to direct a literature study. This will inform the development of a framework.
(iv)	To conceptualise a framework to promote audit committee effectiveness	Phase 4: To triangulate primary data from focus groups (Phase 2) and secondary data from the literature review (Phase 3) to develop a graphical and narrative framework.

Source: Own design

1.4 CONTRIBUTIONS OF THE STUDY

The contributions of this study are briefly discussed.

1.4.1 Main research findings in each phase

The outcomes of each of the four phases of this study were as follows. Twelve themes were identified and defined. This extends the literature by providing clarity and avoids any misinterpretation. This is especially important because of the complexity and overlap among themes, and also since different studies may assign different interpretations. The themes were grouped into six meta-themes and expressed as six principles of audit committee effectiveness.

1.4.2 Graphical and narrative frameworks

The graphical and narrative frameworks are the main contribution of this study and directly address the gap in the literature relating to a framework for audit committee effectiveness in the private sector. The frameworks also indirectly address the need for a qualitative study, providing a deeper understanding of determinants of audit committee effectiveness, and the need for studies in a different country and context, based on the limited literature on the topic in South Africa.

The six principles (meta-themes) of audit committee effectiveness were presented in the narrative framework, comprising 12 themes, supported by 124 comprehensive guidelines. The graphical framework presents the six meta-themes or determinants of audit committee effectiveness in a unique three-tiered model, which reflects 24 interrelationships among the six determinants. It therefore provides a deeper understanding of interrelationships among determinants. These two frameworks are also interrelated and support each other since both are based on the same set of data.

This study not only responds to a call for more qualitative studies, but there do not appear to be any qualitative studies that identify determinants of audit committee effectiveness in the private sector using focus groups and IQA that culminate in a graphical and narrative framework. The unique contribution of these frameworks is that it suggests a logical and hierarchical order based on IQA for addressing audit committee effectiveness. This does not appear in the extant literature and is likely to be of practical benefit to stakeholders seeking direction on how to enhance audit committee effectiveness, especially when faced with limited resources. The frameworks augment the requirements of the Companies Act and King IV™ and extend the literature.

1.5 RESEARCH DESIGN

The most appropriate research design for this study took into consideration the research process that would answer the research question most effectively. To determine what makes audit committees effective, it was decided that the best approach would be to ask those most closely associated with audit committees to obtain the strongest evidence. Therefore, two focus groups consisting of audit committee members (focus group 1) and audit committee stakeholders (focus group 2) were constituted to obtain their perceptions of what determines audit committee effectiveness. Audit committee stakeholders included chief executive officers, chief financial officers, senior financial managers, chief audit executives, internal auditors, external auditors, academics and members of regulatory and professional bodies. This represented a wide cross-section of stakeholders from various organisations across varying hierarchical levels to ensure a variety of viewpoints. It was expected that this would result in different interpretations and culminate in a richer, more holistic view of audit committee effectiveness. Each focus group also had a different level of power over audit committees, and distance from audit committees. Further, the audit committee members (focus group 1) supply a service to the audit committee stakeholders (focus group 2). Therefore, focus group participants had different perspectives on the phenomenon (audit committee effectiveness) being investigated and were expected to respond to different facets of the phenomenon.

The interpretivist paradigm was considered most appropriate because the “inner workings” of an audit committee and determinants of audit committee effectiveness are best understood through the interpretation of interactions among various stakeholders associated with audit committees in a social context. The multiple participant meanings that emanate from using focus groups was expected to provide richer data regarding challenges faced by audit committees and how these can be overcome to enhance audit committee effectiveness. A qualitative research methodology was selected because the approach was to explore and understand the meaning that audit committee professionals attribute to the problem of audit committee effectiveness (Creswell 2014:1-5). This process involved inductively building ideas identified by focus groups into themes, and interpreting the meaning of themes in the literature. Thus, the qualitative research methodology was selected.

The IQA process used to analyse the data is inherently iterative in nature as the discussions of both focus groups sometimes overlap, and also overlap with the literature. The literature review both validated and expanded on the focus group findings, but also informed the refinement of affinities and sub-affinities into meaningful themes.

1.6 THEORETICAL FRAMEWORK

Hofstee (2006: 92) defines a theory as a "… logical explanation for why something is as it is or does as it does". He further explains that a theory is the best explanation available for a particular problem. A theoretical framework is therefore used to underpin a study and best explain why a research problem exists. It provides a foundation to understand the problem or phenomenon being studied. In this study, evidence of corporate governance failures and the literature suggested that audit committees are experiencing problems in being effective. The phenomenon being studied is therefore audit committee effectiveness.

After consulting the literature and considering various theoretical frameworks, it was decided that the most appropriate theoretical framework for this study was the agency theory. Agency theory is one of the most widely used theoretical frameworks that explains how audit committees act as a mechanism of corporate governance to monitor and oversee financial reporting quality, thus mitigating the agency problem and information asymmetry (see for example: Donnelly & Mulcahy 2008:416-417; Bédard & Gendron 2010:180; Haji 2015:762; Raimo, Vitollo, Marrone & Rubino 2021:524). In a Chinese study, where audit committees are still optional, Cai, Hillier, Tian and Wu (2015:225) found that audit committees reduced agency conflicts in ownership structures by complementing existing governance structures and acting as a substitute for an inefficient regulatory environment. This lends support to the view that audit committees reduce agency costs by providing a monitoring and oversight function.

The 1976 paper by Jensen and Meckling was key in the development of agency theory (Deegan 2003:265). Jensen and Meckling (1976:308) defined an agency relationship as:

> *"…a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent".*

Jensen and Meckling (1976:308) explained that an assumption of this theory is that all individuals are driven to act out of self-interest by a desire to maximize their personal wealth. They explained that this creates an agency problem since the agent does not always act in the best interests of the principal. This results in a conflict of interest. Adding to this problem, there is information asymmetry since management (the agent) has more information about the financial affairs of the company in comparison to the shareholders (the principal), and may deliberately hide certain information from shareholders. To reduce information asymmetry and limit the possibilities of management (agent) deviating from the mandate of the shareholders (principal), the principal can implement monitoring mechanisms (Jensen & Meckling 1976:308; Donnelly & Mulcahy 2008:416-417; Bédard & Gendron 2010:180). One such mechanism is the audit committee, which is established to monitor and oversee corporate governance as it relates to financial reporting quality and other financial matters (Lin & Hwang 2010:59; Raimo et al 2021:524).

To elaborate on how agency theory underpins this study, the following context is provided. Companies raise capital by selling shares to shareholders, who become fractional owners. They delegate the running of the company and day-to-day affairs to management (the agent). This results in a separation between ownership and control of the company. This leads to the agency problem because the goals of the shareholders and management may conflict, resulting in management making decisions that may in fact be detrimental to the shareholder, including acts of fraud and other irregular acts (Donnelly & Mulcahy 2008:416). Shareholders incur losses in various ways, including liquidation of companies and devaluation of shareholders' investments through declining share prices. In order to mitigate this risk, a system of corporate governance is necessary through which there is monitoring and oversight of management through audit committees to encourage alignment of interests between management and shareholders and reduce information asymmetry (Lin & Hwang 2010:59). Lin and Hwang (2010:59) explained that good corporate governance requires a structure that helps to ensure that management act in the best interest of shareholders and provide fair and accurate financial reporting. They continue that although the board bears overall responsibility for good governance, the board delegates the monitoring and oversight of financial reporting quality to the audit committee. The audit committee is therefore the corporate governance mechanism that the shareholder uses to deter management from engaging in financial misconduct. The audit committee therefore addresses the agency problem through the monitoring and oversight of the financial reporting process to encourage reporting that is unbiased, accurate and timeous to reduce information asymmetry between management and shareholders (Klein 1998:279; Rainsbury, Bradbury & Cahan 2008:394).

Thus, agency theory explains why audit committees were established to mitigate the agency problem. The aim of audit committees is to perform a monitoring and oversight function to encourage high standards of financial reporting quality, external audits and internal audits. It follows that an effective audit committee is more likely to achieve these aims. This study therefore adopts the theoretical perspective of agency theory, and takes the view that a framework for audit committee effectiveness will act as a form of intervention to address the agency problem. The principles and guidelines contained in a framework could help audit committees to improve their monitoring and oversight function and improve their overall effectiveness.

1.7 ETHICAL CLEARANCE

An application for ethical clearance for using primary data gathered from focus groups was lodged with the Research Ethics Review Committee (RERC) of the College of

Accounting Sciences (CAS), University of South Africa (UNISA), in July 2017. Written approval was granted in an ethics approval letter dated 2nd August 2017 and bears the ERC reference number 2017_CAS_032 (refer to Annexure A). Measures were taken to inform participants, protect them from harm, ensure confidentiality and anonymity (or their consent to waive this) and protect the data. This is discussed in chapter 2. Focus group participants gave consent to their names being disclosed as participants in this study as acknowledgement for their valuable contributions (refer to Annexure B).

1.8 SCOPE AND LIMITATIONS

This study uses South African data gathered through focus groups. Although this presents some contextual limitations, it is expected that research findings may be of interest to an international audience because audit committees have similar roles and objectives across the world, and principles of audit committee effectiveness therefore reflect similarities.

1.9 STRUCTURE AND LAYOUT OF CHAPTERS

The chapter layout is largely based on the chronological sequence of events in this study. Chapter 3 precedes the literature review (chapter 4) because the focus groups identified themes that directed the literature review, and which constitute the major focus of the literature review. Invariably, part of the literature review was conducted before and concurrently with the focus groups, hence there was overlap between these phases of the study. The chapter layout is as follows.

Chapter 1: Introduction - This chapter provides a background, establishes the motivation for the study, addresses gaps in the literature, sets out the research problem and objectives, identifies the contribution made by the study, explains the research design, and discusses theoretical framework that underpins the research.

Chapter 2: Research methodology -This chapter describes the research orientation and design used to address the research objectives.

Chapter 3: Data analysis and research findings of focus groups - This chapter presents the raw data from focus groups, analysed into a hierarchy of affinities using IQA, and further refined into themes, culminating in a preliminary graphical framework for audit committee effectiveness.

Chapter 4: Literature review - This chapter presents the literature review of audit committee effectiveness and the themes identified in chapter 3.

Chapter 5: Conceptual framework for audit committee effectiveness - This chapter analyses themes into meta-themes, discusses interrelationships among meta-themes and presents the final graphical and narrative frameworks.

Chapter 6: Conclusion - This chapter presents the conclusion and summarises the research findings, explains the contribution and limitations of the study, and outlines future research opportunities.

CHAPTER 2

RESEARCH METHODOLOGY

2.1 INTRODUCTION

Chapter 1 presented the context of this study. Despite legislation (the Companies Act) and a code of governance (King IV™), the recent increase in financial governance failures in the private sector in South Africa suggest that there is a problem with the effectiveness of audit committees that should be addressed. To address this problem, this study seeks to understand the determinants of audit committee effectiveness and to develop a framework for audit committee effectiveness. In order to achieve the primary objective of this study, the secondary research objectives require affinities to be identified that influence audit committee effectiveness; classifying these affinities into a hierarchy; refining affinities into broader themes; and studying these themes in the literature. The purpose of this chapter is to present the research process followed to achieve these research objectives.

This chapter includes a description of the research orientation, research design, focus groups, system relationships, roles of the parties involved in the research, the qualitative rigour achieved and ethical considerations. The selection of focus group participants, data collection, methods of data analysis and data interpretation are also presented. This study largely follows the Interactive Qualitative Analysis (IQA) method described by Northcutt and McCoy (2004) in their work of the same title.

2.2 RESEARCH ORIENTATION

Stack (2019:21) provides definitions of key research terms that are used in this section. These are set out in Table 2.1 to support the discussion that follows.

Table 2.1: Definitions of key research terms

Term	Definition
Paradigm	A paradigm is a basic belief system based on ontological, epistemological and methodological assumptions.
Ontology	Ontology relates to a "world view" and, specifically, the answer to the question: what is the form and nature of reality?
Epistemology	Epistemology is the theory of knowledge, providing the answer to the question: what is the relationship between the knower (the researcher) and what can be known?
Methodology	Methodology relates to the question: how can the researcher go about finding out whatever he or she believes can be known?

Source: Own design, based on Stack (2019)

2.2.1 Research paradigm

Stack (2019:21) explained that a paradigm is a basic belief system based on the ontological, epistemological and methodological assumptions and the research design is related to this orientation or worldview. Since different people see the world through different lenses and create different meanings, ontology refers to the multiple realities that can be constructed and interpreted, depending on the nature of the research. This informed the ontological question (what is reality?) and the epistemological question (what is the nature of knowledge?) to guide the planning of this study. In the context of this study, the ontological question was: *"What is the nature of the reality concerning audit committee effectiveness?"*, or more specifically, *"Audit committee effectiveness is a socially constructed reality based on shared cultural and social practices and a shared belief system, giving rise to multiple realities"*. The epistemological question was *"What is the nature of the relationship between the researcher and what can be known about audit committee effectiveness?"* More specifically, "*Although the researcher will strive for objectivity and detachment, it is recognised that this may not be wholly achievable".*

To address these questions, the most direct approach appeared to be one that would yield the best evidence, namely, to obtain the views (*multiple realities*) of the two groups of people who are most intimately associated with audit committees. These groups are the audit committee members and audit committee stakeholders (hereinafter audit committee professionals refer to both these groups).

The objective was to obtain the *multiple realities* (ontology) of the most important stakeholders that best understand the phenomenon of audit committee effectiveness. It was decided that IQA focus groups would be the best approach to obtain these *multiple realities (views)*. Bryman and Bell (2014:17) advise that these *multiple realitie*s are constantly changing and subjective. This further encouraged a study to obtain *current views* from audit committee professionals because of the rapid pace of ongoing changes in the accounting and governance legislation, which further add to the challenge of audit committee effectiveness (Beattie, Fearnley & Hines 2014:316). The *reality* underlying audit committee effectiveness is constructed from two sources, namely (1) multiple participant meanings obtained from the focus group discussions, and (2) from the extant literature.

Bryman and Bell (2014:12) identified three epistemological positions, namely, “positivism, realism and interpretivism”. This study was situated within the interpretive paradigm as it seeks to understand, explained and compare (Babbie & Mouton 2009). Saunders, Lewis and Thornhill (2009:116) explained that interpretivism advocates that it is necessary to understand humans in their roles as social actors. They explained that as actors *interpret* a role and accordingly play that role in a theatre production, humans similarly interpret their everyday roles (as audit committee members), and act in accordance with their interpretation of this role. In the context of this study, the researcher wanted to understand the phenomenon (audit committee effectiveness) as interpreted by audit committee members and stakeholders, and to construct meaning from their interpretation of what affinities influence audit committee effectiveness.

Constructivism views social phenomena as being developed or constructed by the perceptions of social actors (Bryman & Bell 2014:16). This study adopted a constructivist ontological position as it viewed the phenomenon of audit committee effectiveness as being continuously constructed (developed) by the contributions of the various stakeholders, mainly audit committee members and audit committee stakeholders.

A qualitative research methodology is appropriate when the principal orientation to the role of theory is inductive, the epistemological orientation is interpretivist and the ontological orientation is constructivist (Bryman & Bell 2014:31). An inductive approach places emphasis on generating theories instead of proving theories (Bryman & Bell 2014:31). In this study, the IQA method uses focus groups to inductively identify, develop and cluster affinities (themes), hence it follows an inductive approach. Creswell (2014:1-5) described qualitative research as an approach for exploring and understanding the meaning that individuals or groups ascribe to a social or human problem. The process involves data analysis, inductively building from particular to general themes, and interpreting the meaning of the data. This form of inquiry follows an inductive style and focusses on individual meaning. Thus, the qualitative research methodology was selected with reference to the underlying ontological and epistemological orientations of the research. The literature revealed that many prior studies that investigate audit committee effectiveness follow a quantitative research methodology. These studies used proxies to operationalise audit committee effectiveness (dependent variable) and determinants of audit committee effectiveness (independent variables). This study seeks to differentiate from other studies by obtaining an “insider view”, which allows deeper insight into the determinants of audit committee effectiveness. This approach requires a qualitative research methodology because it seeks to understand how audit committees can be more effective by obtaining the views of audit committee professionals in the setting of a focus group. The affinities generated by focus groups were used to develop themes that were further explored in the literature. This approach was expected to yield deeper insights than a quantitative study.

2.2.2 Purpose of the research

Saunders et al (2009:139-141) explained that the three most common research study objectives are exploratory, descriptive and explanatory. This study is mainly exploratory in nature, but also has an explanatory component. Saunders et al (2009:139) explained further that exploratory research is a valuable means to find out (explore) what is currently happening, to seek new insights, to ask questions and assess a phenomenon in a new light. They continue that exploratory research is useful to clarify the understanding of a problem and that there are generally three principal ways to conduct exploratory research, namely, through (1) a search of the literature, (2) interviewing "experts" in the subject; and (3) conducting focus group discussions. This study is exploratory in nature because it seeks to explore the views of audit committee members and stakeholders about what constitutes audit committee effectiveness.

Saunders et al (2009:140) classify focus group discussions as a form of interview. They emphasise that exploratory research is flexible and can change as new data appears along with new insights. They elaborated that themes may first be broad and scattered but develop and become more focussed as the research journey progresses. Thus, the initially broad focus becomes progressively narrower. This is consistent with the experience during this study. Although IQA focus groups follow a protocol, there is room for variation in this protocol based on what is the best approach to answer the research question (Northcutt & McCoy 2004). The IQA method identified affinities, which were broad and sometimes scattered. These were further grouped and narrowed into themes, which were then explored in the literature and refined into meta-themes.

The research is also explanatory as causal relationships were identified. After affinities were identified, the IQA method classified these into five categories, namely primary drivers, secondary drivers, pivots, primary outcomes and secondary outcomes. The reasoning is that the affinities that are drivers, influence or cause a change in affinities that are outcomes. The broad research design for this study is summarised in Table 2.2.

Table 2.2: Overview of research design

Paradigmatic perspective		
Phenomenon		Audit committee effectiveness
Ontological orientation	Constructivist	To obtain *multiple views (realities)* of the phenomenon (audit committee effectiveness) from the stakeholders that best understand this phenomenon, namely audit committee members and audit committee stakeholders.
Epistemological orientation	Interpretivist	To construct the *theory of knowledge* underlying audit committee effectiveness from multiple participant meanings obtained from focus group discussions and from the extant literature.
Research methodology	Qualitative	To use IQA focus groups to inductively develop and cluster affinities into themes, and to explore and understand the meaning that audit committee members and stakeholders ascribe to the problems associated with audit committee effectiveness.
Research design and method		
Data collection and analyses	Phase 1: IQA focus groups	To conduct two focus group discussions inductively and deductively to identify affinities associated with the effectiveness of audit committees.
	Phase 2: Classification and refining into themes	To use IQA to analyse and classify affinities into a hierarchy of drivers, outcomes and pivots. Affinities that represent similar concepts will be refined and grouped into preliminary themes and then final themes.
	Phase 3: Literature review	To use themes identified in phase 2 to direct a literature study. This will inform the development of a framework.
	Phase 4: Framework development	To triangulate primary data from focus groups (Phase 2) and secondary data from the literature review (Phase 3) to develop a graphical and narrative framework.
Outcome		
A graphical and narrative framework for audit committee effectiveness for private sector companies in South Africa.		
Expected Contributions		
• To use focus groups to obtain an "insider" perspective of audit committee effectiveness and identify determinants and other findings that may be valuable to stakeholders interested in audit committee effectiveness • To use IQA to analyse focus group data into a hierarchy, which is expected to yield new insights into determinants of audit committee effectiveness • To develop principles and guidelines of audit committee effectiveness and develop a narrative and graphical framework for audit committee effectiveness for private sector companies in South Africa, based on the hierarchy and interrelationships identified using IQA principles		

Source: Own design

2.2.3 Research strategy

The primary research objective was *to develop a framework that serves to enhance the overall effectiveness of audit committees in private sector companies in South Africa*. Saunders et al (2009:137-140) stated that focus group interviews are one of the principal ways of conducting exploratory research. They also suggested that the research strategy and choices should reflect deep and careful thought about why a specific research strategy is selected. After careful thought, it appeared that a meaningful approach to understanding what influences audit committee effectiveness, was to ask audit committee professionals directly, because they are in the best position to know. Although the literature review chapter (chapter 4) appears later, a preliminary literature review was carried out prior to and during the focus group stage, to obtain a general understanding of the topic. From the review, it appeared that focus groups had never been used to either understand the phenomenon of audit committee effectiveness, or to identify factors influencing audit committee effectiveness. Thus, it appeared that this method may yield new insights and extend the extant literature. Audit committee members and stakeholders are generally highly qualified professionals who have little spare time to devote to a lengthy focus group discussion. The limited pool of audit committee professionals and their limited time for participating in a focus group, may explain why focus groups were not previously used to gather data on this topic.

There are distinct advantages to using IQA focus groups. Firstly, IQA focus groups yield a large amount of rich data as the presence of various participants allows for a breadth of viewpoints and ideas (Saunders et al 2009:346). Saunders et al (2009:346) advise that a dynamic group is more likely to yield richer data, with more views and a more in-depth overall analysis of data. This informed the decision to recruit the best possible audit committee professionals who were willing to participate. Secondly, the collection and analysis of data occur simultaneously (Bargate 2014:11) because participants generate sub-affinities and group these into affinities. This prevents any personal bias that the researcher may have. Thirdly, Saunders et al (2009:346) advised that focus groups are an efficient way to "interview" a large number of people. For example, in this study there were 29 focus group participants, yielding a substantial number of views. Fourthly, a group's view is generally obtained after some debate about a concept or idea. This stimulates deeper insight into the phenomenon and may even contribute to explanations that were previously not understood (Leedy & Ormrod 2005:146; Salkind 2009:211). This is unlike an interview where no debate is present and only one person's views are presented. A group view is more likely to be comprehensive, more complete and less biased. Fifthly, group interaction promotes synergy. The sharing and comparing of ideas in a group is likely to stimulate new lines of thinking about a phenomenon and greater depth. This produces a richer set of data because of the deeper understanding of the concepts underlying the phenomenon. Sixthly, a group produces a large amount of data in a single session. A disadvantage of a focus group is that views of participants may not be kept confidential by other group participants. This is generally only a problem if the topic is sensitive in nature. Since audit committee effectiveness is not a particularly sensitive topic, this was not perceived as a limitation. Another disadvantage is the difficulty in arranging a suitable date, time and venue that is suitable for all participants.

Once the decision was made to use focus groups, the next step was to determine the method of data analysis. Northcutt and McCoy (2004) recommend the IQA method to analyse focus group data. This method appeared most appropriate because it analyses affinities into drivers and outcomes. The rationale is that if the drivers of effectiveness are understood, then audit committees can address these in order of importance to save time, energy and resources in improving audit committee effectiveness, as audit committee members and stakeholders are generally busy. From a preliminary review of the literature, it appeared that the IQA research method had not been used previously to investigate this phenomenon in private sector companies, and it was expected that this may lead to new insights.

This study largely follows the IQA method for qualitative research as presented by Northcutt and McCoy (2004). They described this method as a detailed systematic, structured process that integrates data gathering, data analysis and data interpretation. The primary purpose of IQA is to represent the meaning of a phenomenon (audit committee effectiveness) in terms of elements (affinities), and the relationships among these elements (Northcutt & McCoy 2004:xxi). The IQA method uses certain terminology, which is peculiar to it. This study mainly followed this terminology, but also included slight variations and other terms that are defined in Table 2.3 for clarity.

Table 2.3: Definitions of terms used in IQA

Term	Definition
Phenomenon	The phenomenon is the problem being studied or investigated. In this study, the phenomenon is audit committee effectiveness.
Issue statement	An issue statement is the single question posed at both focus groups to be "answered" by the participants. In this study, the issue statement is "*What are the 'things' that may influence the effectiveness of audit committees in the private sector?"*
Sub-affinity	A sub-affinity refers to the ideas and concepts written on cards by focus group participants to answer the issue statement (question) (Northcutt & McCoy 2004:99).
Affinity	The term affinity refers to the title given by the focus group to describe a group of similar sub-affinities. An affinity is a set of *"textual references that have an underlying common meaning or theme, synonymous to factors or topics"* (Northcutt & McCoy (2004:81).
Theme	A theme refers to a grouping of similar affinities. Since there are typically many affinities generated in focus group discussions, it is necessary to further refine the grouping of affinities into broader categories, which are known in this study as themes.
Meta-theme	A meta-theme refers to a grouping of similar themes. This is particularly useful when there are many themes, to refine the grouping of themes into broader categories.
Constituency	A constituency refers to *"a group of people who have a shared understanding of a phenomenon"* (Northcutt & McCoy 2004:46). The determination of a constituency should reflect both an interest (perceptual distance) and power over the phenomenon, which is at the centre of the problem statement (Northcutt & McCoy 2004:72). In this study, two constituencies that have experience with audit committees were identified, that have different perspectives. These were audit committee members and audit committee stakeholders.
Focus group	A focus group is a *"group of people who share some common experience, work or live within some common structure, or have a similar background"* Northcutt and McCoy (2004:47). Once the constituency is determined, participants are selected to form a focus group. In this study, focus group 1 represented the constituency of audit committee members, and focus group 2 represented audit committee stakeholders. A focus group therefore comprises the *sample* of participants selected to discuss the issue statement.
Audit committee professional	An audit committee professional is a term used in this study to collectively describe both audit committee members and audit committee stakeholders.

Source: Own design, based on Northcutt and McCoy (2004)

2.3 RESEARCH DESIGN - INTERACTIVE QUALITATIVE ANALYSIS

The research design is the general plan of how the research questions will be answered (Saunders et al 2009:136).

2.3.1 Research problem

Northcutt and McCoy (2004:44) explained that the research design commences with the identification of the research problem. They emphasised that the research process is not linear, but rather circular in nature. The research problem was:

> *The presence of numerous incidents of corporate governance failures suggest that the existing company legislation and code of corporate governance may not guarantee effective audit committees, and there is a need for principles and guidelines that can specifically contribute to more effective audit committees, informed by a range of stakeholder views*.

The Companies Act and King IV™ mainly provide the duties of an audit committee and related information but do not provide specific guidance on how committees can be more effective. This gap in the literature is addressed by developing a framework for audit committee effectiveness.

2.3.2 Identification and classification of constituencies

After defining the research problem, Northcutt and McCoy (2004:46) advised that constituencies (a group of people who have a shared understanding of a phenomenon) should be identified and classified. Constituencies should consist of participants who are knowledgeable about the phenomenon (audit committee effectiveness), but may have different perspectives on what constitutes audit committee effectiveness. These differences in perspective arise from the *distance* of the constituency from the phenomenon and the *power* that they have over it.

2.3.2.1 Power/distance analysis

To identify and classify each constituency, Northcutt and McCoy (2004:46;76-80) recommend considering two main questions that relate to power and distance, namely:

- How close is the constituency to the phenomenon (*distance)*? and
- How much *power* does the constituency have over the phenomenon?

The classification is done by performing a power/distance analysis as shown in Table 2.4.

Table 2.4: Power/distance analysis

Constituency	Power	Distance
Focus group 1 (audit committee members)	They have the most power to effect changes in audit committee effectiveness because they have direct involvement in the audit committee. They are specifically empowered in terms of the Companies Act and King IV™ to have oversight over financial governance.	Closest distance to the audit committee because they are members of the audit committee and best able to understand the “inner workings” of the committee.
Focus group 2 (audit committee stakeholders)	They have some power to influence audit committee effectiveness, but relatively less than audit committee members. Although stakeholders such as the board and executive management may request certain reports or ad hoc tasks of the audit committee, stakeholders do not have as much power to directly influence the audit committee’s effectiveness.	Stakeholders are further from audit committee effectiveness than audit committee members. They do not necessarily attend all meetings, but only those that concern them. For example, the external auditors may only attend when the annual financial statements or integrated report is presented for approval. Similarly, the chief audit executive may only attend when he or she presents internal audit findings.

Source: Own design

Two main constituencies were identified, namely, audit committee members (focus group 1) and audit committee stakeholders (focus group 2), who have a different perspective due to differences in their roles or work experience in relation to audit committees.

2.3.2.2 Constituency 1: Audit committee members

Audit committee members are closest to the phenomenon of audit committee effectiveness and should be more knowledgeable about audit committee effectiveness. This group may, however, be more hesitant to reveal weaknesses in audit committees, as it reflects their own competence. They exercise the most *power* over audit committees because they are empowered by the audit committee charter, Companies Act and King IV™. Thus, they have power over other stakeholders that attend audit committee meetings (for example, internal and external auditors), and in a focus group setting, might prevent these stakeholders from freely expressing their views. It was therefore decided to keep this group homogenous. This group is also a *"supplier"* of a service to other stakeholders, in the sense that they supply a service to the board, management and other stakeholders. For example, they recommend reports to the board for approval and carry out ad hoc tasks delegated by the board.

2.3.2.3 Constituency 2: Audit committee stakeholders

Audit committee stakeholders are more *distant* from the phenomenon of audit committee effectiveness. They are present at audit committee meetings but generally receive and respond to the information that is presented by audit committee members. They can be viewed as the *"demand"* side as they require (demand) audit committee members to oversee financial reporting quality. For example, the board requires (demands) the audit committee to recommend the annual financial statements for approval. This group also has less *power* and influence over audit committee effectiveness because they are not directly responsible for discharging audit committee duties. The group was heterogeneous because participants included various stakeholders. Stakeholders included participants such as executive management (chief executive officers, chief financial officers, senior financial managers, chief audit executives), non-executive directors, audit firm partners, external auditors, internal auditors and academics. Stakeholders also included members and staff from the South African Institute of Chartered Accountants (SAICA), the Institute of Internal Auditors of South Africa (IIASA), members of the Institute of Directors of South Africa (IoDSA) and members of the King

Code task team that developed various versions of the King Reports on Corporate Governance. SAICA, IIASA, IoDSA and the King Code task team were approached because of their knowledge of the role and duties of audit committees, requirements of corporate governance in relation to audit committees, and overall knowledge on corporate governance.

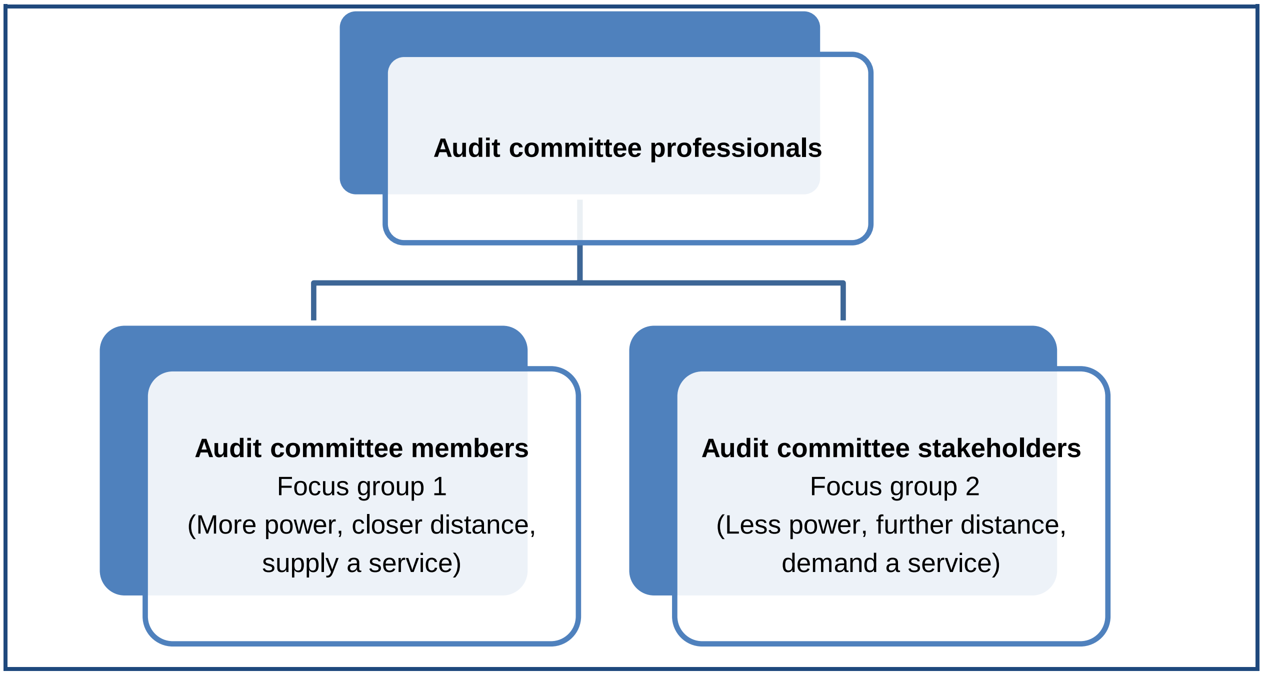

Figure 1.1 Constitution of focus groups

Source: Own design

The rationale for the heterogeneous group was to obtain different perspectives from a diverse group of participants that have experience with audit committees. These stakeholders also attend audit committee meetings and are able to observe the effectiveness of audit committee members. Others, such as academics and members of professional bodies, have experience with audit committees, either through serving on audit committees or having extensive knowledge about audit committees and corporate governance. These participants were less likely to feel constrained in sharing their views openly and objectively about determinants of audit committee effectiveness. Figure 1.1 summarises information relating to both focus groups.

2.3.2.4 Number and size of constituencies

Northcutt and McCoy (2004:46,70) recommend that there should be more than one constituency to cater for different perspectives and encourage a more balanced view. The number of focus groups depends on the research objective, resources available and limitations on time and funds (Krueger & Casey 2010:21). Saunders et al (2009:235) advise that most research textbooks recommend collecting qualitative data until data saturation is reached, which occurs when *"additional data collected provides few, if any, new insights"*. Following this, it was decided that two constituencies would be sufficient to obtain a wide and balanced range of perspectives on audit committee effectiveness. It was also decided that the data generated by these two groups would provide further guidance on whether data saturation was achieved.

There are different views on the ideal size of a focus group. Saunders et al (2009:344) recommend between four and 12 participants and advise that this depends on the topic and nature of participants. Welman, Kruger and Mitchell (2005:203) suggested between six and 12, and Northcutt and McCoy (2004:87) suggested between 12 and 20. Taking these into account, it was decided that between 10 and 20 participants would be suitable to generate sufficient data and achieve the objectives for this particular study.

2.3.2.5 Sampling for both focus groups

It is submitted that it is a difficult task to find audit committee professionals willing to participate in a four-hour focus group discussion, especially when there is a relatively small pool of audit committee professionals (Rupley et al 2011:138). Saunders et al (2009:344) suggested that participants with appropriate knowledge and experience should be chosen as this influences the richness of data; therefore, a concerted effort was made to find suitably qualified participants. Both focus groups consisted of seasoned professionals.

Saunders et al (2009:212-213) explained that a sample is selected when it is impractical to collect data from an entire population. They discuss two main types of sampling techniques, namely, probability (or representative) sampling and non-probability (or judgemental) sampling. The former is used in surveys and experiments and the latter is more appropriate with focus groups. For non-probability sampling, the probability of being selected from the total population is not known and random judgement is used to select the sample. There are a range of techniques to select samples. Among the various sampling techniques, three were considered most appropriate for this study.

First, purposive or judgemental sampling uses judgement to select participants that are best suited to answer the research question (Saunders et al 2009:237). Audit committee professionals were purposively selected because of their intimate knowledge of the "inner workings" of audit committees. The social media was used extensively. Both *LinkedIn*™ and *Facebook*™ were used to inform people about the study and invite them to contact the researcher if they were interested in participating and to refer the invitation to others. The researcher had a good response from the *LinkedIn*™ media application.

Secondly, snowball sampling was considered appropriate because it is used when it is difficult to identify members of a population. There was no list of audit committee members in South Africa that was accessible to the researcher. With the introduction of the Protection of Personal Information Act No. 4 of 2013, organisations that do have partial lists of directors or audit committee members, were not willing to share these lists. The purpose of this Act is to protect personal information, hence the reluctance to disclose such information. The IoDSA was approached because they have a database of directors in the private sector. They were unwilling to provide any lists of members because of the confidential nature but agreed to place an invitation to participate in the focus groups on their webpage. Snowball sampling was appropriate under these circumstances as contact was made with one or two audit committee professionals, and they were asked to provide names and contact details of other audit committee professionals. This was done by networking and attending events such as the *Finance Indaba Africa* at the Sandton Convention Centre on 12-13 October 2017. This event attracted over 5000 visitors and was an excellent place to find audit committee professionals. Various auditing, accounting and financial services firms and other companies exhibit at this event. Many people were approached, willing participants were identified, and contact details were obtained of other prospective participants.

Thirdly, self-selection sampling was used. This technique allows individuals to volunteer to participate in a study, in response to a public advertisement or announcement on appropriate media that publicises the research study. This study was publicised on the website of the IoDSA and SAICA, after both organisations were approached with a request for assistance. This was not in contravention of the Protection of Personal Information Act of 2013, as anyone could voluntarily request to participate in focus groups by contacting the researcher. The IoDSA was approached because their members include executive and non-executive directors, which include audit committee members. Similarly, the rationale for inviting SAICA members was that their members include chartered accountants that are likely to occupy senior management roles (for example, directors, chief financial officers and chief audit executives) in which they may interact with audit committee members. Whether applicants met the criteria for either group was then evaluated. Links to the respective webpages of the IoDSA (Annexures C) and SAICA (Annexure D), were:

- https://iodsa.site-ym.com/page/Research_Page2, and
- https://www.saica.co.za/News/MediaKit/Publications/ElectronicNewsletters/Theeffectivenessofauditcommittees/tabid/4180/language/en-ZA/Default.aspx?cv=1&session-id=21d54635002a4defa7de709140ee388b

Saunders et al (2009:243) advised that the sampling techniques chosen should be feasible and sensible to collect data that answer the research question and address research objectives. They also advised that practical considerations such as time and cost should be evaluated. Finally, they acknowledged that in a typical research study, a number of sampling techniques are generally used. Thus, the use of these three techniques in this study was considered appropriate. Considering that audit committee professionals occupy senior executive positions in South Africa and are generally not easily available due to time constraints, the researcher was satisfied that appropriate sampling techniques were used. The participants were from both listed and unlisted (generally subsidiaries of listed companies) companies.

2.3.2.6 Selection of focus group 1 participants

Northcutt and McCoy (2004) advise that one should "over-recruit" in expectation of last-minute cancellations from focus group participants. Therefore, over 50 potential participants were invited by e-mail. Of these, 20 replied in the affirmative, and a calendar invitation was sent using the calendar feature of Microsoft Outlook, inviting them to a focus group meeting on 18 January 2018 between 9:30 and 13:00. Of these, 17 people accepted the calendar invitation to confirm that they would attend. However, of the 17 participants, five people cancelled within 24 hours of focus group 1, leaving 12 participants finally in attendance. As this had been anticipated, the focus group was still properly constituted since 12 participants met the minimum number suggested by Northcutt and McCoy (2004:87). This was also in line with the decision to constitute focus groups having between 10 and 20 participants. Of these 12 participants, 10 gave written consent to be acknowledged by name in this thesis for their valuable contribution to focus group discussions. They are listed in alphabetical order of first name in Table 2.5 below.

Table 2.5: Focus group 1 participants

No.	Participant name – focus group 1
1.	Mr Dirk Strydom
2.	Dr Len Konar
3.	Mr Neill Davies
4.	Ms Rene van Wyk
5.	Ms Rosetta Xaba
6.	Mr Sanjay Bhika
7.	Mr Sathie Gounden
8.	Ms Shaila Hari
9.	Mr Sikkie Kajee
10.	Ms Sue Ludolph
11.	Anonymous 1
12.	Anonymous 2

Source: Own design

The last page of the informed consent form (refer to Annexure B) required participants to complete a table reflecting broad categories of their roles and work experience. This information was consolidated for each participant and is presented in Table 2.6 below.

Table 2.6: Experience of focus group 1 participants

Description of roles and experience	Number of participants grouped in categories of years of experience			
	0-5 years	5-10 years	10+ years	Total participants
Audit committee and board experience				
Audit committee member - listed companies	0	2	2	**4**
Audit committee member - unlisted companies	3	3	6	**12**
Audit committee chairman - listed companies	0	2	2	**4**
Audit committee chairman - unlisted companies	1	1	5	**7**
Non-executive director - listed companies	1	1	1	**3**
Non-executive director - unlisted companies	1	3	4	**8**
Board chair – listed companies	1	0	2	**3**
Board chair – unlisted companies	2	2	4	**8**
Executive management experience				
Chief executive officer	1	1	3	**5**
Operations director	0	0	1	**1**
Executive director	0	1	5	**6**
Company secretary	0	0	1	**1**
Audit experience				
Audit partner/director	0	1	1	**2**
Audit manager	2	1	0	**3**
Chief audit executive - listed companies	0	1	2	**3**
Chief audit executive - unlisted companies	0	0	1	**1**
Professional qualifications and affiliations				
King Committee task member	1	0	0	**1**
Corporate governance expert/consultant	0	1	2	**3**
Professor/academic	0	0	1	**1**
SAICA member	0	2	7	**9**
IoDSA member	0	1	8	**9**
IIASA member	1	1	2	**4**
IRBA member	0	0	3	**3**
CIMA member	0	0	1	**1**
Chartered Accountant (SA)	0	1	8	**9**
Certified Internal Auditor	0	1	1	**2**
Chartered Institute of Secretaries	0	0	1	**1**
The acronyms used in this table are: SAICA (South African Institute of Chartered Accountants), IoDSA (Institute of Directors South Africa), IIASA (Institute of Internal Auditors South Africa), IRBA (Independent Regulatory Board for Auditors) and CIMA (Chartered Institute of Management Accountants).				

Source: Own design

This reflects the depth and breadth of knowledge and experience of these participants. It also strengthens the rigour and lends credibility and validity to this study's findings. This table only reflects the work experience specifically requested in the informed consent letter, however, these participants' careers reflect an even wider range of appropriate experience. This also applied to the participants of focus group 2.

Of the 12 participants, four had experience as audit committee members of listed companies, with experience ranging from five years to more than ten years. All twelve participants had experience as audit committee members of unlisted companies, with six members having up to ten years of experience, and the other six having more than ten years of experience. Four (seven) participants had experience as an audit committee chair with listed (unlisted) companies. Three (eight) participants had experience as board chairs of listed (unlisted) companies and as non-executive directors. This reflects a substantial number of years of experience as audit committee and board members, especially considering that it generally requires many years of prior accounting, auditing, and general business experience to become eligible to hold such senior positions.

Most participants also had experience in other roles including: chief executive officers (five participants), operations directors (1), executive directors (6), company secretary (1), audit partners (2), audit managers (3), chief audit executives of listed companies (3), and chief audit executives of unlisted companies (1).

One participant, Dr Len Konar, was also one of the ten members of the King Committee Task Team that was responsible for the development of King IV™ (refer to IoDSA: 2016:119). Other work experience of participants includes: consultants in corporate governance (3), and a business school professor at GIBS Business School (1). Professional qualifications and affiliations included SAICA members (9), IoDSA members (9), Institute of Internal Auditors (IIASA) members (4), Independent Regulatory Board for Auditors (IRBA) members (3), Chartered Institute of Management Accountants (CIMA) member (1), Chartered Accountants (CA(SA)) (9), Certified Internal Auditors (CIAs) (2), and one Chartered Institute of Secretaries (CIS) member. Mr Dirk Strydom was also the

Deputy Head of the Technical Department at the Institute of Internal Auditors of South Africa (IIASA).

The term “unlisted companies” used in Table 2.6 is further elaborated on. Based on informal conversations with focus group participants, it was determined that unlisted companies also included subsidiaries of listed companies. Subsidiaries are generally compelled to follow the same standards and rules as their holding companies (listed companies). The objective of this study was to develop a framework for audit committee effectiveness for private sector companies, since it was expected that principles of audit committee effectiveness would benefit both listed and unlisted companies. Further, it was decided to follow the approach of “universal applicability” as described in King IV™, which stated that principles of good governance are equally valuable to all organisations (IoDSA 2016:6). This approach allows more flexibility as each company can use this discretion in applying the guidelines to their specific circumstances. In other words, the framework has general applicability, but each company can select how to specifically apply the findings. From the composition of the sample, it is clear that there was a balanced representation of both listed and unlisted companies.

2.3.2.7 Selection of focus group 2 participants

A similar process was followed to recruit focus group 2 participants. Since there was a larger pool of audit committee stakeholders than members, the researcher was able to invite over 60 potential participants by e-mail. Twenty-eight responded favourably and were invited using the calendar feature of *Microsoft Outlook*™. Of these, 19 people accepted the invitation and confirmed that they would attend the focus group 2 session on 25 January 2018 between 9:30 and 13:00. Two people cancelled within 24 hours of the session, resulting in a total of 17 participants in attendance. Of the 17 participants, 16 gave permission in their informed consent letter to be acknowledged by name in this study for their contribution to focus group discussions. Their names are disclosed in alphabetical order of first name in Table 2.7 below.

Table 2.7: Composition of focus group 2

Number	Participant name - focus group 2
1	Ms Ansie Ramalho
2	Mr Charles Nel
3	Ms Hester Hickey
4	Ms Ilana de Klerk
5	Mr James Gondo
6	Ms Jenitha John
7	Professor John Ford
8	Mr Lucky Phalafala
9	Ms Magdalena Nel
10	Mr Patrice Lasserre
11	Mr Rakesh Bhika
12	Mr Rob Newsome
13	Mr Sipho Makaringe
14	Ms Vilola Gounden
15	Mr Younaid Waja
16	Ms Zimkita Mabindla
17	Anonymous

Source: Own design

The knowledge and experience of focus group 2 participants is presented in Table 2.8, based on the information provided in the informed consent forms (Annexure B). Participants were highly qualified professionals with audit committee experience.

Of the 17 participants, five had experience as audit committee members of listed companies, with one participant having up to five years of experience and the other four having more than ten years of experience. Five participants had audit committee experience with unlisted companies, with three members having up to five years of experience and the other two having more than ten years of experience. Participants also had experience as an audit committee chair with listed companies (four participants) and unlisted companies (four participants). Eight participants had experience as non-executive directors (three in listed companies and five in unlisted companies). Two (six) participants also had experience as chairs of boards of listed (unlisted) companies and as non-executive directors. One participant specifically indicated being the chair of a risk committee. Another participant indicated being the Head of the Technical Department at the IIASA, who later also served as the acting chief executive officer.

Table 2.8: Experience of focus group 2 participants

Description of roles and experience	Number of participants grouped in categories of years of experience			
	0-5 years	5-10 years	10+ years	Total participants
Audit committee and board experience				
Audit committee member - listed companies	1	0	4	**5**
Audit committee member - unlisted companies	3	0	2	**5**
Audit committee chair - listed companies	2	0	2	**4**
Audit committee chair - unlisted companies	1	2	1	**4**
Non-executive director - listed companies	1	0	2	**3**
Non-executive director - unlisted companies	2	1	2	**5**
Board chair - listed companies	1	0	1	**2**
Board chair - unlisted companies	1	1	4	**6**
Other (specify)	0	0	2	**2**
Executive management experience				
Chief executive officer	0	1	2	**3**
Chief financial officer	0	1	2	**3**
Head of Risk	1	1	0	**2**
Executive director	0	1	5	**6**
Company secretary	2	1	0	**3**
Other (specify)	0	1	1	**2**
Audit experience				
Audit partner/director	1	2	3	**6**
Audit manager	0	2	3	**5**
Chief audit executive - listed companies	1	2	3	**6**
Chief audit executive - unlisted companies	0	1	0	**1**
Professional qualifications and affiliations				
King Committee task member	1	0	0	**1**
Consultant - governance/compliance	1	0	4	**5**
Professor/academic	0	0	2	**2**
SAICA member	0	1	7	**8**
IoDSA member	0	3	3	**6**
IIASA member	0	1	6	**7**
IRBA member	1	1	1	**3**
SABS TC309 member	1	0	0	**1**
Chartered Accountant (SA)	0	1	9	**10**
Certified Internal Auditor	0	1	5	**6**
Other (specify)	1	0	0	**1**
The acronyms used in this table are: SAICA (South African Institute of Chartered Accountants), IoDSA (Institute of Directors South Africa), IIASA (Institute of Internal Auditors South Africa), IRBA (Independent Regulatory Board for Auditors) and South African Bureau of Standards (SABS) Technical Committee (TC).				

Source: Own design

Similar to focus group 1, this group also reflected a substantial number of years of experience in roles associated with audit committees. Most participants had currently or previously worked in other senior management roles and reflected a much wider range of stakeholder experience. Their experience includes: chief executive officers (three participants), chief financial officers (3 participants), head of risk (2 participants), executive directors (6), company secretaries (3), and other governance/compliance managers (2), audit partners (6), audit managers (5), chief audit executives of listed companies (6), and chief audit executives of unlisted companies (1).

Ms Ansie Ramalho was appointed the Chair of the King Committee on Corporate Governance (effective from 16 February 2021) and was the Project Leader of the King IV™ project and one of the ten King IV™ task team members responsible for developing the King IV™ code (IoDSA: 2016:119). She was also a previous chief executive officer of the IoDSA (2010 to 2014). Her contribution was acknowledged by the chair of the King Committee, Professor Mervyn King, in the King IV™ report (refer to IoDSA 2016:7). Other participants included consultants in corporate governance (5) and professors (2). Professional qualifications and affiliations included SAICA members (8), IoDSA members (6), IIASA members (7), IRBA members (3), Chartered Accountants (SA) (10), Certified Internal Auditors (CIAs) (6), and a Chartered Director (CD) (1). There was also one member from the South African Bureau of Standards Technical Committee 309 (SABS TC 309). This is a South African subcommittee of the International Organisation for Standardisation (ISO), the scope of which is standardisation in the field of governance relating to aspects of direction, control, and accountability of organisations.

2.3.3 The issue statement

Once the constituencies were determined, the next step was to formulate an issue statement (Northcutt & McCoy 2004:87). The issue statement is a single question that is posed at both focus groups to stimulate discussion and debate about audit committee effectiveness and to set the scene for affinity production and analysis. The issue statement was derived from the first secondary objective:

> "*To identify affinities that influence audit committee effectiveness in private sector companies in South Africa, as perceived by audit committee professionals, based on their experience*".

Thus, the issue statement was derived from this as follows:

> "*What are the 'things' that may influence the effectiveness of audit committees in the private sector?"*

The word "things" was deliberately chosen to keep the question open-ended to encourage freedom of thought, unrestricted brainstorming and an informal mood. The idea was to encourage all possible aspects of effectiveness to be addressed without restriction in a relaxed setting.

2.4 FOCUS GROUPS

After deciding on the research orientation and design, the next step was to organise the IQA focus groups.

2.4.1 Organising focus groups

Saunders et al (2009:345) advised that the location and setting of focus groups should be neutral, in a venue where participants feel relaxed and there is no likelihood of interruptions. They also advised that seating should preferably be arranged in a circular layout so that everyone is able to see each other. This facilitates group interaction and open discussion. They caution against conducting more than one focus group per day because of the risk of losing and confusing data between groups. Northcutt and McCoy (2004:87) advised that the typical duration of an IQA focus group is between three to four hours.

Based on these guidelines, the IoDSA and SAICA were approached during October 2017 to enquire about the availability of their boardrooms for a four-hour focus group meeting. Boardrooms at both venues were viewed and found to be suitable. Although the desks were not in the form of a perfect circle, they were in the shape of a rectangle, and participants could see each other and interact. The main challenge was to find a date and time to suit the busy diaries of audit committee professionals. Informal ad hoc telephonic discussions were conducted with prospective participants. The majority advised that they had relatively more time available in the latter half of January 2018 as from February 2018 onwards they would be busy due financial year-ends of companies, audit committee meetings and other obligations. The 18th and 25th of January 2018 between 9:00 and 13:00 were selected for the focus group discussions and the IoDSA and SAICA were contacted for availability of their venue on these days. SAICA could only accommodate one of these days because space was needed for the marking of the final qualifying examination for prospective chartered accountants. It was therefore decided to select the IoDSA as the venue. The IoDSA offices are ideally located in Sandton, Johannesburg and most participants were familiar with the location because many were directors. Professional catering services were used to provide light refreshments at 9:00 and a light finger lunch at 13:00.

Calendar invitations were sent to prospective participants. These invitations were sent between September and December 2017, as and when a prospective participant was identified. In early January 2018, reminder e-mails were sent to all participants (refer to Annexure E for the e-mail template that was used). Participants were informed that the focus group would commence at 9:30 and end at 13:00, and that parking was pre-arranged with security according to an attendance register at the offices of the IoDSA. Participants were also informed that SAICA would allow them to claim 3.5 hours of Continuous Professional Development (CPD) points for attending the focus group. Inviting participants and organising suitable dates, times and a venue was an onerous process and there were many iterations before it was finalised. It required numerous telephone calls, WhatsApp™ messages, e-mails, and visits to the venue. There were many uncertainties relating to whether participants would attend, because this was a non-remunerated event at a time when many audit professionals were either on vacation or returning from vacation. It was, however, the most suitable time because it was the least busy time of the year for them.

2.4.2 Audio-recording of focus groups

Saunders et al (2009:345) recommended audio-recording the focus group discussion because of the potential wealth of ideas that flow at a fast pace. They explained the risk of losing information because of the difficulty in mentally processing all the information discussed, while simultaneously taking notes. They also recommended having one person facilitate the discussion, while another (the researcher) remains free to take notes and make observations of interactions among focus group participants. Heeding this advice, both focus group sessions were audio-recorded. This later proved to be invaluable in analysing the data because of the volume of rich data presented. Prior to recording the session, participants signed an informed consent form (refer to Annexure B), which stated that the focus group discussion would be recorded. In addition, they were verbally reminded about the audio-recording before the focus group discussion commenced, and they once again consented.

2.4.3 Identifying and analysing affinities

The next step was to hold the focus group discussions to generate affinities. Northcutt and McCoy (2004:81) define affinities as sets of textual references that have an underlying common meaning or theme. They identified three processes in analysing affinities that occur during focus groups: clarification, clustering and refining. The next section presents the chronological sequence of events at focus groups, including these three processes. This section also describes the proceedings at focus groups, while chapter 3 presents the analysis and interpretation of the affinities. This was done to avoid repetition of the focus group proceedings in chapter 3.

2.4.3.1 Attendance register and informed consent

Before the focus group discussions commenced, all participants were requested to sign an attendance register, as proof of attendance, and an informed consent form (refer to Annexure B). A copy of the attendance register was later e-mailed to participants as proof for participants to claim 3.5 hours of Continuous Professional Development (CPD) points from SAICA. The informed consent form required participants to acknowledge that they were willing to participate in the focus group and agreed to the audio-recording of the group discussion. They also ticked a “Yes” box if they consented to their name being disclosed in this study to acknowledge their presence and contribution to focus group discussions, or a “No” box if they declined such consent. The consent did not apply to any personal statements made by participants, therefore all quotes in group discussions were kept anonymous.

2.4.3.2 Introduction to the focus group discussion

An introduction preceded the commencement of each focus group, and the proceedings were outlined. The researcher explained that he would not participate in the group discussion and was there in the role of an observer. He explained that the independent, external facilitator would facilitate the focus group to ensure that it was conducted in a professional and unbiased manner. The researcher further advised that the study was not funded by the IoDSA or SAICA, although both organisations had lent support by placing the invitation to participate on their websites (refer Annexures C and D for both webpage invitations). The IoDSA allowed the use of their boardroom for both focus groups at no cost. Thus, the study was independent and unencumbered.

It was explained that the purpose of the focus group was to brainstorm ideas and develop affinities relating to how audit committee effectiveness in the private sector may be enhanced. The importance of carefully clarifying and defining affinities was emphasised because this formed the basis of the study. Participants were advised that if they worked in both the public and private sectors, they should “wear their private sector hat” and participate from that perspective. Similarly, participants were advised to “wear their audit committee member’s hat” and participate from their perspective as an audit committee member in focus group 1. In focus group 2, they were asked to “wear their audit committee stakeholder’s hat”.

The facilitator was then introduced. The researcher did not participate further in the group discussion but sat at the back of the room observing the proceedings and taking notes. Saunders et al (2009:345) advised that the facilitator should be able to engage all participants to draw out their views and ensure that participants feel relaxed and empowered to freely express their views, yet simultaneously manage to keep the discussion focussed on the issue statement. Northcutt and McCoy (2004:93) also advise that the facilitator should have no vested interest in the outcome of the discussions and should be unbiased and objective to ensure that the discussion is not lead in any particular direction. This enhances the qualitative rigour of the study. It was therefore decided to appoint an independent, external professional focus group facilitator. An educational psychologist and research consultant with extensive experience in facilitating IQA focus groups was identified. He was independent and unbiased as he did not have an accounting or auditing background and was not predisposed to any views that could lead or skew the discussion.

2.4.3.3 Silent brainstorming

After the brief introduction, the facilitator guided the participants in a short meditation to visualise themselves in the setting of an audit committee meeting. This was done to promote an atmosphere of relaxation and set the scene for generating affinities (Northcutt & McCoy 2004:88). The facilitator then posed the issue statement to the group, namely:

> *"What are the 'things' that may influence the effectiveness of audit committees in the private sector?".*

Each participant was provided with a typed copy of this question, a marker pen and between 25 and 30 note cards to write on. The participants were requested to silently brainstorm and write as many words, ideas, concepts, phrases, or thoughts on the note cards, limited to one per card. Participants could ask for more note cards if required and were not limited in their ideas (Northcutt & McCoy 2004:91). A main advantage of the IQA process is that the silent phase ensures that dominant participants are unable to suppress the views of others because there is no opportunity to talk. This also promotes a diverse range of ideas and unbiased findings. The brainstorming and writing lasted between 20 and 30 minutes and was formally ended when the facilitator observed that participants had exhausted their ideas. At this stage, Northcutt and McCoy (2004:95) advise that the affinities should be analysed in three successive and recursive steps, namely clarification, clustering and refining.

2.4.3.4 Clarification and clustering of affinities

The first stage in the analysis is referred to as "inductive coding" in which broad affinities are identified (Northcutt & McCoy 2004:98). The facilitator then asked participants to stick their cards on the boardroom wall randomly with a piece of "Prestik". Remaining silent, participants then removed any identical cards. For example, if the single word "competence" appeared on three note cards, two cards were removed. Participants were also allowed to write any new ideas on a note card and stick these on the wall. Next, participants were asked to cluster (group) cards with similar concepts into preliminary affinities. These steps all occurred in silence.

2.4.3.5 Refining of affinities

"Axial coding" occurs in the second stage in the analysis and is a process of clustering cards, clarifying the meaning, and refining affinity titles (Northcutt & McCoy 2004:98). The facilitator then led a discussion with participants to clarify the intended meaning of the ideas written on cards and questioned the rationale for clustering cards into preliminary affinities. This resulted in further adjustments to the grouping of cards. Each group of cards was then given a title. A "title" card was written and stuck above each group of cards. The focus group had to unanimously agree on the affinity title. Annexures F and G reflect a typed version of the cards (sub-affinities) that constituted each affinity (title) generated by focus group 1 and focus group 2, respectively.

2.4.3.6 Detailed Affinity Relationship Table

The next step in the focus group meetings was to complete the Detailed Affinity Relationship Table (DART). Completing a DART at the focus group discussion is not compulsory, but it does increase the chances of the DART being completed by all participants. It was noted that other studies using IQA focus groups often stated that some participants did not return their DARTs even though they committed themselves to doing so. This invariably has an impact on data analysis and may skew the IQA analysis. It was therefore decided to request participants to complete the DART at the focus group. The facilitator requested participants to take a 15-minute break, while all the affinities were typed on page 2 of a DART template (refer to Annexure H and I for the DARTs of focus groups 1 and 2 respectively). Each affinity was given a number because the DART uses the numbers (and not titles) of affinities to analyse relationships. DARTs were then printed for each participant. The participants were then called back to the focus group meeting and given instructions by the facilitator on how to complete the DARTs. There was insufficient time to complete this exercise for focus group 1. These participants agreed to complete the DARTs and return these by e-mail, which they all did. Focus group 2 did complete all DARTs within the allocated meeting time because their discussions were shorter. The duration of this exercise was approximately 45 minutes.

2.4.3.7 Affinity descriptions

Northcutt and McCoy (2004:100) advised that each affinity should be clearly described in a way that remains faithful to the views expressed by focus group participants and that note cards (sub-affinities) and the audio-recording should be used to perform this task. These descriptions are interpretative as they represent the group's perception. Both the note cards and audio-recording were used to describe and define all affinities of both focus groups.

2.5 SYSTEM RELATIONSHIPS

The next step in the IQA research process was to determine the system relationships.

2.5.1 Detailed Affinity Relationship Table

Northcutt and McCoy (2004:149) explained that theoretical coding is accomplished by a systematic process of linking each possible pair of affinities. Participants follow a formal procedure to determine relationships between affinities by completing a DART. The DART represents the individual participant's view of the system. The term "system" in this study refers to the factors influencing audit committee effectiveness. By each participant selecting the direction of influence between each pair of two affinities, the DART reflects each participant's perception of which affinity is stronger (Northcutt & McCoy 2004:151-152). For example, if affinity 1 influences affinity 2, an arrow is drawn from 1 to 2 (1→2). However, if affinity 2 influences affinity 1, an arrow is drawn from 2 to 1 (1←2). If neither affinity influences the other, no arrow, or a bidirectional arrow (<-->) is drawn, implying no relationship. Thus, three possibilities exist for each pair of affinities.

Participants supported the direction of influence by writing “if…, then…” statements to describe their reason and logic for the direction of influence (arrow). For example, a participant may write that: “*if* an audit committee chair is competent, *then* it is likely that meetings will be more efficient”. The process of writing this statement takes longer, but encourages deeper thought, which enhances the quality and rigour of the study (Northcutt & McCoy 2004:150). A simpler and quicker alternative to a DART, is an Affinity Relationship Table (ART), which does not require statements to be written. The use of DARTs was chosen because of the additional rigour it provides. In order to obtain the group’s view, all participant’s “votes” (arrows) for each pair of affinities was tallied from the individual DARTs and presented in a Coding Responses Table. This was used to create the second column of the Pareto Protocol analysis (refer to Annexure J and K for the Pareto Protocol Analysis for focus groups 1 and 2 respectively).

2.5.2 Creating a group composite

The DARTs are individual participant’s representations of a system of affinities. These should be consolidated to present a group composite or a group view of the system of affinities influencing audit committee effectiveness. Northcutt and McCoy (2004:156) identified *“two variations in developing a group composite”*, namely the Pareto Protocol and the Democratic Protocol. Northcutt and McCoy (2004:166) further explained that the choice of the *“focus group protocol depends on the purpose of the research as well as administrative and logistical considerations”*. They explained that the protocol also depends on the adequacy of the richness of the data, and sharpness and clarity of affinity definitions. The Pareto Protocol has several advantages because it is a more rigorous process than simply tallying votes for each pair of affinities, as is the procedure for the Democratic Protocol. This method was therefore selected.

The Pareto Protocol is a statistical model that follows the principle that *“something like 20% of the variables in a system will account for 80% of the total variation in outcomes”*

(Northcutt & McCoy 2004:156). This implies that the minority of the relationships in a system will account for the majority of the variations. The Pareto Protocol analysis was performed using Microsoft Excel. Table 2.9 is an extract of the first three rows of the Pareto Protocol analysis for focus group 1, to illustrate the statistical process followed. In this table, the "Cumulative Percent (Relation)" and "Cumulative Percent (Frequency)" columns were rounded to three decimals to illustrate the calculations described below. The Pareto Protocol for focus groups 1 and 2 appear in Annexures J and K respectively.

Table 2.9: Extract from Pareto Protocol analysis in Excel

A	B	C	D	E	F
Affinity pair relationship	**Frequency sorted (descending)**	**Cumulative frequency**	**Cumulative percent (relation)**	**Cumulative percent (frequency)**	**Power**
12 > 14	12	12	0.327	0.908	0.581
2 > 13	11	23	0.653	1.740	1.087
2 > 18	11	34	0.980	2.571	1.591

Source: Own design

The steps followed in Microsoft Excel are described in Table 2.10, which are cross-referenced to Table 2.9.

The spreadsheet was then ready to identify the "MinMax" point. This is the point at which the power reaches a maximum value. Generally, the cumulative percent frequency column is also close to 80% when power is at a maximum. For example, the power was at 31.50 and the cumulative percent (frequency) was at 75.9% for focus group 1. The affinities up to this point were therefore used to compile the Interrelationship Diagram (IRD). The affinities after this point were excluded. Thus, the Pareto Protocol is a process that seeks to identify the fewest number of affinity relationships that cause the greatest amount of variation in the system (Northcutt & McCoy 2004:157). Another advantage of the Pareto Protocol is to resolve ambiguous relationships that attract an equal number of votes in both directions (Northcutt & McCoy 2004:157) by selecting the direction that has the higher power.

Table 2.10: Method of calculating variables in the Pareto Protocol analysis

Step	Column in Excel	Column description	Details of calculation performed
1	A	**Affinity pair relationship**	All affinity pairs were typed, for example, 12 > 14. For focus group 1 this amounted to 306 possible relationships as 18 affinities were identified, and each affinity has a potential relationship with all other affinities, thus: 18 affinities x 17 = 306 possible relationships.
2	B	**Frequency sorted (descending)**	The frequency is the number of votes that this affinity pair attracted in the focus group. This was obtained from the Coding Response Table, which tallied the votes for each pair of affinities. To illustrate, in Table 2.9 above, 12 participants voted that affinity 12 influences affinity 14. The Excel sheet was then sorted in descending order of this column (frequency). Thus, the affinity pairs with most votes appear first, and decrease in successive rows.
3	C	**Cumulative frequency**	This column is a cumulative sum of the votes (frequency) column. To illustrate, in row 2 of Table 2.9, 23 is the total of 12 + 11. Similarly, row 3 is 34 (the sum of 12 + 11 + 11).
4	D	**Cumulative percent (relation)**	This column is the cumulative percent based on the total number of possible votes. Since the total possible votes was 306, it was calculated as 1/306 x 100 = 0.327. Each successive row is a cumulative sum. To illustrate, row 2 is 0.327 x 2 = 0.653, and row 3 is 0.327 x 3 = 0.980.
5	E	**Cumulative percent (frequency)**	This is the cumulative percentage based on the total number of votes cast. Focus group 1 cast 1 322 votes in total. Thus, this column is the cumulative frequency (Column C) divided by total votes (1322), expressed as a percent (x100). Thus, row 1 is calculated as: 12/1322 x 100 = 0.908.
6	F	**Power**	This column is the difference between the cumulative percent relation (column E) and the cumulative percent frequency (column D). Thus, in row 1, this is 0.908 – 0.327 = 0.581.

Source: Own design

2.5.3 Interrelationship Diagrams and classification of affinities

This section discusses the procedure to compile the IRD and how affinities were further refined and developed into broader themes.

2.5.3.1 Interrelationship Diagrams

After the MinMax point was determined by the Pareto Protocol analysis, the next step was to use the affinity pairs above this point to compile the IRD. This rationalises the system because only the optimal number of relationships is included in the IRD. In essence, the IRD is a summary of the perceived cause and effect between two affinities, represented by arrows showing the direction of influence. To illustrate, an extract from the IRD of focus group 2 is presented in Table 2.11 below. The complete IRD for focus group 2 appears in Table 3.6 in section 3.4.2.

Table 2.11: Extract from interrelationship diagram for focus group 2

Focus group 2: Interrelationship Diagram (sorted in descending order of Δ)																			
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**OUT**	**IN**	**Δ**
16	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑		15	0	15
12		↑	↑	↑	↑	↑	↑	↑		↑	↑		↑	↑	↑	←	12	1	10
1		←	↑	↑	↑	↑		↑	↑	↑	↑		↑	↑	↑	←	11	2	9
2	↑		↑	↑	↑	↑	↑	↑	↑	↑	↑	←	↑	↑	←	←	12	3	9

Source: Own design

If one observes the intersection (refer to green highlighted blocks) of the columns and rows for affinities 1 and 2, one can see that the direction of the arrow indicates that affinity 2 influences affinity 1. Each relationship is recorded *twice* in the IRD, once with an *up* facing arrow, and once with a *left* facing arrow. In this example, the *up* arrow is read as affinity 2 influences affinity 1. The *left* arrow is similarly interpreted as affinity 2 influences affinity 1. All *up* arrows are then added, and the total is recorded in the *out* column (15 in this example). Similarly, all *left* arrows are added and recorded in the *in* column (zero in this example). The *in* total is then subtracted from the *out* total and the result is the *delta* (Δ) or magnitude of change. This protocol was followed to compile the IRDs. Two IRDs were compiled for each focus group. The first IRD was not arranged in order of the *delta* (Δ) and is therefore not included in this study for the sake of brevity. The second IRD was sorted in descending order of *delta* (Δ), as described by Northcutt and McCoy (2004:170-173). This is shown in Table 3.4 (for focus group 1) and Table 3.6 (for focus group 2). The *deltas* were used to classify drivers, pivots and outcomes.

2.5.3.2 Classifying affinities

The next step was to classify affinities. Northcutt and McCoy (2004:173) explained that each affinity is classified according to one of the following five descriptions based on the *delta* (Δ), and whether any *ins* or *outs* are zero. This classification indicates the overall degree of influence of the affinity on the system of audit committee effectiveness. These classifications are presented in Table 2.12 below.

Table 2.12: Hierarchical classification of affinities

Order of Hierarchy	Classification	Description
1	**Primary driver**	is an affinity that is a significant cause or source of influence on other affinities in a system. It has no *ins*, meaning that it is not influenced by any other affinities, and only influences or drives other affinities. This affinity has an important influence on other affinities.
2	**Secondary driver**	is an affinity that is a relative cause or source of influence on other affinities in a system. It has both *outs* and *ins*, but more *outs* than *ins*, resulting in a net positive *delta* (Δ). It influences more affinities than it is influenced by other affinities. Secondary drivers are also important because of their influence on the system.
3	**Pivot/Neutral**	is an affinity that has equal *outs* and *ins*, indicating a position in the middle of the system. It is neutral and central to the system.
4	**Secondary outcome**	is an affinity that is influenced by more affinities than it influences. There are more *ins* than *outs*, resulting in a *net negative delta* (Δ). This affinity is also not as important as the primary and secondary drivers and has less influence on the system.
5	**Primary outcome**	is an affinity that does not influence any other affinities but is influenced by other affinities. It has no *outs*, implying it does not influence any affinities. It has little influence on the system and is not an important affinity.

Source: Own design, based on Northcutt and McCoy (2004)

This classification of affinities provides a hierarchy of importance of affinities in relation to the system of audit committee effectiveness. Tables 3.5 and 3.7 in sections 3.4.1 and 3.4.2 set out the classification of affinities for focus groups 1 and 2. The primary driver may be interpreted as the most influential affinity because it is not influenced by any other affinity. Similarly, secondary drivers are next in order of importance. A pivot is central to the system and both influences and is influenced by other affinities. It therefore plays an important role in the system as it pervades the system. The primary and secondary outcomes have less influence on audit committee effectiveness. Of the two, secondary outcomes have more influence and are therefore next in the hierarchy of influence or importance. Primary outcomes do not influence any affinities and are the least important influencers of audit committee effectiveness. Since it was expected that there would be many affinities influencing audit committee effectiveness, this hierarchical analysis provides valuable insight and directs attention by placing more emphasis on studying the drivers than the outcomes.

2.5.3.3 Developing themes and meta-themes

The next step was to group the affinities into preliminary themes. The notes taken at the focus groups and audio-recordings were used to gain an even deeper understanding of the affinities. The first step was to group affinities that were identical or similar, into preliminary themes as set out in Table 3.8 in section 3.5.1. The second step was to group preliminary themes into final themes, hereinafter referred to as themes in this study, as set out in Table 3.9 in section 3.5.2. This was done from the audio-recordings, making detailed notes, analysing affinities in more depth and studying the literature. There was invariably overlap between the analysis of focus group data and the literature review. The themes assisted in focussing the literature study. The literature study enabled triangulation of data and further informed the refining of themes into meta-themes.

2.5.4 Systems Influence Diagram

The Systems Influence Diagram (SID) is essentially a visual flowchart or presentation of the affinities and relationships among them as a system that is derived from the IRD (Northcutt & McCoy 2004:174). The practicality and understandability of a SID should be evaluated in view of the primary research objective, which was *"to develop a graphical and narrative framework that aims to promote the overall effectiveness of audit committees in private sector companies in South Africa".* The preliminary plan was to use SIDs, but this was subsequently evaluated against other possible options of visual presentations. This is discussed in more detail in section 3.8, after the analysis of focus group data.

2.6 QUALITATIVE RIGOUR

The validity of a qualitative study is evaluated against the proper collection and interpretation of the data to ensure that conclusions are accurately drawn and reflected (Yin 2011:78). Trustworthiness is the primary criterion for evaluating qualitative research and this is measured in terms of four underlying criteria, namely, credibility, transferability, dependability and confirmability (Lincoln & Guba 1985:289-331; Adams, Khan & Raeside 2014). The authors recommended audit trails to assist in judging these four criteria. In the present research, audit trails were provided at each critical point to explain how affinities were generated, analysed, compared and refined into themes and meta-themes, and how these themes and meta-themes represent determinants of audit committee effectiveness. These four criteria are now discussed in relation to how this was attained in this study.

2.6.1 Credibility

Bless, Higson-Smith & Sithole (2016:131) described credibility (also referred to as internal validity) as the measure of whether the researcher's method of data collection and analysis addresses the research question adequately with a convincing argument. Careful planning and effort was made to identify competent focus group participants, organise focus group meetings, identify an experienced facilitator, audio-record discussions, observe focus group participants, take notes, document affinities, analyse affinities and develop themes and meta-themes. Various points of validation exist throughout this study, with a clear audit trail and cross-referencing. The research question was always kept as the focal point of reference to ensure that all literature, comparisons, and insights relate to the research question. The issue statement (the question posed at focus groups) was designed with the objective of answering the main research question. The wording of the issue statement was also tested with the focus group facilitator to ensure that it was unbiased and would stimulate a discussion that would contribute to achieving the research objectives.

Validation was achieved by repeatedly listening to audio-recordings of focus group discussions to ensure that affinities were accurately described and defined. An independent facilitator was used to facilitate the focus group discussions to avoid steering discussions in a biased manner. Data was obtained as objectively as possible.

Credibility was also enhanced by prolonged engagement with the participants and literature on the topic of audit committee effectiveness. In total, both focus groups comprised 29 highly qualified audit committee professionals, who all contributed to the group's view. After the focus groups in January 2018, informal engagement took place with certain focus groups participants who were willing to answer questions or provide clarity on various concepts related to this study. The triangulation of data also corroborates qualitative data in different ways. Affinities identified by both focus groups were supported by a detailed literature study of these themes. Member checks were inherent in the focus group process because participants defined and described affinities.

2.6.2 Transferability

Transferability or replicability means that a study should produce the same results if repeated exactly. The research process was described in sufficient detail to enable another researcher to carry out similar research and achieve similar results, depending on the country-context of the research. Northcutt and McCoy (2004:38) stated that replicability is possible *"within reasonable bounds"*. They explained that the IQA method differs from other forms of qualitative research because there is inherent rigour in the process. Two people analysing the same IQA data should derive the same system representations, since the group determines the affinities and how these are classified into primary drivers, secondary drivers, pivots, secondary outcomes and primary outcomes, by their votes for each pair of affinities.

Transferability was also enhanced by thorough and rich descriptions that allow other researchers to replicate the results in their own context. Participants of both focus groups provided rich discussions and descriptions of affinities influencing audit committee effectiveness. They also completed DARTs, which provided further depth to data. A clear audit trail of how the focus groups were conducted and how data was collected and analysed, also enhanced transferability. Detailed information about the research process (research problem, research questions, research methods, constituencies, issue statement, focus groups) was provided at each critical step of the study.

This study followed a pragmatic approach out of necessity. Extending the number of focus groups to attempt to include all audit committee professionals would be time-consuming, expensive and impractical due to the natural reluctance of audit committee professionals to participate in a long and unremunerated event, and the small pool of suitably qualified professionals. The views of 29 individual focus group participants, refined into two group views is, however, a substantial number of views.

2.6.3 Dependability

Dependability of the study was enhanced by maintaining an audit trail of all phases of the research process. This was achieved by documenting how the issue statement was formulated, constituencies were created, samples were selected, focus groups were organised, discussions were audio-recorded, and affinities were generated and refined into themes. Informed consent was obtained from all participants.

2.6.4 Confirmability

Confirmability, or objectivity, was enhanced by not allowing the researcher’s views to interfere with the integrity of the data. Having an independent facilitator and following the rigorous IQA process ensured that the focus group participants (and not the researcher) identified, defined and described affinities. The likelihood of domination of the discussion by any participant was reduced by the silent phase. By remaining silent and sitting at the back of the room (where his body language could not be observed), the researcher also ensured that he did not influence the focus group discussions. Therefore, there was little opportunity (if any) to bring personal biases into the data collection and the analysis. Selecting two constituencies (audit committee members and stakeholders) that “supply” and “demand” audit committee services also decreased the likelihood of any bias by encouraging a more balanced overall view of audit committee effectiveness.

2.7 RESEARCH ETHICS

This section discusses the ethical clearance obtained from the institution at which this study was registered, and key ethical issues that were addressed.

2.7.1 Ethical clearance

The ethical standards set by the University of South Africa (UNISA) were used as a benchmark for the ethical considerations in this study. Ethical clearance granted by the university for using primary data gathered from focus groups was discussed in section 1.7.

Table 2.13: Ethical requirements addressed in study

Ethical requirement	Method to address key ethical issue
Informed consent	The informed consent letter stated that participants: • were informed about the purpose, procedure, potential benefits and anticipated inconvenience of their participation, • had sufficient opportunity to ask questions before agreeing to participate in the focus group, • were advised that findings from the focus group may be presented in a thesis, research papers, articles, journal publications, conference proceedings, internet publications and/or other media forms.
Voluntary participation and withdrawal	The informed consent letter stated that participants: • understood that their participation was voluntary, and • were free to withdraw at any stage.
Anonymity and confidentiality	The informed consent letter stated that: • participation and personal details would be kept confidential, unless otherwise agreed to in writing, • the PhD thesis would include a section acknowledging the valuable contribution of focus group participants, and that participants could choose to have their name disclosed as acknowledgement for their contribution (by ticking the “Yes” box) or alternatively remain anonymous (by ticking the “No” box), and • there is an inherent limitation to anonymity and confidentiality regarding focus group discussions because there are multiple participants, therefore every participant should respect the confidentiality of the discussion and maintain the anonymity of other participants’ identities.
Ethical approval from the University of South Africa	The informed consent letter advised participants that: • ethics approval for the focus groups was granted by the College of Accounting Sciences, Research Ethics Review Committee, of the University of South Africa on 25 July 2017.

Source: Own design

2.7.2 Ethical issues addressed

Ethical considerations arose because of the involvement of human participants in focus groups. Saunders et al (2009:185) state that key ethical issues include informed consent, voluntary participation, privacy of participants, and confidentiality of data. Before commencement of the focus group, all participants had to sign an informed consent letter (refer to Annexure B), which addressed these key issues. These are summarised in Table 2.13 above.

2.8 CONCLUSION

Oversight is delegated to the audit committee by the board of directors for the quality of financial reporting, internal audit and external audit. In view of the recent increase in corporate fraud in the private sector, the primary objective of this study was to develop a framework to guide audit committees. In order to achieve this, the secondary objectives included identifying affinities that influence audit committee effectiveness; classifying affinities into a hierarchy; refining affinities into broader themes, and studying these themes in the literature. This chapter provided the methodological underpinnings of this study. It was explained that the research orientation was constructivist interpretivist and that the methodology was qualitative. This approach was followed because the objective was to obtain multiple perspectives from the people who work closest with audit committees, to obtain an "insider" perspective of what influences audit committee effectiveness. Although the literature records studies on audit committee effectiveness, it appears that IQA focus groups were not previously used to investigate audit committee effectiveness in the private sector. The main advantage of IQA focus groups is that it provides a large volume of rich data that is analysed in an unbiased manner by following a structured approach. It was expected that the data obtained from this study would augment the extant literature because of this unique approach to addressing the problem of audit committee effectiveness. Details were provided about the IQA research method, including the research design, focus groups and affinity generation and analysis. Information about the qualifications and experience of the focus groups participants were provided, which adds credibility to the findings. The qualitative rigour of the research was also addressed. It was explained that IQA focus groups add to the rigour of this study because data is analysed objectively.

The next chapter presents the affinities generated by the two focus groups and the analysis of this data into themes and a preliminary graphical framework.

CHAPTER 3

DATA ANALYSIS AND RESEARCH FINDINGS OF FOCUS GROUPS

3.1 INTRODUCTION

The primary research objective of this study was to develop a graphical and narrative framework for audit committee effectiveness in private sector companies in South Africa. Chapter 2 presented the overall research design for achieving this objective. This included the research process and data analysis methods. It was explained that data from two focus groups would be analysed using Interactive Qualitative Analysis (IQA). This chapter presents the application of these research methods.

To achieve the primary research objective, the first secondary research objective of this study was to identify affinities that influence audit committee effectiveness in private sector companies in South Africa as perceived by two focus groups consisting of audit committee members (focus group 1) and audit committee stakeholders (focus group 2). To achieve this objective, the following question was posed at each focus group: "*What are the 'things' that may influence the effectiveness of audit committees in the private sector?"*

3.2 OVERVIEW AND PROCESS OF ANALYSING AFFINITIES

3.2.1 Overview of focus groups

The term "sub-affinity" refers to the ideas and concepts written on cards by focus group participants to answer the single question posed at the focus group, and the term "affinity" refers to the title assigned by the focus group to collectively describe each cluster of sub-affinities (Northcutt & McCoy 2004:81,99). In this study, sub-affinities therefore refer to ideas or concepts about the "things" or factors that influence audit committee effectiveness, and affinities refer to broader determinants of audit committee effectiveness. Focus group 1 identified 169 sub-affinities in support of their 18 affinities. The list of these affinities and sub-affinities appears in Annexure F. Similarly, focus group 2 identified 196 sub-affinities in support of their 16 affinities. Annexure G contains the list of these affinities and sub-affinities. In total, a substantial number of 365 sub-affinities and 34 affinities were identified as shown in Table 3.1, and provide substantial depth and breadth to this study about determinants of audit committee effectiveness. Sub-affinities also represent "proof quotes" that serve as evidence to support findings, support data interpretation and increase the credibility and dependability of findings (Northcutt & McCoy 2004:98-103; Pratt 2009:860).

Table 3.1: Affinities and sub-affinities identified by focus groups

Detail	Focus group 1	Focus group 2	Total
	Audit committee members	Audit committee stakeholders	
Number of participants	12	17	**29**
Affinities identified	18	16	**34**
Sub-affinities identified	169	196	**365**

Source: Own design

Next, affinities that related to a similar theme or concept were grouped into 23 preliminary themes. In this study, a theme represents a group of affinities representing a similar concept. The 23 preliminary themes were next analysed into 12 final themes as shown in Table 3.9. New titles were given to some themes, however in many instances the titles remained the same, or similar to, the original affinity titles.

3.2.2 Process of analysing affinities

The large number of affinities and sub-affinities presented a challenge in analysing the data in a concise and meaningful manner. After careful consideration, the following process was followed.

Firstly, affinities were analysed using IQA into five categories that represent a hierarchy as follows: primary drivers, secondary drivers, pivots, primary outcomes and secondary outcomes. This addressed the second secondary objective. The idea of interrelationships is at the core of IQA, which seeks to identify relationships among affinities. One of the gaps in the literature was to obtain a deeper understanding of these interrelationships. The hierarchy was also expected to be of practical assistance in suggesting an order in which to prioritise the focus to achieve audit committee effectiveness, since drivers influence outcomes. Audit committee professionals face time and budget constraints, and this was expected to be of practical assistance.

Secondly, affinities with similar titles in both focus groups were identified and grouped. In some instances, both focus groups discussed similar concepts but used different titles or labels for their affinities. This process resulted in identifying 23 similar affinities, referred to as preliminary themes in this study. This is reflected in Table 3.8.

Thirdly, affinities were further analysed and refined into groups of 12 final themes using audio recordings of focus group discussions and the literature. Audio recordings enabled the capturing of finer details of the intricate discussions that would otherwise have been missed and added to the rigour and reliability of data. There was invariably some overlap, which is inherent in the nature of such research, and the literature was read concurrently with the data analysis. This also informed the grouping of affinities into themes.

3.3. OBSERVATIONS AND COMPARISONS OF FOCUS GROUPS

This section provides an overview of the observations at each focus group and comparisons between groups.

3.3.1 Observations at focus group 1

The duration of the discussion of focus group 1 was 138 minutes (2 hours and 18 minutes). Since participants were senior executives, their time was limited and they committed to being present at the focus group for a maximum duration of 240 minutes (3.5 hours), from 9:30 to 13:00. The remainder of the time was spent on generating sub-affinities (hand-written cards) in the silent phase and arranging the sub-affinities under affinity titles. Detailed Affinity Relationship Tables (DARTs) were meant to be completed at the focus group, but the group exceeded the allocated time. Participants therefore completed these after the focus group and e-mailed them to the researcher. Annexure F (Affinities and sub-affinities generated by focus group 1) and Annexure H (DART for focus group 1) were e-mailed to participants on 26 January 2018 to assist them in completing the DARTs. All 12 participants completed these tables and e-mailed them to the researcher by 15 February 2018. The reason for preferring that participants complete the DARTs at the focus group was to ensure that they actually completed this exercise as it is time consuming and requires effort. The focus group facilitator explained that participants often do not follow through with the exercise if left for later. Therefore, it was appreciated that all participants completed the exercise within the deadline. This demonstrated their level of responsibility and commitment to this research.

At the outset, focus group 1 participants explained that their approach was to identify affinities separately as far as possible, and not to prematurely group these. They recognised that the focus group was similar to a brainstorming session and remarked that this approach was preferable given the time constraints. This was consistent with the IQA process that requires the researcher to analyse affinities into themes at a later stage.

The focus group was thorough and meticulous in following the instructions and in generating affinities. They wrote many ideas on cards, grouped similar cards, and quickly identified affinity titles for each group of sub-affinities (cards). There was a robust debate and discussion accompanying each affinity. Participants were assertive in their views and vigorously debated whether an affinity was important enough to justify being a separate affinity or whether it should be combined with another. They were enthusiastic and energetic in executing their given task. These participants quoted extensively from King IV™ and the Companies Act, and some participants actually brought this along. This reflected their sincerity, commitment, intimate knowledge, and competence to shed light on the topic of audit committee effectiveness. Overall, their approach was indicative of the gravity of their responsibilities as audit committee members. The following 18 affinities were identified by focus group 1, numbered in random (non-hierarchical) sequence by them.

Table 3.2: Affinities identified by focus group 1

Affinities: Focus group 1	
1. Combined assurance 2. Company secretary 3. Competence 4. Composition 5. Corporate governance and trust 6. ERM (Risk) 7. Ethics 8. External audit 9. Independence	10. Internal Audit 11. Knowledge of the business/ industry 12. Leadership 13. Meetings 14. Relationship with management 15. Reporting 16. Scope and Charter 17. Self-evaluation 18. Work plan and Agenda

Source: Own design

3.3.2 Observations at focus group 2

This focus group discussion comprised 105 minutes (1 hour and 45 minutes) and the duration of the focus group was 240 minutes (3.5 hours) between 9:30 and 13:00. Participants were also senior executives with time constraints. The remaining time was spent on generating cards in the silent phase, arranging cards into separate groups, and completing the DARTs. As for focus group 1, when asked to cluster similar cards to arrive at a title for an affinity, Participant 15 stated that *"these concepts do overlap, and we can't avoid that"*. In contrast with focus group 1, focus group 2 completed the entire process (including the completion of the DARTs) within the allocated 3.5 hours. In general, they debated less as their views tended to be more similar. They were also meticulous in writing down ideas and concepts on cards, grouping cards and identifying affinity headings. There was also robust debate, although less so than with focus group 1. They were quicker to reach consensus, group similar cards, and agree on affinity titles. One possible reason for this may be that focus group 1 consisted of homogenous members (audit committee members) who were more technically oriented, and felt it important to debate affinities to ensure that technical conclusions were sound before agreeing on anything. In contrast, focus group 2 was generally less technically oriented, and comprised a mixed (heterogeneous) group of various audit committee stakeholders. This highlighted one advantage of diversity in a group. Although these participants also attend audit committee meetings, they have a different perspective and have less responsibility at such meetings. This might also explain their more relaxed approach. Another explanation may be that these stakeholders felt less constrained to criticise, debate and express their opinions about audit committee effectiveness because it was not a reflection of their own effectiveness. This observation supports the validity of the idea of having two separate focus groups with different perspectives as a means to achieve a more balanced framework for audit committee effectiveness.

Despite differences in the focus group discussions, there were striking similarities in the affinities raised by both groups. Overall, this was a positive and desirable outcome as it served to confirm the affinities that influence audit committee effectiveness. This also provided assurance that the findings were mainly consistent across different groups of audit committee professionals. This suggested that the focus groups were properly constituted and complied with the requirements discussed in chapter 2. The following 16 affinities were identified by focus group 2, numbered in random (non-hierarchical) sequence by them.

Table 3.3: Affinities identified by focus group 2

Affinities: Focus group 2	
1. Composition	9. Understanding regulatory impact
2. Mandate	10. Audit committee tone
3. Audit committee chairman effectiveness	11. Interaction among board committees
4. Preparation	12. Corporate culture
5. Meeting procedures	13. Focus and priorities
6. Quality of ERM	14. Combined assurance
7. Competency of Company Secretary	15. Status and standing of audit committee
8. Quality of audit committee pack	16. Knowledge and skills

Source: Own design

3.4 INTERACTIVE QUALITATIVE ANALYSIS

3.4.1 Hierarchical analysis

Both focus groups completed DARTs. The template of these two DARTs appear in Annexures H and I for focus group 1 and 2 respectively. The DARTs required each participant to select the direction of influence between every possible pair of affinities. For example, if affinity 1 influenced affinity 2, an arrow was drawn from 1 to 2 (1→2). However, if affinity 2 influenced affinity 1, an arrow was drawn from 2 to 1 (1←2). If neither affinity influenced the other, no arrow, or a bidirectional arrow (<>) was drawn, implying no relationship. Thus, three possibilities existed for each pair of affinities.

The next step was to use the DARTs to compile the Interrelationship Diagrams (IRDs) as shown in Tables 3.4 and 3.6 below. The IRDs were essentially a summary of the relationships between all pairs of affinities.

3.4.1 Focus group 1: Interrelationship diagram and hierarchy

Table 3.4 reflects the IRD derived from the data presented by focus group 1. The IRD depicts the 18 affinities sorted in descending order of the net change (Δ) between the "outs" (↑) and "ins" (←). A blank cell means that no relationship exists between these two affinities and a "filled" cell means that a relationship does exist. A positive net change (**Δ)** indicates that the affinity is a driver. A negative change indicates that the affinity is an outcome. A primary driver is an affinity that is not influenced by any other affinity. It has zero "ins", whereas a secondary driver does have some "ins". Similarly, a primary outcome does not influence any other affinities (zero "outs"), but a secondary outcome does.

To assist in the interpretation of Table 3.4, the following example is used. The top left-hand corner square is an "out" because affinity 3 influences affinity 1. The square to the right of it is an "in", meaning that affinity 2 influences affinity 3. The net change (Δ) is the difference between "ins" and "outs". For affinity 3, this is a positive 15 (last column), which means it is a driver. It is a secondary driver, because at least one affinity influences it (affinity 2).

Table 3.4: Interrelationship diagram for focus group 1

Focus group 1: Interrelationship Diagram (sorted in descending order of ∆)																					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	OUT	IN	∆
3	↑	←		↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	16	1	15
4	↑		←		↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	15	1	14
2			↑		↑		↑						↑	↑	↑	↑	↑	↑	9	0	9
5	↑	←	←	←		↑	↑	↑	↑	↑	↑	←	↑	↑	↑	↑	↑	↑	13	4	9
12	↑		←	←	↑	↑	←	↑	←	↑	↑		↑	↑	↑	↑	↑	↑	12	4	8
7	↑	←	←	←	←	←		↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	12	5	7
9	↑		←	←	←		←	↑		↑		↑		↑	↑	↑	↑	↑	9	4	5
6	↑		←	←	←		↑	↑		↑	←	←			↑	↑		↑	7	5	2
11	↑		←	←	←	↑	←	↑		←		←	↑	↑	↑	↑		↑	8	6	2
10	↑		←	←	←	←	←	↑	←		↑	←	↑	↑	↑	↑		↑	8	7	1
8	↑		←	←	←	←	←		←	←	←	←		↑	↑	↑		↑	5	9	-4
16	↑	←	←	←	←	←	←	←	←	←	←	←	↑		↑		↑	↑	5	11	-6
14	↑	←	←	←	←		←	←	←	←	←	←	↑		↑				3	10	-7
17		←	←	←	←		←		←			←				←			0	8	-8
13		←	←	←	←		←			←	←	←		←	↑	←		←	1	11	-10
18		←	←	←	←	←	←	←	←	←	←	←	↑		↑	←			2	12	-10
1			←	←	←	←	←	←	←	←	←	←		←	↑	←			1	12	-11
15	←	←	←	←	←	←	←	←	←	←	←	←	←	←		←		←	0	16	-16

Source: Own design

Thus, the descending order of the net change (∆) determined the classification into primary drivers, secondary drivers, primary outcomes and secondary outcomes. This led to Table 3.5 below. In this table, the role of the company secretary (affinity 2) is regarded as the primary driver because it has a net positive delta (∆) with zero "ins". This classification corresponded to focus group 1's discussion, which highlighted that the company secretary was at the core of all activities related to the audit committee. The secondary drivers (net positive ∆ with at least one "in") also corresponded to the importance and length of discussion of these affinities by the focus group. Finally, the primary outcomes (net negative ∆ with zero "outs") and secondary outcomes (net negative ∆ with at least one "in") also corresponded to the shorter discussions and less emphasis on these affinities by the focus group.

Table 3.5: Focus group 1 - hierarchical classification of affinities

Classification of affinities		
No.	**Affinity title**	**Classification**
2	Company secretary	Primary driver
3	Competence	Secondary driver
4	Composition	Secondary driver
5	Corporate governance and trust	Secondary driver
12	Audit committee leadership	Secondary driver
7	Ethics	Secondary driver
9	Independence	Secondary driver
6	ERM (Risk)	Secondary driver
11	Knowledge of business and industry	Secondary driver
10	Internal audit	Secondary driver
8	External audit	Secondary outcome
16	Scope and Charter	Secondary outcome
14	Relationship with management	Secondary outcome
13	Meetings	Secondary outcome
18	Work-plan and agenda	Secondary outcome
1	Combined assurance	Secondary outcome
17	Self-evaluation	Primary outcome
15	Reporting	Primary outcome

Source: Own design

According to focus group 1, the first ten affinities listed in Table 3.5 were drivers, and therefore most important in influencing (driving) audit committee effectiveness, while the next eight affinities were outcomes and less influential.

3.4.2 Focus group 2: Interrelationship diagram and hierarchy

Table 3.6 depicts the IRD for focus group 2. The 16 affinities were sorted in descending order of the net change (Δ) between the "outs" and the "ins". This table led to the construction of Table 3.7, which summarises the drivers and outcomes. As with focus group 1, the importance accorded by focus group 2 to each affinity corresponded closely to the group discussion.

Table 3.6: Interrelationship diagram for focus group 2

Focus group 2: Interrelationship Diagram (sorted in descending order of ∆)																			
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**OUT**	**IN**	**∆**
16	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑		15	0	15
12		↑	↑	↑	↑	↑	↑	↑		↑	↑		↑	↑	↑	←	12	1	10
1		←	↑	↑	↑	↑		↑	↑	↑	↑		↑	↑	↑	←	11	2	9
2	↑		↑	↑	↑	↑	↑	↑	↑	↑	↑	←	↑	↑	←	←	12	3	9
3	←	←		↑	↑	↑	↑	↑	←	↑	↑	←	↑	↑	↑	←	10	5	5
7		←	←	↑	↑			↑	↑	↑	↑	←	↑	↑	↑	←	9	4	5
10	←	←	←	↑	↑	↑	←	↑			↑	←	↑	↑	↑	←	8	6	2
6	←	←	←	↑				↑	↑	←	↑	←	↑	↑		←	6	6	0
9	←	←	↑	←	↑	←	←	←			↑		↑	↑	↑	←	6	7	-1
4	←	←	←		↑	←	←	←	`↑	←	↑	←	↑	↑	↑	←	6	9	-3
8	←	←	←	↑	↑	←	←		↑	←	↑	←	↑	←	↑	←	6	9	-3
5	←	←	←	←			←	←	←	←	↑	←	↑	↑	↑	←	4	10	-6
15	←	↑	←	←	←		←	←	←	←	↑	←	←	↑		←	3	11	-8
13	←	←	←	←	←	←	←	←	←	←	←	←		↑	↑	←	2	13	-11
14	←	←	←	←	←	←	←	↑	←	←	↑	←	←		←	←	2	13	-11
11	←	←	←	←	←	←	←	←	←	←		←	↑	←	←	←	1	14	-13

Source: Own design

The next step was to use the hierarchy in the IRD to classify affinities in Table 3.7 below.

Table 3.7: Focus group 2 - hierarchical classification of affinities

Classification of affinities		
No.	**Affinity title**	**Classification**
16	Knowledge and skills	Primary driver
12	Corporate culture	Secondary driver
1	Composition	Secondary driver
2	Mandate	Secondary driver
3	Audit committee chair effectiveness	Secondary driver
7	Competency of company secretary	Secondary driver
10	Audit committee tone	Secondary driver
6	Quality of ERM	Neutral
9	Understanding regulatory impact	Secondary outcome
4	Preparation	Secondary outcome
8	Quality of audit committee pack	Secondary outcome
5	Meeting procedures	Secondary outcome
15	Status and standing of audit committee	Secondary outcome
13	Focus and priorities	Secondary outcome
14	Combined assurance	Secondary outcome
11	Interaction among board committees	Secondary outcome

Source: Own design

According to focus group 2, the first seven affinities in Table 3.7 were most important in influencing (driving) audit committee effectiveness. Focus group 2 differed from focus group 1 by considering mandate as a driver. Mandate corresponds to the term “scope and charter” used by focus group 1, and refers to the duties contained in the audit committee charter. A possible explanation is that focus group 2 appreciated the clarity provided by a charter on audit committee duties, which helped them to understand what audit committees are accountable for.

Overall, the findings of both focus groups were similar, with few differences. Differences in terminology and the words used to describe the affinities and sub-affinities do not constitute differences in the overall perceptions of each group. The IQA therefore yielded logical results that provided assurance regarding the validity of the data.

3.5 REFINING AFFINITIES INTO THEMES

This section sets out the steps followed to analyse and group the 34 affinities identified by focus group 1 (18 affinities) and focus group 2 (16 affinities) into 23 preliminary themes. Thereafter, the focus group recordings and literature review were used to group the 23 preliminary themes into 12 themes. This is shown in Figure 3.1 below.

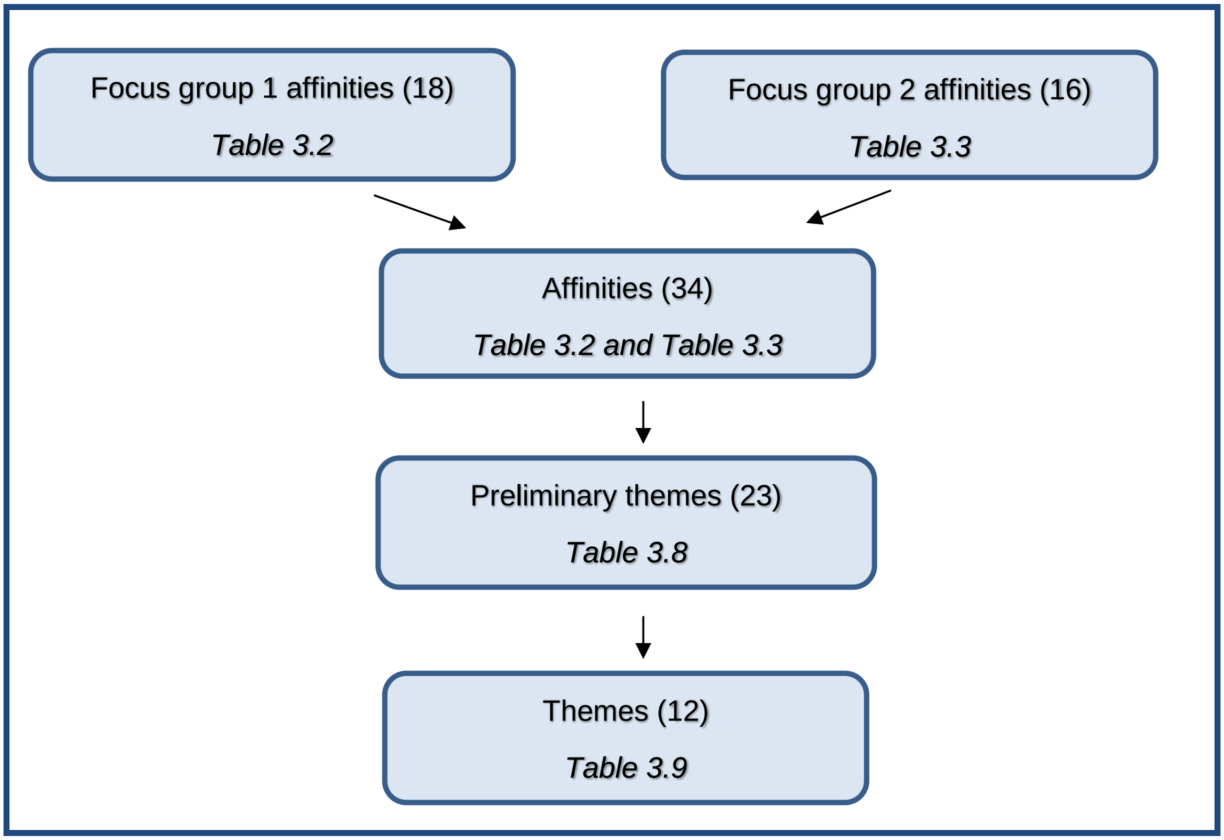

Figure 3.1: Summary of grouping affinities into themes

Source: Own design

3.5.1 Combining similar affinities in focus groups into preliminary themes

The next step was to compare the affinities of both focus groups as it was expected that both groups would have identified some affinities that were similar, but that may have been given different affinity titles. This process resulted in 23 groups. In this study, these are referred to as preliminary themes, since this was the first stage of analysis into themes. New names were given to the preliminary themes to reflect a broader description. This was largely based on the names of the underlying affinities. For example, preliminary theme 1 (financial expertise) comprised affinities 3 from focus group 1 (competence) and 16 from focus group 2 (knowledge and skills)

The 23 preliminary themes and the affinities constituting each theme and their hierarchical classification is shown in Table 3.8.

Table 3.8: Preliminary themes derived from affinities of focus groups

No.	Preliminary themes	FG1 Affinity no.	FG2 Affinity no.	FG1-PD	FG2-PD	FG1-SD	FG2-SD	Pivot	FG1-SO	FG2-SO	FG1-PO	FG2-PO
1	Financial expertise	3	16		√	√						
2	Business and industry expertise	11	16*			√						
3	Composition	4	1			√	√					
4	Independence	9	1**			√						
5	Company secretary	2	7	√			√					
6	Corporate governance, trust and culture	5	12			√	√					
7	Audit committee chairman	12	3			√	√					
8	ERM (Risk)	6	6			√		√				
9	Ethics of organisation	7				√						
10	Scope of work and responsibilities	16	2				√		√			
11	Audit committee members interaction and tone		10				√					
12	Combined assurance	1	14						√	√		
13	Internal audit	10				√						
14	External audit	8							√			
15	Relationship with management	14							√			
16	Annual work-plan and agenda	18	5						√	√		
17	Effective meeting management and focus on priorities	13	13						√	√		
18	High-quality audit committee packs and reports	15	8							√	√	
19	Diligent preparation and attendance		4							√		
20	Understanding and keeping pace with regulations		9							√		
21	Interaction among board committees		11							√		
22	Audit committee empowerment		15							√		
23	Self-evaluation of audit committee	17									√	

The abbreviation FG denotes the term focus group. Similarly, PD is an abbreviation for primary driver, SD represents secondary driver, PO represents primary outcome and SO represents secondary outcome. Thus, FG1-PD refers to Primary Driver identified by Focus Group 1.
**FG2 considered business and industry expertise as a nuance of financial expertise (theme 1)*
***FG2 considered independence as a nuance of composition (theme 3)*

Source: Own design

Column 1 reflects the new number given to the preliminary theme. The numbering largely reflects the hierarchy of drivers and outcomes, thus the table reflects the preliminary themes from strongest to weakest determinants of audit committee effectiveness. Column 2 provides the name of the preliminary theme. Columns 3 and 4 reflect the affinity numbers assigned by the two focus groups. This serves as an audit trail that reflects the underlying affinities grouped to form the preliminary theme and can be cross-referenced (if needed) to Tables 3.2, 3.3, 3.5 and 3.7. The remaining eight columns reflect the classification by each focus group of affinities into primary drivers, secondary drivers, a pivot, secondary outcomes and primary outcomes by each focus group, which are indicated with a tick where applicable. These eight columns can be cross-referenced to Tables 3.5 and 3.7 to confirm the classification into drivers and outcomes. Table 3.8 therefore reflects a clear audit trail from the original 34 affinities to 23 preliminary themes, and cross-references to other tables as described.

3.5.2 Further refinement of preliminary themes

The next step was to refine themes using the audio recordings of the focus groups and the literature that was read concurrently. For practical reasons, the data analysis and literature review were presented in separate chapters, but occurred concurrently. This data analysis revealed further similarities and overlapping themes. This resulted in refining the 23 preliminary themes into 12 final themes. Column 1 of Table 3.9 contains the final theme number in hierarchical sequence. Column 2 reflects the new theme name, based on the underlying preliminary themes and affinities. Column 3 refers to the preliminary theme number(s) as presented in Table 3.8. Columns 4 and 5 reflect the affinity numbers as assigned by focus groups 1 and 2 at the focus group discussion stage and correspond to affinities as set out in Tables 3.2 and 3.3.

Table 3.9: Final themes

No.	Theme name	Preliminary theme number	Focus group 1 - affinity name and number	Focus group 2 - affinity name and number
1	Financial expertise and personal attributes	1, 20	Competence (3)	Understanding regulatory impact (9) Knowledge and skills (16)
2	Business and industry expertise	2	Knowledge of business and industry (11)	Knowledge and skills - nuance (16)
3	Composition	3	Composition (4)	Composition (1)
4	Independence	4	Independence (9)	Composition – nuance (1)
5	Leadership and tone	7, 11	Audit committee leadership (12)	Audit committee chair effectiveness (3) Audit committee tone (10)
6	Trust, ethics and governance	6,9,22	Corporate governance and trust (5) Ethics (7)	Corporate culture (12)
7	Enterprise risk management	8	Enterprise risk management (6)	Quality of enterprise risk management (6)
8	Company secretary, board and management	5	Company secretary (2)	Competency of company secretary (7) Status and standing of committee (15)
9	Scope and charter	10	Scope and charter (16)	Mandate (2)
10	Evaluation	23	Self-evaluation (17)	Not identified
11	Assurance	12,13,14,21	Combined assurance (1) Internal audit (10) External audit (8)	Combined assurance (14) Interaction among board committees (11)
12	Meetings and reporting	15,16,17,18, 19	Meetings (13) Reporting (14) Reporting (15) Work-plan and agenda (18)	Preparation (4) Meeting procedures (5) Quality of audit committee pack (8) Focus and priorities (13)

Source: Own design

3.6 DISCUSSION OF THEMES

This section presents a summary of both focus group discussions of the 34 affinities, grouped into 12 themes as set out in Table 3.9. Northcutt and McCoy (2004:100-101) advised that discussions of each focus group should be summarised and presented separately to avoid mixing perceptions between groups (even in the case of similar affinities), and to reflect similarities and differences between each group's perceptions. They further advised that each affinity should be defined during this process to articulate the full range of data incorporated into each affinity. The discussions and definitions also serve to show proof of data by presenting raw data in their original form (Northcutt & McCoy 2004:98-103; Pratt 2009:860). Although this may result in some duplication, it was decided that this would result in a more authentic presentation of IQA findings and enhance the validity of this study. In chapter 5, this data (the perceptions of both focus groups) was integrated with literature findings to present a consolidated definition of each theme. This culminated in a framework for audit committee effectiveness.

In this section, italics and double inverted commas are used for both verbal and written quotes to show proof of data as recommended by Northcutt and McCoy (2044:100). Verbal quotes were presented in instances when a focus group participant expressed a point so poignantly that it conveyed a profound meaning. Similarly, written quotes were included and represent pertinent points from hand-written cards (sub-affinities) completed by focus group participants in the silent phase. These quotes were obtained from the 169 (196) sub-affinities generated by focus group 1 (focus group 2) and are listed in Annexure F and Annexure G respectively. These sub-affinities reflect the depth and breadth of the focus group discussions. In some cases, nuances of affinities emerged that provided clarity and deeper understanding of the affinity. This is also included in the discussion of the affinity.

Since it was agreed to keep participants' identities anonymous with respect to their individual quotes, each participant was identified according to a number from 1 to 12 for the 12 participants in focus group 1, and from 13 to 29 for the 17 participants in focus group 2. This implies that even those participants who were not quoted were assigned a number from 1 to 29. This numbering was done in random order.

This section commences with the definitions of the 34 affinities in Table 3.10 to provide an overview to guide detailed discussions that follow. When necessary to elaborate on the definition, a short description is included. The aim was to succinctly capture the essence of the discussion in the words of the group. The word “definition” is therefore not used in the traditional sense of the word, but is the perception of the meaning of the affinity by the focus groups. In Table 3.10, Column 1 shows the theme name. Column 2 shows the affinities grouped into each theme. Columns 3 and 4 present the definition of the affinities identified by focus groups 1 and 2 respectively.

Table 3.10: Definitions of 34 affinities

THEME	AFFINITY	FOCUS GROUP 1	FOCUS GROUP 2
1. Financial expertise	3. Competence (FG1-SD) 16. Knowledge and skills, including business and industry expertise (FG2-PD) 9. Understanding regulatory impact (FG2-SO)	**Competence** refers to the knowledge, skills, experience, emotional intelligence, interpersonal skills, maturity and personal attributes of audit committee members that enhance their ability to discharge audit committee duties effectively. Remuneration is a nuance of competence and a higher remuneration generally attracts more competent members.	**Knowledge and skills** refer to the overall competence of audit committee members to discharge their duties and understand and respond to all matters on an audit committee agenda. This includes having knowledge of accounting, auditing, business and the industry. **Understanding regulatory impact** refers to understanding and keeping pace with changes in various legislation and regulations and requires time and energy.
2. Business and industry expertise	11. Knowledge of business and industry (FG1-SD) 16. Knowledge and skills (FG2-PD)	**Knowledge of the business and industry** empowers audit committee members to better interpret, analyse and compare financial and non-financial information, which provides a more holistic picture of the true financial position of a company.	**Knowledge and skills** – Business and industry expertise was discussed as a nuance of affinity 16 (Knowledge and skills) - see theme 1 above.
3. Composition	4. Composition (FG1-SD) 1. Composition, including independence (FG2-SD)	**Composition** refers to constituting an audit committee with members who possess complementary knowledge, skills and experience and who are compatible as a team. An appropriate mix of compatible personalities with suitable soft skills promotes synergy and teamwork.	The **composition** of an audit committee should reflect an appropriate mix of members with complementary skills and competence within the context of the specific business and industry. Personalities should be compatible to promote teamwork and cooperation.
4. Independence	9. Independence (FG1-SD) 16. Composition (FG2-PD)	**Independence** refers to the perception of whether an audit committee member is independent of the company and its management, and also means that one should apply one's mind without fetter or instruction. Independence reduces the likelihood of a conflict of interest between personal and business interests.	**Composition** - Independence was discussed as a nuance of affinity 1 (Composition) – see theme 3 above.

THEME	AFFINITY	FOCUS GROUP 1	FOCUS GROUP 2
5. Leadership and tone	12. Leadership (FG1-SD) 3. Audit committee chair effectiveness (FG2-SD) 10. Audit committee tone (FG2-SD)	**Leadership** refers to the leadership exercised by the audit committee chair who should manage meetings effectively and encourage an environment where all members have an equal voice. The chair should possess competence, maturity, honesty, integrity, emotional intelligence, reputable character and overall good leadership skills.	**Audit committee chair effectiveness** refers to the overall effectiveness of the chair, who should skilfully manage and influence meetings and encourage all members to contribute. The chair should have good leadership attributes, including competence, experience, diligence and good interpersonal and management skills. **Audit committee tone** refers to the tone of the audit committee, which should encourage trust, honesty, cooperation, equality and unity among all members. A favourable tone empowers the audit committee to stand united and challenge management when necessary, and promotes independence from management.
6. Trust, ethics and governance	5. Corporate governance and trust (FG1-SD) 12. Corporate culture (FG2-SD) 7. Ethics (FG1-SD) 14. Relationship with management (FG1-SO)	**Corporate governance and trust** refer to the degree of trust and reliance that audit committee members can place on management, which is positively influenced by a strong ethical culture and good governance. A company with an ethical culture and good governance is more likely to produce accurate reports, which audit committees can place greater trust and reliance on. Audit committee members should exercise reasonable judgement and professional scepticism to reduce chances of being misled by unethical management. **Relationship with management** refers to the relationships between management and audit committee members, which should reflect honesty, integrity, openness, transparency and receptiveness. Such relationships allow for easier communication at formal and informal meetings and events.	**Corporate culture** is the company culture created by management and sets the tone for the overall attitude of company staff towards financial governance and the internal control environment. A sound corporate culture should encourage honesty, integrity, transparency, trust and focus on objective decision making, rather than pursuing personal agendas. **Ethics** refers to the ethical environment of a company and includes compliance with the code of conduct, whistleblowing and the ethics committee. An ethical environment reduces the risk of management misrepresentations because such events need unethical people to perpetrate it.

THEME	AFFINITY	FOCUS GROUP 1	FOCUS GROUP 2
7. Enterprise risk management	6. Enterprise risk management (ERM) (FG1-SD) 6. Quality of enterprise risk management (ERM) (FG2-Pivot)	**Enterprise risk management** refers to the strategy of a company to manage risks and pervades the reporting environment. Financial risks include the risk of errors and misstatements in financial reports and business risks include various risks associated with the business and industry such as product risk, information technology risk and sustainability risk.	**Quality of enterprise risk management** refers to the quality of the methods and processes used to manage risks, which is determined by how well risks are aggregated and assessed in terms of their interdependency. A holistic picture of all risks is essential as risk management pervades almost everything that an audit committee deals with.
8. Company secretary, board and management	2. Company secretary (FG1-PD) 7. Competence of company secretary (FG2-SD) 15. Status and standing of audit committee (FG2-SO)	**Company secretary** refers to the efficiency and effectiveness of the company secretary in gathering and disseminating all pertinent information to audit committee members. This includes setting the meeting agenda, accurate minute taking, distributing meeting documentation timeously, providing orientation and on-boarding of new members, and keeping members abreast of changes in pertinent legislation.	**Competence of company secretary** refers to the competency of the company secretary in executing key responsibilities. This includes preparing a well-constructed agenda and high-quality minutes, providing guidance on governance matters, arranging orientation and on-boarding of members, and monitoring all board committees. **Status and standing of audit committee** refers to the authority, position and power of the audit committee, which is largely influenced by how well it is supported and empowered by the board and management and perceived by others.
9. Scope and charter	16. Scope and charter (FG1-SO) 2. Mandate (FG2-SD)	**Scope and charter** refer to the scope and duties of the audit committees' work, which is set out in the audit committee charter.	**Mandate** refers to the roles and responsibilities of the audit committee that are set out in the audit committee charter, and also serves as a benchmark to evaluate the performance of the audit committee against.
10. Evaluation	Self-evaluation (FG1-SO)	**Self-evaluation** refers to the evaluation of the audit committee and its individual members by its own members. There are various types of evaluation methods of which the purpose is to improve the performance and effectiveness of the audit committee and its members.	Not identified

THEME	AFFINITY	FOCUS GROUP 1	FOCUS GROUP 2
11. Assurance	1. Combined assurance (FG1-SO) 14. Combined assurance (FG2-SO) 10. Internal audit (FG1-SD) 8. External audit (FG1-SO) 11. Interaction among (board) committees (FG2-SO)	**Combined assurance** refers to the assurance provided by various service providers. In general, the higher the quality of combined assurance, the greater the reliance that the audit committee can place on such assurance. **Internal audit** refers to the internal audit function in a company, which is more effective when staff are competent and there are clear reporting lines and there is a well-constructed internal audit plan and internal audit charter. **External audit** refers to the external audit function, which conducts an audit of the annual financial statements and other aspects of the integrated report in terms of current legislation, and which is more effective when the audit partner, audit staff and the audit firm are independent, competent and trustworthy.	**Combined assurance** refers to the assurance provided by various parties such as internal and external auditors. The better the quality of the assurance provider, the more reliance the audit committee can place on such assurance. **Interaction among board committees** refers to interaction that is characterised by good communication and collaboration between the audit committee and other board sub-committees. This reduces duplication of work and saves time as the audit committee can place reliance on the work of other board committees.
12. Meetings and reporting	18. Work-plan, agenda and meetings (FG1-SO) 5. Meeting procedures (FG2-SO) 13. Meetings (FG1-SO) 13. Focus and priorities (FG2-SO) 14. Reporting (FG1-SO) 8. Quality of audit committee pack (FG2-SO) 4. Preparation (FG2-SO)	**Work-plan, agenda and meetings** refer to the annual work-plan, which should ensure that all important risks and other pertinent matters are identified and placed on an audit committee agenda. The agenda directs the focus and priorities at audit committee meetings. **Meetings** refer to proper management of meetings to finish within agreed time frames and to deal with priorities without being side-tracked. Members should prepare thoroughly and attend all meetings, and meeting documents should be distributed timeously. **Reporting** refers to the quality of reports presented to the audit committee, which should be of a high-quality to facilitate analysis, interpretation and decision making.	**Meeting procedures** refers to the proper planning of audit committee meetings at annual work-plan events, and setting meeting agendas and appropriate dates and timing between board meetings. It also includes tracking and following up resolutions taken at meetings. **Focus and priorities** refer to addressing priorities that are based on risk and important stakeholder drivers, and the focus should be integrated and not silo-based. **Quality of audit committee pack** refers to the quality of the audit committee documentation sent to audit committee members for meetings. The documentation should be complete, well-prepared and include high-quality reports with sufficient detail for decision making.

THEME	AFFINITY	FOCUS GROUP 1	FOCUS GROUP 2
		Since certain reports are in the public domain, such as annual financial statements, inaccurate reporting presents a reputation risk.	**Preparation** refers to preparation for audit committee meetings, and includes assessing the completeness of audit committee documentation to determine whether financial reports are consistent with non-financial information available from media sources and the company itself. Members that are better prepared generally make more valuable contributions at meetings.
In the table above, FG1 and FG2 are abbreviations for focus group 1 and focus group 2 respectively. PD is the abbreviation for primary driver, SD represents secondary driver, PO represents primary outcome and SO represents secondary outcome.			

Source: Own design

3.6.1 Theme 1: Financial expertise and personal attributes

The terms “competence” and “knowledge and skills” were used by the focus groups. As these terms have a similar meaning to “expertise”, it was decided to use the word “expertise” in the title of this theme. This convention was also used to name other themes. Theme 1 groups three similar affinities – competence (including remuneration), knowledge and skills and understanding regulatory impact.

3.6.1.1 Focus group 1 - Affinity 3: Competence

Focus group 1 explained that competent audit committee members are more effective in executing their duties. First, the group discussed various desirable attributes of members such as accounting skills, technical knowledge, experience, expertise, emotional intelligence and the attitude of members. They also discussed qualities such as critical thinking, analytical thinking, technical knowledge of International Financial Reporting Standards, governance, industry legislation and maturity of members (age and years of experience). The term *“competence”* captured these various attributes; hence their title for this affinity. They also emphasised that both *“hard”* and *“soft”*” skills were vital aspects of competence. Soft skills included emotional intelligence and overall *“attitude towards work and colleagues”*. Participant 11 stated that soft skills generally *“come with maturity”,* complement technical financial skills, and encourage better teamwork. The group noted that technical and soft skills are not always present in one individual. Soft skills influence the overall cohesion, harmony, teamwork and the *“inner-working”* of the audit committee. It was emphasised that members with better *“attitudes”* generally contribute more to the team and are easier to work with. The group explained that some members are arrogant and haughty, which makes teamwork challenging. The group emphasised the importance of keeping up-to-date with changes in accounting and governance legislation to ensure continuous professional development.

<u>Remuneration – a nuance of competence</u>: There was considerable debate about whether remuneration was important enough to be a separate affinity. The group finally agreed that remuneration, specifically in the private sector, was a nuance of competence. They

explained that remuneration may affect competence either positively or negatively. A lower remuneration may not attract a suitably competent audit committee member, whereas a higher remuneration is likely to attract a more competent member. Participant 6 concluded that *“if you pay peanuts you get monkeys”*. Participant 11 stated that remuneration in the private sector was generally *“market related, benchmarked and fit for purpose”*, therefore it tended to be fair. The group contrasted this to flat rates in the public sector, where remuneration is not necessarily benchmarked or commensurate with the complexity or nature of the business. Participant 12 explained that one should exercise integrity, explaining that one should not accept an appointment as an audit committee member if one was dissatisfied with the remuneration. Once accepted, one should remain duty-bound to one’s responsibilities regardless of remuneration. A contrasting, more sceptical view was that members are *“human”* and when faced with two audit committee meetings at similar times, they may give preference to the company that *“pays a better remuneration”*. Some participants pointed out that remuneration is also a nuance of independence, since one may be less likely to challenge management if one is well remunerated, for fear of losing such an appointment. After considerable debate, the group concluded that remuneration is more closely associated with competence than with independence, because independence is more closely related to an individual’s state of mind.

3.6.1.2 Focus group 2 - Affinity 16: Knowledge and skills

Knowledge and skills of audit committee members empower them to challenge management on contentious matters. Management understand their financial statements intimately because they work with it regularly. It therefore requires a high level of knowledge and skills to challenge management with confidence. The focus group members discussed verbally and wrote sub-affinities on cards to support this view, including the following: *“technical knowledge”* of International Financial Reporting Standards and the accounting framework, understanding the “*audit process”*, true *“understanding of sustainability concept (economic, social and environmental)”*, knowledge of the concept of *“integrated thinking”*, good *“business acumen”* and knowledge of the business and industry, described as a *“360-degree view of industry”*, knowledge of complex issues such as Information Technology, and sound knowledge of *"subject matters being tabled"* at audit committee meetings, including both financial and *"non-financial reporting"*. This comprehensive list included auditing, accounting, business and industry expertise. Focus group 2 also highlighted the *"fact that audit committee members are non-executive directors and do not really know what is happening [in the business]"* because they are not exposed to daily business activities as a full-time employee would be. Therefore, one way to mitigate this is to have sound knowledge of the business environment and industry.

3.6.1.3 Focus group 2 - Affinity 9: Understanding regulatory impact

Apart from understanding the vast volume of legislation and regulations, it is a challenge to keep pace with these rapid changes and ensure compliance. Examples include keeping updated with the Companies Act, King codes of governance, International Financial Reporting Standards and other laws relevant to the specific business or industry (for example, pension fund regulations). The group explained that compliance dominates audit committee agendas and their workload. In frustration, Participant 16 pointed out that compliance *"affects the agenda so much that you don't get to the real issues"*.

3.6.2 Theme 2: Business and industry expertise

Focus group 1 discussed knowledge of the business and industry as a separate affinity and this was classified as a secondary driver. Focus group 2 discussed this as a nuance of affinity 16 (knowledge and skills). This reflects the overall importance of this theme.

3.6.2.1 Focus group 1 - Affinity 11: Knowledge of the business and industry

Focus group 1 explained that audit committee members with business and industry knowledge are better at integrating their understanding of financial and non-financial information. The group emphasised that interpreting financial information without business and industry knowledge provides a limited and often incorrect perspective. Business and industry knowledge facilitate a deeper understanding of business strategy, strengths, weaknesses, opportunities and threats in the industry. This provides audit committee members with a more holistic picture. It enables them to understand key risks and that such risks influence financial and operational performance. It also empowers them to compare performance with competitors in the same industry. Members can *“look at the big picture”* and identify anything *“missing”* from the audit committee pack. The group explained that the company secretary plays an important role in ensuring that members gain knowledge of the business and industry through the *“on-boarding”* and induction of audit committee members.

3.6.2.2 Focus group 2 - Affinity 16: Knowledge and skills

Focus group 2 briefly discussed knowledge of the business and industry under affinity 16 (knowledge and skills – refer to section 3.6.1.2).

3.6.3 Theme 3: Composition

Both focus groups identified composition as a secondary driver, indicating its relative importance to other themes.

3.6.3.1 Focus group 1 - Affinity 4: Composition

Composition was described as referring to the mix of knowledge, qualifications, experience and diverse skills that individual audit committee members collectively bring to the audit committee. The group emphasised that composition refers to the *“collective”* competence of the audit committee, and not the individual competence of members, to achieve an overall balance of complementary skills. Soft skills, such as interpersonal skills and a positive attitude, assist largely in promoting good relationships, teamwork and overall effectiveness. The size of the audit committee should be specific to each company and *“one size does not fit all”*. The group also highlighted that succession planning is essential to ensure that an optimal composition is maintained over time.

3.6.3.2 Focus group 2 - Affinity 1: Composition

Composition influences audit committee effectiveness because the diverse and *“collective experience”* of members facilitates the discharge of different responsibilities. The mix of skills should match the business and industry. The objective is not to recruit members with similar skills, such as a committee with only chartered accountants, but to strive for members with varied and complementary skills and expertise. Personalities, group dynamics and members who work well together are important considerations. Participant 16 elaborated that *“when you are putting together the composition [of the audit committee] …. you can’t put people together that are going to be at loggerheads with each other”*, because this will be counterproductive.

Independence: Focus group 2 discussed independence as a nuance of composition and their discussion is presented in section 3.6.4.2 (theme 4).

3.6.4 Theme 4: Independence

Theme 4 related to the independence of an audit committee member. Focus group 1 viewed this as a separate affinity and it was classified as a secondary driver. Focus group 2 discussed independence as a nuance of composition and their discussion is presented in this section (3.6.4.2) for ease of reference.

3.6.4.1 Focus group 1 - Affinity 9: Independence

Focus group 1 debated whether to classify independence as a separate affinity or as a nuance of “competence”. In the end, they decided that it was important enough to warrant separate classification as an affinity. This was in contrast to focus group 2, who viewed independence as a nuance of composition. Focus group 1 discussed two main aspects of independence, stating that this was in accordance with the principles of King IV™. Firstly, independence relates to the *“perception”* that others have about the service provider. Audit committee members should be *“seen to be”* independent service providers of the company. Therefore, any circumstances that could impair perceptions of independence should be avoided. Participant 6 gave the example that the *“chairman of the board should never be an audit committee member”* as this could lead to a conflict of interest and impair independence. Secondly, independence means applying one’s mind *“without fetter or instruction”* when evaluating audit committee matters. It is not related to the perception of others, but one’s own *“state of mind”* when performing one’s audit committee duties. It is an honest internal evaluation of one’s true intentions and is therefore less visible to others.

The group elaborated that a member should feel free and confident to express an opinion, *"ask difficult questions"*, assert views, discuss contentious matters and *"make hard decisions"'*. These are all signs of independence. Participant 6 cautioned that *"audit committee members should be able to exercise their minds independently and not be dog collar trustees"*. However, the group acknowledged that audit committee members are *"human"* and sometimes vulnerable to being *"brow-beaten"* and not having the courage to *"say what they want to say"*. In such circumstances, being independent empowers an audit committee member to assert views without fear of consequences. Focus group 1 explained that independence is promoted when *"the board and management view the role of the audit committee as important"*. In instances where there is a *"conflict of interest"* between management and the audit committee, or when management tips the *"balance of power"*, conflicts may arise. In such instances, real independence means that the *"company should always be the first priority"*. Thus, the main objective of independence is to prevent conflicts of interest and achieve company objectives rather than personal objectives.

3.6.4.2 Focus group 2 - Affinity 1: Composition

Focus group 2 discussed independence as a nuance of composition. They explained that independence may be influenced by remuneration, tenure as a member, and investments (shares) in the company. Members may have a conflict of interest between personal financial gain and discharging audit committee duties objectively. A suggestion by the focus group was to *"limit the number of audit committees a person can be a member of"* to discourage financial remuneration from being the main motivation. Another view was that remuneration should be commensurate with the complexity of work required, in order to attract competent people. This was consistent with the views expressed by focus group 1, who viewed remuneration as a nuance of competence.

3.6.5 Theme 5: Leadership and tone

Theme 5 grouped three similar affinities that related to leadership provided by the audit committee chair (hereinafter chair) and the tone set by the chair. All affinities were classified as secondary drivers, indicating their relative importance.

3.6.5.1 Focus group 1 - Affinity 12: Leadership

A good chair is effective at steering meetings and provides leadership both in and out of meetings. The chair should encourage participation from all members and not dominate or unduly influence meetings. Attributes of a good chair include experience, competence, maturity and integrity. Softer skills such as emotional intelligence and attitude are also important and usually come with maturity and experience. A chair should be a reputable, authentic and trustworthy leader, who consistently lives according to high ethical standards and values.

3.6.5.2 Focus group 2 - Affinity 3: Audit committee chairman effectiveness

An effective chair is able to exert influence on audit committee meetings and the overall effectiveness of the audit committee. A good chair is experienced, competent, well-prepared for meetings and does not dominate other members.

3.6.5.3 Focus group 2 - Affinity 10: Audit committee tone

The audit committee tone refers to how members interact with, and trust each other. This is largely influenced by the chair. The tone should discourage *"member dominance"* or *"personal egos"* that undermine the objectives of the committee. The group confirmed that the collective participation of all members, unity, teamwork and cooperation enhance the overall tone and effectiveness of the committee. Unity among members also reduces the *"fear to speak against"* management or *"challenge management"* and *"call them to account"* when necessary. Members should not be *"influenced by the organisation"* and should remember that their primary responsibility is to fulfil their audit committee responsibilities.

3.6.6 Theme 6: Trust, ethics and governance

Theme 6 grouped four affinities that overlap and are inextricably linked. The first three affinities were corporate governance, corporate culture and ethics. All three affinities were classified as secondary drivers. The fourth affinity dealt with the relationship and trust between management and audit committee members, which is influenced by ethics, governance and culture. The rationale for Theme 6 was as follows. A company with an ethical culture and good governance complies more strictly with legislation, regulations and governance codes. This environment is likely to produce a higher quality of financial and non-financial reports, on which audit committees can place greater trust and reliance. As one of the main duties of an audit committee is to recommend reports for board approval, trust, ethics and governance influence the effectiveness of the audit committee.

3.6.6.1 Focus group 1-Affinity 5: Corporate governance and trust

Focus group 1 explained that honest and trustworthy management are more likely to provide accurate information and *"honest answers to tough questions"*. Management have considerable influence over corporate governance. Audit committees are reliant upon management assertions and reports and invariably place some degree of trust and reliance on management assertions. The group explained that a company with a strong ethical culture and good corporate governance is more likely to provide accurate information to an audit committee. The group did emphasise that an audit committee should exercise *"reasonable judgement"* and *"professional scepticism"* and should not blindly rely on everything that management asserts. Participant 4 explained that there would be no need for internal audit or external audit if everyone was trustworthy. However, the group emphasised that there is a difference between auditors who have direct and frequent interaction with all levels of staff and the business environment, and audit committee members who do not have such interaction. Audit committee members generally interact mainly with management at infrequent intervals. This places audit committee members at a disadvantage and makes it more difficult for them to gauge the *"true"* company culture and easier for management to deceive them. Participant 5 elaborated that audit committee members are not physically present at the company and cannot verify if all information being presented to them is accurate. Participant 6 explained that corporate governance from a practical point of view deals with how an organisation is controlled and whether there is integrity and accuracy in the information presented. It was further explained that the audit committee relies on the chief financial officer and management to present accurate reports, therefore trust is important since management could mislead the audit committee.

Trust is influenced by *"organisational culture"*, *"transparency"*, *"openness"* of management, ethical culture and sound corporate governance. The group explained that ad hoc meetings with management help to mitigate the risk of management misrepresentations. Ad hoc informal meetings help to gain a better understanding of management, ethics, culture and corporate governance and complement formal audit committee meetings since time is often limited at formal meetings. Management that are accessible *"prior to meetings to clear up confusion"* also signal that they are more trustworthy.

3.6.6.2 Focus group 2-Affinity 12: Corporate culture

The group explained that a company's corporate culture influences the accuracy and reliability of information provided to audit committees, therefore audit committee members should *"understand the corporate environment producing the information given to them"*. Trust is paramount between audit committee members and management. The *"tone at the top"*, value system, ethics, integrity and *"shared values"* of management are vital in creating a trustworthy corporate culture. The focus group discussed positive and negative traits of corporate culture.

Positive traits include that management should be open, transparent and adaptable to change. Management should treat *"non-compliance with regulations in a serious manner"* and hold people accountable for any transgressions and there should be consequences for breaking rules to enforce a culture of compliance. Management should also *"follow-up"* on audit committee recommendations to enforce *"accountability"* with respective staff. A positive culture leads to objective decision making and reduces conflicts of interest because the focus is on business, and not personal priorities.

Negative traits included *"focus only on short-term"* goals and gains by management, such as growth in the share price, meeting forecast targets and deadline pressures to *"get the numbers out"*. An *"over-domineering chief executive officer"* and management that are uncooperative and aggressive are usually red flags. Such personalities may use their position and influence for *"pushing of agendas (cliques)"* and subjective decisions.

3.6.6.3 Focus group 1 - Affinity 7: Ethics

Focus group 1 explained that ethics pervades governance. They highlighted three mechanisms of ethics, namely, the code of conduct, whistleblowing and the ethics committee. The code of conduct of a company provides overall direction and rules. A whistleblowing mechanism encourages the reporting of irregular or suspicious matters without fear of retribution. A separate ethics committee has a dual reporting line to the board and audit committee. This allows the ethics committee to report breaches of ethics in confidence to the audit committee. This is especially important in more sensitive matters, such as harassment of staff by the chief executive officer.

3.6.6.4 Focus group 1 - Affinity 14: Relationship with management

The group explained that relationships between management and the audit committee that are characterised by transparency, receptiveness, timeliness and ease of communication, influence audit committee effectiveness positively. The frequency and ease of contact with management between meetings is essential for audit committee members to discuss any pertinent issues, without waiting for a formal audit committee meeting. Management who are trustworthy and ethical are more likely to present factual reports to the audit committee.

3.6.7 Theme 7: Risk management

Theme 7 grouped two similar affinities related to enterprise risk management. Risk management was classified as a pivot by focus group 2 and as a secondary driver by focus group 1. A pivot neither influences, nor is influenced by other affinities, and is important because it is seen as pervading the entire system of audit committee effectiveness.

3.6.7.1 Focus group 1 - Affinity 6: Enterprise risk management

Focus group 1 described Enterprise Risk Management as the strategy used by a company to manage risks. The group explained that risk *"pervades everything"* and is a responsibility that an audit committee *"cannot escape"*. Participant 6 said that *"risk is a* *funny thing because everything embraces risk"*. Participant 12 stated that risk is *"one of the biggest agenda items and one of the most important things you deal with as an audit committee".* The focus group participants discussed two aspects of risk pertinent to audit committees, namely financial risk and business risk. Financial risk relates to risk of errors and misstatements in the financial statements. Business risk incorporates various business-related risks, such as cyber risk, product risk, information technology risk, human resource risk, sustainability risk and industry risk. Business risk differs among businesses and industries.

The focus group explained that, in recent times, most risk committees are separate from the audit committee because risk is an important and complex issue that requires focussed attention. The example described was the insurance industry that requires a separate risk committee in terms of legislation and where any non-compliance requires an explanation to the regulator. A separate risk committee helps to alleviate some of the burden on the audit committee for risk oversight.

3.6.7.2 Focus group 2 - Affinity 6: Quality of enterprise risk management

Focus group 2 described Enterprise Risk Management as referring to the methods and processes followed to manage risks in a company. A more rigorous application of Enterprise Risk Management helps the audit committee to better evaluate business risks. Risks should be viewed in an integrated and holistic manner because risks are often interdependent. Therefore, various risks such as information technology risk, liquidity risk and market risk should be aggregated through the Enterprise Risk Management process and the audit committee should understand the exposure of the company to these various risks.

Understanding and addressing risk also requires a good understanding of the nature of the business and industry as certain risks are specific to certain industries. Business and industry expertise (theme 2) enhance and deepen the audit committee's knowledge of *"the underlying activities that affect the annual financial statements"*. Risks constantly change and should be evaluated on an ongoing basis to address the impact of emerging issues and challenges. The focus group stated that there is generally a separate risk committee in the private sector, however the audit committee may not always choose to place reliance on this sub-committee. The degree of reliance is generally commensurate with the competence of the risk committee.

3.6.8 Theme 8: Company secretary, board and management

Theme 8 grouped three affinities that broadly related to aspects of empowerment of the audit committee by the company secretary, board and management. The first two affinities related to the company secretary and were classified as a primary driver by focus group 1 and as a secondary driver by focus group 2, indicating its relative importance for audit committee effectiveness. The third affinity related to the empowerment and authority provided by management and the board.

3.6.8.1 Focus group 1 - Affinity 2: Company secretary

Focus group 1 maintained that the company secretary receives all information from various sources and then *"coordinates everything"* for the audit committee. Participant 11 elaborated that *"everything hinges on a competent company secretary….to get the logistics, the meeting, the packs out… the company secretary needs to arrange the induction, look at the training (of members), needs to look at updates on corporate governance"*. Another important role of the company secretary is to provide a link between the audit committee and management. Participant 3 explained that *"all audit committee members are non-executive directors and independent…we don't have access to the offices or anything…so the company secretary would be able to put all the information together…and we rely on them"*. Thus, the company secretary is key in communicating information between management and the audit committee.

The group described certain responsibilities of company secretaries, including preparing audit committee meeting documentation (audit packs), agendas, accurate minutes, induction, and training of new members. Induction or *"on-boarding"* equips new members with knowledge of pertinent regulations relating to the specific industry. The group emphasised that even the Companies Act recognises the importance of the company secretary because the appointment of the secretary is legislated in the Companies Act and the removal of the secretary is a *"notifiable event"* to the Johannesburg Stock Exchange.

3.6.8.2 Focus group 2 - Affinity 7: Competency of company secretary

Focus group 2 explained that company secretaries have considerable influence on audit committee effectiveness because they fulfil several important roles. For example, a secretary is responsible for a well-constructed agenda, high-quality minutes, providing guidance on governance codes and legislation, providing orientation and *"on-boarding"* of new members, and monitoring all board sub-committees. The company secretary provides members with knowledge of the business and industry to better understand financial reports in proper context.

3.6.8.3 Focus group 2 - Affinity 15: Status and standing of audit committee

Focus group 2 explained that when the audit committee is empowered by the board and management, this enhances the status and standing of the audit committee as perceived by others. This empowers audit committee members and encourages greater effectiveness of the committee. Participant 14 elaborated that *"status and standing is how the audit committee is respected and viewed… its position and power"*. The audit committee's work should be taken seriously and not be seen as a mere *"tick-box"* exercise for management and the board. Indeed, the *"board's support for the audit committee"* and the critical role they play in *"good governance"* is important in setting the correct tone and *"perception in the organisation"* of the audit committee. Conversely, lack of support of the audit committee, such as viewing it as an unpleasant necessity or *"bearer of bad news"*, diminishes the status and standing of the audit committee. The audit committee should also be empowered to interact with other board sub-committees because these can be a valuable source of information and avoid duplication of work among committees.

3.6.9 Theme 9: Scope and charter

Theme 9 comprised two affinities related to the audit committee charter. The terms *"audit committee charter"*, *"mandate"* and *"terms of reference"* were used interchangeably in both focus group discussions and referred to the duties of the audit committee as set out in the audit committee charter (hereinafter charter). Although the charter was classified as a secondary driver by focus group 2, it was classified as a secondary outcome by focus group 1. This reflected mixed views on its importance. A possible reason for this difference in opinion is ventured. Although audit committee members (focus group 1) are intimately familiar with their own duties, audit committee stakeholders (focus group 2) may not be. A charter helps to better understand audit committee duties. Anecdotal evidence from a conversation with a focus group participant revealed that board members without accounting and audit experience do not necessarily understand the duties of audit committee members. A charter helps them by clarifying what the audit committee is accountable for. The charter also provides a benchmark against which to evaluate the performance of the audit committee.

3.6.9.1 Focus group 1 - Affinity 16: Scope and charter

The charter sets out the scope and responsibilities of the audit committee. This helps members to plan the time and energy required to fulfil such responsibilities. The group explained that the charter has become more important in recent times because of increasing responsibilities placed on audit committees. They emphasised that the charter should include the extent of interaction allowed between the audit committee and other board sub-committees and should stipulate the degree of reliance that can be placed on the work of other board sub-committees. The charter should be reviewed annually.

3.6.9.2 Focus group 2 - Affinity 2: Mandate

The mandate is important because it explicitly states the responsibilities, scope and role of the audit committee, including its role in governance. This helps stakeholders, especially those without a financial background, to better understand an audit committees' responsibilities. The mandate also provides a basis to evaluate the audit committee against *"what is effective"*.

3.6.10 Theme 10: Evaluation

Only focus group 1 identified evaluation as a separate affinity, perhaps because they are evaluated and therefore more aware of it. This affinity was classified as a secondary outcome, suggesting that it is relatively less important.

3.6.10.1 Focus group 1 - Affinity 16: Self-evaluation

Focus group 1 explained that evaluation includes evaluation of audit committee members and the committee as a whole. An evaluation identifies areas for improvement. The group mentioned different types of evaluations, including self-evaluations, 360-degree evaluations and evaluations facilitated by external parties. The group's view was that self-evaluations were most commonly used in practice. Self-evaluation typically examines the participation of each member within the audit committee and uses questionnaires to elicit information. A 360-degree evaluation obtains feedback from various parties that work with audit committees, about the performance of the audit committee. It is therefore likely to be more objective.

3.6.11 Theme 11: Assurance

Theme 11 comprised five affinities related to assurance. Both focus groups identified combined assurance as an affinity. Focus group 1 chose to identify internal audit and external audit as two separate affinities, while focus group 2 included these in their discussion of combined assurance. Focus group 2 identified reliance on board committees as a separate affinity, which focus group 1 did not identify.

All affinities were secondary outcomes, except for internal audit, which was identified by focus group 1 as a secondary driver. It is notable that internal audit was the lowest ranked secondary driver by focus group 1 and was on the borderline of being classified as a secondary outcome. Focus group 2 classified internal audit as a secondary outcome. Taken together, these support the decision to include internal audit in this theme (and not separately). Overall, this theme was relatively less important. This is logical as other drivers of audit committee effectiveness will generally demand a higher quality of assurance, resulting in assurance being an outcome, not a driver. For example, a competent audit committee (a driver) is likely to drive a higher quality of external audit (an outcome). Assurance providers do not directly influence audit committee effectiveness, but indirectly influence it through their assurance reports to audit committees. This does not imply that assurance is not important for good corporate governance. It means that assurance is not as important in driving audit committee effectiveness as other affinities are.

3.6.11.1 Focus group 1 - Affinity 1: Combined assurance

Combined assurance refers to the assurance provided by various assurance providers. The group emphasised that King IV™ points out that combined assurance extends beyond internal and external auditors and includes all types of experts that provide assurance on specialised matters that audit committee members *"don't know enough about"*. The need for specialists differs per industry. Specialists are not members of the audit committee, but their expertise is called upon when required by the audit committee. The example provided by the focus group was of an audit committee in the insurance or pension industry that requires the specialist skills of an actuary to provide assurance on solvency assessments. Other board committees, such as the credit committee and risk committee, also provide assurance. Participant 11 described that in practice there is generally a *"Combined Assurance Forum where all such parties meet with the intent to identify all risks to avoid duplication of effort"*. Participant 1 further stated that there is a *"Combined Assurance Plan that lists all issues and risks and who you get the combined assurance from"*. Thus, the forum and plan ensure that issues and risks are identified and that an assurance provider is appointed to address such risks.

3.6.11.2 Focus group 2 - Affinity 14: Combined assurance

Focus group 2 mainly discussed internal and external auditors under this affinity. They explained that competency and *"quality of internal audit and external audit"* together with an environment characterised by a higher *"quality of enterprise risk management"*, influences the trust and reliance placed by the audit committee on the work of these assurance providers. Assurance providers support the audit committee with reports that assist them to perform their duties.

The group emphasised the importance of clear reporting lines of internal audit, represented by the chief audit executive (head of internal audit). Since the chief audit executive reports both internally to executive management and externally to the audit committee, there is a dual reporting line, which may lead to a conflict of interest. Participant 13 expressed the view that this sometimes creates problems because *"who does internal audit have as final recourse when faced with internal politics and power struggles?"* The group view was that internal audit should be free to report to the audit committee without fear of retribution from management. The group also felt that a good relationship and fluid communication between the chief audit executive (representing internal audit) and the audit partner (representing external audit) enhances combined assurance. The quality of the chief financial officer also influences combined assurance because a higher *"quality of chief financial officer"* produces a better quality of work and is more cooperative with internal auditors, external auditors and the audit committee.

A contrary view was that too much *"proliferation of audit levels"* is also undesirable. Participant 22 said that: *"I wonder if we have pushed assurance to a level where it is counterproductive. I am worried about the number of people involved in auditing. In a company you can have up to six levels of people auditing something that someone else has done… the manager, chief financial officer, internal audit, external audit, board… and I am wondering if we really need all these levels… and this much assurance"*. This view pointed out that combined assurance can be counterproductive when overdone.

3.6.11.3 Focus group 1 - Affinity 10: Internal audit

The group stated that an effective internal audit function includes competent staff, clear reporting lines, a well-developed internal audit plan, a comprehensive and complete scope of work and a well-constructed internal audit charter. The audit committee approves the internal audit plan and internal audit charter annually. These documents describe the scope and extent of internal audit work. Reporting lines should be clear, especially since internal audit has a dual reporting line to management and the audit committee. The audit committee should have a good and cooperative relationship with internal audit, so that the latter feel free to report any irregular or contentious matters directly to the audit committee. The group emphasised that a disadvantage of being a non-executive director (as audit committee members are) is that one does not have a physical presence at the company. Internal audit help by serving as a link between the audit committee and company. Internal audit can reveal potential fraud and risks. Internal audit evaluation should occur annually to identify areas in which the internal audit function can improve.

3.6.11.4 Focus group 1 - Affinity 8: External audit

The group highlighted that the external audit function is a statutory requirement in terms of the Companies Act. External auditors must audit financial statements and aspects of the integrated report, which the audit committee recommends to the board for approval. This is one of the most important duties of an audit committee. It is therefore important that auditors are independent and competent as this engenders greater trust in their assurance work. High-quality external audits reduce the likelihood of financial misstatements, fraud and irregularities. It is important that relationships of trust exist among external auditors, audit committee members, management and the chief financial officer. It is particularly important that the audit partner is independent of management to avoid any conflict of interest. External auditors with a *"receptive mind-set"* and that are *"conciliatory rather than hostile"* are easier to have open and transparent discussions with. External auditors that *"escalate crises and management issues timely"* lead to more trust in their assurance work because problems are likely to be resolved sooner rather than later.

3.6.11.5 Focus group 2 - Affinity 11: Interaction among board committees

Focus group 2 explained that interaction and good communication between the audit committee and other board sub-committees allows valuable information to be shared and saves time and duplication of work, provided that the work is of an acceptable standard. The example discussed was of a risk committee that provides important information about risk management and enables the audit committee to understand risk better. The group identified that although such sub-committees exist, the sharing of information with the audit committee does not always occur.

3.6.12 Theme 12: Meetings and reporting

Theme 12 broadly related to efficient meetings and reporting at audit committee meetings and comprised seven affinities. This included discussions about the work-plan, agenda, meeting procedures, quality of meeting documentation and preparation for meetings. All seven affinities were classified as secondary outcomes, indicating its relatively lower influence on audit committee effectiveness.

3.6.12.1 Focus group 1 - Affinity 18: Work-plan, agenda and meeting procedures

Focus group 1 discussed the interrelationships among the annual work-plan, agenda and minutes of audit committee meetings.

<u>Annual work-plan:</u> Management holds this annual event to plan the year ahead and address risks. The number, dates, times, length and agendas of audit committee meetings is planned. The audit committee charter is used as a basis to ensure that all audit committee duties and other important issues are covered. The focus group estimated that five audit committee meetings occur on average annually.

<u>Agenda:</u> The agenda for each meeting is derived from the annual work-plan. It is imperative that the agenda is complete and focussed on the "*right things"* to award priority to risks and other important matters. Duplication of agenda items should be avoided. Participant 11 explained that the risk of not deriving an agenda from a work-plan is that *"you miss items and then its chaos…. what you see come through at meetings… the repetitions that come through"*. A good agenda allocates adequate time per item and deters discussions from deviating at a tangent. There should not be *"too much information and too little time"* at meetings.

Minutes: Minutes of meetings should be of a high standard and accurately capture the proceedings, resolutions and decisions taken. There should be *"follow-ups on outstanding issues"* to ensure that these remain tracked and corrective action is taken timeously.

3.6.12.2 Focus group 2 - Affinity 5: Meeting procedures

A good set of meeting procedures saves time and duplication of matters. The annual work-plan done at the beginning of the year should inform meeting dates and agenda items for forthcoming audit committee meetings. Planning of agendas prevents duplication of the same topic at different meetings. Dates of meetings should allow sufficient intervals between audit committee meetings and board meetings to permit members enough *"time to digest issues raised"*. Meeting procedures should ensure that resolutions taken at meetings are actioned and not lost.

3.6.12.3 Focus group 1 - Affinity 13: Meetings

The focus group's discussion revolved around time management, attendance, planning and preparation for meetings.

Time management: Meetings should not *"get side-tracked by operational matters"*. The depth and level of discussion should be appropriate for the matter being discussed. Meetings should end within time limits.

Attendance, planning and preparation: All members should be diligent in attending all meetings. They should plan and prepare diligently for meetings. Members should receive audit committee meeting documentation ("audit pack")timeously to have sufficient time to read, analyse, study, interrogate and assimilate the information. This allows them to prepare questions for further discussion and clarification at meetings. People invited to attend from the company should be *"carefully selected"* for the specific meeting.

3.6.12.4 Focus group 2 - Affinity 13: Focus and priorities

Time devoted to each matter at meetings should be commensurate with its priority. Meetings should not drift off on tangents, or waste time on less important and *"wrong* *things"*. *"Silo-thinking"* is undesirable, whereas *"integrated thinking"* achieves a more holistic and *"integrated picture"* of the business and its financial position. Following a *"tick-box"* approach or *"going through the motions"* was discouraged, whereas a thoughtful and focussed approach on *"significant and risky issues"* and *"key stakeholder drivers"* was encouraged.

3.6.12.5 Focus group 1 - Affinity 14: Reporting

Important reports presented at audit committee meetings include the annual financial statements, integrated report, sustainability report and reports from audit committees of subsidiaries. One of the foremost responsibilities of an audit committee is to review and recommend the annual financial statements to the board for approval. Participant 11 emphasised that the *"integrity of the organisation hinges on the annual financial statements and integrated reporting because these are placed on the internet and publicly available"*. Therefore, management reports included in the audit committee documentation should be of a high quality and contain sufficient detail to enable proper analysis and decision making by audit committee members. Repeat meetings should be called if reports are of a poor standard or incomplete. The process of how management compiles and prepares their reports should be explained to the audit committee because this reveals the quality and integrity of the report. Reports from audit committees of subsidiaries that are presented to the holding company's audit committee should be of adequate quality to place reliance thereon. High-quality reporting allows members to understand, discuss and deal with reports quickly, accurately and efficiently.

3.6.12.6 Focus group 2 - Affinity 8: Quality of audit committee pack

A high-quality audit committee *"pack"* with a well-formulated agenda and an appropriate level of accurate and detailed information per agenda item enhances audit committee meetings and the committee's effectiveness. Too much detail may lead to excessive time spent on a matter, and too little detail may not allow a thorough understanding of the issue. Audit committee packs should be *"complete"* in that all relevant financial and non-financial information should be included. The documentation should be *"packaged in a way that links financial matters to operational results"*. The audit documentation should be timeously distributed to allow members sufficient time to study and understand information. The agenda should also allow for ad hoc requests that may arise. Minutes should be of a high standard and there should be a mechanism to monitor the impact of audit committee suggestions.

3.6.12.7 Focus group 2 - Affinity 4: Preparation

Focus group 2 explained that audit committee meetings are more effective when members prepare diligently. Preparation includes understanding both financial and non-financial information. Participant 14 explained that if *"you focus on the numbers but don't really understand what is going on"*, that is not being prepared. Thus, members should consider all information that comes to their attention from the news, media, public domain or their general knowledge of the business and industry. *"Non-financial"* information often reveals whether the *"audit committee pack"* is complete or whether relevant information is excluded. Thorough preparation includes interrogating the "*completeness"* of information in the audit pack. Finally, preparation not only means that audit committee members should attend all meetings, but also be *"present"* at meetings by participating and not remaining silent.

This section summarised the focus group discussions of all 34 affinities, within the structure of 12 final themes. The next section classifies the 12 themes into drivers, outcomes and pivots.

3.7 CLASSIFICATION OF THEMES

Thus far it was discussed how IQA classified the 34 affinities into drivers, outcomes and pivots. The 34 affinities were next grouped into 23 preliminary themes, and refined into 12 themes. These 12 themes were not classified as drivers, outcomes or pivots as only affinities were classified during the process of IQA. The next step was therefore to classify these themes by using the classification of the underlying affinities comprising each theme. This was necessary to develop the preliminary graphical framework as shown in Figure 5.2.

The primary objective of this study was to develop a framework for audit committee effectiveness and IQA presented a unique opportunity to develop a three-level hierarchy, or three-tiered graphical framework (model) of determinants of audit committee effectiveness. Three categories of classification were used, namely drivers, outcomes and a pivot to develop this framework. It was considered unnecessary and impractical to distinguish between primary and secondary drivers, and primary and secondary outcomes, as the emphasis was on broad categories of drivers and outcomes. It was expected that further classification into primary and secondary drivers and outcomes would add unnecessary complexity to the three-tiered graphical framework. This framework also presented an opportunity to address the gap identified in the literature to understand the interrelationships among determinants of audit committee effectiveness.

The classification of themes into drivers, outcomes and a pivot are presented in Table 3.11. Column 1 lists the theme number and column 2 states the theme name. Column 3 shows the classification of the theme as a driver, outcome or pivot. Columns 4 and 5 list the affinities from both focus groups comprising the theme. The affinity number is stated in brackets, followed by the IQA classification as a driver, pivot or outcome. This provides a clear audit trail. Column 6 refers to the section in which the classification of the theme is discussed. In general, the classification of underlying affinities guided the classification of themes.

Table 3.11: Classification of themes

No.	Theme name	Classification of themes	Focus group 1: Affinity name, number and classification	Focus group 2: Affinity name, number and classification	Section
1.	Financial expertise and personal attributes	Driver	Competence (3) - driver	Understanding regulatory impact (9) – outcome Knowledge and skills (16) - driver	3.7.1
2.	Business and industry expertise	Driver	Knowledge of business and industry (11) - driver	Knowledge and skills - nuance (16) – driver	3.7.2
3.	Composition	Driver	Composition (4) - driver	Composition (1) – driver	3.7.2
4.	Independence	Driver	Independence (9) - driver	Composition – nuance (1) - driver	3.7.2
5.	Chair leadership and tone	Driver	Audit committee leadership (12) – driver	Audit committee chair effectiveness (3) – driver Audit committee tone (10) - driver	3.7.2
6.	Trust, ethics and governance	Driver	Corporate governance and trust (5) - driver Ethics (7) - driver Relationship with management (14) - outcome	Corporate culture (12) - driver	3.7.3
7.	Enterprise risk management	Pivot	Enterprise risk management (6) – driver	Quality of enterprise risk management (6) – pivot	3.7.4
8.	Company secretary, board and management	Driver	Company secretary (2) - driver	Competency of company secretary (7) – driver Status and standing of committee (15) – outcome	3.7.5
9.	Scope and charter	Driver	Scope and charter (16) - outcome	Mandate (2) – driver	3.7.6
10.	Evaluation	Outcome	Self-evaluation (17) - outcome	Not identified	3.7.2
11.	Assurance	Outcome	Combined assurance (1) – outcome Internal audit (10) – driver External audit (8) - outcome	Combined assurance (14) – outcome Interaction among board committees (11) – outcome	3.7.7
12.	Meetings and reporting	Outcome	Meetings (13) – outcome Reporting (14) – outcome Reporting (15) – outcome Work-plan and agenda (18) - outcome	Preparation (4) – outcome Meeting procedures (5) – outcome Quality of audit committee pack (8) – outcome Focus and priorities (13) – outcome	3.7.2

Source: Own design

3.7.1 Financial expertise and personal attributes

Of the three grouped affinities, two were classified as drivers. The affinity "understanding regulatory impact" was classified as an outcome and related to keeping pace with changes in legislation. It was decided that the classification of this theme should take on the overall classification of the main affinities comprising this theme, which were drivers. This rationale was also applied in classifying other themes in this section.

3.7.2 Homogenous underlying affinities

In instances where all the underlying affinities comprising a theme were classified as either drivers or outcomes, the theme took upon the same classification. The underlying affinities of themes 2, 3, 4 and 5 were all drivers, therefore these themes were classified as drivers. Similarly, the underlying affinities of themes 10 and 12 were all outcomes, therefore these themes were classified as outcomes.

3.7.3 Trust, ethics and governance

Of the four underlying affinities, three were drivers. "Relationship with management" was classified as an outcome and formed a shorter and less important part of the focus group discussions. This theme was therefore classified as a driver.

3.7.4 Company secretary, board and management

The company secretary was classified as a driver by both focus groups. The "status and standing of committee" was classified as an outcome and dealt with support and empowerment received from the board and management. Overall, this theme was considered a driver.

3.7.5 Enterprise risk management

Focus group 1 classified risk management as a secondary driver, while focus group 2 classified it as a pivot. Northcutt and McCoy (2004:173) explained that a pivot is an affinity that has an equal number of affinities that influence it, and that it influences, indicating a position that is central to the system. The focus group discussions revealed that risk management was perceived as central to audit committee effectiveness. Participant 6 from focus group 1 explained that *“risk is a funny thing because everything embraces risk”*. Therefore, even the view expressed in focus group 1 (that classified enterprise risk management as a driver) referred to risk management as being central and pervading everything (a pivot). It was therefore decided that this theme reflected stronger characteristics of a pivot than a driver. It was therefore classified as a pivot.

3.7.6 Scope and charter

Focus group 1 classified “Scope and charter” as a secondary outcome, while focus group 2 classified this affinity as a secondary driver. It was decided that the audit committee charter empowers the audit committee through a set of statutory, non-statutory and ad hoc duties. Similarly, the Companies Act empowers the audit committee by legislating its duties. These responsibilities empower the audit committee because they provide a legal foundation for the committee to act upon. This drives audit committee effectiveness, suggesting that this theme displayed stronger characteristics of a driver than an outcome.

3.7.7 Assurance

Of the five underling affinities, four were outcomes and only one was a driver (“internal audit”). Focus group 1 classified internal audit as a secondary driver. Focus group 2 did not identify internal audit as a separate affinity because they did not perceive it as being important enough to classify separately. The hierarchical analysis of focus group 1 using IQA reflected internal audit as the weakest secondary driver and nearest to being classified as a secondary outcome. It was therefore decided to classify this theme as an outcome.

There was unanimous evidence to classify the 12 themes into drivers, outcomes and pivots, without any significant conflicts. This classification was next used to develop a preliminary three-tiered graphical framework reflecting the 12 themes.

3.8 PRELIMINARY GRAPHICAL FRAMEWORK

3.8.1 Rationale for a preliminary graphical framework

The primary objective of this study was *“to develop a graphical and narrative framework that aims to promote the overall effectiveness of audit committees in private sector companies in South Africa.* In chapter 2 (section 2.5.4) it was explained that a Systems Influence Diagram (SID) is essentially a visual flowchart or presentation of affinities, and that its suitability in addressing the primary objective should be evaluated against other possible options of visual presentations.

To illustrate the use of a SID as a form of visual presentation, an uncluttered SID (Annexure L) and cluttered SID (Annexure M) for focus group 1 are included as examples. A cluttered SID is a visual representation of all relationship pairs identified between affinities. An uncluttered SID is prepared by removing redundant links from the cluttered SID. Despite the uncluttered SID being a simpler version of the cluttered SID, it is nevertheless a complex diagram that shows a large number of affinities (18) and numerous arrows and loops among affinities. To add to the complexity, there were two focus groups in this study, resulting in two SIDs, depicting a total of 34 affinities. The primary objective of this study was to develop one graphical framework that represents a combined (triangulated) view of both focus groups and the literature, which was consistent with and interrelated with the narrative framework. The purpose of the narrative framework was to set out the detailed principles and guidelines for audit committee effectiveness, while the graphical framework was intended to visually present a high-level overview of the principles contained in the narrative framework.

After discussion with some focus group participants, audit committee professionals and academics, it became evident that two SIDs would not best serve the objective of developing a single graphical framework for audit committee effectiveness, due to the large number of affinities and unnecessary detail accompanying such a visual presentation. It was evident that the SIDs would add further complexity and hinder the understanding of an already complex topic. A preliminary review of the literature on audit committee effectiveness also supported a simpler and more understandable graphical presentation of the findings (e.g. DeZoort et al 2002; Bédard & Gendron 2010; Ghafran & Sullivan 2013). It was therefore decided that a better visual presentation than a SID would be a graphical framework presenting all themes in an understandable and comprehensive format, while simultaneously meeting the primary objective of this study to develop a graphical framework.

Miles and Huberman (1994:22) explained that a graphical framework requires summarising relationships among variables concisely and presenting all information on one page. They advised that several iterations may be necessary before the final framework is developed. It was considered appropriate to present the first iteration at this stage of the study.

3.8.2 Preliminary graphical framework

The classification of the 12 themes as summarised in Table 3.11 reflects eight drivers, one pivot and three outcomes. Primary and secondary drivers were grouped as drivers. Similarly, primary and secondary outcomes were grouped as outcomes. This grouping was used as a basis to prepare the graphical framework in Figure 3.2. Figure 3.2 shows each of the 12 themes with its respective underlying affinities. Both focus groups used identical names for three affinities, namely composition, combined assurance and reporting. These three affinity names are not duplicated in Figure 3.2, thus 31 (out of the total of 34) affinity names are reflected. The rationale behind Figure 3.2 is that it shows three tiers or levels of hierarchy (drivers, outcomes and a pivot) based on IQA. Drivers represent tier 1. To enhance audit committee effectiveness, drivers should be addressed first. For example, an audit committee should primarily focus on having adequate expertise, independence and a competent chair. The pivot (risk management) represents tier 2 and represents the next priority to address. The outcomes represent tier 3 and are less important to address. Further, the IQA rationale holds that drivers influence outcomes, thus if drivers are addressed, then outcomes are likely to follow. For example, a competent audit committee is likely to drive a high quality of assurance, reporting and meetings.

This three-tiered framework showing a hierarchy of drivers, outcomes and a pivot, present a unique perspective on audit committee effectiveness and adds to the literature. Since there are numerous factors that influence audit committee effectiveness, as evidenced by the large number of affinities identified, it may be daunting for audit committee professionals to decide on a priority of actions to address effectiveness. This graphical framework sheds some light on a strategy by presenting a hierarchy that can be used to address audit committee effectiveness.

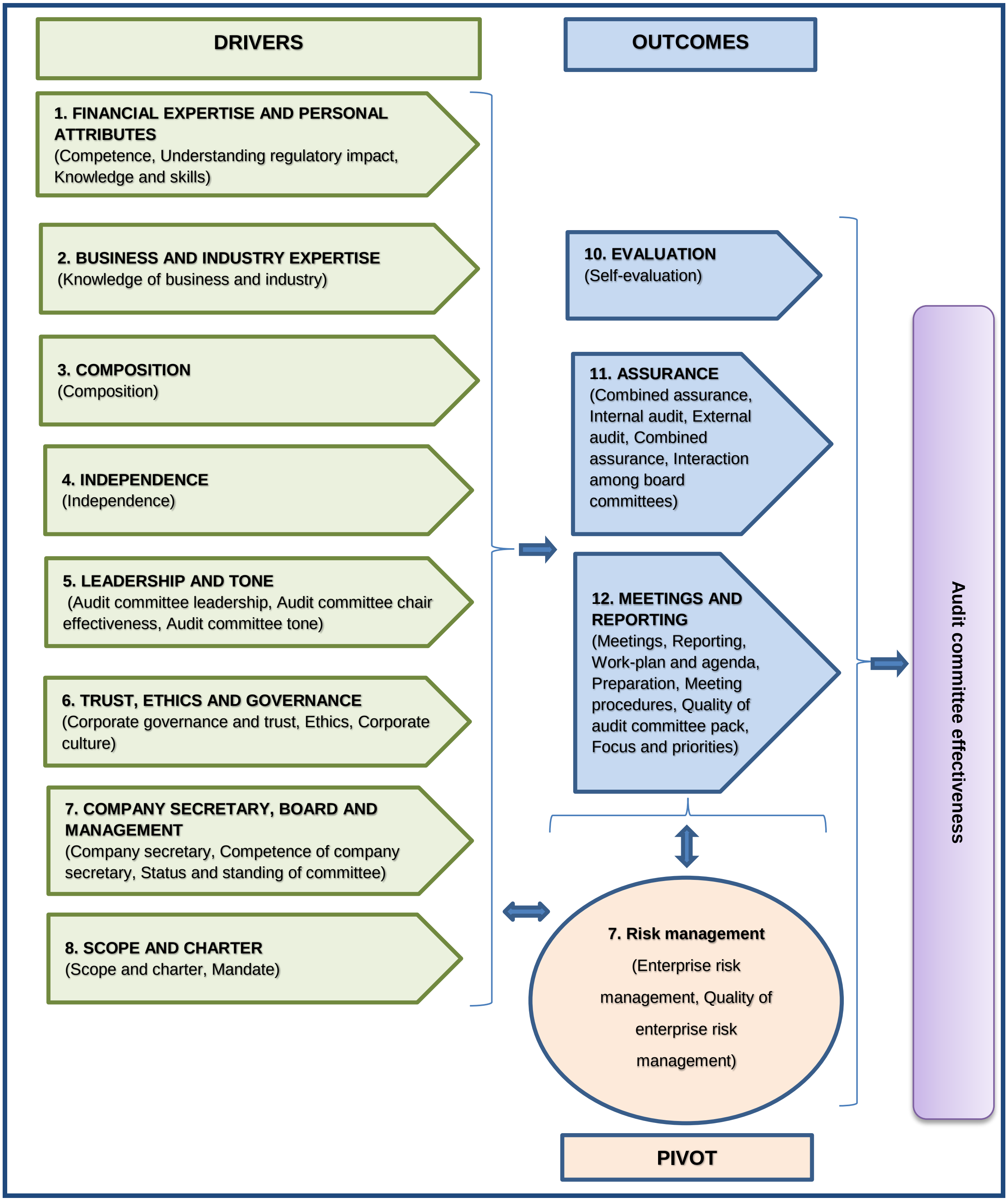

Figure 3.2: Preliminary graphical framework for audit committee effectiveness

Source: Own design

3.8.3 Interrelationships among themes

It was considered premature to discuss interrelationships among themes at this stage of this study as it was expected that the literature review would provide more depth on themes. Another reason for not discussing interrelationships at this stage was to prevent duplication of such discussions. Interrelationships are therefore discussed in detail in section 5.5, after the literature review in chapter 4, for the sake of brevity.

3.9 SUMMARY AND CONCLUSION

Both focus groups identified and discussed a total of 34 affinities. These discussions were summarised using notes of focus group discussions, audio recordings and sub-affinities (cards). All 34 affinities were defined and presented in Table 3.10. Affinities with similar titles and ideas from both focus groups were first grouped, resulting in 23 preliminary themes. Next, these were analysed into 12 final themes in Table 3.9. These 12 themes were then classified into a three-level hierarchy of drivers, outcomes and a pivot, using the classification of the underlying affinities. This was shown in Table 3.11. This was used to develop a three-tiered preliminary graphical framework on audit committee effectiveness as shown in Figure 3.2.

The next chapter presents the literature review on audit committees and the 12 themes identified in this chapter to gain a deeper understanding of themes and findings in the literature.

CHAPTER 4

LITERATURE REVIEW

4.1 INTRODUCTION

Chapter 3 addressed Phase 1 of the research process, which was to hold two focus groups to identify affinities that influence audit committee effectiveness. The focus groups identified 34 affinities. Affinities with similar titles and content were grouped, resulting in 23 preliminary themes. These 23 preliminary themes were further analysed in Phase 2 of the research process, and organised into a hierarchical sequence of 12 final themes using Interactive Qualitative Analysis (IQA).

This chapter addresses Phase 3 of this research study, which is to conduct a literature review relating to audit committee effectiveness. The literature review is presented in two sections. Firstly, section 4.2 presents a literature review of pertinent studies relating to audit committee effectiveness. These studies identified gaps in the literature that motivate this study. Secondly, section 4.3 presents a literature review of the twelve themes identified by the analysis of focus group data in Chapter 3. The extent of the literature review was directed by the hierarchical importance of the twelve themes. Therefore, drivers are addressed in more detail than outcomes. Similarities and differences between the views of the focus groups and the literature are also identified and discussed. Direct quotes from focus groups are included in inverted commas (“”) in the literature review.

4.2 LITERATURE MOTIVATING THIS STUDY

This section presents the review of pertinent literature on audit committee effectiveness that identified gaps in the literature, which motivated this study. The main gap identified was the need for a dedicated framework for audit committee effectiveness to augment the existing requirements of the Companies Act and King IV™. Other gaps included the need for a qualitative study to identify and obtain a deeper understanding of determinants of audit committee effectiveness, and how these determinants interrelate with each other.

The review of the literature also identified the need for studies that extend the boundaries methodologically and geographically to extend and address further gaps in the literature.

4.2.1 Legislation and code of governance

In South Africa, section 94 of the Companies Act focusses mainly on the constitution and the main duties of audit committees. It does not deal with how audit committees can be more effective, or shed any light on this topic. King IV™ is a report that presents a Code aimed at achieving good corporate governance. It applies to companies and other organisations. The focus of King IV™ is mainly on boards and not on how audit committees can be more effective (IoDSA 2016:22). Sections 51 to 59 of King IV™ do address audit committees, but focus mainly on statutory and non-statutory duties of audit committees. These sections are brief and are approximately a page in length. Audit committees arguably have the potential to impact corporate governance more than other board sub-committees because of their onerous responsibilities relating to oversight of financial reporting quality. It was therefore expected that a framework focussed specifically on audit committee effectiveness would promote good corporate governance, benefit various stakeholders, and augment the existing requirements of the Companies Act and King IV™. A framework may also provide valuable insights that inform future amendments to the extant legislation and King IV™.

King IV™ caters for a variety of organisations that wish to apply it voluntarily, therefore it uses generic terms. For example, King IV™ refers to “organisations and governing bodies rather than companies and boards of directors” (IoDSA 2016:6). In this study, when citing directly from King IV™, the term “governing body” is cited, but in other places, the term “board” is used, since companies are governed by boards of directors.

4.2.2 Literature on audit committee effectiveness

DeZoort et al (2002:38) reviewed quantitative studies done between 1990 and 2002. From this review, they derived a definition of an effective audit committee as one that has:

> *"qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent efforts".*

DeZoort et al (2002:42) identified four determinants of audit committee effectiveness in this definition. The term "determinant" refers to factors that influence, or determine, audit committee effectiveness. The present study uses this term ("determinants") and "factors that influence" audit committee effectiveness, interchangeably. The four determinants identified by DeZoort et al (2002:42) were composition, authority, resources and diligence. These four determinants were the *independent* variables used in the quantitative studies to investigate the association with the *dependent* variable (audit committee effectiveness). The authors did not define these four determinants, which may lead to subjective interpretations and ambiguity. DeZoort et al (2002:68) explained that there were various limitations of their study and identified three main gaps in the literature that are pertinent to the present study (DeZoort et al 2002:43).

Firstly, DeZoort et al (2002:43) indicated that there was likely to be an overlap and interaction among the four determinants (composition, authority, resources and diligence) and that additional research was needed to explore and gain deeper insight into these determinants to better understand their effect on audit committee effectiveness. They further explained that such interrelationships could not be explored in quantitative studies and required a qualitative approach. They identified that one of the inherent limitations of the quantitative studies that they reviewed was that proxies were often crude indicators. In quantitative studies, proxies are indicators or representatives of the determinants being studied. For example, the number of audit committee meetings was used as a proxy for diligence, the rationale being that more meetings imply greater diligence, however this is not necessarily a true indication of diligence (Bédard & Gendron 2010:196). In addition, the ideal number of meetings depends on the size, nature, complexity and specific needs of the company, which cannot be generalised. Another example is the proxy for independence. Quantitative studies use the proportion of non-executive directors to total audit committee members as a proxy. Non-executive directors are seen as independent because they are not employees of the company, whereas executive directors are not seen as independent. Independence is a complex attribute and is difficult to observe. It is an oversimplification to view non-executive directors as independent and this does not measure independence or capture its complexity. Similarly, other proxies suffer various limitations that are beyond the ambit of this study to discuss in detail, but that are well documented in the literature. Proxies are therefore limited in accurately representing determinants of audit committee effectiveness and explaining interrelationships. Thus, the major limitation identified by DeZoort et al (2002:43) was that their study (and similar studies) ignored qualitative determinants, and qualitative aspects of determinants previously identified. They also explained that there was a limited understanding of the interrelationships among these determinants as these were too complex to understand in quantitative studies.

DeZoort et al (2002:68) pointed out that a second limitation was that their findings were based on United States data and there was a need to study audit committee effectiveness in international and multinational settings to assess the generalisability of their findings. A third limitation was that differences in audit committee members' skills, resources and diligence are likely to differ across countries, cultures and economies. This may result from differences in education, training, legislation, background and various other factors. This highlighted the need for a study in a different setting. DeZoort et al (2002:68) therefore identified three gaps in the literature pertinent to this study and called for studies to address these limitations.

Turley and Zaman (2004:307) identified four expected benefits of audit committees for a company. These were: structural incentives, improved external audit function, improved financial reporting quality, and improved corporate performance. Their focus was on the expected benefits derived from an audit committee and not on what influences audit committee effectiveness. They explained that structural incentives referred to the reduction of certain structural costs, such as directors' legal liability. The audit function referred to the quality of external audit; financial reporting quality referred to fewer errors and irregularities; and corporate performance referred to increasing share prices (Turley

& Zaman 2004:308). They found limited and mixed evidence and asserted that more qualitative studies were required to investigate aspects of audit committee effectiveness further. They therefore also identified the need for qualitative methods as a gap in the literature (Turley & Zaman 2004:326).

Bédard and Gendron (2010:176) suggested that the goal of audit committees is to strengthen financial reporting quality and inspire investor confidence through proper oversight of financial reporting, internal controls and external audit. Their study also did not focus on what determines audit committee effectiveness, but rather on the potential benefits of an audit committee through oversight of financial reporting quality, internal controls and audit quality, which they suggested boosts investor confidence. They concluded that research using qualitative methods could shed more light on the "inner workings" of audit committees and enhance the understanding of audit committee effectiveness (Bédard & Gendron 2010:200). They continued to explain that viewing audit committee effectiveness from various methodological angles enriches the extant literature and that multiple perspectives are necessary to understand a topic with a high degree of ambiguity and complexity. Thus, they identified a gap in the literature and called for more studies that extend the bounds of research methodologically and geographically. This supported the use of focus groups, which provides multiple perspectives from audit committee professionals about the "inner workings" of audit committees from a different country (South Africa).

The purpose of the study by Ghafran and Sullivan (2013:381) was to investigate the extent to which best practice and regulations for audit committees influence components of audit committee effectiveness. They found that audit committees that are larger with greater independence and financial expertise encourage a higher quality of external audit, and that financial expertise influences investor confidence and positive stock market reactions. This prompted them to conclude that there is significant evidence to support the view that best practice and regulations do positively influence audit committee effectiveness. In other words, a framework of principles and guidelines for audit committee effectiveness would positively influence it. This finding supported and encouraged the development of a comprehensive narrative framework for audit committee effectiveness.

Another gap was the limited literature on South African audit committees. Prior South African studies on audit committees generally examined whether audit committees complied with governance codes (King II and King III reports) at the time. These studies are not current as they predate King IV™, which was released in November 2016. Studies examined the role of audit committees in supporting external audit, strengthening business ethics, relationships with internal audit, and views of chief financial officers and audit committee chairs on audit committees (e.g. Marx 2009a:13; Marx 2009b:32; Marx & Els 2009:5; Marx & Lubbe 2010:86). This suggested the need for a more current study, since audit committees are constantly evolving, and the "modern" audit committee has greater responsibilities, challenges, and work than in the past (Marx 2009b:32). More recently, audit committees were also tasked with oversight of integrated reporting as required by King IV™ (Solomon & Maroun 2012:6; de Villiers et al 2014:1042; McNally et al 2017:483). The complexity of interpreting, applying, and keeping up to date with changes in accounting standards also increased with International Financial Reporting Standards (IFRS).

A summary of these gaps and how this study seeks to address these is presented in the next section.

4.2.3 Motivation for this study and a framework

This section discusses how this study responds to the gaps and limitations identified in the literature and are summarised in Table 4.1.

Table 4.1: Summary of gaps in the literature and how addressed

No.	Gaps	How this study addresses the gap	Literature identifying the gap
1.	The need for a framework on audit committee effectiveness as research finds substantial evidence that guidelines and best practice do in fact positively influence audit committee effectiveness. Neither the Companies Act nor King IV™ present a framework for audit committee effectiveness.	Comprehensive graphical and narrative framework for audit committee effectiveness developed.	Ghafran and Sullivan (2013) Companies Act King IV™
2.	Use of more qualitative studies to better understand the effect of determinants on audit committee effectiveness to complement the quantitative studies. Limitations of quantitative studies include the inability to obtain deeper understanding of determinants, and the use of certain proxies that are crude indicators. Viewing audit committee effectiveness from various methodological angles and multiple perspectives enhances the understanding of an ambiguous and complex topic.	- Use of focus groups to obtain views from multiple (29) audit committee professionals on what influences audit committee effectiveness. - Use of IQA to understand determinants and their interrelationships, and to provide a hierarchical analysis for practical solutions to addressing audit committee effectiveness.	DeZoort et al (2002) Turley and Zaman (2004) Bédard and Gendron (2010)
3.	The unexplored overlap and interrelationships among determinants, which can provide deeper understanding of audit committee effectiveness.		
4.	The need for studies on audit committee effectiveness in international settings other than the United States to assess the generalisability of findings.	Study in South Africa, which is multicultural and differs in terms of economy, education, training, legislation and background.	DeZoort et al (2002) Bédard and Gendron (2010)
5.	The need for studies among different cultures, economies, education, training and legislation, other than the United States.		
6.	The need for a study in South Africa due to the limited literature on the topic of audit committees, and specifically on the topic of audit committee effectiveness. Studies generally predate King IV™ and due to the numerous recent corporate governance failures and constant evolving of audit committees, this is an opportune time for a current study.		

This study analyses the interrelationships among various determinants (themes) of audit committee effectiveness using principles of IQA. A hierarchy of drivers, outcomes and a pivot provide a deeper understanding of the themes and interrelationships among these themes. Primary data from focus groups provide direct answers and stronger evidence than the secondary statistical data used by DeZoort et al (2002:38) and crude proxies (Bédard & Gendron 2010:196). This study also responds to the call for a study in a different country, economy, and culture by using South African data. It also responds to the call for a study in a country where audit committee members' skills, resources and diligence may differ because of a different culture, economy, legislation, governance codes, education, training, and various other factors. This study therefore responds to several gaps in the literature.

4.3 LITERATURE REVIEW OF THE TWELVE THEMES

This section presents a literature review relating to the twelve themes identified in Chapter 3. The literature uses terms that may differ from those used by the focus groups. In such instances, preference was given to the term in the literature, except where focus group members were quoted directly. For example, a focus group participant may be quoted as using the word *"competence"*, whereas the literature generally uses the term *"expertise"*.

4.3.1 Theme 1: Financial expertise and personal attributes

The findings in the literature strongly support the focus group views that financial expertise enhances audit committee effectiveness. This is illustrated later in this section by various studies. However, it is not clear what is meant by financial expertise, how it is measured or benchmarked, and whether an audit committee should consist of at least one financial expert that meets certain prescribed minimum criteria to qualify as a financial expert.

The Companies Act does not explicitly stipulate that an audit committee member should have any financial expertise and allows considerable discretion in recruiting audit committee members. This may result in the appointment of unsuitable members, either intentionally or unintentionally, and appears to present a legal loophole that may allow an audit committee to be legally constituted, but ineffective. Since financial expertise is not a legal requirement, it is legally possible for none of the members of an audit committee to have financial expertise.

Section 55 of King IV™ goes a step further and recommends that *"members of the audit committee should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively"* (IoDSA 2016:56). Here, the emphasis is on the financial expertise of the audit committee as a whole, and not on having at least one financial expert present on an audit committee. It is submitted that this allows subjectivity in evaluating whether an audit committee as a whole has the necessary "*financial literacy, skills and experience".* It may also be difficult to achieve this in practice as there does not appear to be any guidance, benchmark, standards or measurement for what is meant by *"financial literacy, skills and experience".* Therefore, neither the Companies Act nor King IV™ prescribe a minimum level of financial expertise that should be present in either an audit committee or in a single member who fulfils the role of a financial expert. This allows for discretion and subjectivity, which may result in an audit committee being less effective. This study found that financial expertise was one of the main drivers of audit committee effectiveness. This suggests that audit committees may be more effective if there are more specific rules about including at least one financial expert with an appropriate or minimum level of financial expertise.

By contrast, legislation in the United States requires that audit committees should have at least one designated financial expert whose name should be disclosed (Grenier, Ballou & Philip 2012:15-17; Abernathy, Herrmann, Kang & Krishnan 2013:1-2). The legislation originally required that a financial expert should include only experts with education and experience in accounting and auditing of financial statements of listed companies, however this resulted in considerable controversy because of the limited pool of qualifying participants (Grenier et al 2012:15-17; Abernathy et al 2013:1-2). This definition was therefore later amended to include non-financial experts and people in finance positions, for example, managing directors, chief executive officers and company presidents (Grenier et al 2012:16; Abernathy et al 2013:2). Bryan, Liu and Tiras (2013:1123) investigated the earnings quality of companies when audit committees had financial experts with a high level of accounting expertise, relative to lower levels of accounting expertise. They found that earnings quality was higher for companies that chose a financial expert optimally (with higher levels of accounting expertise), relative to companies that chose a financial expert sub-optimally (with lower levels of accounting expertise). This finding suggested that companies should seek to appoint a financial expert with a high quality of accounting skills. Gal-Or, Hoitash and Hoitash (2018:143) provide support for this view. They found that audit committee members with greater accounting expertise received greater shareholder approval and support, and that audit committee chairs without accounting expertise received lower shareholder support. Since the pool of skills is limited in South Africa, a narrow definition of a financial expert may not be practical. Notwithstanding the practical considerations, the findings of Bryan et al (2013:1123) suggest that financial experts with greater accounting expertise do improve the quality of financial reporting (earnings quality), and this should be an important consideration when recruiting audit committee members.

Due to the incessant changes in accounting standards, pertinent legislation and audit committee best practices, Grenier et al (2012:16-17) explained that financial experts need mechanisms to ensure that they keep their knowledge updated in order to be effective. They therefore proposed that there should be a comprehensive continuing professional development and certification program and that financial experts should be compelled to meet the requirements of this program. The program should be designed to enhance the expertise of financial experts and help them to remain current on financial reporting issues and audit committee best practices in a formal and systematic way. They further suggested that financial experts should receive a certification as proof of compliance with the requirements of such a program, and that companies should seek to recruit such members for their audit committees.

In South Africa, Temkin (2009:14) proposed a similar idea of a compulsory training program for audit committee members. She explained that although training in South Africa is offered by the Institute of Directors and business schools, this training is voluntary. Thus, less diligent members may choose not attend such training. She acknowledged the skills shortage in South Africa and suggested that training should be extended to key non-financial people. These findings suggested that a formal training program that sets a minimum or tiered level of qualification as a financial expert, is likely to encourage a higher level of financial expertise on an audit committee. According to the findings of this study, greater financial expertise enhances audit committee effectiveness.

The literature contains numerous quantitative studies on financial expertise and the overall findings are that financial expertise of audit committee members is positively associated with audit committee effectiveness. The rationale for most of these studies is that audit committee members with sound financial expertise have a better understanding of how to reduce or curb earnings management. The term earnings management is used in the literature to refer to the manipulation of earnings or the practice of distorting the true financial performance of a company (Klein 2002:376; El Diri 2017:1-2; Ferris & Liao 2019:535). Studies found that a financial expert is significantly associated with fraud prevention (Huang & Thiruvadi 2010:80), audit committee effectiveness was associated with lower earnings management (for example Beasley & Salterio 2001; Gendron, Bédard and Gosselin 2004; Baxter 2010; Marra, Mazzola & Prencipe 2011:205), smaller discretionary accruals (Xie et al 2003; Bédard, Chtourou & Courteau 2004) and higher accruals quality (Dhaliwal, Naiker & Navissi 2010).

In a slightly different vein, other studies found that audit committee members with greater financial expertise select more competent external auditors. This minimised audit risk, maximised audit quality and reduced suspicious auditor switches (Archambeault & DeZoort 2001). This is consistent with the views of the focus groups that competent audit committees drive or influence the appointment of competent assurance providers.

Yet other studies found that financial expertise was associated with greater accounting conservatism (Krishnan & Visvanathan 2009:115); a lower probability of material internal control weaknesses (Hoitash, Hoitash & Bédard 2009:839); greater ability in anticipating future earnings (Abernathy et al 2013); higher earnings quality (Chen & Komal 2018:253), better disclosure of International Financial Reporting Standards related disclosures (Sellami & Fendri 2017:603; Bepari & Mollik 2015:196), higher firm values (Chen & Li 2013:1939), and more appropriate fiscal (tax) advice in the context of the business strategy of the company (Hsu, Moore & Neubaum 2018:1295).

Other studies established a link between financial expertise and improved company performance (such as higher share prices, greater company value, better company performance and better oversight over sustainability reporting). For example, Bédard, Coulombe and Courteau (2008:519) found that the presence of an audit committee at the time of an initial public offering of shares significantly decreased the level of under-pricing when its members had financial expertise. This suggested that the investment markets see value in an audit committee with strong financial expertise and that such audit committees influence higher share prices. Similarly, Chan and Li (2008:16) found that company values increased only when audit committees consisted of financial experts. Aldamen, Duncan, Kelly, McNamara, Nagel (2012:971) concluded that expertise was positively associated with company performance during the 2008 global financial crisis. Al-Shaer and Zaman (2018:1) established that the expertise of an audit committee member influenced the extent of monitoring over sustainability related issues. All these studies suggested that audit committees with financial expertise offer greater support and provide more value under normal circumstances, but even more during challenging times.

Overall, the literature supports the views of the focus groups and the classification of financial expertise as an important driver of audit committee effectiveness. Another important finding was that audit committees are likely to be more effective if they consist of at least one financial expert. There currently do not appear to be guidelines, benchmarks or definitions of a financial expert in South Africa. In the South African context, financial experts could include a chartered accountant, chief financial officer, financial manager, external auditor, or internal auditor with at least five years of relevant experience. A comprehensive continuing professional development and certification program that sets a minimum or tiered qualification for an audit committee financial expert is also likely to enhance audit committee effectiveness.

4.3.2 Theme 2: Business and industry expertise

Both focus groups considered that business and industry expertise empower audit committee members to interpret, analyse and integrate financial and non-financial information. It also helps them to be more aware of risks and challenges facing the company. Although the literature widely recognises that financial expertise enhances audit committee effectiveness, there is less evidence that business and industry expertise does (Salleh & Stewart 2012:379-380).

A few studies do investigate the relationship between industry expertise and audit committee effectiveness. For example, Sellami and Fendri (2017:620) found that the incidence and severity of financial restatements were lower when audit committee members had longer industry experience. They also found that related-party disclosures were significantly associated with industry expertise, suggesting that industry expertise provides greater knowledge of related party networks and major industry players and helps in deciding whether related party transactions are at arm’s length. Sellami and Fendri (2017:604) explained that related party transactions are well known to be associated with fraud as illustrated by various accounting scandals, Enron being an example. Thus, industry expertise increases the vigilance of the audit committee over related party transactions and reduces the likelihood of fraudulent reporting.

In a similar vein, Cohen, Hoitash, Krishnamoorthy and Wright (2014:243) found that audit committees with greater industry expertise were associated with higher financial reporting quality and a lower likelihood of ignoring material adjustments. Lary and Taylor (2012:336) found that industry expertise lead to fewer accounting errors and more effective monitoring of financial reporting . Thus, industry expertise complements financial expertise and when both are present, there is a more holistic understanding of how accounting issues relate to an industry. In support of this, Atkins, Solomon, Norton and Joseph (2015:28-30) state that there was an undeniable increase in social, environmental and ethical reporting in integrated reports in South Africa after the advent of King III. This suggests that audit committees with greater industry expertise may have better skills to interpret and analyse this non-financial information. Salleh and Stewart (2012:378) found that audit committees with industry expertise were more effective and quicker at finalising financial statements with external auditors, suggesting that industry expertise empowers audit committee members with better judgement on disputed issues between external auditors and management. Another study by Haji and Anifowose (2016:939) found that industry expertise was even more important than financial expertise for the quality of integrated reporting. They suggested that industry expertise empowers audit committee members with a better understanding of non-financial information (for example, sustainability issues) and helps to ensure that financial and non-financial information are not in conflict. They further explained that industry expertise has increased in importance since the introduction of integrated reporting by King III in 2009 and that an audit committee now has greater oversight responsibilities over non-financial reporting. In a similar vein, Chariri and Januarti (2017:305) examined the integrated reports of 58 South African companies listed on the Johannesburg Stock Exchange (JSE) and found that audit committee expertise had a positive influence on the quality of integrated reports.

Qualitative studies also established that both financial and industry expertise are important. Martinov-Bennie, Soh and Tweedie (2015:743) suggested that the chief financial officer, external auditors and internal auditors, who also attend audit committee meetings, are capable dealing with technical accounting issues. They continue that audit committee members therefore do not need an overly technical mindset and that understanding business risks and how these relate to financial statements, is even more important than technical accounting knowledge. Similarly, Beasley, Carcello, Hermanson and Neal (2009:82) found that audit committee members with industry expertise were operationally stronger and had a significant advantage over other audit committee members.

Industry expertise therefore complements financial expertise and has become even more important since the introduction of King III and integrated reporting. Another inference is that the composition of the audit committee needs careful consideration to ensure a balance in both financial and industry expertise. Composition is discussed further in the next theme.

4.3.3 Theme 3: Composition

The findings in the literature supported the focus groups' views that a balanced audit committee with appropriate skills and expertise enhances audit committee effectiveness (e.g. Bédard & Gendron 2010; Ghafran & O'Sullivan 2013; Haldar & Raithatha 2017) . In comparison to the expertise of individual members, Martinov-Bennie et al (2015:748) stated that a balanced composition is even more important than individual expertise of members. Gendron and Bédard (2006:234) found that in a company like Shell (that is in the oil and gas industry), a reservoir engineer's expertise is just as important as a chartered accountant's expertise in evaluating the accounting value of reserves. Similarly, Martinov-Bennie et al (2015:744) found that participants in their study favoured a diverse mix of complementary skills rather than a draconian situation where rigid regulations require all audit committee members to be accountants or ex-auditors. To illustrate, an insurance company may need an actuary to evaluate accounting provisions and reserves, whereas an oil mining company may need an engineer. Thus, a balanced audit committee can range from having only one financial expert to having all financial experts, and still be effective. In a New Zealand study, Wu, Habib, Weil and Wild (2018:164-165) identified two distinct types of audit committee members: professional audit committee members and conventional corporate directors. These groups correspond closely to the two types of focus groups in the current study and lends support for the decision to include two distinct focus groups. They further asserted that professional audit committee members tend to conform to public expectations, whereas conventional corporate directors tend to challenge the formalities and authority of audit committees. By way of example, they indicated that professional audit committee members tend to be more competent but less willing to confront management, whereas conventional corporate directors are more willing to exercise authority towards management. They argue that since these two groups perceive their roles differently, this consequently leads to performing their roles differently. This finding highlights the importance of a balanced composition between audit committee professionals and corporate directors or other audit committee stakeholders.

Martinov-Bennie et al (2015:744) also suggested that audit committee members should comprise the right mix of key personal attributes such as an inquiring mind, challenging nature, technical competency, intuitive ability, a willingness to hold people accountable, integrity and ethical behaviour. They continue that an audit committee should also comprise personalities that are compatible. This is consistent with focus group 2's point that audit committee members should not be at *"loggerheads with each other"*. On the issue of personal attributes, King IV™ suggests that diversity targets should be met, and members should collectively reflect a variety of attributes, such as age, culture, race and gender to promote better decision making (IoDSA 2016:50). Although the focus groups discussed most of these aspects of composition, they did not raise the issue of diversity. This may be due to the sensitivity of the topic. Anecdotal evidence from a casual conversation with a white female participant after one of the focus groups revealed that the profession is still dominated by older white males. She stated that she did not feel comfortable raising the issue of gender during the focus group. Nkonki (2016:1-12) surveyed audit committee chairs of the top 100 JSE listed companies. The participation profile of audit committee chairs reflected that 77% of respondents were over the age of 60. The survey also found that 90% of respondents were male and only 10% female. In terms of race representation, 63% of audit committee chair respondents were White, 17% Indian, 13% African and 7% Coloured. The dominant profile of audit committee chairs that emerged were older, white males. These findings suggested that achieving gender, race and cultural diversity in the composition of audit committees in South Africa appears to be a challenge.

Adams and Ferreira (2009:292) highlighted that diversity is a central theme in global governance reform and that gender plays an important role. They provided evidence that female directors behave differently to men and their presence on boards was positively associated with board effectiveness and sound governance. They suggested that this was due to females being more risk averse, ethical and diligent at attending meetings. Similarly, Thiruvadi and Huang (2011:483) found that the earnings management was constrained by the presence of a female director on an audit committee and suggested that their findings reinforced the view that it was important for boards and audit committees to include women as they are more risk averse, cautious and ethical than men. In a similar vein, Krishnan and Parsons (2008:65) found that companies with more women in senior executive positions were associated with greater profitability. In a contrary finding, Sun, Liu and Lan (2011:369) found that a higher proportion of females on an audit committee was not associated with lower manipulation of earnings. Thus, there are conflicting views, although it appears that there are more studies that suggested that females enhance profitability, lower earnings management and improve governance. Overall, these findings point out that the recruitment process of audit committee members is important in achieving the most effective balance of expertise. Neither King IV™ nor the Companies Act requires disclosure of the rationale for audit committee composition or disclosure of how audit committee members are shortlisted or selected. Such disclosure is likely to promote transparency and encourage optimal composition, since there is discretion in recruiting audit committee members.

The number of members is another important component of the composition of an audit committee. The focus groups explained that the size of an audit committee should be driven by the specific needs of the company because *"one size does not fit all"*. For example, a smaller and less complex company may need fewer audit committee members than a larger, more complex company. Both King IV™ (IoDSA 2016:50) and the section 94(2) of the Companies Act stipulate that an audit committee must comprise a minimum of three members, but neither specifies a maximum. Kim and Klein (2017:188) suggested that legislation should not stipulate a minimum number of audit committee members as this also depends on what is most appropriate for the company. Bédard and Gendron (2010:194) suggested that size is not an important determinant of audit committee effectiveness and that the incremental costs associated with larger audit committees might outweigh benefits. Ghafran and O'Sullivan (2013:393) similarly found no association between audit committee size and earnings management. From a different perspective, Gao and Huang (2018:98) used voting theory and found that audit committees with an odd number of members were associated with a lower likelihood of financial restatements. They attributed this outcome to voting efficiency achieved through an odd number of members and explained that this results in clearer aggregation of information and more decisive choices. Thus, there appears to be consensus from the focus groups and the literature that the ideal number of members of an audit committee is best determined by the size and complexity of the company after considering costs and benefits, and should ideally be an odd number of members.

Another important aspect pointed out by focus group 1 was succession planning. King IV™ (IoDSA 2016:50) states that succession planning should ensure periodic, staggered rotation of members to ensure new and fresh expertise is recruited, however older and experienced members should be retained to ensure continuity and a balance of skills. King IV™ further states that the board should establish a succession plan to ensure mentorship and development of future members. Since the profile of audit committee members in South Africa appears to be older retired White males, succession planning is important.

Optimal composition of an audit committee should include an appropriate mix of expertise, considering the size, industry and complexity of the company. The Companies Act and King IV™ are not prescriptive, probably because of the difficulty in catering for a wide range of different companies. This may allow for the appointment of unsuitable members. Therefore, to mitigate this, a suggestion is to disclose the rationale behind the appointment of audit committee members. The selection process should also be documented and transparent to stakeholders.

4.3.4 Theme 4: Independence

King IV™ offers a comprehensive, but narrow definition of independence as follows (IoDSA 2016:13):

> Independence generally means the exercise of objective, unfettered judgement. When used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the governing body or its committees as independent, it means the absence of an interest, position, association or relationship

> which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.

There was considerable debate during the focus groups relating to the concept of independence. Focus group 1 discussed the two main aspects of this definition, namely, perceptions of the independence of an audit committee and the internal state of mind of members. In South Africa, section 94(4) of the Companies Act requires an audit committee member to be a non-executive director. While a non-executive director is not involved with the day-to-day management of the company and is therefore more likely to be independent than an executive director (management), this does not necessarily guarantee independence. It has to be determined whether an audit committee member has an interest, position, association or relationship that is likely to influence unduly or cause bias in decision-making. The Companies Act offers further guidance. Section 94(4)(b) of the Companies Act states that a member must not be involved in the day-to-day management of the company's business or have been involved in the previous year. Section 94(b) further states that an audit committee member must not be a prescribed officer or full-time employee of the company within the last three financial years and must not be a material supplier or customer of the company. Bédard and Gendron (2010:191) described independence as the absence of conflict arising from employment, personal and business relationships. These definitions are similar in that all aim to exclude audit committee members that are perceived as lacking independence. Another important point is that the board chair should not be a member of the audit committee, to prevent any undue influence over other audit committee members (IoDSA 2016:46).

Independence is an important factor influencing audit committee effectiveness because a non-independent audit committee member may be more inclined to agree with management's assertions and not interrogate management reports thoroughly. This may result in suppressing fraudulent activities and transactions that may lead to corporate governance failures. The willingness of an audit committee member to challenge management on problematic issues and to escalate such matters when required is a strong indicator of independence (Bédard & Gendron 2010:192; Klein 2002:398). In practice, independence is more challenging to identify and achieve. It is also difficult because different people may perceive a person's independence in a different way. The "acid test" appears to be whether an audit committee member applies his or her mind independently in carrying out audit committee duties.

In South Africa, the definition of independence in King IV™ increases the likelihood of having independent audit committee members. However, this narrow definition may often involve a trade-off with expertise. For example, in Australia, Martinov-Bennie et al (2015:733) hold the view that if audit committee members have suitable experience and expertise, and are able to apply their minds objectively, despite apparently compromising relationships, then such members should be appointed because of their greater expertise, provided that valid reasons are given. This finding is more consistent with the views of focus group 1, who highlighted that the internal state of mind is more important than the external appearance of independence. It is, however, in contrast with the narrow South African definition of independence provided in King IV™.

Another aspect related to independence is whether audit committee members of a company are allowed to hold shares or have any financial interest in that company. For example, in Australia, an audit committee member can hold an immaterial shareholding of less than 10% (Martinov-Bennie et al 2015:741) as share option schemes may encourage them to perform their duties better because of having a vested interest. A contrary view is that such schemes may impair the independence of audit committees and adversely affect audit committee effectiveness. Cullinan, Du & Jiang (2010:256) found that share options for audit committee members are associated with weaker internal controls. Archambeault, DeZoort and Hermanson (2008:965) similarly found that share options for audit committee members are positively associated with accounting restatements. This suggested that incentive-based pay for audit committee members may jeopardise their independence, given their ability to influence financial reporting. Lin (2018:192) established that when companies change auditors, incentive-based compensation for audit committees was negatively associated with accruals quality. This also suggested that share options for audit committee members may adversely affect their independence. Campbell, Hansen, Simon and Smith (2015:91) concluded that share options for audit committee members were positively associated with the likelihood of meeting or beating analyst forecasts of earnings. Similarly, Keune and Johnstone (2015:109) found that audit committee share option incentives were associated with misstatements not being corrected in cases where such corrections would have resulted in lowering earnings and missing analyst forecasts. Persellin (2013:97) also concluded that when audit committee members have short-term share options they are reluctant to propose income reducing audit adjustments. These latter three findings suggested the hesitancy of audit committee members to require earnings to be corrected when this would result in lowering earnings, thus reducing the value of their incentive. The literature therefore appears to support the view that audit committee members should not be given share-based incentives or any other incentives based on the financial performance of the company, because of the ability of the audit committee to influence financial reporting.

From a South African perspective, Deloitte (2017a:12) confirmed that the Companies Act does not disqualify a person with a shareholding in a company from being appointed as an audit committee member of that company, however from the perspective of the JSE, any director participating in a share incentive scheme is not regarded as independent. They further suggested that the appointment of shareholders to the audit committee should be carefully considered from a holistic point of view, considering their extent of shareholding and other relationships with the company.

Another aspect influencing independence is the tenure as an audit committee member. Longer tenure is generally associated with greater industry expertise and monitoring skills (Carcello, Hermanson, Neal, & Riley 2002:372; Bédard & Gendron 2010:190; Othman, Ishak, Arif & Aris 2014:334). More experienced members enhance audit committee effectiveness because they can add more value. Yet, longer tenure may also be a red flag for independence because it increases familiarity with management (Vafeas 2003:1062; Ferris & Liao 2019:535). This may hinder audit committee effectiveness.

In a similar vein, multiple directorships of other companies may also negatively influence audit committee effectiveness, because preparation for meetings demands time and energy (Morgan 2010:93; Othman et al 2014:334). However, multiple directorships also generally enhance a member's business expertise, industry expertise and ability to monitor management (Bédard & Gendron 2010:190; Dhaliwal et al 2010:794). Multiple directorships may also encourage greater independence because these directors earn their income solely from directorships, and reputational damage would damage their career and be more detrimental than colluding with, or submitting to management (Martinov-Bennie et al 2015:741; Bédard & Gendron 2010:190; Dhaliwal et al 2010:794; Yermack 2004:2305). In South Africa, multiple directorships may exist because of the small pool of skilled audit committee members (Temkin 2006:1). In addition, many non-executive directors are not willing to serve on audit committees because of time commitments and onerous independence and financial expertise requirements (Morgan 2010:92).

Finally, various quantitative studies also investigate the association between independence and audit committee effectiveness. These studies found that independent audit committees have a positive influence on financial reporting quality (Chan & Li 2008:16; Lin & Hwang 2010:57), lower abnormal accruals (Klein 2002:375), fewer restatements (Shafie & Zainal 2016:195), higher profitability (Kallamu & Saat 2015:2006) and influence more accurate reports from auditors on going concern issues prior to failures (Wu, Hsu & Haslam 2016:240).

Independence therefore influences audit committee effectiveness because of the potential conflict of interest between an audit committee member's personal interest and the company's interest. The internal state of mind is not easy to discern or identify and it is therefore a challenge to legislate for. However, good principles appear to be that audit committee members should not have any shareholdings or financial interest in the companies they serve on. Multiple directorships and excessively long tenure should be viewed with caution, because they have both advantages and disadvantages that need to be weighed up.

4.3.5 Theme 5: Leadership and tone

The audit committee chair has an important role in corporate governance and in ensuring effective information flow and communication among various high-level stakeholders, including the board, management, internal auditors and external auditors (Bédard & Gendron 2010:196; Schmidt & Wilkins 2013:227). The chair is often viewed as the gatekeeper between the audit committee and the board because the chair liaises with both (Beattie et al 2014:336). It follows that the interpersonal skills, personal power and competence of the chair play an important role in corporate governance and in influencing audit committee effectiveness (Compernolle & Richard 2017:623).

The individual power and authority of the chair, as well as values and leadership qualities, has a significant influence on audit committee effectiveness (Turley & Zaman 2007:770; Bédard & Gendron 2010;). The effectiveness of the chair drives the overall effectiveness of the audit committee and sets the tone for its dealings with management and other stakeholders (Ghafran & Yasmin 2018:13). Focus group 2 identified that the chair was the main influencer of the tone of the audit committee and therefore its effectiveness. Therefore, the chair should strive to create an open and trusting relationship with other audit committee members and management to set the right tone. A chair with the necessary depth and breadth of expertise and experience is more likely to gain the respect and trust of management and create a tone of respect (Petri & Soublin 2010:20).

Leading meetings and managing members is one of the chair’s most important duties. Both focus groups stated that the chair should not dominate members. An effective chair should also not allow other members to dominate a meeting and should firmly bring the meeting back on track with the agenda if a dominant member monopolises time or threatens to prevent the meeting from achieving its objectives. This should be handled in a delicate and sensitive manner so as not to create an autocratic or constrained atmosphere that reduces dialogue (Ghafran & Yasmin 2018:13; DeZoort et al 2002:43). Similarly, a chair must be able to manage competing views and conflicts. This is more challenging when the audit committee composition is diversified as differences in culture, race, age and career is more difficult to manage than a homogenous group of individuals sharing a similar background (for example, all members being chartered accountants) (Martinov-Bennie et al 2014:744). The ability of the chair to prioritise agenda items, steer meeting discussions, support and guide audit committee members and influence effective relationships among audit committee stakeholders, directly influences the committee's effectiveness (Ghafran & Yasmin, 2018:13). These differentiate the importance of the chair's role in relation to other audit committee members. It also suggests that a good chair influences audit committee effectiveness more than other members of the committee.

The chair also faces greater risk and responsibility than other audit committee members for financial misstatements, detection of fraud, oversight of financial reporting and accountability (Bromilow & Keller 2011:86; Schmidt & Wilkins 2013:227; Tanyi & Smith 2015:60; Ghafran & Yasmin 2018:14). To illustrate, the chair of a large company typically spends 50 to 100 hours over and above their normal audit committee duties (Bromilow & Keller 2011:87). In addition to the challenge of being a chair, the pace of changes in accounting and governance legislation further add to the difficulty of the role (Beattie et al 2014:316).

In a United Kingdom study, longer tenure and multiple directorships were regarded by Ghafran and Yasmin (2018:14) as the most crucial element for being a successful chair, suggesting that this is more important for chairs than for other members. Similarly, in Australia, Martinov-Bennie et al (2015:740) found that there was little value in having an independent chair if such a person lacked experience. In contrast, Tanyi and Smith (2015:86) established that busy chairs were associated with lower levels of financial reporting quality because they have less time to study audit committee meeting packs. They did caution that each chair and company is different, and the overall busyness of the chair should be viewed in the context of the chair's individual characteristics in relation to the demands of the company. In South Africa, King IV™ requires that a chair should be an independent, non-executive member (IoDSA 2016:56) and that a board chair should not be a member of the audit committee, to discourage any conflict of interest (IoDSA 2016:53). Based on the overall literature findings, it appears that in some countries, such as Australia and the United Kingdom, longer tenure and multiple directorships are viewed more favourably than in South Africa. It is submitted that the large number of corporate governance failures in the private sector in South Africa may be the reason for less leeway and discretion regarding longer tenure and multiple directorships.

The chair should also manage meetings more efficiently. For example, the chair could discuss important matters with internal auditors, external auditors, and management before formal audit committee meetings (Bromilow & Keller 2011:99). In a quantitative relational study, Schmidt and Wilkens (2013:223) found that chairs who were financial experts were associated with more timely disclosures of financial results.

Overall, these findings support the focus group discussions and classification of the chair as a secondary driver. An effective chair is likely to ensure that an audit committee influences better monitoring and oversight of management, which reduce the likelihood of fraud and financial misconduct. The chair bears more risk and responsibilities than other members and should engender respect and trust from all stakeholders and fellow members. Since the chair influences the overall tone of the audit committee and is arguably the most important member of the audit committee, the chair is a significant driver of effectiveness.

4.3.6 Theme 6: Trust, ethics and corporate governance

Cohen, Krishnamoorthy and Wright (2004:87) and Tshipa, Brummer, Wolmarans, Du Toit (2018:18) explained that good corporate governance leads to a higher quality of financial reports. Tshipa et al (2018:13) used South African data and found that compliance with corporate governance principles improved the market value of companies, suggesting that companies with better corporate governance produce a higher quality of financial reports. One of the main duties of an audit committee is to review and recommend financial reports (for example, financial statements) to the board for approval. It therefore follows that good corporate governance influences a higher quality of financial reports and greater audit committee effectiveness.

The literature generally establishes that management have the greatest influence on ethics, culture and governance and that these concepts are inextricably linked (e.g. DeZoort et al 2002; Turley & Zaman 2007; Bédard & Gendron 2010). Bromilow and Keller (2011:37) explained that management are responsible for creating a culture of doing the right thing. They further confirmed that when management lead by example and act in an ethical manner, employees generally follow. This was described by the focus groups as the *"tone at the top"* or tone of management. Turley and Zaman (2007:765) similarly stated that audit committees can only influence management behaviour when they are respected and empowered by management. Cohen, Krishnamoorthy and Wright (2002:573) held interviews with audit partners and found that audit committees and boards were unlikely to be effective if not supported by management. They showed that management who do not want to be governed do not support boards or audit committees. A survey by KPMG (2017:8) also supported this view. Over 25% of audit committee members ranked tone at the top and culture as a top challenge for audit committees. Evaluating culture from the outside is challenging. Apart from this, the audit committee is also inherently limited in enforcing culture because they meet infrequently, deal with complex financial matters and have less knowledge of company operations than management (DeZoort et al 2002:41). Deceptive management may mislead audit committee members during their short and infrequent interactions. Both the literature and focus group discussions were consistent in that too few audit committee meetings provide little insight into the "true" company culture, ethics and governance. Rose, Rose and Dibben (2010:87) conducted a study on the dispositional trust of audit committee members. Rose et al (2010:87) explained that high levels of dispositional trust, in the context of audit committee members, refers to having a *"stable personality trait that causes them to consistently trust others across decision contexts".* They found that when management had incentives to manage earnings, audit committee members with lower levels of dispositional trust were more likely to perceive management as deceptive, and place greater trust in external auditors in cases of dispute between management and external auditors. They suggested that one method to address a high level of dispositional trust is to apply an appropriate level of scepticism to the information available. This resonates with the findings of focus group 1, who discussed the importance of professional scepticism and judgement.

Audit committee members have little influence over enhancing the ethics and culture of a company (Turley & Zaman 2007:765). Focus group discussions similarly revealed the frustrations of audit committee members, who are non-executive directors, in not having direct access to company staff. This presented challenges in gauging the company's true culture and ethics. The focus groups did point out that management can take initiatives to keep the audit committee properly informed and have an open and transparent relationship with them. Management can communicate significant issues to an audit committee, such as judgements over accounting estimates, and this helps to include the committee in these decisions (Deloitte 2017a:32).

Despite management having the greatest influence on ethics, culture and governance, stronger audit committees can deter management from engaging in earnings management and fraud through strong leadership and low tolerance for unethical behaviour (Cohen, Krishnamoorthy & Wright 2004:589-590; Turley & Zaman 2004 2007:309-310). Audit committees can also hold informal meetings with management, internal auditors and external auditors to obtain information about the "true" ethics, culture and governance of a company, which also has the benefit of enhancing the status and standing of the audit committee in the eyes of management (Turley & Zaman 2007; Bromilow & Keller (2011). In general, management that empowers the audit committee, rather than treating them as outsiders, enables the audit committee to perform their duties more effectively.

One aspect that was not raised by the focus groups was the role of middle management. The literature reveals that although top management sets the tone, middle management constantly reinforce it through contact with staff, and may be more open than top management in discussing the "true" company culture and ethics (Cohen et al 2002:588; Bromilow & Keller 2011:37). In the United States, Beasley et al (2009:76) explained that audit committee members review documents, conduct interviews, assess management integrity and perform due diligence before accepting appointments, to gauge the culture and ethics of the company. Bromilow and Keller (2011:37) suggested that culture can also be evaluated through employee surveys and interacting with the human resource department and middle management. They explained that employee surveys can probe whether employees feel pressured to circumvent rules, and the human resource department can provide information about staff complaints regarding management, and whether they feel pressured into doing anything unethical. Another avenue open to audit committees is to interact with the social and ethics committee. King IV™ recommends the establishment of a social and ethics committee that has oversight of company ethics and can review breaches of the code of conduct, ethics policies, conflicts of interest and related party transactions (IoDSA 2016:29,57).

A whistleblowing mechanism also aids in maintaining an ethical environment. King IV™ specifies that the board should oversee the use of whistle-blowing to detect breaches of ethical standards (IoDSA 2016:44). A thorough, independent and objective mechanism should be established by management for anonymous reporting, investigation of complaints, and protection of employees, to encourage reporting without fear of victimisation (Bromilow & Keller 2011:43; Deloitte 2017a:41). Anecdotal reports of fraud and corruption in the private sector in South Africa do not reveal many instances of whistleblowing. This suggests that the whistleblowing mechanism may not be working as desired in South Africa. In the United States, a whistle-blower that leads to a fine of more than $1 million, may be eligible for a reward of up to 30% of funds collected, if original information is provided to the Security and Exchange Commission (Bromilow & Keller 2011:44). This type of incentive may encourage more whistleblowing, if implemented in South Africa.

Although management mainly influences ethics, culture and governance, the audit committee can take various initiatives through the use of mechanisms available to them. These initiatives, if taken by the audit committee, can assist in enhancing audit committee effectiveness.

4.3.7 Theme 7: Risk Management

Cohen, Krishnamoorthy & Wright (2017:1181) explained that audit partners, chief finanical officers and audit committee members form a governance triad that similarly view enterprise risk management as important for operational efficiency, financial reporting quality, internal controls and external auditing. Enterprise Risk Management (ERM) is the robust process of managing risks strategically to help a company achieve its objectives and performance targets within its risk appetite (Cohen et al 2017:1181; Deloitte 2017a:36). This resembles the descriptions provided by both focus groups. Focus group 1 described ERM as the strategy used by a company to manage risks, while focus group 2 described it as the method and process followed to manage risks.

Corporate governance failures have been closely related to poor risk management, as highlighted by various financial crises (Beasley, Branson & Hancock 2008:44; Cohen et al 2017:1178). Management should therefore manage risks using a formal enterprise risk management process, and not through an ad hoc informal process (Beasley et al 2008:45). The financial crises in recent years prompted audit committees to understand processes for risk management. In South Africa, King IV™ states that the board should delegate the responsibility of risk management to management, however, the board is responsible for oversight of risk management. The board generally agrees on the nature and extent of risks that the company is willing to take, and approves policies related to risk management, however the board delegates the oversight of risk management to the audit committee or a separate risk committee (IoDSA 2016:62). Even if the board does not delegate aspects of risk oversight to the audit committee, the audit committee cannot escape this oversight function (IoDSA 2016:55; Bromilow & Keller 2011:26).

This implies that the audit committee has to be aware of the various risks potentially facing the company. According to Deloitte (2017a:39), there are broadly four types of fraud risk that the audit committee should be aware of. First, there is financial reporting fraud, which is the deliberate misrepresentation of a company's financial position. Secondly, there is the risk of asset misappropriation, which includes forgery, theft of assets and payroll fraud. Thirdly, there is risk of corruption. This includes kickbacks, shell companies, bribes or manipulation of contracts. Fourthly, there is cyber risk. Cyber risk is one of the greatest risks facing companies today (Lanz 2014:7). There is little literature on how cyber threats are considered within an ERM framework (Cohen et al 2017:1206). Lapses in cybersecurity increase risks of losing customers, which directly impacts profitability and sustainability (Lanz 2014:8; Cohen et al 2017:1206). Lanz (2014:8) stated that although technology is complicated and audit committee members are not experts in information technology, they should be able to ask the right questions. He explained that this entails understanding cybersecurity within the context of ERM, understanding the legal implications of cybersecurity risks, and having access to cybersecurity experts if required (Lanz 2014:8). In June 2018, Liberty Holdings, a South African public company, became a victim of a cyber-attack with an external party demanding money in return for data seized from the company (Munro 2018:1). This exposed the company to possible substantial fines as high as R10 million for each data breach through civil lawsuits from aggrieved clients (Mahlaka 2018:1). Thus, audit committees should ensure that they are able to ask the right questions to address the growing threat of cyber risk, and request cybersecurity specialists to attend audit committee meetings if required.

An audit committee should also be alert to factors contributing to risk. Some examples of “red flags” include pressure to meet earnings forecasts, bonuses and compensation linked to profits, and pending applications for debt financing or equity offerings (Deloitte 2017a:39; KPMG 2017:4; Bromilow & Keller 2011:30). Focus group 2 discussed the focus on short term goals and gains by management as “red flags”, such as share price growth, meeting forecast targets and deadline pressures to *“get the numbers out”*. They explained that an over-domineering chief executive officer or other members of management who are uncooperative and aggressive may use their position and influence to drive their personal agendas, which may increase the risks to an unacceptable level. Related party transactions also present risks as these transactions may not be at arm’s length, therefore audit committees should strive to understand these relationships (Sellami & Fendri 2017:605). Internal audit can assist identifying critical risks, therefore audit committees should ensure that the internal audit plan addresses critical risks (KPMG 2017:7).

This increasing number of risks in recent times emphasises the need for audit committees to evolve from their more traditional oversight roles of financial reporting to oversight of risks (Beasley et al 2009:65; Bromilow and Keller 2011:25; Martinov-Bennie et al 2015:738; Cohen et al 2017:1179; Deloitte 2017a:36). Cohen et al (2017:1178) emphasised that risk management pervades the financial reporting process and risk exposure to financial misstatements and fraud. This resonates with the views of both focus groups that described risk management as pervading everything, and supports the classification of risk as a pivot.

KPMG (2017:3) state that more than 40% of audit committee members experience difficulties in overseeing risks. This may be due to the wide range of expertise required to address various types of risks. The literature suggests that audit committees' focus on risk is expected to grow more than any other responsibilities in future years (Beasley et al 2008:44; Beasley et al 2009:65; Martinov-Bennie et al 2015:727, 739; Cohen et al 2017: 1178; KPMG 2017:3). Due to the increasing importance of risk management, companies are now increasingly appointing chief risk officers to head risk management (Beasley et al 2008:45). A competent chief risk officer can greatly assist an audit committee. The importance of this was illustrated by the African Bank debacle where an incompetent person was the chief risk officer and held this position for a period of ten years (Myburgh 2016:376). This was one of the factors contributing to African Bank's collapse, as the chief risk officer neglected his duties.

Audit committees should therefore clearly understand the extent of their risk oversight responsibilities in relation to the board, risk committee and internal audit, so as not to duplicate work or fail to deal with any risks. Decaux and Sarens (2015:57) recommend that audit committees should liaise with all stakeholders to ensure that all significant risks are allocated to a committee for oversight. Audit committees should also request a separate Technology and Governance Committee in companies susceptible to cyber-attacks.

4.3.8 Theme 8: Company secretary, board and management

There is a scarcity of literature on company secretaries and their influence on audit committee effectiveness. Peij, Bezemer and Maassen (2015:113-114) conducted a study in Netherlands and concluded that the role of the company secretary is important for various reasons and has evolved substantially over recent years. They continue that while the company secretary was mainly responsible for meticulous record keeping and administration, the company secretary now plays a more strategic role in corporate governance and assisting and supporting the board, management and audit committees.

In South Africa, Sigauke, Collins, Mutambara and Sibanda (2015:401-403) similarly found that the company secretary plays a significant role in promoting good corporate governance by supporting directors, assisting in induction and training of audit committee members, keeping directors abreast of relevant legislative and regulations and ensuring good information flow between the board, directors and stakeholders. An overriding challenge for audit committees is to remain up to date with knowledge of legislation and regulations affecting a company, and the company secretary assists the audit committee with this by ensuring that it has access to all legislation, policies, procedures, and resources, to function effectively and efficiently (Sigauke et al 2015:401-403). King IV™ also empowers the company secretary by stating that he or she has unfettered access to the board to facilitate communication (IoDSA 2016:58). This prevents management from constraining free and open communication between the audit committee and company secretary and allows the company secretary to fulfil his or her role as a gatekeeper of sound governance (Mahony 2015:5).

Sigauke et al (2015: 406) highlighted that the company secretary has the power to whistle-blow on directors that abuse their power to circumvent corporate governance principles and can also recommend that a director should not be re-elected if found incompetent. Another important role of the company secretary is to facilitate induction and continued professional development of new and existing audit committee members (Sigauke et al 2015:401). The company secretary should also exercise judgement in recording accurate minutes that reflect an appropriate level of detail and accuracy, distribute the audit committee documentation ("audit pack") timeously, provide relevant and accurate information regarding agenda items, assist with the annual work planning, and ensure that meetings coincide with key dates in the financial reporting and audit cycle (Bromilow & Keller 2011:95-101; Samaduzzaman, Zaman & Quazi 2015:99; Sigauke et al 2015:410).

As pointed out by focus group 1, only the board can remove the company secretary, thus, the company secretary is protected from being unilaterally removed (IoDSA 2016:60). King IV™ requires the board to approve the appointment, employment contract and remuneration of the company secretary. The board should therefore ensure that the company secretary has the necessary competence, gravitas and objectivity to provide independent guidance and support at the highest level of decision making (Sigauke et al 2015:401; IoDSA 2016:60). The board should also evaluate the performance and independence of the company secretary annually (IoDSA 2016:60).

The company secretary is in a unique position regarding information that flows between the audit committee, board and management and can communicate concerns raised by the staff or financial misconduct (Sigauke et al 2015:401). The literature supports the view of both focus groups that the company secretary is an important driver of audit committee effectiveness and good corporate governance.

4.3.9 Theme 9: Scope and charter

Little is generally known about audit committee charters and there is little literature on this topic (Böhm, Bollen & Hassink 2016:119; Bédard & Gendron 2010:193). The main purpose of a charter is to stipulate the roles and responsibilities of audit committees. This provides clarity to audit committee members, the board, management and other stakeholders. The charter also provides authority, guidance and direction to audit committee members and encourages them to fulfil their duties (Böhm et al 2016:119; Bédard & Gendron 2010:193). A typical charter should include the mission, size, number of meetings, duties, oversight responsibilities and reporting responsibilities of the audit committee, and should also stipulate the desired characteristics of the audit committee in terms of financial expertise, business expertise, industry expertise, composition and independence (Deloitte 2017a; Bromilow & Keller 2011:105).

The literature is consistent with the view of the focus groups that a well-written charter positively influences audit committee effectiveness (Carcello, Hermanson & Neal 2002:292; DeZoort et al 2002:44; Turley & Zaman 2007a:769; Bédard and Gendron 2010:193; Deloitte 2017a:19). In the United States, the Securities and Exchange Commission made it compulsory for a charter to be published in a company's proxy statement once every three years (Carcello et al 2002:291; Böhm et al 2016:120). In South Africa, there does not seem to be a statutory requirement for a charter to be publicly available in the financial statements or on the company's website. In view of the recent corporate scandals in South Africa, stakeholders and the public at large are likely to be interested in the content of a charter as this may shed light on whether audit committees are performing in terms of their contracted duties.

A well-written charter can enhance audit committee effectiveness by alleviating several problems facing audit committees. The first problem is that the duties of audit committees expanded substantially since audit committees were first introduced (Beasley et al 2009:65). Over the years, the emphasis shifted from a compliance driven "tick-box" exercise to a value-adding exercise for improving governance and performance (Carcello et al 2002:371; Bédard & Gendron 2010; Martinov-Bennie et al 2015:731-740). A charter can assist audit committees by providing an opportunity to debate and define the scope of their work to avoid taking on responsibilities that cannot be effectively discharged (Carcello et al 2002:292; DeZoort et al 2002:45; Böhm et al 2016:119). This empowers audit committees as they cannot be held accountable for work that they are not contracted to perform.

A second problem facing audit committees is that legislation and guidance codes provide general rather than specific rules or guidance (Martinov-Bennie et al 2015:732; Böhm et al 2016). This is probably to cover a wide range of different companies that differ in size, industry and complexity. Therefore, a charter presents the opportunity to stipulate more specific, ad hoc duties of an audit committee that are not catered for in legislation or governance codes (Martinov-Bennie et al 2015:732). However, Böhm et al (2016:119) found that companies do not take advantage of this opportunity and instead include statutory, generic duties, and omit specific ad hoc duties. They suggested that audit committee charters are prepared for the sake of compliance, without giving sufficient thought to how it can be utilised as a tool to influence audit committee effectiveness. This approach emphasises fulfilling statutory duties, but neglecting specific or voluntary duties (Carcello et al 2002:291). Voluntary duties generally add more value to a company than the legislated duties as voluntary duties generally address specific risks facing a company.

A third problem facing audit committees is that new laws and codes often take time to be enforced. During this phasing-in period, there might be uncertainty about what duties an audit committee is responsible for in relation to the new laws (Martinov-Bennie et al 2015:732). This problem can be addressed in a charter by providing guidance on how the audit committee plans to deal with transition periods.

A fourth problem facing audit committees relates to their performance evaluation. A charter can assist because the duties outlined in the charter can be used as a benchmark against which the audit committee is evaluated. Evaluations can be used to identify areas in which an audit committee can improve and directly offer opportunities for an audit committee to improve its effectiveness. Carcello et al (2002:292) found that audit committees do not always correctly report on the work that they are actually doing at performance evaluations. A charter can assist by compelling the audit committee to report against the duties stipulated in the charter in a structured format.

It is advisable to review the charter annually to ensure its relevance and accuracy and because of frequent changes in regulatory and legal requirements. This annual review should ideally involve consultation with management, internal auditors, external auditors and when appropriate, legal counsel. Legal counsel may be necessary to protect audit committees because of the implications if they do not perform according to the charter (Bromilow & Keller 2011:105). A charter can also help to identify agenda items for meetings and to plan annual calendar events and meetings (Beasley et al 2009:86).

A well-written charter can therefore enhance audit committee effectiveness in various ways. The charter guides audit committee members, the board, management and other stakeholders regarding audit committee duties. It also provides a benchmark to evaluate the audit committee.

4.3.10 Theme 10: Evaluation

Evaluations can take various forms and can be formal or informal, and internally or externally facilitated. Deloitte (2017b:139) explained that an internally facilitated evaluation may provide credible insights into audit committee performance, however the use of an external facilitator is more independent and likely to result in a more objective and honest assessment. They further proposed that a middle of the road approach is for the whole board, or one of its independent non-executive members, to conduct the evaluation.

The focus groups believed that self-evaluations are more common. Soana and Crisci (2017:6) described self-evaluation as an organised process of regularly examining the composition and functioning of the committee. They found that boards in Italy increasingly use self-evaluations and this resulted in various benefits, including self-reflection, developing performance standards, building consensus through discussions, and helping to plan for the future. Martinov-Bennie et al (2015:735) expressed a contrary view and explained that self-evaluations provide a less objective assessment than an evaluation by an external party. They further explained that an audit committee may not even conduct a self-evaluation as it does not require any witness. They recommended that to mitigate this risk, evaluations should be documented as this provides written and objective evidence of the evaluation.

Bromilow and Keller (2011:107) explained that a better form of evaluation is a “360-degree” evaluation because views from other stakeholders that work with audit committees yield a more holistic and objective assessment. They asserted that external auditors, internal auditors, the chief executive officer, the chief financial officer, the chief audit executive and other key people who interact with the audit committee, encourage a more thoughtful process of evaluation. Evaluations should incorporate quantitative, qualitative and feedback criteria in a “360-degree” evaluation since quantitative criteria are measurable and documentable through measures such as increases in profitability, while qualitative criteria include professionalism and teamwork that are less easily measured and also important (Albrecht, Howe, Stocks & Schueler 1989:39; Minichilli, Gabrielsson & Huse 2007:610-611; Martinov-Bennie et al 2012:735-736).

Martinov-Bennie et al (2015:731,747) state that evaluation mechanisms are inadequate and have not evolved with the significant growth in the duties and expectations of audit committees. They suggested that public disclosure of evaluation mechanisms may encourage companies to improve. They explained that in the United States, boards, but not audit committees, are required to disclose their performance evaluation practices publicly. A suggestion is that audit committee evaluation mechanisms and practices should also be disclosed publicly, since the audit committee is an important mechanism of corporate governance. This is likely to promote higher standards of evaluation and enhance audit committee effectiveness. Focus group 1, which consisted of audit committee members, also identified evaluations as means to enhance audit committee effectiveness but did not discuss this in much detail. This may suggest that there is room for improvement of evaluation practices in South African audit committees and that stricter legal requirements may assist.

Another problem is the accurate defining of evaluation criteria. The literature suggests that most audit committees use the charter as a benchmark, however this is not ideal because a charter does not always clearly document criteria (Morgan 2010:110; Bromilow & Keller 2011:106; Martinov-Bennie et al 2015:735). Martinov-Bennie et al (2015:735) identified that another problem is in defining evaluation criteria as there is a lack of reliable performance indicators and criteria change over time. Examples of criteria include levels of financial expertise, industry expertise and independence of audit committee members, however these criteria are not always easily visible or measurable (Bromilow & Keller 2011:106).

In South Africa, there is no legal obligation to evaluate audit committees as the Companies Act does not require this (Deloitte 2017a:61). Principle 9 of King IV™ does explain that the board is responsible for determining the type and process of evaluation of the audit committee (IoDSA 2016:58). This allows a wide range of discretion regarding the evaluation method and process of evaluation used. King IV™ recommends an evaluation every two years (IoDSA 2016:58). One of the findings in the present study is that the pace of change in legislation and regulations are rapid, suggesting that an annual evaluation may be more appropriate. It is also important that boards take corrective action when necessary.

As evaluations of audit committees are not legally compulsory in South Africa, this may result in inadequate attention on evaluations. Although self-evaluations are more common practice, other techniques such as a “360-degree” evaluation, are likely to yield more objective and reliable evaluations.

4.3.11 Theme 11: Assurance

This theme encompasses five affinities, including internal audit, external audit, board sub-committees and combined assurance. All affinities were classified as secondary outcomes. The extent of the literature review was guided by the relatively less influence of this theme on audit committee effectiveness.

4.3.11.1 Combined assurance

Combined assurance refers to the assurance provided by all assurance providers over risk, control, information and reports. Some examples of assurance providers include internal auditors, external auditors, sustainability and environmental auditors, forensic fraud examiners, specialists and experts, regulatory inspectors and the company’s own management or staff that manage risk (IoDSA 2016:68). The board delegates responsibilities for oversight of combined assurance to the audit committee (IoDSA 2016:68). The audit committee should therefore ensure that there is a robust and effective combined assurance model that enables the audit committee to place reliance on the combined assurance underlying various statements in its reports (Deloitte 2017a:39).

This implies that all assurance providers and levels of assurance should be documented in a policy and there should be assessment criteria to assess the quality of assurance (Deloitte 2017a:39).

4.3.11.2 Internal audit

There has been a growing reliance placed by audit committees on the internal audit function because of the insight it provides into risk, internal controls and financial reporting processes, and the comfort it provides with respect to internal controls and the overall control environment (Sarens, De Beelde, & Everaert 2009:90; Cohen, Krishnamoorthy & Wright 2010: 770-771; Sarens and Abdolmohammadi 2011:1-3; Martinov-Bennie et al 2015:738). The board delegates oversight of internal audit to the audit committee (IoDSA 2016:69). Internal audit effectiveness and audit committee effectiveness have a symbiotic relationship in that the improvement of one invariably improves the other (Martinov-Bennie et al 2015:747).

The focus groups highlighted the importance of a well-written internal audit charter and internal audit plan. The internal audit charter sets out the purpose, authority, reporting structure and responsibilities of internal audit (Bromilow & Keller 2011:52). The audit committee should therefore review and annually approve the internal audit charter to ensure that it clearly defines the roles and responsibilities of internal auditors and ensures that they have the necessary skills and resources to perform their duties (IoDSA 2016:69). The internal audit plan describes the work that internal audit should perform and should be approved by the audit committee and board and regularly updated for changes in risks (Bromilow & Keller 2011:52; Martinov-Bennie et al 2015:738; IoDSA 2016:70;).

Deloitte (2017a:33) and Bromilow and Keller (2011:53) provided advice on how an audit committee can enhance its oversight over internal audit. The audit committee should ensure that:

- there is room in the internal audit plan to cater for any ad hoc emergency work;
- the internal auditors understand how external and internal auditors coordinate their work to achieve effective audit coverage;

- they meet privately with internal auditors on a regular basis to encourage open communication;
- they ensure that internal audit has the appropriate status and is visibly supported by management;
- they support the chief audit executive when he or she reports potential management lapses;
- they receive all reports prepared by internal audit; and
- they evaluate internal audit performance annually.

The effectiveness of internal audit depends largely on the leadership of the chief audit executive. The board appoints the chief audit executive and should ensure that he or she is independent of management and has the background, knowledge, experience, authority and gravitas to earn the respect of management and others (IoDSA 2016:69). As discussed by the focus groups, the chief audit executive has a dual reporting role directly to the audit committee chair on duties and functions related to internal audit, but to executive management on administrative matters (Deloitte 2017a). Although the chief audit executive is empowered by King IV™ to approach the audit committee with any problems, without fear of being victimised by management (IoDSA 2016:70), focus group 2 described that this was challenging because the chief audit executive is on the payroll of management and works with them more frequently than with the audit committee. Bromilow and Keller (2011:57) suggested that the audit committee should initiate regular private meetings with the chief audit executive to discuss issues, as this encourages more open and candid discussions than if management was present. In a contrary finding, Norman, Rose and Rose (2010:546-548,555) found that internal audit felt more threatened by reporting to the audit committee than to management. They explained that internal audit decreased their assessment of risk when reporting to the audit committee as they perceived the audit committee as a personal threat, expecting the audit committee to over-react and increase their workload. Although this study was based in the United States, it may suggest that internal audit does not report as freely and directly to the audit committee as expected, despite being empowered by King IV™ to do so. In support of this view, Christopher, Sarens and Leung (2008:215-215) in an Australian study found that in practise internal audit does not consistently report functionally to the audit committee and administratively to the chief executive officer, which is not in accordance with best practice and threatens independence of the internal audit function. These findings suggest that audit committees should be aware that the independence of internal audit may sometimes be compromised and that they should accordingly consider the degree of reliance placed on their reports.

4.3.11.3 External audit

The duties of audit committees in relation to external auditors are set out in section 94(7) of the Companies Act. These duties include the appointment of independent external auditors, determining audit fees, terms of engagement, and the nature and extent of non-audit services. External auditors can be a valuable source of information to audit committees as they understand the company's business, management, finance staff, internal controls, tone at the top, and culture more intimately than audit committees. They generally also have industry expertise as they provide services to other companies in similar industries. Chen, Moroney and Houghton (2005:217) found that audit committees with greater expertise tend to employ external auditors with greater financial and industry expertise, who provide a higher quality of service. Similarly, Carcello et al (2002) found that audit committees with financial and industry expertise were more likely to demand higher quality audits. Behn, Choi and Kang (2008) established that earnings forecast accuracy was higher and forecast dispersions were lower for companies audited by external auditors with industry expertise. These studies demonstrate the value that external audit provides to the audit committee.

The audit committee is also responsible for continually reassessing the suitability and independence of external auditors and should consult and discuss the reappointment of external auditors with senior management, the chief audit executive and finance staff (Bromilow & Keller 2011:62). Deloitte (2017a:56) advised that there is no legal requirement in the Companies Act for the audit committee to evaluate the auditor, nor is there formal guidance regarding such evaluation. They suggested that the evaluation should be done annually and that internal audit, the audit committee and management should be involved in the evaluation (Deloitte 2017a:57). To evaluate the independence of the external auditor, Deloitte (2017a:26,54) and Bromilow and Keller (2011:72) suggested that the audit committee should evaluate the relationships between the external auditor and client that arise from personal financial interests, family or personal relationships, employment relationships and business relationships. Further, the audit committee should also consider non-assurance services, and contingent fees as these may impair independence.

The relationship between the auditor and audit committee should be open and candid for both to be effective and regular informal meetings promote this and provide valuable insights (Turley and Zaman 2007b; Bromilow & Keller 2011:61,69). Overall, the literature confirms that external auditors who provide a high quality of assurance services, influence audit committee effectiveness favourably.

4.3.11.4 Reliance on board committees

In South Africa, board subcommittees include the nominations committee, social and ethics committee, risk committee and remuneration committee. The audit committee can benefit through effective collaboration and cross-membership between committees, in particular the social and ethics committee and the risk committee, as discussed by the focus groups. The social and ethics committee can provide information about the ethics, governance and culture of the company. The risk committee can support the audit committee in its oversight of risk management. King IV™ specifically states that the board should consider allocating risk oversight to a risk committee or adding it to another committee. If the risk committee is separate from the audit committee, King IV™ encourages one member to have joint membership of the audit committee and risk committee to discourage duplication of effort (IoDSA 2016:57).

The audit committee should be allowed to interact and place reliance on other board sub-committees to avoid duplication of work among committees. If two or more committees deal with similar matters, there should be clarity over responsibilities so that a complementary (and not competitive) approach is encouraged (IoDSA 2016:54).

4.3.12 Theme 12: Meetings and reporting

As with theme 11, this theme only comprised affinities that were secondary outcomes, indicating its relatively lower importance for audit committee effectiveness.

4.3.12.1 Meetings

Bromilow and Keller (2011:94) suggested that audit committee meetings should be scheduled at least a year in advance at the annual work-plan event and timing should consider dates of key events (such as the year-end audit, approval of the annual integrated report and internal audit report). Apart from these planned meetings, they recommended that ad hoc meetings should be called to address any crises during the year. They further indicated that the number and length of meetings depends on the size of the company, the industry and the complexity of the work required, and should be guided by the time required to address all agenda matters adequately. Allowing some leeway can cater for extended discussions when necessary.

Anecdotal evidence from discussions with focus group participants suggested that most companies hold between four to six meetings annually, however this should be guided by the needs of the specific company to ensure that all pertinent matters are addressed (Martinov-Bennie et al 2015:732). Specialists should be invited when necessary. The company secretary and chair should draft the agenda, which should indicate whether the audit committee should advise, approve or provide information as this enables members to prepare accordingly (Bromilow & Keller 2011:95). The company secretary should take accurate minutes as these can be legally binding, especially in relation to how the audit committee took important decisions and followed up on items marked for action (Bromilow & Keller 2011:101). This implies that audit committees should review minutes carefully before approving and ensure that items marked for action are followed up. As a minimum, minutes should reflect topics covered, total time of meetings, attendees and decisions taken, or conclusions reached. Diligence in preparing for and attending meetings is also important. Rizzotti and Greco (2013:84) found that diligent boards influence audit committee members to be diligent, suggesting that audit committees follow the example of the board.

4.3.12.2 Reporting

In South Africa, King IV™ requires the board to ensure that reports issued by the company enable stakeholders to make informed assessments of the performance and future prospects of the company (IoDSA 2016:48). These reports include the annual financial statements, sustainability reports and integrated reports, and should be published on the company's website or other platforms that are easily accessible to stakeholders (IoDSA 2016:48). Since the board delegates responsibility for oversight of these reports to the audit committee, it is important that these reports are critically reviewed. In order to do this, the company secretary should distribute the audit committee documentation ("audit packs") timeously, and the audit committee chair should ensure that the content provides adequate detail to enable members to make decisions (Bromilow & Keller 2011:96). Consideration should be given to distributing meeting documentation electronically when audit committee members are travelling.

4.4 SUMMARY AND CONCLUSION

This chapter presented the literature review in two main sections. Firstly, section 4.2 presented a literature review of pertinent studies relating to audit committee effectiveness. These studies identified gaps in the literature that motivated this study. Secondly, section 4.3 presented a literature review of the twelve themes identified by the analysis of focus group data in Chapter 3. The literature review was directed by how these 12 themes influence audit committee effectiveness, and was driven by the hierarchical importance of the theme as a driver, pivot or outcome. The overall findings were that the prior literature supports the views of the focus groups. This validated the quality of the focus group data as focus groups identified key findings in the literature. Table 4.2 presents a summary of the main findings in the literature. Column 1 presents the number of the finding. Column 2 describes the finding. Column 3 references the finding to the appropriate section of the focus group discussion in chapter 3. Three possibilities exist:

identified, partially identified and not identified. Column 4 references the finding to the literature. These findings also represent the contributions of this study.

The next chapter triangulates the findings of the focus groups in chapter 3 and the literature review in chapter 4 and consolidates these findings into a graphical and narrative framework for audit committee effectiveness for private sector companies in South Africa.

Table 4.2: Main findings per theme referenced to focus group identification and literature

No.	Main findings per theme	Focus group identification	Literature confirmation
Theme 1: Financial expertise			
1.1	Neither the Companies Act nor King IV™ prescribe a minimum level of financial expertise for an audit committee to possess. Therefore, there is a risk that the committee as a whole does not reflect an adequate level of financial expertise.	Not identified	Deloitte (2017a); IoDSA (2016); Abernathy et al (2013); Bryan et al (2013); Grenier et al (2012); Temkin (2009); Companies Act (2008)
1.2	At least one member of an audit committee should be a financial expert, and the committee as a whole should possess adequate financial expertise. This implies that an audit committee may have more than one financial expert if justified. Among financial experts, those with higher levels of accounting expertise are associated with higher earnings quality and receive greater shareholder approval and support, suggesting that companies benefit more from financial experts with greater accounting expertise. In South Africa, there is no clear definition of a financial expert, or what is meant by financial expertise or how it is measured or benchmarked.	Partially identified (section 3.6.1)	
1.3	The literature suggests that to qualify as an audit committee financial expert, a formal, compulsory continuing professional development and certification program should be a prerequisite. Audit committee members should be recruited from this pool, or an explanation provided if members are not recruited from this pool. Training should ensure that members remain up to date with changes in accounting, auditing and governance standards.	Not identified	
1.4	Financial expertise is associated with lower earnings management, higher financial reporting quality, lower audit risk, better internal controls, better adherence to International Financial Reporting Standards, higher share prices, greater company value, better company performance, more appropriate fiscal advice, and better oversight over sustainability reporting.	Not identified	Al-Shaer and Zaman (2018); Chen and Komal (2018); Gal-Or et al (2018); Hsu, Moore & Neubaum 2018; Bepari and Mollik (2015); Abernathy et al (2013); Bryan et al (2013); Chen & Li 2013; Aldamen et al (2012); Baxter (2010); Dhaliwal et al (2010); Hoitash et al (2009); Krishnan and Visvanathan (2009); Bédard et al (2008); Chan and Li (2008); Gendron et al (2004);

No.	Main findings per theme	Focus group identification	Literature confirmation
			Bédard et al (2004); Xie et al (2003); Archambeault and DeZoort (2001); Beasley and Salterio (2001)
Theme 2: Business and industry expertise			
2.1	Audit committees that have industry expertise, in addition to financial expertise, add substantially greater value than committees with only financial expertise. Audit committees with greater industry expertise are associated with higher financial reporting quality, fewer accounting errors and quicker finalisation of financial statements with external auditors.	Partially identified (section 3.6.2)	KPMG (2017); Sellami and Fendri (2017); Haji and Anifowose (2016); IoDSA (2016); Martinov-Bennie et al (2015); Cohen et al (2014); Lary and Taylor (2012); Salleh and Stewart (2012); Beasley et al (2009)
2.2	Industry expertise increases vigilance over related party transactions and reduces the likelihood of fraudulent reporting. Related party transactions are known to be associated with fraud because collusion is required for most acts of fraud.	Not identified	
2.3	The advent of integrated reporting has increased the disclosure of non-financial information and the need for audit committee members with business and industry expertise, since they can better evaluate the consistency of financial information with non-financial information.	Identified (section 3.6.2)	
Theme 3: Composition			
3.1	An audit committee that is balanced with financial expertise, non-financial expertise and business-specific expertise (for example, an actuary), empowers the audit committee to discharge its duties more effectively.	Identified (section 3.6.3)	Wu et al (2018); Haldar and Raithatha (2017); IoDSA (2016); Martinov-Bennie et al (2015); Sun et al (2014); Ghafran and O'Sullivan (2013); Bédard and Gendron (2010); Adams and Ferreira (2009); Companies Act (2008); Gendron and Bédard (2006)
3.2	The Companies Act and King IV™ allow discretion in audit committee appointments, therefore the recruitment process is open to influence and requires honesty, transparency and objectivity to ensure the selection of appropriate members.	Not identified	
3.3	An audit committee should comprise personalities that are compatible and that reflect a diverse mix of complementary skills. Key personal attributes include an inquiring mind, challenging nature, technical expertise, intuitive ability, a willingness to hold people accountable, integrity and ethical behaviour. Audit committees should comprise a balance between audit committee professionals (typically focus group 1 members) and corporate directors (typically focus group 2 members, being other audit committee stakeholders). These two groups bring different perspectives and add to the diversity of the audit committee. While audit committee professionals bring more competence, corporate directors are more willing to confront and challenge management when necessary.	Identified (section 3.6.3)	

No.	Main findings per theme	Focus group identification	Literature confirmation
3.4	Audit committees currently comprise a majority of older, white males. Diversity targets should be set to reflect a variety of attributes, such as age, culture, race and gender. This is likely to promote a more holistic and balanced viewpoint that leads to better decision making.	Partially identified (section 3.6.3)	
3.5	All members of an audit committee should be given an equal status and voice.	Identified (section 3.6.3	
3.5	In terms of the Companies Act and King IV™, the minimum size of an audit committee is three members. The maximum size is not prescribed and should be driven by the size, nature, complexity and specific needs of the company. An odd number of members is likely to result in more decisive choices and voting.	Partially identified (section 3.6.3)	Gao and Huang (2018:98); Deloitte (2017a); Kim and Klein (2017); IoDSA (2016); Ghafran and O'Sullivan (2013); Bédard and Gendron (2010); Companies Act (2008)
3.6	There should be a succession plan to ensure mentorship and development of future members and to meet diversity targets such as race and gender. Older and more experienced members should help mentor younger members.	Identified (section 3.6.3)	IoDSA (2016); Martinov-Bennie et al (2015)
Theme 4: Independence			
4.1	There are different views on what independence actually means and this is probably due to differences in country-specific characteristics. In South Africa, the definition of independence is strict and narrow. This may be due to the increase in corporate governance scandals, which generally require collusion. Collusion generally occurs when there is a lack of independence and conflict of interest. A narrower definition often results in a trade-off with expertise (multiple memberships) and experience (longer tenure). Multiple memberships (expertise) may create the *perception* that such members lack independence because of the various possibilities of conflicts of interest. Similarly, longer tenure (experience) may lead to more valuable contributions from such members but may be *perceived* as lacking independence. Perceptions do not imply that independence does not exist where there are multiple memberships or longer tenure. Share incentive schemes and immaterial shareholdings may incentivise members to execute their duties more effectively, but may also impair independence. The findings in the literature overall suggest that incentive-based schemes are not appropriate for audit committee members because it may lead to a conflict of interest and impair their independence as audit committee members have influence over financial reporting. It is therefore submitted that in South Africa, a more conservative approach may be more appropriate. In some countries, audit	Identified (section 3.6.4)	Lin (2018); Deloitte (2017a); IoDSA (2016); Campbell et al (2015); Keune and Johnstone (2015); Persellin (2013; Martinov-Bennie et al (2015); Othman et al (2014); Bédard and Gendron (2010); Cullinan et al (2010); Dhaliwal et al (2010); Morgan (2010); Temkin (2009); Archambeault et al (2008); Companies Act (2008); Yermack (2004); Vafeas (2003); Klein (2002)

No.	Main findings per theme	Focus group identification	Literature confirmation
	committee members can be appointed regardless of multiple memberships, longer tenure and other incentives if they can demonstrate independence. Apart from evaluating independence against a *theoretical* definition, a good *practical* indication of independence is the willingness of an audit committee member to challenge management on problematic issues and to escalate such matters when required.		
4.2	Quantitative studies found that independent audit committees have a positive influence on financial reporting quality.	Not identified	Shafie and Zainal (2016); Kallamu and Saat (2015); Wu et al (2014); Lin and Hwang (2010); Chan and Li (2008); Klein (2002)
Theme 5: Audit committee leadership, chair and tone			
5.1	Audit committee chairs should manage meetings effectively by prioritising important matters, exercising good time management, steering the discussion in a focussed manner, and allowing all members an equal voice.	Identified (section 3.6.5)	Ghafran and Yasmin (2018); Martinov-Bennie et al (2015); Beattie et al (2014); Schmidt and Wilkins (2013); Bromilow and Keller (2011); Bédard and Gendron (2010); Turley and Zaman (2007); DeZoort et al (2002)
5.2	Audit committee chairs carry a greater burden of workload, risk and responsibilities than other members, and play an important role in promoting good corporate governance. Therefore, they need greater experience to lead an audit committee and ensure that duties are executed effectively. Thus, multiple directorships and longer tenure may be justified in the case of an audit committee chair.	Partially identified (section 3.6.5)	Ghafran and Yasmin (2018); Compernolle & Richard 2017; Tanyi and Smith (2015); Schmidt and Wilkins (2013); Martinov-Bennie et al (2015); Beattie et al (2014); Bromilow and Keller (2011)
5.3	The audit committee chair plays a significant role in enhancing the status and standing of the committee in the eyes of the board and management. Chairs that display leadership, power and authority, are likely to enhance the status and standing of the audit committee.	Identified (section 3.6.5)	Ghafran and Yasmin (2018); Bédard and Gendron (2010); Petri and Soublin (2010); Turley and Zaman (2007)
Theme 6: Ethics, culture and corporate governance			
6.1	An ethical culture and sound corporate governance are likely to result in more honest and accurate reporting to audit committees.	Identified (section 3.6.6)	Tshipa et al (2018); Bédard and Gendron (2010); Turley and Zaman (2007); Cohen et al (2004); DeZoort et al (2002)

No.	Main findings per theme	Focus group identification	Literature confirmation
6.2	Audit committee members have little influence over ethics, culture and governance because management generally enforce these. As non-executive directors, audit committee members have little access to the company and may not fully understand the ethics and culture prevailing at a company. This remains a major challenge for audit committees.	Identified (section 3.6.6)	KPMG (2017); Bromilow and Keller (2011); Turley and Zaman (2007); Cohen et al (2002); DeZoort (2002)
6.3	Holding informal meetings with management, internal auditors and external auditors can assist audit committees to gain information about the "true" ethics, culture and governance of a company. In particular, meetings with middle management and human resource staff can provide a more honest perspective of the company's true culture, ethics and governance.	Not identified	Deloitte (2017a); Bromilow and Keller (2011); Beasley et al (2009); Turley and Zaman (2007); Cohen et al (2002)
6.4	Before accepting an appointment, audit committees can review documents, conduct interviews, assess management integrity and perform due diligence on the company. This can prevent accepting an appointment at an unethical company.	Not identified	Bromilow and Keller (2011); Beasley et al (2009)
6.5	The audit committee should meet and interact with the ethics committee to better understand the ethics, culture and governance of a company and the integrity of management.	Not identified	IoDSA (2016); Bromilow and Keller (2011); Rose et al (2010:87)
6.6	Auditor committee members should exercise professional scepticism and judgement in evaluating management assertions, especially when management has an incentive to manipulate earnings. Audit committee members that are more trusting by nature should be particularly alert for deceptive behaviour from management and exercise professional scepticism in carrying out their duties.	Partially identified	Rose et al (2010)
6.7	The audit committee should receive reports from whistleblowing hotlines at frequent intervals and take appropriate action.	Not identified	Deloitte (2017a); IoDSA (2016); Bromilow and Keller (2011); Bédard and Gendron (2010); Deloitte (2017)
Theme 7: Enterprise risk management			
7.1	The role of audit committees has evolved from oversight over traditional duties (such as financial reporting) to oversight over risk management. The growing number of risks that companies face makes it difficult to have oversight over all risks such as financial reporting fraud, asset misappropriation, corruption and cyber risk. This difficulty is exacerbated because many companies do not manage risks adequately.	Partially identified (section 3.7.1)	Cohen et al (2017); Deloitte (2017a); Deloitte (2017b); KPMG (2017); IoDSA (2017); Martinov-Bennie et al (2015);

No.	Main findings per theme	Focus group identification	Literature confirmation
			Lanz (2014); Bromilow and Keller (2011); Beasley et al (2009); Beasley et al (2008)
Theme 8: Company secretary			
8.1	The company secretary's role has evolved from meticulous record keeping to assisting and supporting the audit committee. Important functions include on-boarding of new members, arranging appropriate training, assisting in constructing the agenda, taking accurate minutes, planning the frequency of meetings and being the link between the audit committee and management.	Identified (section 3.6.8)	Deloitte (2017b); IoDSA (2016); Kallamu and Saat (2015); Mahony (2015); Bromilow and Keller (2011)
Theme 9: Scope and charter			
9.1	The charter stipulates the roles and responsibilities of the audit committee. This has numerous advantages in influencing audit committee effectiveness, which mainly flow from the clarity that is provided to both audit committee members and other stakeholders. The charter also serves as a benchmark to evaluate audit committees and hold members accountable.	Partially identified (section 3.6.9)	Deloitte (2017a); Böhm et al (2016); Martinov-Bennie et al (2015); Bromilow and Keller (2011); Bédard and Gendron (2010); Turley and Zaman (2007a); Carcello et al (2002)
Theme 10: Evaluation			
10.1	There is no legal obligation to evaluate audit committees in South Africa, and it is submitted that a good opportunity to enhance audit committee effectiveness is being missed because of this. There are various types of evaluation. The most common type in practice is self-evaluation, however, this is the least effective and subject to bias and manipulation. A "360-degree" evaluation is more revealing and effective.	Partially identified (section 3.6.10)	Deloitte (2017a); Deloitte (2017b); Soana and Crisci (2017); IoDSA (2016); Martinov-Bennie et al (2015); Bromilow and Keller (2011); Morgan (2010b)
10.2	There does not appear to be consensus on what to use as a benchmark to perform evaluations, however it appears that the charter is generally used as a benchmark in practice.	Not identified	Deloitte (2017a); Martinov-Bennie et al (2015a); Bromilow and Keller (2011); Morgan (2010b)
Theme 11: Assurance			
11.1	The audit committee has oversight over combined assurance and should ensure that there is a suitable combined assurance model that will ensure a high quality of service from assurance providers.	Identified (section 3.6.11)	Deloitte (2017a); IoDSA (2016); Bromilow and Keller (2011)
11.2	The audit committee has increased their reliance on internal audit in recent years. Since they exercise oversight over internal audit, they can influence the quality of assurance provided by improving management of internal audit.	Identified (section 3.6.11)	Sarens et al (2009); Cohen et al (2010); Sarens and Abdolmohammadi (2011);

No.	Main findings per theme	Focus group identification	Literature confirmation
			Martinov-Bennie et al (2015);
11.3	A well-written internal audit charter and internal audit plan enhance the quality of the internal audit function.	Identified (section 3.6.11)	IoDSA (2016); Martinov-Bennie et al (2015); Bromilow and Keller (2011)
11.4	Audit committees should be aware that the independence of internal audit may sometimes be compromised and that internal audit may not report the full extent of risks or other findings. They should accordingly consider the degree of reliance placed on the reports of internal audit.	Not identified	Norman et al (2010); Christopher et al (2008)
11.5	External audit firms with greater financial expertise, industry expertise and resources are more effective.	Identified (section 3.6.11)	Behn et al (2008); Chen et al (2005); Carcello et al (2002)
11.6	External audit firms with greater independence from management, are more likely to be objective and effective.	Identified (section 3.6.11)	Deloitte(2017a); Bromilow and Keller (2011); Turley and Zaman (2007b)
Theme 12: Meetings and reporting			
12.1	The effectiveness of audit committee meetings can be enhanced in various ways. For example, a well-constructed agenda, accurate minutes, good time management and focus on priorities, all assist in enhancing the quality of meetings.	Identified (section 3.6.12)	Martinov-Bennie et al (2015); Bromilow and Keller (2011)
12.2	Audit committees should thoroughly review reports presented to them. Reports should contain an adequate level of detail and be distributed to audit committee members timeously to allow adequate time for a thorough review.	Identified (section 3.6.12)	Martinov-Bennie et al (2015); Bromilow and Keller (2011)
12.3	Diligent boards influence audit committee members to be diligent, suggesting that audit committees follow the example of the board.	Not identified	Rizzotti and Greco (2013)

Source: Own design

CHAPTER 5

CONCEPTUAL FRAMEWORK FOR AUDIT COMMITTEE EFFECTIVENESS

5.1 INTRODUCTION

The primary research objective of this study motivated the need for a graphical and narrative framework for audit committee effectiveness in private sector companies in South Africa. The purpose of this study was explained in Chapter 1, namely, to study the phenomenon of audit committee effectiveness by obtaining perspectives from audit committee members and audit committee stakeholders, who have intimate experience and "inside knowledge" regarding audit committee effectiveness. Chapter 2 presented the research design for achieving the objective. Interactive Qualitative Analysis (IQA) was selected to analyse the data from focus group discussions, which were informed by the following question posed to both focus groups: *"What are the 'things' that may influence the effectiveness of audit committees in the private sector?"*

This study consisted of four phases. In phase 1 of this study two focus groups were held and the perceptions of the participants were presented as raw data. In phase 2, focus group data was analysed using IQA. This culminated in 34 affinities that were analysed into 23 preliminary themes and 12 final themes. The 12 themes were classified into a three-tiered preliminary graphical framework based on a hierarchy of drivers, outcomes and a pivot, using principles based on IQA. In phase 3 of this study a review was conducted of literature dealing with audit committee effectiveness pertinent to the 12 themes identified, to both inform and validate the themes. Phase 4 of this study is discussed in this chapter. The focus group data and literature review findings are triangulated and the chapter culminates in a graphical and narrative framework for audit committee effectiveness.

5.2 IDENTIFICATION OF META-THEMES

This section presents the identification and classification of meta-themes. Northcutt and McCoy (2004:32) encouraged organising or rationalising a system into zones in which elements have similar characteristics of influence. It was therefore decided to refine themes into broader themes, known as meta-themes, by grouping similar data to improve the organisation of data. This prompted further refinement of the themes into meta-themes in the present study. This was expected to assist in achieving the objectives of the study by defining principles of audit committee effectiveness and developing a graphical and narrative framework.

5.2.1 Identification of meta-themes

The literature review in chapter 4 provided a greater depth of understanding of the 12 themes. This informed further refinement of these themes into six meta-themes as set out in Table 5.1. Column 1 reflects the number of the meta-theme. Column 2 lists the title of the meta-theme. The titles of meta-themes were changed in some instances to reflect a broader classification or a more appropriate title. Column 3 shows the classification of the meta-theme as a driver, outcome or pivot. Column 4 reflects the underlying themes grouped to constitute the meta-theme. Columns 5 and 6 list the underlying affinities comprising the 12 themes for focus groups 1 and 2 respectively. The affinity number (as originally assigned by the focus groups) and classification as driver, outcome or pivot is also included. These last two columns provide an audit trail to the 34 original affinities.

Table 5.1: Identification and classification of meta-themes

No.	Meta-theme	Classification of meta-themes	Theme number and name	Classification of affinities in both focus groups	Focus group 1: Affinity name and number	Focus group 2: Affinity name and number
1.	Composition and characteristics	Driver	1. Financial expertise and personal attributes	Driver	Competence (3) - driver	Understanding regulatory impact (9) – outcome Knowledge and skills (16) – driver
			2. Business and industry expertise	Driver	Knowledge of business and industry (11) - driver	Knowledge and skills - nuance (16) – driver
			3. Composition	Driver	Composition (4) - driver	Composition (1) - driver
			4. Independence	Driver	Independence (9) - driver	Composition – nuance (1) - driver
			5. Leadership and tone	Driver	Audit committee leadership (12) - driver	Audit committee chair effectiveness (3) – driver Audit committee tone (10) - driver
2.	Trust, ethics and governance	Driver	6. Trust, ethics and governance	Driver	Corporate governance and trust (5) - driver Ethics (7) - driver Relationship with management (14) - outcome	Corporate culture (12) - driver Status and standing of committee (15) - outcome
3.	Risk management	Pivot	7. Enterprise risk management	Pivot	Enterprise risk management (6) - driver	Quality of enterprise risk management (6) - pivot
4.	Power and authority	Driver	8. Company secretary, board and management	Driver	Company secretary (2) - driver	Competency of company secretary (7) - driver
			9. Scope and charter	Driver	Scope and charter (16) - outcome	Mandate (2) - driver
			10. Evaluation	Outcome	Self-evaluation (17) - outcome	Not identified
5.	Assurance and resources	Outcome	11. Assurance	Outcome	Combined assurance (1) – outcome Internal audit (10) – driver External audit (8) - outcome	Combined assurance (14) – outcome Interaction among board committees (11) - outcome
6.	Meetings, reporting and diligence	Outcome	12. Meetings and reporting	Outcome	Meetings (13) – outcome Relationship with management (14) – outcome Reporting (15) – outcome Self-evaluation (17) – outcome Work-plan and agenda (18) - outcome	Preparation (4) – outcome Meeting procedures (5) – outcome Quality of audit committee pack (8) – outcome Focus and priorities (13) - outcome

Source: Own design

5.2.2 Discussion of meta-themes

This section presents the rationale for each meta-theme and briefly explains why it drives audit committee effectiveness. The purpose is to show that these final six meta-themes represent broad categories of all drivers of audit committee effectiveness identified in the focus groups and literature. It provides a summary of these meta-themes, which assists in understanding the frameworks that are presented later in the chapter.

5.2.2.1 Composition and characteristics

Meta-theme 1 comprises themes 1 to 5. It refers to desirable characteristics in individual audit committee members and in the committee as a whole. This includes a balance in levels of different types of expertise, teamwork skills, interpersonal skills, independence and leadership by the chair. These characteristics were identified by the focus groups and the literature as enhancing audit committee effectiveness. Independence is important to avoid any conflict of interest and ensure objective decisions. Leadership by the chair, the ability to steer meetings, and set the tone for the committee are also important drivers. Thus, when a committee possesses these characteristics, it will be more effective.

5.2.2.2 Trust, ethics and governance

Meta-theme 2 consists of only theme 6 (trust, ethics and governance). This meta-theme refers to the overall ethical culture, governance and trustworthiness of management, which creates the environment that produces reports that audit committees rely on. An effective audit committee should exercise professional scepticism and reasonable judgement in relation to the environment producing such reports. Good governance and an ethical company support and drive audit committee effectiveness.

5.2.2.3 Risk management

Meta-theme 3 comprises one theme: enterprise risk management (theme 7). Enterprise risk management is the responsibility of management, whereas risk oversight is the responsibility of the audit committee. Thus, when risk is well managed by a company, the audit committee is better placed to exercise its duty of risk oversight. This enables the audit committee to be more effective.

5.2.2.4 Power and authority

Meta-theme 4 includes three themes, namely, the company secretary (theme 8), scope and charter (theme 9) and evaluation (theme 10). This meta-theme refers to the degree of power and authority that an audit committee has. A powerful committee that is reputable and has authority, will have more influence with board members, management and other stakeholders. This empowers the committee to carry out its duties more effectively without hindrance from other parties. Power and authority are largely influenced by the status and standing awarded to the committee by management and the board. The company secretary also provides a vital link to management, the board and other stakeholders, and is a source of valuable information that empowers the audit committee. The audit committee charter also empowers the committee by defining the scope of work that the committee is accountable for, and offering legal protection for work it is not accountable for.

5.2.2.5 Assurance and resources

Meta-theme 5 comprises one theme, theme 11 (assurance). This relates to assurance provided by parties, including internal audit, external audit, specialists, and other board sub-committees. These parties are resources available to the audit committee that can assist with oversight responsibilities by providing high-quality reports and information about the company.

5.2.2.6 Meetings and reporting

Meta-theme 6 comprises one theme, theme 12 (meetings and reporting). This relates to managing meetings efficiently and encouraging high-quality reports.

5.3 CLASSIFICATION OF META-THEMES

The next step was to classify the meta-themes into drivers, outcomes and the pivot.

5.3.1 Classifying meta-themes

The process followed to classify meta-themes was the same process as that followed in chapter 3 to classify themes. In other words, the classification of the underlying themes constituting the meta-theme was used to classify the meta-theme. This process revealed that all meta-themes comprised a grouping of themes that were classified into one category, either driver, pivot or outcome, except for theme 10 (evaluation). This can be seen by comparing Columns 3 and 5 of Table 5.1.

Evaluation was classified as an outcome, but was grouped with drivers, namely, themes 8 (company secretary, board and management) and 9 (scope and charter). The reason for this was that the audit committee is generally evaluated against duties set out in the audit committee charter (or it is recommended that this should be the case). Evaluation is therefore closely linked with the charter, hence the grouping together. This meta-theme overall reflects characteristics as a driver, and was classified accordingly. Thus, all six meta-themes were classified without any unresolved conflicts into three drivers, two outcomes and one pivot. The next step was to define themes and meta-themes.

5.3.2 Definition of themes and meta-themes

As advised by Northcutt and McCoy (2004:100), each of the 34 affinities was clearly described and defined in Table 3.10 in a way that remained faithful to the views expressed by the focus group participants. These definitions were analysed interpretatively as they were based on the perceptions of the focus groups expressed in words. The 12 themes were not defined in chapter 3 as it was anticipated that the literature review (chapter 4) would provide a deeper understanding of the themes, and it would therefore have been premature to define themes earlier. Since each meta-theme represents a broad determinant of audit committee effectiveness, the meta-theme also represents a principle of audit committee effectiveness. Thus, in this study, meta-themes also represent principles. The six principles form the basis of the narrative framework in section 5.8.

The definition of themes was based on the definitions of the underlying affinities, which was presented in Table 3.10. Similarly, the meta-themes were defined based on the underlying themes presented in Table 5.2. Thus, grouped affinities were used to define themes, and grouped themes were used to define meta-themes.

For the sake of brevity, the definitions of meta-themes were worded as principles to avoid duplicating both definitions of meta-themes and principles, since these are essentially the same, described differently. Since one of the objectives of this study was to conceptualise a framework, which entailed identifying principles of audit committee effectiveness, it was considered more important to state the meta-themes as principles. The 12 themes were defined and support the six principles in the narrative framework presented in Table 5.2, in section 5.7.3.

The six principles of audit committee effectiveness and definitions of the 12 themes are therefore not duplicated in this section, and provide a foundation for the graphical and narrative frameworks.

5.4 CONCEPTUAL FRAMEWORK IN GRAPHICAL FORM

This section presents the rationale for a graphical framework for audit committee effectiveness for private sector companies and the unique three-tiered design of the framework that extends the literature.

5.4.1 Rationale for a graphical framework

One of the challenges in this study was to analyse, summarise and interpret the large amount of primary data from the focus groups and secondary data from the literature. It was therefore decided to follow the suggestion of Miles and Huberman (1994:18) and present the findings in both a graphical and narrative format. Miles and Huberman (1994:22) explained that a graphical framework compels one to depict the entire framework on a single page. This encourages summarising interrelationships among variables succinctly and aids in interpreting the data.

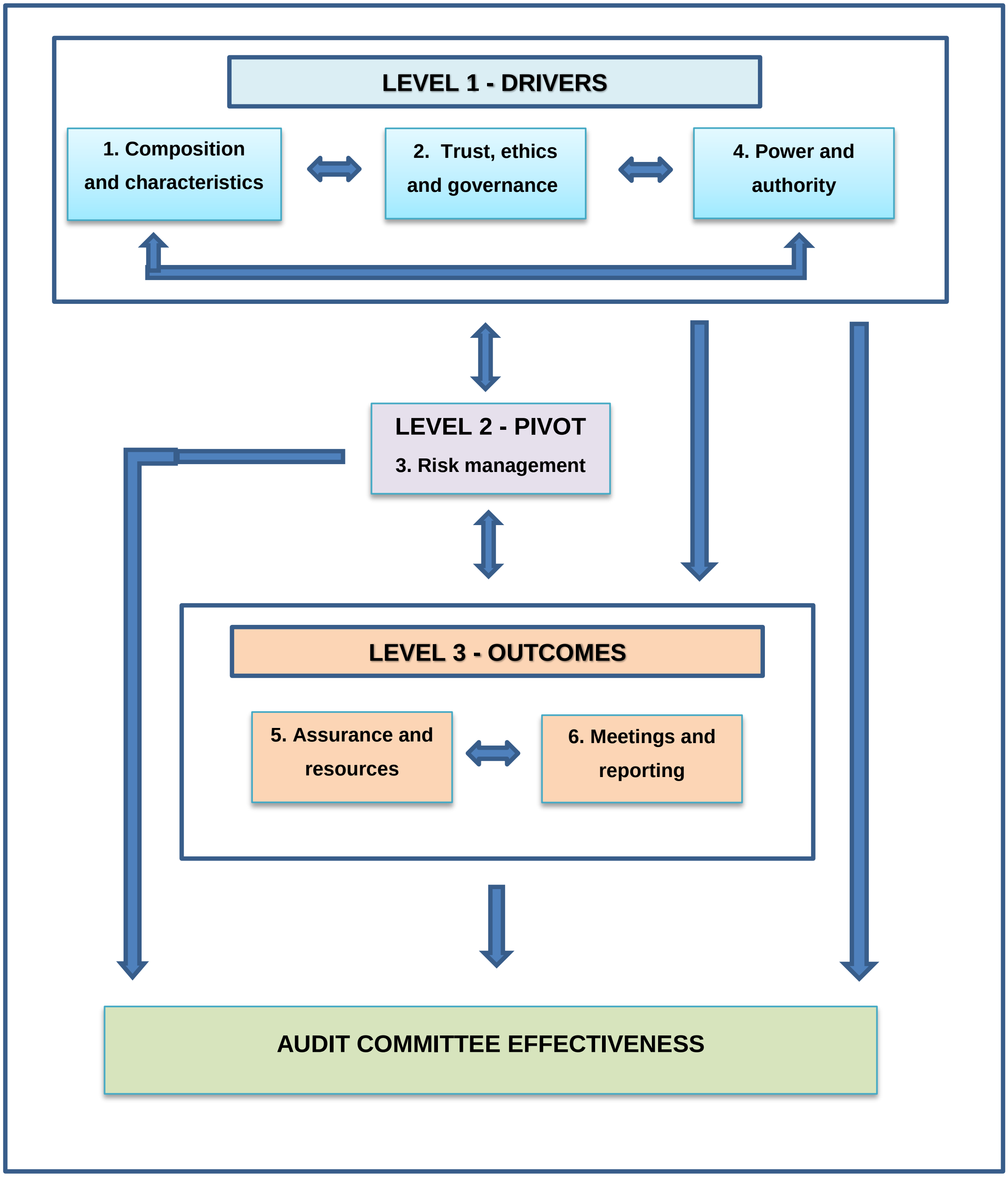

Figure 5.1: Graphical framework for audit committee effectiveness

Source: Own design

The first iteration of the graphical framework was presented in Figure 3.2 in section 3.8.2. This iteration presented only 12 themes as it excluded the meta-themes that were identified after the literature review. The final graphical framework is presented in Figure 5.1 and incorporates Figure 3.2. The framework presents the six meta-themes and their classification into drivers, outcomes and the pivot. The graphical presentation shows the interrelationships among the six meta-themes and their influence on audit committee effectiveness in a high-level, holistic picture. DeZoort et al (2002:68) identified interrelationships among determinants of audit committee effectiveness as a gap in the literature. This study addresses that gap and extends the literature by identifying 24 interrelationships and goes a step further by presenting these interrelationships in a graphical framework. The next section explains the design and layout of the graphical framework in Figure 5.1.

5.4.2 Design of the graphical framework

Three meta-themes (1, 2 and 4) were drivers, two were outcomes (5 and 6) and one was a pivot (3), as shown in Figure 5.1. These represent three tiers or levels of achieving audit committee effectiveness, hence a three-tiered graphical framework that is a unique contribution to the literature. The rationale for this three-tiered model is based on IQA, which identifies a hierarchy or levels of drivers, pivots and outcomes. Northcutt and McCoy (2004:32) explained that the elements (affinities, themes or meta-themes) of a system (audit committee effectiveness) may be organised or rationalised into zones. They defined a zone as a *"region of a system in which the elements have similar characteristics of influence"* (Northcutt & McCoy 2004:32). They continued to explain that drivers influence outcomes, and both influence, and are influenced by the pivot.

Following this definition, the graphical framework presents the three levels or stages in achieving audit committee effectiveness. The first (and highest) level of the model comprises drivers, which are most important for enhancing audit committee effectiveness. Audit committee stakeholders and companies seeking to enhance audit committee effectiveness should first address these drivers. The second level, the pivot, is next in the line of importance. The third (and lowest) level consists of the outcomes, which generally require less attention because these tend to follow once the drivers and pivot are addressed.

The next step was to describe the interrelationships as presented in the graphical framework in Figure 5.1.

5.5 INTERRELATIONSHIPS AMONG META-THEMES

This discussion validates the analysis of affinities into themes, and themes into meta-themes, as it demonstrates the integration and interconnectedness of all the drivers, outcomes and the pivot. There is no meta theme that is not part of the holistic framework for audit committee effectiveness. Twenty-four directions of influence among six meta-themes are discussed, providing a summary of the various interrelationships among the meta-themes. These are visually presented in the graphical framework in Figure 5.2 to facilitate understanding.

5.5.1 Meta-themes 1 and 2

There is a relationship between “composition and characteristics” (meta-theme 1) and “trust, ethics and governance” (meta-theme 2). Audit committee members who have the requisite experience and expertise, such as governance expertise, have better skills to assess the ethical culture and governance environment than an inexperienced member. These members are more likely to make good judgements regarding the extent of trust and reliance that can be placed on management assertions. Thus, meta-theme 1 influences meta-theme 2.

The ethical and governance environment of a company also influences the overall composition and characteristics of an audit committee. A company with high ethical and governance standards is likely to appoint competent members as this will enhance the ethics and governance of the company through good financial oversight and monitoring from the audit committee. Thus, meta-theme 2 influences meta-theme 1. Thus, two directions of the interrelationship were discussed in this section.

5.5.2 Meta-themes 2 and 4

There is a relationship between the trust, ethics and the governance environment (meta-theme 2) and power and authority (meta-theme 4). An ethical and well-governed company is likely to perceive the audit committee as adding value to the company, instead of as a compliance function enforced by legislation. The management, board and company secretary of such a company are therefore likely to support and empower the audit committee and promote its status and standing with others. An ethical well governed environment is also likely to ensure that there is a well-written audit committee charter to comply with good governance criteria. This empowers the audit committee by clearly stipulating what it is accountable for. Thus, meta-theme 2 influences meta-theme 4.

Since the audit committee is responsible for the monitoring and oversight of the quality of financial reporting, internal audit, and external audit, an empowered committee has the authority to promote and enforce a higher standard of ethics and governance. Thus, meta-theme 4 influences meta-theme 2. Two directions of interrelationship therefore exist.

5.5.3 Meta-themes 1 and 4

A relationship is present between “composition and characteristics” (meta-theme 1) and “power and authority” (meta-theme 4). An audit committee with members that have high levels of expertise, independence and a strong chair, is likely to be well-respected and empowered with a higher status and standing by the board and management. Audit committee members, specifically the chair, that have good leadership and interpersonal skills, are likely to influence good relationships with the company secretary, board and management. A competent audit committee is also likely to ensure that the audit committee charter is clear and fit for purpose. Thus, meta-theme 1 influences meta-theme 4.

The company secretary influences the expertise of the audit committee by providing onboarding and various types of pertinent training. The secretary also influences the ability of the audit committee to execute its duties by planning audit committee meetings, preparing agendas, compiling audit committee documentation, and preparing accurate minutes. The secretary also provides a vital link to management and provides valuable information that assists the audit committee. Board and management influence the expertise and independence of an audit committee by selecting competent members and encouraging independence between themselves and audit committee members. Management and the board can also enhance the perception of the committee and its status and standing with other stakeholders. Thus, meta-theme 4 influences meta-theme 1. Two directions of the interrelationship were discussed in this section.

5.5.4 All drivers and meta-theme 5

All three drivers (meta-themes 1, 2 and 4) and the outcome, “assurance and resources” (meta-theme 5) are directly related. Assurance providers are resources that the audit committee can utilise to fulfil its duties. For example, the audit committee can request internal audit to investigate certain internal controls or risks. An audit committee with high levels of expertise (meta-theme 1), that has power and authority (meta-theme 3) and that exercises professional scepticism and good judgement in relation to the ethical and governance environment (meta-theme 2), is likely to demand a high-quality of assurance and reports from assurance providers. The audit committee of necessity places some degree of reliance on the work of assurance providers and will generally seek to increase this reliance, to alleviate the volume and pressure of work on the audit committee. Thus, all three drivers influence the quality of assurance. There are therefore three directions of interrelationships.

5.5.5 All drivers and meta-theme 6

There is a relationship between all three drivers (meta-themes 1, 2 and 4) and the outcome, “meetings and reporting” (meta-theme 6). A competent audit committee (meta-theme 1) with power and authority (meta-theme 4) will use its expertise and power to drive efficient meetings and reporting. For example, if reports are not of an adequate standard, this committee is likely to use its power to address this with management and compel them to improve standards. A competent audit committee and chair will also steer meetings efficiently and encourage participation from all members without anyone dominating meetings. An ethical company with good governance will create an environment that is likely to produce reports that are reliable and trustworthy. Thus, all three drivers influence meetings and reporting. Three directions of interrelationships therefore exist.

5.5.6 Meta-themes 5 and 6

The two meta-themes that are outcomes, “assurance and resources” (meta-theme 5) and “meetings and reporting” (meta-theme 6) are interrelated. Assurance providers often attend audit committee meetings and prepare reports for audit committees, which require approval or action from the audit committee. For example, external audit performs an audit of the annual financial statements that the audit committee recommends to the board for approval. Other specialists also prepare reports for the audit committee to review or action. The external audit partner and chief audit executive are often required to attend audit committee meetings to present their reports. Therefore, assurance influences reports and meetings. Conversely, meetings and reporting compel assurance providers to produce high-quality reports to ensure meaningful meetings and a high standard of reporting. Thus, these meta-themes mutually influence each other in two directions of the interrelationship.

5.5.7 Meta-theme 3 and other meta-themes

Between risk management (meta-theme 3) and all other five meta-themes a relationship exists. Risk management was identified as a pivot, as risk is connected to all other themes either directly or indirectly in some form or the other. Good risk management will seek to reduce risks by: encouraging the appointment of competent and independent audit committee members (meta-theme 1), ensuring an ethical culture and good governance (meta-theme 2), appointing a competent company secretary and encouraging a well-written scope and charter (meta-theme 4), appointing competent assurance providers (meta-theme 5), and making sure of high-quality reports and efficient meetings (meta-theme 6). Thus, risk management influences all other meta-themes.

A competent audit committee (meta-theme 1) that has power and authority (meta-theme 4) will influence a better risk management strategy, since risk oversight is a duty of the audit committee. Good governance (meta-theme 2) and competent assurance providers (meta-theme 5) will result in lower risks to reduce opportunities for fraud, errors and misstatements. Audit committee meetings and reporting (meta-theme 6) generally address risk management as a recurring agenda item. Thus, all meta-themes influence risk management. This represents ten directions of interrelationships.

5.5.8 Summary of interrelationships

This section discussed the interrelationships among the six meta-themes, which informs interpretation of the interrelationships in the graphical framework. All six meta-themes influence audit committee effectiveness. In addition to these six directions of influence, 24 directions of influence in interrelationships among the six meta-themes were identified. This was based on the IQA rationale. Drivers influence outcomes. The pivot influences, and is influenced by drivers and outcomes. In total, 24 relationships were discussed.

5.6 THE NARRATIVE CONCEPTUAL FRAMEWORK

The next step was to develop a detailed narrative conceptual framework. The process followed was to analyse the focus group discussions and the literature review methodically to extract factors that influence audit committee effectiveness. The format of the narrative framework follows the graphical format and is presented in the order of the six meta-themes and twelve themes, from drivers to outcomes.

5.6.1 Motivation for a narrative framework

The motivation for producing a narrative framework was threefold. The first motivation for this framework was to present a set of principles for audit committee effectiveness. The definitions of the meta-themes were expressed as principles of audit committee effectiveness (refer to Table 5.1). The six principles of audit committee effectiveness and the details presented in each of the six sections of the narrative framework are in essence guidelines for achieving the principles. The format is designed to be user-friendly and caters for a range of stakeholders at differing levels of audit committee experience and expertise.

Secondly, a narrative framework on audit committee effectiveness in the private sector, based on focus group data and literature extends the literature as there does not appear to be one in the prior literature. There also does not appear to be both a narrative and graphical framework that complement each other. These integrated frameworks add to the qualitative rigour of this study and strengthen the credibility, transferability, dependability, and confirmability of both frameworks. Both frameworks were derived largely from primary data (focus groups), which also adds to the qualitative rigour of both frameworks.

The third motivation for producing a narrative framework was for it to act as a set of guidelines or best practice for audit committee members and audit committee stakeholders who work with audit committees. The framework may also inform legislators, regulators, and governance experts in reviewing and possibly revising the Companies Act and the King codes. Board members, executive directors, non-executive directors, internal auditors, external auditors, governance experts and consultants in the field of audit, risk and management may also benefit from the framework.

5.6.2 Structure of the narrative conceptual framework

The overall structure of the narrative framework is as follows. Each of the six principles constitutes a separate section, resulting in six main sections (A to F). Each section consists of the principle (meta-theme) and the underlying themes constituting the meta-theme. For example, section A (composition and characteristics) includes subsections for five themes (financial expertise and personal attributes, business and industry expertise, composition, independence and leadership and tone). Where appropriate, there are sub-headings in certain subsections to provide for ease of reference and to provide structure. For example, in section E (assurance and resources), there are subsections for internal audit, external audit and combined assurance.

The framework includes two columns to reference each point to the source of the findings in the focus group discussion and/or the literature review. This provides an audit trail to confirm the source. It also provides evidence of an unbiased evidence-based framework that adds to the qualitative rigour.

The following two points are important regarding the narrative framework. Firstly, the framework is not meant to be prescriptive in nature. It is meant to serve as guidelines recommended for improving audit committee effectiveness. It is acknowledged that some suggestions may be onerous to implement, however, the hierarchy in which the framework is presented, offers a course of practical action. If the drivers of audit committee effectiveness are first addressed, then the outcomes are likely to follow. This is a unique advantage of the format of this framework. The framework is therefore of both practical and theoretical benefit.

The second point is that the narrative framework presents certain information that appears to be similar under more than one section. This is intentional as there is a nuance to the particular point that makes it relevant to more than one section. This is also done purposefully so that the individual sections of the narrative framework can be read independently as complete sections, without the need to read the entire framework. Due to the complexity of the topic, it is inevitable that some concepts overlap. This is not seen as a weakness of the framework, but as a strength, in that the same concept has a different nuance that one should be aware of. The next section presents the detailed narrative conceptual framework.

5.6.3 Conceptual framework in narrative form

The detailed narrative conceptual framework for audit committee effectiveness is presented in Table 5.2. It supports the graphical conceptual framework presented in Figure 5.2. Each section begins by stating the principle, followed by supporting themes and then 124 comprehensive guidelines on how an audit committee can become more effective, prefaced by the words *"An audit committee will be more effective if:".* Themes are defined and meta-themes are expressed as principles of audit committee effectiveness to prevent ambiguity.

Table 5.2: Narrative conceptual framework

No.	Guidelines	Focus group reference	Literature reference
SECTION A: COMPOSITION AND CHARACTERISTICS **<u>Principle 1</u>:** *The audit committee should be independent, balanced and collectively possess an appropriate level of financial, governance, business and industry expertise commensurate with the size, nature, and complexity of the company, and the chair should promote teamwork and set a positive tone for the committee.*			
1. Financial expertise and personal attributes: *Financial expertise refers to knowledge of International Financial Reporting Standards, practical accounting experience and understanding of the audit process. Governance expertise refers to knowledge of the Companies Act, King IV™ and any legislation or regulations that may be applicable to the specific company. Personal attributes refer to desirable skills, including interpersonal skills, emotional intelligence, intuition, teamwork, positivity, critical thinking, analytical skills, an inquiring mind, and the willingness to challenge management when necessary, and hold people accountable.* An audit committee will be more effective if:			
1.1	the committee as a whole possesses a level of financial expertise that is commensurate with the size, nature and complexity of the company. Financial expertise includes both *theoretical* accounting knowledge, such as knowledge of International Financial Reporting Standards, but also *practical* knowledge that is gained by working in an accounting and auditing environment. Audit committee members should keep updated with changes in accounting standards and engage in continuous professional development. At least one member of the committee should be a financial expert.	3.6.1.1, 3.6.1.2, 3.6.1.3	4.3.1, 4.3.8
1.2	audit committee members specifically understand the audit process. An audit committee's responsibilities are specifically centred around understanding the audit process, therefore members who are not financial experts should make reasonable efforts to obtain a basic understanding of the audit process.	3.6.1.2	
1.3	audit committee members have the financial expertise to challenge management when necessary. This requires a high level of financial expertise because management are likely to have an intimate and detailed understanding of their company's financial affairs.	3.6.1.2, 3.6.3.2	
1.4	audit committee members possess knowledge of applicable legislation, regulations and codes of conduct, such as the Companies Act, King IV™, and other legislation pertinent to the specific business or industry. Members should keep up to date with changes in such legislation, regulations and codes.	3.6.1.1, 3.6.1.3	4.3.1, 4.3.8
1.5	audit committee members possess good interpersonal skills, high levels of emotional intelligence, a positive attitude and a team-oriented approach towards fellow audit committee members and management. They should also possess the right mix of key personal attributes such as technical competency, intuitive ability, integrity, ethical behaviour, an inquiring mind and the willingness to challenge and to hold people accountable.	3.6.1.1	4.3.3
1.6	audit committee members possess critical thinking skills and analytical skills to evaluate the authenticity of financial and non-financial information presented at audit committee meetings for decision-making.	3.6.1.1, 3.6.1.2	4.3.3
1.7	audit committee members reflect maturity in age and years of experience.	3.6.1.1	4.3.3

No.	Guidelines	Focus group reference	Literature reference
1.8	audit committee members are remunerated at market-related rates in order to attract competent members. Competence is likely to be commensurate with remuneration as a higher remuneration is likely to attract more competent audit committee professionals.	3.6.1.1	
1.9	audit committee members execute their duties with integrity and do not neglect their responsibilities on committees that pay a lower remuneration relative to committees that pay a higher remuneration.	3.6.1.1	
2. Business and industry expertise *refer to understanding key business concepts, legislation, regulations, risks and the nature of the industry, as well as economic, social and environmental factors pertinent to the industry, which promote an integrated understanding of how financial and non-financial information interrelate and are presented in the integrated report.* An audit committee will be more effective if:			
2.1	the committee as a whole possesses industry expertise pertinent to the company and understands the laws, regulations, risks and nature of the industry in relation to financial information. Industry expertise provides a deeper understanding of the specific risks typically present in an industry.	3.6.2.1, 3.6.7.2	4.3.2, 4.3.7
2.2	audit committee members understand the economic, social and environmental factors pertinent to the industry, and use this to evaluate the integrated report and overall sustainability of the company.	3.6.1.2, 3.6.2.	4.3.2
2.3	audit committee members are able to integrate their analysis of financial information with non-financial information to reach a more complete and holistic understanding of the information presented in the audit committee documentation. Members are also able to compare financial and operational performance with competitors in the same industry, which is likely to aid in evaluating the completeness of the audit committee documentation and identifying whether any information appears to be missing.	3.6.2.1	4.3.2
2.4	the committee as a whole possesses business expertise and understands key business concepts such as risk management, business strategy (strengths, weaknesses, opportunities and threats), planning, and coordinating. Members who are “business smart” can think creatively and present unconventional perspectives.	3.6.2.1	4.3.3
3. Composition *refers to the audit committee collectively possessing adequate financial expertise, governance expertise, business expertise, industry expertise, personal attributes and diversity in age, race and gender to enable the committee to effectively discharge its duties. The composition should be appropriate for the size, nature and complexity of the company, and encourage different perspectives and balanced decision making.* An audit committee will be more effective if:			
3.1	due care and attention are exercised in appointing members to ensure that the audit committee collectively has adequate financial expertise, business expertise, industry expertise, governance expertise, knowledge, experience, qualifications and skills, which are appropriate to the size, nature and complexity of the company. The audit committee should also achieve diversity and gender targets to encourage different perspectives and balanced decision making.	3.6.3.1, 3.6.3.2	4.3.3
3.2	due care and attention is given to achieving a balance of complementary skills on the audit committee to encourage a more holistic analysis and interpretation of financial and non-financial information. Members should not only include chartered accountants, but other suitable members such as lawyers, engineers and actuaries, depending	3.6.3.1, 3.6.3.2	4.3.3

No.	Guidelines	Focus group reference	Literature reference
	on the skills required for the specific business and industry. Audit committees should comprise a mix of audit members with professional audit committee experience and corporate director experience as these two groups bring different perspectives and add to diversity. While audit committee professionals bring more competence, corporate directors are more willing to confront and challenge management when necessary.		
3.3	due care and attention is given to appointing members with compatible personalities to promote teamwork and synergy.	3.6.3.1, 3.6.3.2	4.3.3
3.4	due care and attention is given to appointing members with good interpersonal skills, emotional intelligence and a positive attitude.	3.6.3.1	4.3.3
3.5	due care and attention is exercised when deciding on the number of audit committee members, which should be appropriate for the size, nature and complexity of the specific company, and not be an arbitrary number. Larger and more complex companies may warrant a larger number of audit committee members and the ideal number will differ in each situation. The Companies Act stipulates that there should be a minimum of three members but does not state a maximum. An odd number of members is likely to result in more decisive choices and voting.	3.6.3.1	4.3.3
3.6	due thought and attention is given to succession planning to ensure that an optimal composition is maintained or achieved when members resign or retire. Such opportunities should be used to achieve gender and diversity targets.	3.6.3.1	4.3.3
***4. Independence** means that audit committee members should avoid circumstances that could harm the perception of their independence and should apply their minds without fetter or instruction when evaluating audit committee matters. There should not be any conflict of interest between personal circumstances and audit committee duties.* An audit committee will be more effective if:			
4.1	audit committee members avoid circumstances that could harm the *perception* of their independence.	3.6.4.1	4.3.4
4.2	audit committee members apply their minds without fetter or instruction when evaluating audit committee matters.	3.6.4.1	4.3.4
4.3	audit committee members do not have a conflict of interest between personal financial gain and objectively discharging their audit committee responsibilities. Personal financial gain includes audit committee remuneration, shareholdings, share incentives and any other type of financial gain by virtue of being an audit committee member. Incentive-based remuneration schemes in general are not recommended for audit committee members because these may impair independence.	3.6.1.1, 3.6.3.2	4.3.4
4.4	audit committee members are empowered to assert their independence by challenging management when appropriate, expressing their opinion, asking difficult questions, discussing contentious matters, and making unpopular decisions, without fear of retribution from management.	3.6.1.1, 3.6.3.2, 3.6.4.1	4.3.4
4.5	management value the role and value added by the audit committee and do not unduly influence the independence of the committee to follow a compliance driven ("tick-box") approach.	3.6.4.1	

No.	Guidelines	Focus group reference	Literature reference
5. Leadership and tone *refers to effective leadership from the audit committee chair, who should promote the status, standing and gravitas of the audit committee and ensure effective relationships and communication among various high-level stakeholders, including management, the board, the chief financial officer, the chief audit executive, the external audit lead partner, other board committee chairs, and the company secretary.* An audit committee will be more effective if:			
5.1	the audit committee chair is carefully selected after considering the person's leadership traits, character, interpersonal skills, diligence and emotional intelligence. The audit committee chair's character should reflect integrity, honesty, transparency, ethical behaviour, and high personal standards and values.	3.6.5.1, 3.6.5.2	4.3.5
5.2	the audit committee chair should set an appropriate tone for meetings by encouraging trust, unity, cooperation and mutual respect. The chair is generally the main influencer of tone and should therefore strive to create open and trusting relationships among audit committee members and with management.	3.6.5.1, 3.6.5.2, 3.6.5.3	4.3.5
5.3	the audit committee chair encourages all audit committee members to participate and does not dominate meetings or stifle other members.	3.6.5.1, 3.6.5.2, 3.6.5.3	4.3.5
5.4	the audit committee chair has the maturity and experience to lead the audit committee and promote the status and standing of the audit committee with management and other stakeholders.	3.6.5.1, 3.6.5.2	4.3.5
5.5	the audit committee chair is careful to fairly present the decisions of the audit committee at board meetings. The chair should be prepared to challenge management on behalf of the audit committee when necessary.	3.6.5.3	4.3.5
5.6	the audit committee chair ensures effective information flow and communication among the various high-level stakeholders, including management, the board, the chief financial officer, the chief audit executive, the external audit lead partner and other board committee chairs.	3.6.5.3	4.3.5
5.7	the audit committee chair builds a relationship of trust with the company secretary and keeps channels of communication open. This is important because the secretary can assist in providing pertinent information about the company.		4.3.7
5.8	the audit committee chair ensures that the content of the audit committee documentation provides adequate detail for each agenda item.		4.3.12.2
SECTION B: TRUST, ETHICS AND GOVERNANCE **<u>Principle 2</u>:** *The extent of trust and reliance that can be placed on management assertions and reports is strongly influenced by the ethics, culture and governance environment that produces the reports. Audit committee members should therefore carefully consider this environment and exercise professional scepticism and reasonable judgement when evaluating management assertions and reports.*			
6. Trust, ethics and governance *(definition presented in Principle 2)* An audit committee will be more effective if:			
6.1	management prepares accurate financial and non-financial reports with honesty and integrity. Although audit committee members should exercise professional scepticism and reasonable judgement, they invariably have to place some degree of trust and reliance on management assertions because it is impractical to verify everything.	3.6.6.1, 3.6.6.4	4.3.6

No.	Guidelines	Focus group reference	Literature reference
6.2	a company has a strong ethical culture and good corporate governance because this enhances the overall integrity and accuracy of reports and information presented to the audit committee.	3.6.6.1, 3.6.6.4	4.3.6
6.3	audit committee members understand the "true" company culture and environment, as this environment produces the information presented to the audit committee, and invariably influences the accuracy and reliability of such information.	3.6.6.2, 3.6.6.4	4.3.6
6.4	audit committee members do not hesitate to engage with external auditors, internal auditors and other assurance providers when they require more information about the accuracy of reports presented to them by management.	3.6.6.1, 3.6.6.4	4.3.6
6.5	relationships between management and audit committee members are characterised by honesty, integrity, openness, transparency, trustworthiness, receptiveness, and ease of communication in both formal and informal meetings.	3.6.6.2, 3.6.6.4	4.3.6
6.6	audit committee members can easily contact management and have ad hoc informal meetings without having to wait for formal audit committee meetings to discuss pertinent issues. Informal ad hoc meetings provide an additional opportunity to gain insight into the true nature and character of management and how this may influence the ethics and culture of the company.	3.6.6.1, 3.6.6.4	4.3.6
6.7	audit committee members are alert to "red flags" that indicate that management may be conducting their business affairs dishonestly. Red flags include: (1) management that focus *only* on short-term goals and gains, such as achieving share price increases, profits, forecasts and key ratios; and (2) an overly domineering chief executive officer and/or management who are uncooperative and aggressive. Positive traits of management include openness, transparency, adaptability to change and holding staff accountable for any transgressions of laws and regulations. In general, audit committee members should exercise professional scepticism and judgement in evaluating management assertions, especially when management has an incentive to manipulate earnings. Audit committee members who are more trusting by nature should be alert to deceptive behaviour from management and exercise professional scepticism in carrying out their duties.	3.6.6.1, 3.6.6.4	4.3.6
6.8	the company has a comprehensive code of conduct that articulates the mission, values and ethics, and includes all pertinent information, including internal guidelines and overall direction.	3.6.6.3, 3.6.9.1	4.3.9
6.9	The company has a separate social and ethics committee that has a dual reporting line to the board and audit committee. This allows the social and ethics committee to report breaches of ethics in confidence to the audit committee and enables reporting of sensitive matters such as harassment of staff by senior management. This can assist the audit committee to better understand the "true" ethics and culture of the company.	3.6.6.3	4.3.6
6.10	the board and management value the audit committee and empower it by setting the tone of how the committee is perceived and respected by others. The audit committee should not be viewed merely as a compliance ("tick-box") function but as a committee that adds value to the company.	3.6.8.3	4.3.5
6.11	The board and management encourage and support the audit committee in interacting with other board committees, such as the social and ethics committee, to gain further insight into the company, and do not restrict access to such committees.	3.6.8.3	4.3.6
6.12	audit committee members meet with middle management, either at formal or informal meetings, because they may be more open than executive management to discuss the "true" company culture and ethics.		4.3.6

No.	Guidelines	Focus group reference	Literature reference
6.13	audit committee members review documents, conduct interviews, evaluate culture surveys and interact with the human resource department to gain insight into whether there are staff complaints regarding management, or whether employees feel pressured into doing anything unethical or circumventing rules.		4.3.6
6.14	there is a whistleblowing mechanism to encourage anonymous reporting of any breaches in ethical behaviour and breaches are investigated and not ignored. Employees should be protected from victimisation. Audit committees should receive whistle-blower complaint reports at frequent intervals or be allowed to meet directly with the person responsible for the whistle-blower program.		4.3.6
SECTION C. RISK MANAGEMENT **Principle 3**: *The audit committee should exercise risk oversight to the extent that this is delegated to the audit committee by the board and should understand the enterprise risk management strategy, interdependency of risks and potential impact of risks on the company.*			
7. Enterprise risk management *(definition presented in Principle 3)* An audit committee will be more effective if:			
7.1	audit committee members understand management's processes for identifying, assessing and responding to risks. The company should have an effective enterprise risk management (ERM) strategy that aggregates risks and manages it in an integrated and holistic manner. This assists the audit committee in their oversight of risk management, understanding the interdependency of risks, and the potential impact of such risks on the company.	3.6.7.1, 3.6.7.2	4.3.7
7.2	the company has a competent chief risk officer who can assist the audit committee in understanding key risks facing the company.		4.3.7
7.3	the audit committee can place reliance on a competent risk committee. Risk oversight is a time consuming and complex task that requires focussed attention. A dedicated risk committee helps to alleviate some of the burden on the audit committee for risk oversight.	3.6.7.1, 3.6.7.2	4.3.7
7.4	the audit committee understands the extent of their risk oversight responsibilities in relation to the risk committee and other board committees, to prevent duplication of work. The audit committee should also understand other stakeholders' risk management responsibilities, such as internal auditors, and liaise with these stakeholders to ensure that all significant risks are allocated to a committee for oversight. Audit committees can also request management or internal audit for periodic reports on the internal control environment and fraud prevention programs.		4.3.7
7.5	audit committee members should be alert for "red flags" relating to the wide variety of risks, such as financial risk of misstatements of financial information, product risk, information technology risk, human resource risk, and sustainability risk. "Red flags" include pressure to meet earnings forecasts, bonuses, compensation linked to profits, and pending applications for debt financing or equity offerings.		4.3.7
7.6	audit committee members, although not experts in information technology, are able to ask the right questions in relation to cybersecurity within the context of enterprise risk management (ERM), and understand the legal implications of cybersecurity risks. Cybersecurity experts should be requested to attend audit committee meetings if deemed necessary, rather than the audit committee underestimating or ignoring this risk. Audit committees		4.3.7

No.	Guidelines	Focus group reference	Literature reference
	should also motivate setting up a separate Technology and Governance Committee in companies susceptible to cyber-attacks or in companies with complex information technology systems.		
7.7	audit committee members request management or internal audit for periodic reports on the internal control environment, internal controls over financial reporting, and fraud prevention programs, to better understand fraud risk.		4.3.7
7.8	audit committees specifically obtain an understanding of related party transactions and significant abnormal transactions, as fraud often requires collusion among related parties and involves abnormal transactions.		4.3.7
SECTION D: POWER AND AUTHORITY **Principle 4**: *The audit committee should be empowered by the board, management and an efficient company secretary, who provides a vital link to the board and management. The audit committee charter should clearly stipulate the responsibilities of the audit committee and serve as a basis for evaluation of the performance of the committee.*			
8. Company secretary, board and management: *The company secretary empowers the audit committee by efficiently coordinating meetings, providing guidance and training to members, providing induction and on-boarding for new members, and providing access to specialists when required. The board and management empower the audit committee by giving it status, standing and respect from other stakeholders.* An audit committee will be more effective if:			
8.1	the company secretary serves as an effective link between the audit committee and management. The company secretary has substantial knowledge and insight into the company's affairs and has unfettered access to the board. This prevents management from constraining free and open communication of pertinent information between the audit committee and the company secretary.	3.6.8.1	4.3.8
8.2	the company secretary gathers and disseminates all pertinent information to audit committee members in a timely manner. Audit committee documentation should be timeously distributed to allow audit committee members adequate time to understand and analyse the information, and there should be adequate supporting information for each agenda item. If possible, audit committee documentation should be distributed electronically to save time and cater for instances when audit committee members are travelling.	3.6.8.1	4.3.8, 4.3.12.2
8.3	the company secretary ensures that the audit committee has access to all policies, procedures, information and resources necessary to function effectively.	3.6.8.1	4.3.8, 4.3.12.2
8.4	the company secretary, together with the audit committee chair, prepares a well-constructed audit committee meeting agenda, prepares and distributes audit committee meeting documentation timeously, takes accurate minutes and coordinates everything efficiently in relation to meetings.	3.6.8.1	4.3.8, 4.3.12.1
8.5	the company secretary provides an informative induction and on-boarding for new audit committee members to help them to understand the business and industry, and guides new and existing members in their duties.	3.6.8.1	4.3.8
8.6	the company secretary provides guidance on governance codes, legislation, and regulations pertinent to the company, and arranges training of members to keep them abreast of changes and continued professional development.	3.6.8.1, 3.6.8.2	4.3.8

No.	Guidelines	Focus group reference	Literature reference
8.7	the company secretary ensures that the audit committee has access to specialists or expert advice when required and arranges meetings with specialists when the need arises.		4.3.8, 4.3.11.1
8.8	the company secretary is actively involved in the annual work-plan event where the frequency and timing of meetings is determined, and should ensure that such meetings coincide with other key dates in the financial reporting and audit cycle.		4.3.8
8.9	the audit committee or board evaluates the performance and independence of the company secretary annually and takes corrective action if the secretary does not perform at an acceptable standard.		4.3.8
8.10	the board and management empower the audit committee by respecting the role and value added by the audit committee. The audit committee should not be coerced by the board or management into focussing only on compliance issues and following a "tick-box" approach.	3.6.4.1, 3.6.8.3	
8.11	the board and management empower the audit committee as this enhances the status and standing of the audit committee, and sets the tone for how the committee is perceived and respected by others.	3.6.8.3	4.3.5
8.12	audit committee members are empowered to interact with other board committees because these can be a source of valuable information and prevent duplication of work among committees.	3.6.8.3	4.3.6
9. Scope and charter *refers to the audit committee charter, which should clearly and unambiguously set out the scope of work and responsibilities of the audit committee, and should form the basis for evaluations of the audit committee.* An audit committee will be more effective if:			
9.1	the audit committee charter clearly sets out the scope and responsibilities of the audit committee. This should include the size of the committee, number of meetings, oversight responsibilities and reporting responsibilities. It should also include the desired characteristics of the audit committee in terms of financial expertise, business expertise, industry expertise, composition, and independence. This enables the audit committee and other stakeholders (especially those stakeholders with little or no accounting or auditing experience) to understand the nature and extent of the work required of an audit committee and what the committee can and cannot be held accountable for. Audit committee members similarly benefit by having clarity on their responsibilities and being able to plan their time and energy to fulfil such responsibilities.	3.6.9.1, 3.6.9.2	4.3.9
9.2	the audit committee charter is comprehensive, includes all pertinent information, and can serve as a benchmark to evaluate audit committee performance.	3.6.9.1, 3.6.9.2	4.3.9
9.3	the audit committee charter stipulates the extent of interaction between the audit committee and other board committees, and the degree of reliance that can be placed on the work of other board committees.	3.6.9.1	4.3.9
9.4	the audit committee charter is reviewed annually to ensure that any changes in audit committee responsibilities are updated timeously, especially in a climate of rapidly changing accounting standards and legislation. The audit committee should use this opportunity to debate and define the realistic scope of their responsibilities, and preferably influence a more value-adding approach as opposed to a compliance driven ("tick-box") approach.	3.6.9.1	4.3.9
9.5	the audit committee charter stipulates specific ad hoc duties of an audit committee, which generally add more value than the legislative duties. Legislation has to cater for a wide range of companies of varying size, nature and		4.3.9

No.	Guidelines	Focus group reference	Literature reference
	complexity, therefore ad hoc duties are important in catering for the specific needs of the company from its audit committee.		
9.6	the audit committee charter provides guidance on the audit committee's responsibilities during transition periods of new legislation, regulations and codes, which generally take time and may allow discretion until these are finalised and enforced.		4.3.9
10. Evaluation *refers to the objective process of evaluating the performance of individual audit committee members, and the audit committee as a whole, by using an appropriate method of evaluation after carefully considering which method provides the best insight into performance and opportunities for improvement.* An audit committee will be more effective if:			
10.1	there is a formal, written process for evaluating individual audit committee members and the audit committee as a whole.	3.6.10.1	4.3.10
10.2	the method of evaluating the audit committee is selected after giving careful thought to the method that provides the best insight into audit committee performance. This is likely to differ among companies and environments.	3.6.10.1	4.3.10
10.3	evaluations preferably include the input of various parties that interact frequently with the audit committee, such as the lead external audit partner, chief audit executive, chief executive officer and the chief financial officer. In general, an independent, external process is likely to produce a more objective evaluation than self-evaluation by the audit committee members only.		4.3.10
10.4	evaluations are documented to provide objective evidence of audit committee performance and any recommendations are followed up to ensure that audit committees apply the advice provided.		4.3.10
10.5	evaluations are conducted annually and the board takes the necessary action to ensure that the audit committee addresses opportunities for improvement and identifies further professional development needs of members. The criteria for evaluation should also be updated annually for changes with time.		4.3.10
SECTION E: ASSURANCE AND RESOURCES **Principle 5:** *The audit committee should be adequately supported by various assurance providers, such as internal audit, external audit, board committees and specialists, who should provide assurance of a sufficiently high standard that the audit committee can place reliance on it.*			
11. Assurance *(definition presented in Principle 5)*			
Internal audit An audit committee will be more effective if:			
11.1	the internal audit function is competent and the work done by internal audit is of a sufficiently high standard to allow audit committees to place reliance on it.	3.6.11.3, 3.6.11.2	4.3.11.2
11.2	the audit committee has access to, and receives all reports prepared by internal audit. Management should not withhold any internal audit reports from the audit committee.	3.6.11.3, 3.6.11.2	4.3.11.2

No.	Guidelines	Focus group reference	Literature reference
11.3	the audit committee reviews and approves the internal audit plan, which is regularly updated, to ensure that the scope of work correlates to the risks facing the company. The internal audit plan should: • be comprehensive, complete and clearly describe the scope and extent of the internal audit work, • address critical risks and be flexible enough to adjust for the changing risk environment by catering for any ad hoc emergency work, • provide for an adequate budget, staff and skills for execution of the internal audit plan.	3.6.11.3	4.3.11.2
11.4	the audit committee reviews and approves the internal audit charter annually and ensures that it clearly sets out the purpose, authority, reporting structures and roles and responsibilities of internal audit.	3.6.11.3	4.3.11.2
11.5	the dual reporting lines of internal audit to management and the audit committee are clearly established and the chief audit executive is free to report to the audit committee without fear of retribution from management, or without being stifled or restricted in any other way by management.	3.6.11.3, 3.6.11.2	4.3.11.2
11.6	the audit committee ensures that the chief audit executive is independent of management and has the knowledge and experience to fulfil responsibilities, especially in view of the chief audit executive's dual line of reporting and potential conflict of interest. Audit committees should be aware that the independence of internal audit may sometimes be compromised and that internal audit may not report the full extent of risks or other findings. They should accordingly carefully consider the degree of reliance placed on the reports of internal audit.		4.3.11.2
11.7	the audit committee has a positive and cooperative relationship with internal audit and meets privately with them on a regular basis to encourage open and transparent communication and reporting of any irregular or contentious matters. Internal audit can provide the audit committee with pertinent information and is an important link to the company.	3.6.11.3	4.3.11.2
11.8	the audit committee supports the chief audit executive in reporting management lapses.	3.6.11.3	4.3.11.2
11.9	the audit committee understands how external and internal auditors coordinate their work to achieve effective audit coverage.		4.3.11.2
11.10	the audit committee ensures that internal audit has the appropriate status and respect and is visibly supported by management.		4.3.11.2
11.11	internal audit performance is evaluated annually to highlight areas for improvement.	3.6.11.3	4.3.11.2
External audit An audit committee will be more effective if:			
11.12	the external auditors are competent and alert in identifying financial misstatements, fraud and other irregularities that may come to their attention during the course of their work.	3.6.11.4, 3.6.11.2	4.3.11.3
11.13	the external auditors, in particular the lead audit partner, is independent of the client and there is no conflict of interest. The audit committee should evaluate the independence of the external auditor by considering whether relationships between the external auditor and client arise from financial interests, family relationships, personal relationships, employment relationships, business relationships, or long associations with the client.	3.6.11.4	4.3.11.3

No.	Guidelines	Focus group reference	Literature reference
11.14	external auditors have a receptive mind-set and are open and transparent in their relationship with the audit committee, and not aloof, haughty, or arrogant. External auditors can be particularly helpful because they understand the company's business, its finance team, internal controls, tone at the top and culture, more intimately than audit committee members. External auditors may also have experience with similar companies in the industry, which may prove useful in benchmarking performance and providing other useful insights.	3.6.11.4	4.3.11.3
11.15	external auditors disclose pertinent information and escalate crises and management issues in a timely manner to the audit committee, rather than withholding information.	3.6.11.4	4.3.11.3
11.16	the audit committee meets periodically with the lead partner. Frequent and informal meetings can be a source of valuable insights, instead of the more common annual meetings.		4.3.11.3
11.17	relationships of trust exist among external auditors, audit committee members, management and the chief financial officer.	3.6.11.4	
11.18	the audit committee carefully considers the appointment of the external auditors by evaluating their financial expertise, industry expertise, terms of engagement, nature and extent of non-audit services, tenure of the audit firm, and feedback from internal audit and management.		4.3.11.3
Combined assurance An audit committee will be more effective if:			
11.19	a Combined Assurance Forum is held where all pertinent board committees (such as the credit committee and risk committee) meet and identify all risks. The risks should be documented in a Combined Assurance Plan that lists all risks together with the party responsible for assurance in relation to each risk. All assurance providers, levels of assurance and assessment criteria to assess the quality of assurance should be documented.	3.6.11.1	4.3.11.1
11.20	the audit committee ensures that there is a robust and effective combined assurance model that encourages a high quality of reporting from assurance providers. This enables the audit committee to place reliance on the combined assurance underlying various assertions in reports. The combined assurance model should ensure that the same assurance is not requested of different assurance providers to a point where it becomes counterproductive, and should ensure that the combined assurance obtained from various assurance providers supports the integrity and accuracy of information as a whole.	3.6.11.2	4.3.11.1
11.21	specialists or experts, such as actuaries or engineers, are requested to attend audit committee meetings on an ad hoc basis when expertise is required to provide assurance on specialised matters. Audit committee members should not take it upon themselves to act as specialists in areas in which they are not experts.	3.6.11.1	4.3.8, 4.3.11.1, 4.3.11.3
11.22	good relationships and fluid communications exist between the chief audit executive (internal audit) and the external audit lead partner (external audit) to the extent that they exchange pertinent information.	3.6.11.2	
11.23	the chief financial officer is competent, produces a high standard of work and cooperates with internal auditors, external auditors and the audit committee.	3.6.11.2	

No.	Guidelines	Focus group reference	Literature reference
Reliance on board committees An audit committee will be more effective if:			
11.24	the audit committee is permitted to interact with other board sub-committees and place reliance on such committees. There should be good communication and interaction with other board sub-committees that facilitates sharing of valuable information and reduces duplication of work.	3.6.11.5	4.3.11.4
11.25	the audit committee collaborates with the social and ethics committee to obtain information about the ethics, culture and governance of the company.		
11.25	the audit committee collaborates with the risk committee to reduce the duplication of work. One member of the audit committee should have joint membership on the risk committee to achieve effective collaboration.		4.3.11.4
SECTION F: MEETINGS, REPORTING AND DILIGENCE **Principle 6**: *The audit committee should ensure that meetings are properly planned and that audit committee documentation is of a sufficiently high standard and is diligently studied.*			
12. Meetings and reporting *(definition presented in Principle 6)*			
Meetings (planning, agenda, minutes and preparation) An audit committee will be more effective if:			
12.1	the annual work-plan event is based on the audit committee charter to identify potential risks and other important agenda items for audit committee meetings. The number, dates, times and length of audit committee meetings should be determined at the annual work-plan event and be guided by the size and complexity of the company, and the industry in which the company operates. Meetings should be scheduled at least a year in advance at the annual work-plan event to accommodate the diaries of attendees. The timing should consider dates of key events such as the year-end audit, approval of the annual integrated report, and internal audit report.	3.6.12.1	4.3.12.1
12.2	agendas prioritise the most important matters, which are generally driven by risk and stakeholder interests. This reduces the likelihood of meetings being preoccupied with less important matters or operational matters. A good agenda indicates whether the audit committee should advise, approve or provide information, to enable members to prepare accordingly.	3.6.12.1, 3.6.12.3, 3.6.12.4	4.3.12.1
12.3	the agenda allocates time per item based on the complexity, depth and level of discussion required for each agenda item, and allows flexibility for adding important ad hoc requests that may arise. The agenda should provide some leeway to cater for time overruns and addition of ad hoc items. This increases the likelihood of all agenda items being addressed and meetings ending on time.	3.6.12.1, 3.6.12.3, 3.6.12.6	4.3.12.1
12.4	due thought is given to whether specialists or experts are required for a particular meeting, and if so, are carefully selected well in advance of meetings.	3.6.12.3	4.3.12.1

No.	Guidelines	Focus group reference	Literature reference
12.5	minutes are of a high standard and accurately capture the proceedings, resolutions and decisions taken, as decisions taken can be legally binding. The audit committee should carefully review the minutes before approving them, and ensure that items marked for action are followed up. Decisions taken and how the audit committee discharged its duties should be clearly recorded so that minutes can serve as proof of how decisions were made. At a minimum, minutes should reflect topics covered, total time of meetings, attendees, decisions taken and conclusions reached.	3.6.12.1, 3.6.12.4, 3.6.12.6	4.3.12.1
12.6	resolutions and decisions taken at meetings are actioned (and not lost) and all outstanding matters are tracked and timeously resolved.	3.6.12.1, 3.6.12.2	4.3.12.1
12.7	there is a mechanism to monitor the impact of audit committee suggestions arising from meetings. This can be used to evaluate audit committee performance and can serve as written evidence for evaluations.	3.6.12.6	4.3.12.1
12.8	ad hoc meetings are called to address any crises during the year.		4.3.12.1
12.9	audit committee members plan and prepare thoroughly for meetings and understand the content of the audit committee documentation.	3.6.12.3, 3.6.12.7	
12.10	audit committee members focus not only on financial information, but also on non-financial information, and consider whether these interrelate and are consistent with each other.	3.6.12.6, 3.6.12.7	
12.11	audit committee members interrogate the completeness of information in the audit committee documentation and consider the implications of other matters that come to their attention from the news, media, public domain or their general knowledge of the business and industry. Non-financial information often provides clues about the completeness of the audit committee documentation.	3.6.12.6, 3.6.12.7	
12.12	audit committee members not only attend all meetings, but actively participate in meetings, rather than remaining passive or silent. The audit committee chair should take responsibility for encouraging all members to participate.	3.6.12.3, 3.6.12.7	4.3.5
12.13	integrated thinking is encouraged at meetings. This is more likely to lead to a holistic and integrated picture than following a “tick box” or compliance approach that encourages “silo” thinking. Compliance issues should not dominate audit committee agendas to the extent that the important issues are not addressed. The audit committee chair should steer meetings towards an integrated approach rather than a compliance approach.	3.6.1.3, 3.6.12.4	4.3.5
12.14	good meeting procedures exist that prevent duplication of the same topics at different meetings.	3.6.12.2	
12.15	there are appropriate time intervals between audit committee meetings and board meetings to allow members sufficient time to study issues raised and to report accordingly to the board.	3.6.12.2	4.3.5, 4.3.12.1
Reporting An audit committee will be more effective if:			
12.16	the audit committee documentation is of a high quality and has an appropriate level of accurate and detailed information per agenda item to facilitate decision making.	3.6.12.6	4.3.12.2
12.17	all reports that require approval, or recommendation for approval by the audit committee (for example, annual financial statements), contain sufficient detail to enable proper analysis, understanding, discussion and approval.	3.6.12.5	4.3.12.2

No.	Guidelines	Focus group reference	Literature reference
12.18	the audit committee documentation is timeously distributed to allow members sufficient time to study and understand the information for meetings.	3.6.12.3, 3.6.12.6	4.3.12.2
12.19	the audit committee documentation is complete in that all relevant financial and non-financial information is included.	3.6.12.6, 3.6.12.7	4.3.12.2
12.20	the audit committee understands the process that management follows to compile audit committee reports, as this provides insight into the quality and integrity of the report.	3.6.12.5	
12.21	repeat audit committee meetings are called if reports are inaccurate or incomplete. The audit committee should not yield to pressure to approve sub-standard reports.	3.6.12.5	
12.22	the audit committee of the holding company holds the subsidiaries accountable for submitting reports of an acceptable quality that they can place reliance on.	3.6.12.5	

Source: Own design

5.7 CONCLUSION

This chapter triangulates the data from the focus group discussions in chapter 3, and the literature review in chapter 4, and culminates in a graphical and narrative framework for audit committee effectiveness. Designing this framework for audit committee effectiveness was the overarching goal of the research. The primary data from the two focus groups resulted in 34 affinities that were analysed into 12 themes and six meta-themes (principles). The themes and the six principles of audit committee effectiveness were defined in this chapter. Affinities, themes and meta-themes were classified into drivers, outcomes and a pivot to identify a hierarchy. This hierarchy was used to develop a three-tiered graphical framework that is a unique contribution to the literature. An analysis of the 24 directions of influence in the interrelationships among the six meta-themes was also presented, and extends the literature.

The next chapter presents the conclusion to this study.

CHAPTER 6

CONCLUSION

6.1 INTRODUCTION

This final chapter provides a summary of the background, motivation, research problem, research objectives and research design. The findings are linked to the four secondary objectives and four phases of research, indicating how research objectives were achieved. A summary of main findings is also presented. The scope and limitations are set out, followed by a discussion of the main contributions of this study. Finally, opportunities for future research are identified.

6.2 BACKGROUND, RESEARCH OBJECTIVES, GAPS AND APPROACH

The primary research objective of this study was: *“to develop a graphical and narrative framework that aims to promote the overall effectiveness of audit committees in private sector companies in South Africa”.* This objective was motivated by gaps identified in the literature. The literature explained that the role and motivation for audit committees was explicitly to provide monitoring and oversight to enhance the quality of financial reporting, external audit and internal audit, and thereby reduce incidents of corporate governance failures arising from fraud and financial irregularities (Bradbury 1990:21; Collier 1993a:421; Spira 1998:30-31; Blue Ribbon Committee 1999:1071; Mihret & Admassu 2011:67; Rupley et al 2011:138; IoDSA 2016:55).

Agency theory was identified as the theoretical explanation of the role and functions of an audit committee in mitigating the agency problem arising from the possibility that management (the agent) may act out of personal interest to the detriment of shareholders (the principals), leading to corporate governance failures. Audit committees mitigate this agency problem by performing a monitoring and oversight role over the quality of financial reporting, internal audit and external audit. Overall, this study confirmed that the agency theory holds true. A framework providing principles and guidelines for audit committee effectiveness is therefore likely to assist in addressing the agency problem.

Spira (1998:30-31) explained that the presence of an audit committee does not guarantee its effectiveness as the committee may be passive, ineffective and superficial. The increase in corporate governance failures in South Africa over the last decade suggests that audit committees are experiencing problems and are not as effective as they could be. This motivated the need to identify determinants of audit committee effectiveness and develop a framework to enhance their effectiveness. Further, the Companies Act and King IV™ do not present a framework for audit committee effectiveness. Ghafran and Sullivan (2013:381) found substantial evidence that best practice or legislation does assist audit committees in being more effective. Given the importance of the role of audit committees in promoting corporate governance principles and reducing fraud and irregularities, a framework dedicated to enhancing audit committee effectiveness was strongly motivated for the present research. It was anticipated that this would augment the requirements of the Companies Act and King IV™, to promote more effective audit committees, better corporate governance and fewer corporate failures. This was the first and main gap identified in the literature and formed the basis of the primary research objective of this study.

The second gap identified was the lack of qualitative studies that provide an “insider perspective” of audit committee effectiveness (DeZoort et al 2002:43; Turley & Zaman 2004:307; Bédard & Gendron 2010:175). Quantitative studies suffer various inherent limitations and provide limited insight into determinants of effectiveness. A third gap was the limited understanding of, and unexplored overlapping interrelationships among determinants of audit committee effectiveness. The fourth and fifth gaps were a call for studies in different geographical settings, among different cultures, economies, education, training, background and legislation, as most studies were based on United States data (e.g. DeZoort et al 2002:68; Bédard & Gendron 2010:175-196; Lin & Hwang 2010:71). The sixth gap was the need for South African studies, especially recent studies after the introduction of King IV^{TM} in November 2016. These gaps lead to formulating the research problem as follows:

> *"The presence of numerous incidents of corporate governance failures suggest that the existing company legislation and code of corporate governance may not guarantee effective audit committees, and there is a need for principles and guidelines that can specifically contribute to more effective audit committees, informed by a range of stakeholder views".*

Four secondary research objectives were identified, which were addressed by four corresponding research phases (refer to Table 6.1). In order to achieve the research objectives, this study followed a qualitative research methodology to explore and understand the meaning that audit committee professionals attribute to the question of audit committee effectiveness. It was considered that the most appropriate research design would be to directly ask two focus groups consisting of audit committee members (focus group 1) and audit committee stakeholders (focus group 2) what influences audit committee effectiveness. Audit committee members supply a service that is demanded by audit committee stakeholders. This supply and demand relationship was expected to offer different perspectives and contribute to the development of a more unbiased and holistic framework. Interactive Qualitative Analysis (IQA) was used to analyse the data into a hierarchy of drivers, a pivot and outcomes, to provide new insights and extend the literature.

6.3 MAIN RESEARCH FINDINGS

This section presents the main findings of this study. The broad findings in each research phase are first linked to the four secondary research objectives as shown in Table 6.1. Next, the findings arising out of the consolidation of focus group data (Phase 2) and the literature review (Phase 3) are presented in Table 6.2.

6.3.1 Findings from each research phase

The broad findings from each research phase are presented in Table 6.1.

Table 6.1: Broad findings linked to secondary research objectives and research phases

No.	Secondary research objectives	Research phase	Finding
(i)	To identify affinities that influence audit committee effectiveness in private sector companies in South Africa, as perceived by audit committee professionals, based on their experience.	Phase 1: To conduct two focus group discussions to identify affinities associated with the effectiveness of audit committees, by asking, "*What are the 'things' that may influence the effectiveness of audit committees in the private sector?"*	A total of 34 affinities and 365 sub-affinities were identified by both focus groups. This substantial amount of data was considered adequate and data saturation was reached with two focus groups.
(ii)	To analyse and classify affinities into a hierarchy of drivers, outcomes and pivots, and further refine affinities into themes that represent similar concepts.	Phase 2: To use IQA to analyse and classify affinities into a hierarchy of drivers, outcomes and pivots. Affinities that represent similar concepts are refined and grouped into preliminary themes and then final themes.	The 34 affinities were classified into a hierarchy of drivers, a pivot and outcomes using IQA. Summaries of both focus group discussions of the 34 affinities were presented to explain each affinity. This culminated in definitions of all 34 affinities to clarify the meaning as perceived by the focus groups. The affinities were then grouped into similar constructs and refined into 23 preliminary themes and 12 final themes. The themes were classified into eight drivers, one pivot and two outcomes. This informed the development of a preliminary three-tiered graphical framework based on a hierarchy identified by IQA.
(iii)	To further investigate the themes identified by a literature study and to refine the themes into meta-themes.	Phase 3: To use themes identified in phase 2 to direct a literature study to inform the development of a framework.	The 12 themes identified in Phase 2 directed the literature review and provided a deeper understanding of the themes. This process identified further findings and contributions, which were consolidated with findings from the focus groups (Phase 2). The consolidated findings are presented in Table 6.2. The literature review also informed further refinement of the 12 themes into six broad meta-themes. This formed the foundation of the six principles presented in the narrative framework. The meta-themes were classified into three drivers, one pivot and two outcomes and form the basis for the final three-tiered graphical framework.
(iv)	To conceptualise a framework to promote audit committee effectiveness	Phase 4: To triangulate primary data from focus groups (Phase 2) and secondary data from the literature review (Phase 3) to develop a graphical and narrative framework.	Primary data from focus groups (Phase 2) and secondary data from the literature review (Phase 3) were combined to prepare a final three-tiered graphical framework and to develop a narrative framework. All 12 themes were defined and the six meta-themes were stated as six principles, providing clarity on the meaning of the themes and meta-themes (principles). Interrelationships among the six meta-themes and 24 directions of influence were identified and discussed.

6.3.2 Main findings from the focus groups and the literature review

This study identified 24 key findings. These are presented in Table 6.2.

Table 6.2: Key findings from focus group and literature review data

No.	Key finding
Meta-theme 1: Composition and characteristics	
1	The Companies Act does not specify that at least one member of the audit committee should be a financial expert. This leaves a legal loophole that could be exploited as an audit committee can be legally constituted without any financial experts. The findings in this study emphasise the importance of the presence of financial expertise on an audit committee and this may inform future amendments to the Companies Act. It is recommended that at least one member of the audit committee should be a financial expert and that the committee as a whole should have the level of financial expertise that is appropriate for the specific size, nature and complexity of the company.
2	There is no guidance on what constitutes a financial expert for the specific purpose of serving as an audit committee member. The literature suggests that the definition of a financial expert should not be narrow, especially when there is a small pool of candidates, as in South Africa. It should not be too wide either as the literature found that financial experts with higher levels of accounting expertise are associated with higher earnings quality and receive greater shareholder approval and support, suggesting that companies benefit more from financial experts with greater accounting expertise. Certain professionals such as chartered accountants, chief financial officers, chief audit executives, financial managers, external auditors and internal auditors with at least five years of relevant experience could be included in the definition of financial experts. To broaden the pool and allow others to qualify as financial experts, it is suggested that a continuing professional development and certification program could be required and that financial experts should meet the requirements of this program. The program should be designed to enhance financial expertise and assist in remaining current on financial reporting issues and audit committee best practices, in a formal and systematic way. This program could offer different tiers of qualifications to cater for the variety in size and complexity of companies. Financial experts should receive a certification as proof of compliance with the requirements of such a program, and companies should be encouraged to recruit from this pool.
3	Audit committees that possess industry expertise, in addition to financial expertise, add greater value than committees with only financial expertise. Since an audit committee member may not possess both financial and industry expertise, the committee as a whole should reflect an appropriate balance of financial and industry expertise. Industry expertise equips audit committee members with better judgement regarding whether related party transactions are at arm's length, as they have greater knowledge of related parties, networks and major industry players. Greater vigilance over related party transactions is likely to reduce incidents of fraud.
4	The advent of integrated reporting has increased the amount of non-financial information. This has increased the need for audit committee members to have business and industry expertise to be able to evaluate the consistency of financial information with non-financial information, and to obtain a more informed holistic picture. Industry expertise enhances the meaningful analysis and interpretation of non-financial information.
5	In appointing audit committee members, attention should also be given to the "softer skills", such as good interpersonal skills, a high level of emotional intelligence, intuition, a positive attitude, and a team-work orientation.
6	Audit committees should consist of members that have relevant expertise in relation to the specific business and industry. For example, engineers, lawyers and actuaries provide specialist skills that are likely to inform judgement in accounting provisions, estimates and other financial matters. Specialists should be invited to attend meetings where expert advice is required that does not reside within the audit committee.

No.	Key finding
7	There should be an adequate number of female members on audit committees. Studies found that female members add value to audit committees by providing different perspectives. They tend to be more risk averse and compliant with rules and regulations. This is likely to set a tone within the audit committee for less tolerance of acts of fraud and irregularities, which generally involve breaking rules and regulations. Female members should have equal status and an equal voice on audit committees, and not be dominated or marginalised by male members.
8	Audit committees should strive to be representative of the various race groups in South Africa. The literature suggests that audit committees in South Africa tend to consist mainly of older white males. Diversity brings different cultures and perspectives and this benefits the audit committee in ways that a homogenous group with similar views will not provide. Members from various race groups should be given equal status and an equal voice at audit committee meetings. Audit committees should also comprise a balance between audit committee professionals (typically focus group 1 members) and corporate directors (typically focus group 2 members - audit committee stakeholders) because these two groups bring different perspectives and add to the diversity of the audit committee. While audit committee professionals bring more competence, corporate directors are more willing to confront and challenge management when necessary.
9	There should be adequate succession planning and mentorship in audit committees to replace retiring members and to ensure continuity and a balance of skills.
10	The process, rationale and selection of audit committee members should be documented and made publicly available to promote objectivity and transparency in such appointments, and to ensure that a proper process was followed that is open to public scrutiny. This is likely to avoid the appointment of unsuitable and unqualified members.
11	It is not always easily observable whether an audit committee member is independent. Audit committee members should be willing to challenge management when necessary and ask the “difficult questions”. This is one observable characteristic of independence. The chair should encourage audit committee members to assert their views and should not allow management to coerce the committee to make decisions that they do not support.
12	Remuneration of audit committee members should be market related to encourage appointments of more competent members. It should not be excessive as this may result in members being overly dependent on remuneration, which may influence their independence. One suggestion is to limit the number of audit committees of which a person can be a member. This may reduce the likelihood of audit committee members accepting posts merely for remuneration, and also prevent their independence from being impaired. Incentive-based remuneration is not appropriate for audit committee members because it is likely to lead to a conflict of interest and impair independence as audit committee members have influence over financial reporting. It is therefore submitted that in South Africa, audit committee members should not be offered incentive based remuneration.
13	A longer tenure with a specific company increases an audit committee member’s business and industry expertise relating to that company. This should be weighed against the risk of their independence being impaired because of familiarity with management increasing over time. Similarly, multiple audit committee memberships bring greater financial, business and industry expertise, but should be weighed against the risk of independence being impaired because of being overly dependent on remuneration from these multiple appointments. In a country like South Africa with a small pool of qualified audit committee members, multiple memberships may exist out of necessity. It is suggested that audit committees should consist of a mix of members with both many and few memberships, as well as a longer and shorter tenure. This will facilitate mentoring by those members who are more experienced of those who are less experienced. In particular, audit committee chairs are likely to be better mentors if they have multiple memberships and a longer tenure.
14	Audit committee chairs play a significant role in enhancing the status and standing of audit committees in the eyes of the board, management and other stakeholders. They should therefore be carefully chosen as they play an important role in driving audit committee effectiveness.

No.	Key finding
Meta-theme 2: Trust, ethics and governance	
15	Middle management, internal auditors, external auditors, the social and ethics committees, and the human resource department can provide deeper insight into a company's true culture, ethics and governance. The audit committee should hold formal or informal meetings with these parties to gain such deeper insight, as it is difficult to obtain this information solely from formal audit committee meetings or meetings with executive management.
16	Auditor committee members should exercise professional scepticism and judgement in evaluating management assertions, especially when management has an incentive to manipulate earnings. Audit committee members that are more trusting by nature should be particularly alert for deceptive behaviour from management and exercise professional scepticism in carrying out their duties.
17	There should be a transparent process for audit committees to receive reports from whistleblowing hotlines at frequent intervals, and appropriate action should be taken.
Meta-theme 3: Risk management	
18	Audit committees should ensure that they are able to ask the right questions to address the threat of cyber risk, and should request cybersecurity specialists to attend audit committee meetings if required.
19	Audit committees should consider requesting a separate Technology and Governance Committee in companies susceptible to cyber-attacks or companies with complex information technology systems.
Meta-theme 4: Power and authority	
20	Company secretaries are key drivers of audit committee effectiveness and it is important to evaluate their performance annually to ensure continued performance. Competent company secretaries provide support including planning meetings, drafting suitable agendas, drafting accurate minutes, serving as an important link with management, and providing adequate on-boarding and training for audit committee members to ensure that they have adequate knowledge of the business and industry.
21	It is suggested that it should be compulsory for an audit committee charter to be publicly available in the financial statements or on the company's website. This enables stakeholders to see what the duties of the audit committee are, and to hold them accountable. Charters should include both general and specific duties and be updated annually to reflect any changes.
22	Evaluations of audit committees are not legally compulsory in South Africa. This may result in infrequent evaluations and in evaluations that do not adequately probe and identify areas for improvement in effectiveness. Although self-evaluations are more common practice, other techniques such as 360-degree evaluations yield a more objective and holistic evaluation. A 360-degree evaluation obtains feedback from various parties that work with audit committees. The board should act on evaluation results to ensure that audit committees improve their effectiveness. It is suggested that evaluations should occur annually and that the Companies Act should be amended to require an annual evaluation of audit committees.
Meta-theme 5: Assurance	
23	Audit committees should be aware that the independence of internal audit may sometimes be compromised and that internal audit may not report the full extent of risks or other findings. They should accordingly carefully consider the degree of reliance placed on the reports of internal audit.
Meta-theme 6: Meetings and reporting	
24	Diligent boards influence audit committee members to be diligent, suggesting that audit committees follow the example of the board. Boards in general should therefore set high standards of work to encourage audit committees to do the same.

6.4 THE GRAPHICAL AND NARRATIVE FRAMEWORKS

The fourth and final aim of the research was to conceptualise a framework to promote audit committee effectiveness. The final outcome of the research was, therefore, the development of a graphical and narrative framework. The need for a framework for audit committee effectiveness to augment the requirements of the Companies Act and King IV™ was one of the gaps identified from the literature review. The narrative framework comprised six meta-themes: (1) composition and characteristics, (2) trust, ethics and governance, (3) risk management, (4) power and authority, (5) assurance and resources, and (6) meetings and reporting. In the narrative framework the meta-themes were expressed as a set of six principles of audit committee effectiveness, comprising 12 themes supported by 124 guidelines. The graphical framework presented the six determinants (meta-themes) in a three-tiered model, which reflected 24 interrelationships among the six determinants.

6.5 SCOPE AND LIMITATIONS OF THE STUDY

The findings of this study should be interpreted on the basis of its limitations. This study followed a pragmatic approach out of necessity. Audit committee professionals are generally in demanding careers and face time constraints. Notwithstanding this, the two focus groups comprised an adequate sample of 29 participants, who provided a substantial amount of data from varying perspectives. Data saturation appears to have been achieved with two groups, as demonstrated by the wide range of affinities (34) and sub-affinities (365) generated. Nevertheless, the views from focus groups were limited to the experience of the particular participants, which presents the first limitation in this study.

Secondly, this was a South African study and findings cannot necessarily be generalised to other countries or contexts. Although some focus group participants work with audit committees that have international holding companies and subsidiaries, this was essentially a South African study. Nevertheless, the role of audit committees is similar across the world, and it is submitted that South Africa is a leader in the field of corporate governance. It was therefore anticipated that a framework of principles and guidelines and a deeper understanding of interrelationships among determinants would be likely to provide valuable insights to the international community.

6.6 CONTRIBUTIONS OF THE STUDY

This study addressed all six gaps identified in the literature. For ease of reference, this is summarised in Table 6.3 and used to link the various contributions discussed.

Table 6.3: Summary of gaps in the literature and how these were addressed

No.	Gaps	Addressed by study
1.	The need for a framework for audit committee effectiveness to augment the requirements of the Companies Act and King IV™.	Three-tiered graphical framework and comprehensive narrative framework for audit committee effectiveness developed.
2.	The need for qualitative studies to better understand determinants of audit committee effectiveness.	Use of focus groups and IQA to obtain multiple (29) perspectives of 34 affinities, refined into 12 themes and six broad meta-themes (determinants). Twenty-four (24) interrelationships among the six meta-themes shown in a graphical three-tiered framework that presents a hierarchy of drivers, a pivot and outcomes.
3.	The need for a better understanding of the overlap and interrelationships among determinants of audit committee effectiveness.	
4.	The need for studies on audit committee effectiveness in settings other than the United States.	A study in South Africa, which is unique in terms of its focus on different cultures, a developed and developing economy, and different backgrounds, education, training and legislation. South Africa is also widely regarded as a leader in corporate governance and integrated reporting.
5.	The need for studies among different cultures, economies, education, training and legislation.	
6.	The need for a study in South Africa due to the limited literature on the topic in South Africa.	

6.6.1 Graphical and narrative frameworks

The graphical and narrative frameworks are the main contribution of this study and directly address the first gap referred to in Table 6.3 directly, and indirectly address the remaining five gaps. Thirty-four (34) affinities or determinants of audit committee effectiveness were identified by 29 seasoned audit committee professionals. These were refined into 12 themes and grouped into six broad meta-themes. This represents a substantial contribution in terms of the number of determinants identified, as quantitative studies generally examine the relationship of one or a few determinants per study.

The meta-themes were expressed as six principles of audit committee effectiveness. These were included in the narrative framework, presented as a set of six principles comprising 12 themes supported by 124 guidelines. The researcher is not aware of any other studies that identify as wide a range of determinants of audit committee effectiveness. For example, DeZoort et al (2002:42) conducted a review of quantitative studies and identified four determinants of audit committee effectiveness, namely composition, authority, resources and diligence. This study not only includes the four determinants identified by DeZoort et al (2002:42), but also includes many more.

The key contributions relating to meta-themes follow. Trust, ethics and governance (meta-theme 2) is an important driver as breaches in ethics and governance are closely associated with financial misrepresentation and fraud. Risk management was identified as a pivot that pervades the entire system of audit committee effectiveness. This presents a unique perspective on risk management in relation to audit committees that does not appear to have been identified in the literature. This study also identified two outcomes, assurance and resources (meta-theme 5) and meetings and reporting (meta-theme 6). These outcomes play an important role in audit committee effectiveness, although these are less important than drivers. There also appears to be a paucity of literature on these two outcomes. Meta-theme 1 (composition and characteristics) includes a wider description of what constitutes a balanced audit committee. It includes governance expertise, industry expertise, and “softer skills”, which are not often addressed in the literature. The importance of the chair in setting the tone of the committee is also another contribution. The concept of independence in relation to remuneration was discussed. The perception of independence and application of an unfettered mind was highlighted. This provided greater depth than simplistically viewing independence as the proportion of non-executive directors to executive directors on an audit committee. Power and authority (meta-theme 4) highlighted the importance of not only the board and management empowering the audit committee, but also the critical importance of the company secretary. Focus group 1 identified the company secretary as a primary driver. The importance of the audit committee charter and evaluation of the audit committee were also valuable contributions and there is a scarcity of studies on these topics.

The graphical framework also provided a deeper understanding of interrelationships among determinants and addressed the third gap reflected in Table 6.3. The graphical framework is unique and extends the literature in that it presents a hierarchy of drivers, a pivot and outcomes. This is based on IQA, suggesting that drivers influence the outcomes. The pivot both influences, and is influenced by drivers and outcomes. All three levels of the hierarchy influence audit committee effectiveness, but to different degrees. This extends the literature by providing a unique perspective of a hierarchy of audit committee effectiveness. The advantage of identifying a wide range of determinants is that it provides a comprehensive perspective.

The combination of a comprehensive narrative framework supported by a graphical framework showing 24 interrelationships, derived from focus group discussions, IQA data and a literature review, does not appear in the literature. Both frameworks complement each other and provide a more holistic picture of audit committee effectiveness.

6.6.2 Methodological contribution

The methodological contribution addressed the second gap in Table 6.3 for more qualitative studies directly, and indirectly addressed the third gap for a deeper understanding of interrelationships. The specific use of focus groups and IQA to study audit committee effectiveness in the private sector represented a unique research approach that does not appear in the literature. This resulted in an “insider” perspective on audit committee effectiveness, which linked the primary data from focus groups directly to a graphical and narrative framework. The number and scope of determinants of audit committee effectiveness identified was extensive and this may explain why there are only a few studies on the topic. The extant studies generally attempt to understand the topic by summarising findings of a range of prior quantitative studies in the literature. As noted, quantitative studies suffer various limitations, therefore a summary of such studies is similarly limited. For example, findings are sometimes conflicting and inconclusive. This may be attributed to findings being combined from studies in different countries, contexts and data sets to draw conclusions. This can produce inconclusive, conflicting and possibly unreliable results. This study differs from that approach by obtaining a comprehensive set of primary data from one consistent source (focus groups) in one country in response to one direct question on audit committee effectiveness. This direct and focussed approach yielded direct answers and provided a comprehensive set of verifiable and high-quality data. The process of analysing data using IQA to produce a hierarchy was also unique. The literature does not contain a three-tiered graphical model based on a hierarchy derived from IQA. The contribution of this model is that it suggests a logical and hierarchical order for addressing audit committee effectiveness and presents 24 interrelationships among six determinants. The process of using focus groups and audit committee professionals also provides a richer insight into audit committee effectiveness than other research methods are likely to achieve.

6.6.3 Interrelationships among determinants

The presentation of 24 interrelationships among six meta-themes as shown in the graphical framework, provides an understanding of how determinants of audit committee effectiveness interact. This addressed the third gap reflected in Table 6.3. These interrelationships validate the analysis of affinities into themes, and themes into meta-themes, as they demonstrate the integration and interconnectedness of all the drivers, outcomes and the pivot. There is no meta theme that is not part of the holistic framework for audit committee effectiveness.

6.6.4 Context of study - South Africa

A study in South Africa addressed the last three gaps reflected in Table 6.3. South Africa presents a fertile ground for this specific study because it has long been recognised as a pioneer and leader in corporate governance and financial reporting, comparable to the best in the world, yet simultaneously exhibits features of a developing and developed economy (Solomon & Maroun 2012:6; de Villiers et al 2014:1042; Maroun 2017:333; McNally et al 2017:483). This setting allowed for insights from professionals who are aware of the numerous corporate governance failures, despite the presence of good legislation and codes of governance. It was therefore expected that principles and guidelines identified in the South African context would be of a high standard and be of value to local and international audit committee professionals.

6.6.5 Definitions

Most studies do not provide definitions of determinants of audit committee effectiveness (e.g. DeZoort et al 2002:43). This may leave room for ambiguity and misinterpretation of the intended meaning and is especially important in a study on audit committee effectiveness because of the complexity and overlap among determinants of audit committee effectiveness. The present study provides definitions of the 34 affinities and 12 themes. It also states six principles (meta-themes). These provide clarity on the intended meaning and how these determinants specifically influence audit committee effectiveness. For example, the term composition often refers to the overall balance of expertise present in an audit committee, and ignores the “softer” skills of members. This study uses the term “characteristics and composition” to extend the definition to include the personal attributes of audit committee members and how this influences their success as a team. The definitions form the basis of the graphical and narrative frameworks.

There appear to be only a few definitions of audit committee effectiveness, none of which appear to be current. This study enabled the formulation of an inclusive definition of an effective audit committee, based on a qualitative perspective. It incorporates the six meta-themes and findings as follows:

> *An effective audit committee has a balanced composition, sufficient power and authority, adequate support from assurance providers, the experience to manage meetings effectively, and the expertise to interpret reports with professional scepticism and judgement that is exercised in relation to the ethics and governance environment and the all-pervading influence of risk.*

This definition resonates with the primary objective of this study, to identify determinants of audit committee effectiveness. This definition offers a different perspective than the definition offered by DeZoort et al (2002:38). They based their definition on a review of dependent and independent variables in quantitative studies, and defined an effective audit committee as one that has:

"qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent efforts".

6.7 IMPLICATIONS FOR POLICY AND PRACTICE

This section discusses how various stakeholders can benefit from the findings of this study.

6.7.1 Audit committee members and audit committee stakeholders

The narrative framework is of practical significance and can assist audit committee members to be more effective. It can also assist stakeholders who attend audit committee meetings, and senior management of a company, including chief financial officers, chief executive officers, chief audit executives, information technology professionals, risk managers, and other key members of management who work directly with audit committees, but do not necessarily have an accounting or auditing background. Anecdotal evidence from discussions with focus group participants suggests that these members would specifically benefit from a framework. Internal auditors, external auditors, specialists and other assurance providers are also likely to benefit from the narrative framework as it covers aspects of their work, especially in meta-theme 5 (assurance and resources).

6.7.2 Other stakeholders

Shareholders, investors, creditors and lenders would also benefit from more effective audit committees because they incur losses when there are financial irregularities and fraud. Declining share prices and the inability of a company to repay its debts are examples of possible losses. Consultants in the field of auditing, accounting, risk management and corporate governance may be interested in how these findings can be used to benefit their clients in improving their audit committees.

6.7.3 Standard setters and professional organisations

The frameworks and other findings may provide valuable insights to the Institute of Directors South Africa (IoDSA) and those involved in drafting the King Reports on Corporate Governance. The findings may inform future amendments to the Companies Act and the King Reports. Both the IoDSA and the South African Institute of Chartered Accountants supported this study by advertising it on their website to attract focus group participants, indicating that they saw value in this study. Both organisations are interested in corporate governance and many of their members are directors, audit committee members and chartered accountants. The Institute of Internal Auditors South Africa and the Independent Regulatory Board for Auditors are also likely to be interested in findings pertinent to the internal and external audit professions respectively. The Johannesburg Stock Exchange may also be interested in the findings because the frameworks are likely to influence higher standards of financial reporting quality and corporate governance through the oversight of more effective audit committees.

6.7.4 Academics

Academics would be interested as findings extend the literature and provide further evidence on audit committee effectiveness and corporate governance in general. Academics may be interested in the methodology of using focus groups and IQA, which may inform future research designs. The findings add to the qualitative studies and the debate on a complex topic.

6.8 OPPORTUNITIES FOR FUTURE RESEARCH

The following opportunities for future research were identified:

- The use of focus groups and IQA may provide the basis for future comparative studies on audit committee effectiveness in different geographical settings, economies and cultures, and particularly in developing countries.

- If access can be gained to audit committee members of companies that experienced corporate governance failures, these members could provide valuable insights into how audit committees could be more effective.
- Studies that specifically concentrate on interrelationships among determinants also present an opportunity for future studies.
- Studies of risk management as being central (a pivot) to audit committee effectiveness present an opportunity for future studies.
- There are few studies on the audit committee charter and methods of evaluating audit committees. These topics can be further investigated through future studies.

6.9 FINAL WORD

The Blue Ribbon Committee Report (1999:1071) explained that a good system of corporate governance exists when the audit committee, internal auditors, and external auditors, form a “three-legged stool” that supports financial reporting and effective oversight, but that the audit committee plays the most important role because of its monitoring and oversight role. The audit committee is also central to many relationships in the system of corporate governance, including internal audit, external audit, management and the board (Mihret & Admassu 2011:67). An effective audit committee can reduce incidents of fraud and financial misrepresentation (Rupley et al 2011:138). Thus, while other parties may play a role in reducing fraud and financial misstatements, the audit committee arguably has the greatest influence. The overarching aim of this study was, therefore, to prepare a framework to improve audit committee effectiveness. As a leader in the field of corporate governance, South Africa presented a fertile opportunity for a study to address the various gaps in the literature relating to audit committee effectiveness. The increasing incidents of corporate failures in South Africa and the lack of a framework for audit committee effectiveness in the private sector also suggested that this was an opportune time for this study.

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ANNEXURES

Annexure A: Ethics Approval Letter

UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE

Date 2017-08-02 and 2019-09-11

ERC Reference:
2017_CAS_032_Amended

Name : Prof GP Coetzee
Student/ Staff #: 90249100

Dear Prof GP Coetzee

Decision: Ethics Approval from

2017-08-02 to 2022-08-01

Main researcher: **Prof GP Coetzee**
Coetzgp@unisa.ac.za

Co-researchers: **Prof LJ Erasmus**
Prof M van Staden
Ms M Pududu
Ms A Legodi
Mr A Rampershad
Ms S Malan

Working title of research:

Optimising the oversight role and value of audit committees in South Africa.

Qualification: Doctoral degrees (research collaboration)

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for the above mentioned research. Ethics approval is granted for the period indicated above.

*The application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on **25 July 2017** in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved. A change in group members required an amendment of the certificate on **10 September 2019.***

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.

2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No field work activities may continue after the expiry date of this certificate.

Note:

The reference number of this certificate should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.

Yours sincerely,

Prof L J Erasmus
Chair of CAS RERC
E-mail: erasmlj1@unisa.ac.za
Tel: 012 429 8844

Prof L Ntsalaze
Acting Executive Dean CAS

Annexure B: Informed consent to participate in focus groups

(Note: The informed consent form to participate in focus group 2 was the same as for focus group 1, and is not duplicated as another Annexure)

UNISA college of accounting sciences
Excellence in accountancy

CONSENT TO PARTICIPATE IN FG 1: 18 JANUARY 2018 –   **AC MEMBERS**

I, __________________________________*(participant name),* confirm that Aveen Rampershad (the researcher) has obtained my consent (via email and/or telephone and/or in person) to participate in this FG, and that the researcher or FG facilitator has informed me about the purpose, procedure, potential benefits and anticipated inconvenience of my participation. I have had sufficient opportunity to ask questions and I am prepared to participate in this FG.

I understand that my participation is voluntary and that I am free to withdraw at any stage.
I agree to the recording of the FG.
I am aware that findings from this FG may be presented in a thesis, research papers, articles, journal publications, conference proceedings, internet publications and/or other media forms, but that my participation and personal details will be kept confidential, unless otherwise agreed to in writing (e-mail or other written format) between the researcher and myself.
I understand that although the researcher will protect the anonymity and confidentiality of participants, there is an inherent limitation to anonymity and confidentiality regarding FG discussions because there are multiple participants. Therefore, the researcher appeals to every participant to respect the confidentiality of the discussion and maintain the anonymity of FG participants' identities.
I understand that the PhD thesis will include a section acknowledging the valuable contribution of FG participants. I may choose to have my name disclosed in this section

as acknowledgement for my contribution (tick “Yes”); alternatively, I may choose to remain anonymous (tick “No”).

Yes		**No**	

I understand that the PhD thesis will include a section that provides an overall, anonymous summary of the knowledge, experience and qualifications of FG participants, as evidence of appropriate sample selection. In order to achieve this, please complete Annexure A, by ticking:

- the role(s) you currently or previously occupied within the last ten years only;
- the approximate cumulative years of work experience in those roles during your career to date

I give permission to the researcher to contact me (via email and/or telephone) to request a follow-up interview (if required), with no obligation, at a time and place of my convenience *(please mark your selection):*

Yes		**No**	

I am advised that ethics approval for this FG study was granted by the College of Accounting Sciences Research Ethics Review Committee of the University of South Africa (UNISA) on 25 July 2017, under reference number 2017_CAS_032.

Participant Name & Surname : ……………………………………………… *(please print)*

Participant Signature…………………………………………… Date: 18 January 2018

Researcher Name & Surname: Aveen Rampershad *(please print)*

Researcher signature………………………………………… Date: 18 January 2018

Annexure A: Experience in private sector (*Please tick appropriate box*)

Description of role	Currently or previously in role		Years of experience in role during career (regardless of when)		
	Currently in role	Previously in role within last 10 years	0-5 years experience in role	5-10 years experience in role	10+ years experience in role
"External" management					
Audit Committee Member - listed companies					
Audit Committee Member - unlisted companies					
Audit Committee Chairman - listed companies					
Audit Committee Chairman - unlisted companies					
NED - listed companies					
NED - unlisted companies					
Board Chairman/Member - listed companies					
Board Chairman/Member - unlisted companies					
Other (*specify*)					
Internal management					
CEO/MD					
CFO/FD/FM					
CIO/IT Director					
Operations Director					
Head of Risk					
EXCO member					
Executive Director					
Company Secretary					
Other (*specify*)					
Audit/Assurance					
Audit Partner/Director					
Audit Manager					
CAE/Head of IA - listed companies					
CAE/Head of IA - unlisted companies					
Other (*specify*)					
Other					
King Committee task member					
Consultant-Governance					
Professor/Academic					
SAICA member					
IoDSAmember					
IIASA member					
IRBA member					
CIMA member					
SABS TC309 member					
Chartered Accountant (SA)					
Certified Internal Auditor					
Other (*specify*)					

Annexure C: Invitation to participate in focus groups placed on IoDSA webpage

Research project topic:	**The effectiveness of audit committees in South Africa in the private sector**
Means of participation:	Focus Groups
Background:	This research study is being conducted on the effectiveness of audit committees (ACs) in listed companies in the private sector of South Africa (SA). For the purpose of this study, the term "private sector" includes both listed companies and private (proprietary limited) companies that are subsidiaries of listed companies. This study is especially pertinent in light of recent financial governance issues making news headlines that have a severe impact on the accountancy profession in SA and affect its global standing in the profession. These incidents also point directly at the effectiveness of ACs, which are the custodians of financial governance, and further motivates this study.
Research objective:	The primary research objective is to develop a framework of best practice that will serve to enhance the overall effectiveness of ACs of listed companies in SA. In order to achieve this, focus groups will be conducted and participants will identify things that influence the effectiveness of ACs as perceived by them, based on their experiences. Participants will therefore have an opportunity to contribute to this framework of best practice, which is expected to be of benefit to the SAICA, IoDSA, related legislative and regulatory organizations and the accountancy profession in general. This study will use two focus groups to gather data from participants with AC knowledge of companies in the private sector. The main criteria are that participants should have knowledge of ACs and "something to say" about them. These two groups are briefly described below.
Focus group 1:	Homogenous focus group (AC members):
	This group will consist of participants that are AC members/chairs in the private sector.
Focus Group 2:	Heterogeneous focus group (AC stakeholders):
	This group will consist of heterogeneous participants and will include AC stakeholders that work with, or report to ACs in the private sector. Examples of participants include: Chief Executive Officers/Executive management, Chief Financial Officers/Senior Finance staff, Chief Audit Executives, Audit Partners/Audit Managers/Senior external auditors, board members, internal auditors, IT Directors/Managers, Risk Managers, academics, investors and members of regulatory and professional bodies such as the IoDSA, SAICA and people that have contributed to the King codes or Companies Act.

	Details of focus group participation: Both focus groups will be held at the offices of the Institute of Directors in Southern Africa (IoDSA) at 9:30 am and the whole process is estimated to take approximately 3.5 hours, but this depends on the group. A professional, independent facilitator will conduct the FGs. The dates of the two groups are presented below.
Venue:	IoDSA training room, 2nd floor, Block B, 144 Katherine Street, Grayston Ridge Office Park, Sandown, Sandton.
Time:	9:30 – 13:00 (approximately 3.5 hours)
Dates: **Focus Group 1:** **Focus Group 2:**	 18 January 2018 (AC members only) 25 January 2018 (AC stakeholders)
	The information from participants will at all times be treated as confidential. You will be acknowledged for your contribution to this study and the development of the framework, should you consent to such acknowledgement. Alternatively, you may choose to remain anonymous.
Individuals willing to participate in these FGs should contact the researcher directly:	Mr Aveen Rampershad MCom, CA(SA) Email: rampea@unisa.ac.za Tel: 083 642 3679 Please advise which focus group you will participate in, and the capacity in which you will participate, e.g., Focus Group 1 as an AC member, or Focus Group 2 as a chief executive officer. Although the dates are early next year, your prompt response will be appreciated because there are limited spaces available in a focus group and other arrangements to confirm. Therefore, it would be appreciated if you respond by 30 November 2017. Please do not hesitate to contact me should you have any questions or wish to discuss anything further.

Annexure D: Invitation to participate in focus groups placed on SAICA webpage

Members are requested to participate in focus groups to discuss the effectiveness of audit committees (ACs) in companies in the private sector of South Africa (SA). You are also encouraged to notify any other persons who are not Chartered Accountants (SA), but meet the participation criteria, e.g., an AC member or board member that is an IT or Risk specialist.

The primary research objective of the study is to develop a framework of best practice that will serve to enhance the overall effectiveness of ACs of listed companies in SA. In order to achieve this, focus groups will be conducted and participants will identify things that influence the effectiveness of ACs as perceived by them, based on their experiences. Participants will therefore have an opportunity to contribute to this framework of best practice, which is expected to be of benefit to SAICA, IoDSA, related legislative and regulatory organisations and the accountancy profession in general.

This study will use two focus groups to gather data from participants with AC knowledge of companies in the private sector. The main criteria is that participants should have knowledge of ACs and "something to say" about them. These two groups are briefly described below.

Focus group 1: Homogenous focus group (AC members):

This group will consist mainly of participants that are AC members/chairs in the private sector.

Focus group 2: Heterogeneous focus group (prominent AC stakeholders):

This group will consist of heterogeneous participants and will include AC stakeholders that work with, or report to ACs in the private sector. Examples of participants include: Chief Executive Officers/Executive management, Chief Financial Officers/Senior Finance staff, Chief Audit Executives, Audit Partners/Audit Managers/Senior external auditors, Board members, internal auditors, IT Directors/Managers, Risk Managers, academics, investors, shareholder activists and members of regulatory and professional bodies such as the IoDSA, SAICA and people that have contributed to the King codes or Companies Act.

Both focus groups will be held at an Institute of Directors SA (IoDSA) boardroom at 9:30 and the whole process is estimated to take approximately 3.5 hours, but this depends on the group. A professional, independent facilitator will conduct the focus groups. The dates of the two groups are presented below.

Venue of focus group:	IoDSA Offices, 2nd floor, 144 Katherine Street, Grayston Ridge Office Park, Sandton
Time and approximate duration:	09:30 - 13:00 (approximately 3.5 hours)
Date - Group 1 (AC members only):	18 January 2018
Date - Group 2 (AC stakeholders):	25 January 2018

The information from participants will at all times be treated as confidential. Your participation and valuable time will be greatly appreciated. It is an excellent opportunity for like-minded people to meet, network and influence the accountancy profession.

Should you be willing to participate in either focus group, please email Aveen Rampershad or call 083 642 3679. Please also include the capacity in which you will participate, e.g., AC member (focus group 1) or

AC stakeholder, e.g., CEO (focus group 2). Although the dates are early next year, your prompt response will be appreciated because there are limited spaces available in a focus group and other arrangements to confirm. Therefore, it would be appreciated if you respond by **Thursday, 30 November 2017**. Please do not hesitate to email Magdel Fick should you have any questions or wish to discuss anything further.

Annexure E: Reminder e-mail sent to focus group participants

(Note: The informed consent form to participate in focus group 2 was the same as for focus group 1, and is not duplicated as an Annexure)

Dear focus group participant

Season's greetings to you and best wishes for a great year ahead! This e-mail serves as a reminder of your participation in the focus group on 18 January 2018, and to inform you about the logistical details. Details of the focus group remain:

Venue	IoDSA training room, 2nd floor, Block B, 144 Katherine Street, Grayston Ridge Office Park, Sandown, Sandton
Time and approximate duration	9:30 – 13:00 (approximately 3.5 hours)
Date – Focus group 1 (audit committee members)	18 January 2018

The focus group will start promptly at 9:30, and it is important to be punctual because the facilitator will explain the focus group process. Furthermore, the first phase is similar to a brainstorming session, and it sets the scene for what follows, thereby ensuring your full participation in the process ahead. Light snacks (tea, coffee, muffins, etc.) will be available from around 9:00 and you are encouraged to come early to network and chat. Parking is available at the offices of the Institute of Directors South Africa (IoDSA), and the security at the boom gate will have a list of focus group attendees. There will also be a light finger lunch at 13:00. Please e-mail me any specific dietary requirements (e.g., vegetarian, vegan, halaal, etc.) before Thursday, 11 January, in order for me to arrange the catering.

The South African Institute of Chartered Accountants (SAICA) has agreed to award focus group participants 3.5 hours' worth of CPD points for attendance. You need to sign the attendance register on the day of the focus group, and this will serve as proof of attendance.

Please acknowledge receipt of this email and confirm your dietary requirements (type 'none' if no specific requirements). Thank you for agreeing to participate in this study. It is a privilege to host you and I value your contribution in realizing the success of this study. I look forward to seeing you soon.

Should you have any queries, please feel free to contact me on 083 642 3679 or email me.

Best regards

Aveen

Aveen Rampershad MCom, CA(SA)
Telephone: 083 642 3679

Annexure F: Affinities and sub-affinities generated by focus group 1

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
1	**COMBINED ASSURANCE**	1. Forum and plan 2. Use of specialists 3. All assurance providers 4. Candidness of reporting by management –CEO/CFO/Other
2	**COMPANY SECRETARY**	5. Effectiveness and coordination
3	**COMPETENCE**	6. Depth of skills of committee members 7. Critical mind: analytical thinking 8. Skills of AC members 9. Varied skills/knowledge of AC body 10. Knowledge of professional standards relevant to those reporting to AC 11. IT knowledge 12. Lack of knowledge 13. Competence 14. Understanding of relevant laws and regulations 15. Legal knowledge 16. EQ (Emotional intelligence) 17. Overall attitude 18. Level of experience/expertise of AC members 19. Technical knowledge 20. Skills and competence – if skilled, can add value to company 21. Financial and Accounting know-how 22. Skills dynamics

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
		23. Ensuring the composite skills and experience of AC members is adequate 24. Depth of probing of new Accounting policies and methodologies 25. Continued professional development by members, e.g., attend training/workshops 26. Staying up to date with developments in areas of governance, technical matters, etc. REMUNERATION: 27. Remuneration: can be both positive and negative 28. Fear to lose appointment – agreeable 29. Less remuneration – less commitment 30. Attendance preparation 31. Board fees – fairness
4	**COMPOSITION**	32. Size and composition 33. AC members: composition and appropriateness 34. Composition 35. Membership 36. Composition of AC 37. Qualified members 38. Committee composition 39. Expertise of members 40. Independent 41. Independent Non-Executive 42. Succession/Leader
5	**CORPORATE GOVERNANCE**	43. Trust of management (given to you?) 44. Honesty of answers to tough questions

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
	AND TRUST (AND RELIANCE)	45. Can I trust management? 46. What do I not know? 47. CFO experience and integrity and know-how (technical Accounting) 48. Professional scepticism, assurance provider 49. Mutual trust 50. Lack of access to management prior to meeting to clear up confusion 51. Reliance on management 52. Openness, transparency 53. Organization culture 54. Over reliance 55. Corporate governance, organization depth and breadth
6	**ERM (RISK)**	56. ERM 57. Risk register monitoring
7	**ETHICS**	58. Ethical members, Chair, management 59. Ethics 60. Integrity 61. Code of conduct 62. Whistle-blowing 63. Ethics Committee (relationship with)
8	**EXTERNAL AUDIT**	64. Relationship of AC with external auditors 65. External audit process 66. Relationship with external auditors and engagement 67. Relationship with external audit 68. Are the assurance providers independent?

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
		69. External audit 70. Scope, fees and competence of Engagement Partner
9	**INDEPENDENCE**	71. Independence of Non-Executive Director <u>of mind</u>/of application 72. No fear of change 73. Lack of independence 74. Ability to discuss and make <u>hard</u> decisions 75. Are the assurance providers asking the right questions? 76. Balance of power 77. Confidence level – be able to express your ideas even if different from the rest of the members 78. How seriously the Board/company views the role of the AC 79. Board and AC relationship 80. Consider company first 81. Conflicts of interest 82. Objectivity
10	**INTERNAL AUDIT**	83. Internal Audit Manager – reporting lines 84. Internal audit staff effectiveness and budget 85. Reliance on Internal Audit 86. Relationship of AC with Internal Auditors 87. Internal Audit Plan 88. Evaluation of Internal Audit 89. Internal Audit Charter
11	**KNOWLEDGE OF THE**	90. Financial sustainability 91. Operational sustainability 92. Understanding of key risks/opportunities

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
	BUSINESS & INDUSTRY	93. Induction of new members (industry specific matters) 94. What am I missing? 95. Strategy of business 96. Experience and industry know-how 97. Depth of available information 98. Understanding of business and processes 99. Understanding of the business operations, strategy, performance, etc., and industry comparatives
12	**LEADERSHIP**	100. Leadership of Chair 101. AC Chairman that encourages participation 102. Leadership and maturity of AC Chair 103. Effectiveness of Chairman
13	**MEETINGS**	104. Level of discussion in Committee AC) 105. Attendance of meetings 106. Approach to risk – IT/Cyber/Law 107. Preparedness of members and attendees, number 108. Logistics/timing – prepare 109. Time allocation 110. Time management 111. Time – how many meetings/hours a year? 112. Adequate preparation and reports 113. Timing of receipt of information 114. Preparation for meetings: read Board pack; ask questions 115. Leadership/control of meeting 116. Getting side-tracked by operational matters

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
		117. Careful selection of invitees from the company to attend – not everyone! 118. Preparedness 119. Regular attendance at meetings by all members
14	**RELATIONSHIP WITH MANAGEMENT**	120. Dynamics between Management and AC members 121. Relationship with Executive Management on Committee (AC) 122. Regularity/frequency of contact between meetings 123. Communication – transparent and ease of access to information 124. Receptive management (CEO, CFO, etc.) 125. Access to organization's members and Executive management 126. CFO 127. Timely communication to AC
15	**REPORTING**	128. Large/many subsidiaries with own committees (AC's) – reliance on them 129. Process 130. Management presentation and reports 131. Quality of papers 132. Timeous delivery of packs/reports 133. Detail 134. Quality of reporting 135. AC Report 136. Reports to Board and type of report 137. Integrated Reporting
16	**SCOPE AND CHARTER**	138. Scope/Charter 139. AC understanding of its role 140. AC interaction with other Committees

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
		141. Increase in roles and responsibilities 142. Charter annual review
17	**SELF-EVALUATION (OF AC)**	143. External verification 144. Evaluation of ARC (Audit & Risk Committee) 145. AC members' assessment 146. AC self-evaluation 147. 360 evaluation 148. Periodic evaluation/introspection
18	**WORKPLAN AND AGENDA**	149. Minutes 150. Quorum 151. Research on Agenda items 152. Preparation/Agenda 153. Complete Agenda 154. Agenda and Audit Pack 155. Ensuring that Agenda is adequate/complete/appropriate 156. Are we focused on the right things? 157. Appropriate Agenda items 158. Setting Agenda 159. Follow up of prior issues 160. <u>Agenda:</u> Audit controls assessments 161. Problem area focus 162. <u>Agenda:</u> Risk Management 163. <u>Agenda:</u> Internal Controls addressed 164. Tracking of outstanding issues

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 1 participants
		165. Too much information, too little time 166. Adequate time set aside for meeting 167. Annual Work Plan 168. Agenda flows from scope and Work Plan 169. Work Plan of ARC (Audit and Risk Committee)

Annexure G: Affinities and sub-affinities generated by focus group 2

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
1.	**COMPOSITION**	1. Tenure of members parties 2. Independence 3. Investment in entity 4. Roles of participants 5. Competence of Company Secretary 6. Experience and composition 7. AC member competency 8. Financial remuneration 9. Quality of members 10. Collective experience (Specialist in different areas) 11. Member characteristics 12. Limit the number of AC's a person can be a member of 13. Too many CA's 14. Different personalities 15. AC not balanced from a skills point of view 16. Experience of AC members 17. Past experience at AC level
2.	**MANDATE**	18. Mandate 19. Understanding of Terms of Reference and Scope (Role clarity) 20. Well defined Terms of Reference 21. Role Clarity 22. What is effective (Guidance) 23. AC member responsibility – understanding

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
3.	**AC CHAIRMAN EFFECTIVENESS**	24. Chairman effectiveness 25. Ineffective Chairman 26. Effectiveness of Chairman 27. Quality of Chair 28. Competence of Chair 29. AC Chair not prepared thoroughly 30. Chair domination
4.	**PREPARATION**	31. Preparation 32. Interrogate the completeness of information in the file 33. Take time to read and interrogate issues raised 34. Unprepared 35. Not linking news/public domain content to audit packs 36. AC member preparation 37. Inviting subject matter experts 38. "When you don't understand the business, you manage through the numbers" Performance measures USA 39. Too dependent on information in the pack 40. Member commitment 41. Availability of AC members 42. Attending the meetings more regularly (be present)
5.	**MEETING PROCEDURES**	43. meeting procedures 44. formal workplan 45. follow through of resolutions taken 46. duplication of meetings

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
		47. level of member participation 48. sufficient interval between AC and BC meeting – give AC time to digest issues raised at AC meeting 49. Assessment of AC effectiveness 50. Number of meetings attended (held)
6.	**QUALITY OF ERM**	51. Quality and ERM 52. Risks the organisation is facing 53. Risk focus 54. Emerging issues impact 55. Company challenges 56. Don't understand the underlying activities that affect the AFS 57. Interdependencies of issues 58. Understanding opportunities 59. Challenging risks – not in isolation
7.	**COMPETENCY OF COMPANY SECRETARY**	60. Company Secretary competency 61. Proper orientation on appointment 62. On boarding 63. Minutes quality 64. Standing of Company Secretary 65. Influence 66. Competence of company secretary 67. Governance role of Company Secretary
8.	**QUALITY OF AC PACK**	68. Quality of AC pack 69. AC Pack quality 70. Quality of reporting

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
		71. Agenda 72. Detail – Amount of detail can be positive and negative 73. Completeness of matters to consider 74. Documents "ill" prepared 75. Timeliness of meeting papers 76. Ad-hoc aspects requests 77. Monitoring of impact of AC suggestions 78. Put too much emphasis on the numbers and not the business 79. Financial focus only 80. Less volume (reports) 81. Quality/accuracy of management reports 82. Inability to link Finance to operations results (how the AC pack is packaged) 83. Minutes quality 84. Too much information 85. Completeness, accuracy and relevance of papers submitted 86. Quality of information
9.	**UNDERSTANDING REGULATORY IMPACT**	87. Regulatory impact 88. Pace of change 89. Volume of regulations 90. Regulators 91. Change in laws, regulations and governance requirements 92. King IV 93. Complexity of IFRS 94. Understanding of legislations 95. Knowledge of laws and regulations applicable to Industries

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
		96. Domination of workload and Agenda (compliance with legislation dominates agenda)
10.	**AC TONE**	97. AC Tone 98. Total trust 99. Influence by parties 100. Influence organisation 101. Calling management to account 102. Member dominance 103. Lack of ability to challenge management – fear 104. Handling of the minority voice "What we don't want to hear" 105. Interrogative members 106. Personal egos 107. Fear to speak against 108. Ask questions and don't agree for the sake of moving on 109. Silence of individual
11.	**INTERACTION**	110. Interaction with other Board committees 111. Links with other Board committees 112. Poor communication both internally and to stakeholders
12.	**CORPORATE CULTURE**	113. Corporate culture (of company) 114. Seriousness with which non-compliance of AC is treated 115. Understand the corporate environment producing the information given to them 116. Accountability and responsible 117. Share price - Focus on short term 118. Trust relationships between IA/EA/Executive management/Directors 119. Follow up is poor and accountability not enforced

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
		120. Openness, change adaptability
		121. Clear understanding of "Why"
		122. Management co-operation
		123. Shared Values?
		124. Old ways of doing things
		125. Assertive management
		126. Personalities
		127. Over domineering CEO
		128. Control environment
		129. Tone/value system
		130. Ethics of management
		131. Transparency
		132. Pushing of certain agendas (cliques)
		133. Integrity of stakeholders
		134. Pressure to get the numbers out. Don't hold up the process
		135. Perceived value
		136. Value drivers/priorities of business
13.	**FOCUS AND PRIORITIES**	137. Time
		138. Time limitation/management
		139. Summary of significant issues/risky issues to focus on
		140. Limited questioning - time
		141. Stakeholder focus key drivers
		142. Direction
		143. Beware of tangents
		144. Time for important matters

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
		145. Appropriate focus 146. Silo thinking 147. No integrated picture 148. Tick box 149. Members adopting a “tick-box” approach 150. Too much focus on wrong things 151. The hard push 152. Going through the motion
14.	**COMBINED ASSURANCE**	153. Assurance 154. Proliferation of audit levels – too much 155. Quality of internal audit 156. Effective IA function 157. Relationship with CAE/EA 158. Reporting structure of CAE 159. Quality of auditors 160. Quality of ERM 161. Internal Audit recourse 162. Effectiveness of 1^{st} and 2^{nd} line 163. 3^{rd} line effectiveness 164. Effectiveness of management 165. Quality of assurance received 166. External auditors value-add 167. External audit effectiveness/competency 168. Internal audit effectiveness/competency 169. Quality of CFO

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
15.	**STATUS AND STANDING OF AC**	170. Status and standing 171. Board support for AC 172. Board support 173. Perception in organisation 174. Will at the top (Board) 175. Victimise perceived bad message bearer's 176. Owner's attitude towards good governance
16.	**KNOWLEDGE AND SKILLS**	177. Knowledge and skills of AC 178. Knowledge of audit process 179. Technical knowledge 180. Business acumen 181. Complexities – IT, etc 182. Skills of parties 183. Management competency 184. Industry knowledge 185. Lack of understanding of Accounting Framework 186. Lack of insight (understanding the business) 187. Complementary skills (of AC members) 188. Industry knowledge 189. The fact that the members are Non-Executive Directors and don't really know what's happening 190. Knowledge of subject matters being tabled 191. 360-degree view of Industry 192. Directors not knowledgeable of the business 193. Non-financial reporting 194. Lack of understanding of SUSTAINABILITY CONCEPT (Economic, social and environmental)

Affinity number	Affinity	Cards (sub-affinities) constituting the affinity as written by focus group 2 participants
		195. Skills sufficient to challenge management 196. Lack of understanding of Integrated Thinking

Annexure H: Detailed Affinity Relationship Table for focus group 1

DETAILED AFFINITY RELATIONSHIP TABLE (DART)

Please complete the attached table below by indicating what you think the direction of the relationship between two affinities is. Use the affinity descriptions as done during the Focus Group (FG) to help you with this task.

For example:

If you think that 1 influences 2, then indicate 1 → 2

If you think that 2 influences 1, then indicate 1← 2

If you think that there is no relationship between 1 and 2, then indicate 1 < > 2.

PLEASE NOTE: An arrow may only go in one direction. Although you may feel that the direction of the relationship can go both ways, you must indicate the direction you think illustrates the strongest or most important influence.

PLEASE NOTE: Use a specific example from your own experience to illustrate your point rather than a vague statement.

Thank you for the time and effort that you are willing to put into this research project.

Below is the list of the affinities you are requested to consider. Please also refer to the list of affinity descriptions (as done during the FG) for completing the table below. Remember that an arrow can go either left or right, but not in both directions.

Affinities Principles	Possible relationships
1. **Combined assurance** 2. **Company secretary** 3. **Competence** 4. **Composition** 5. **Corporate governance and trust** 6. **ERM (Risk)** 7. **Ethics**	If Affinity 1 influences Affinity 2 then: 1 → 2

8. **External audit** 9. **Independence** 10. **Internal Audit** 11. **Knowledge of the business/ industry** 12. **Leadership** 13. **Meetings** 14. **Relationship with management** 15. **Reporting** 16. **Scope and Charter** 17. **Self-evaluation** 18. **Workplan and Agenda**	If Affinity 2 influences Affinity 1 then: 1 ← 2 If there is no relationship between affinities: 1 < > 2

Date: ______________________________

Name: ______________________________

Affinity pair			**Give an example in natural language using an IF/THEN statement to explain the relationship according to your personal experience**
1		**2**	
1		**3**	
1		**4**	
1		**5**	
1		**6**	
1		**7**	
1		**8**	
1		**9**	
1		**10**	
1		**11**	
1		**12**	
1		**13**	

1		14	
1		15	
1		16	
1		17	
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Annexure I: Detailed Affinity Relationship Table for focus group 2

(Note: The Detailed Affinity Relationship Table (DART) for focus group 2 was drawn up along the same principles as for focus group 1. Relationships among all 16 affinities were included in the DART for participants to complete and are not included as another Annexure to avoid repetition and for the sake of brevity)

DETAILED AFFINITY RELATIONSHIP TABLE (DART)

Please complete the attached table below by indicating what you think the direction of the relationship between two affinities is. Use the affinity descriptions as done during the FG to help you with this task.

For example:

If you think that 1 influences 2, then indicate 1 → 2

If you think that 2 influences 1, then indicate 1← 2

If you think that there is no relationship between 1 and 2, then indicate 1 < > 2.

PLEASE NOTE: An arrow may only go in one direction. Although you may feel that the direction of the relationship can go both ways, you must indicate the direction you think illustrates the strongest or most important influence.

PLEASE NOTE: Use a specific example from your own experience to illustrate your point rather than a vague statement.

Thank you for the time and effort that you are willing to put into this research project.

Below is the list of the affinities you are requested to consider. Please also refer to the list of affinity descriptions (as done during the FG) for completing the table below. Remember that an arrow can go either left or right, but not in both directions.

Affinities Principles	Possible relationships
1. Composition **2.** Mandate **3.** AC Chairman effectiveness **4.** Preparation **5.** Meeting procedures **6.** Quality of ERM **7.** Competency of Company Secretary **8.** Quality of AC Pack **9.** Understanding regulatory impact **10.** AC Tone **11.** Interaction **12.** Corporate culture **13.** Focus and priorities **14.** Combined assurance **15.** Status and standing of AC **16.** Knowledge and skills	If Affinity 1 influences Affinity 2 then: 1 → 2 If Affinity 2 influences Affinity 1 then: 1 ← 2 If there is no relationship between affinities: 1 < > 2

Date: ______________________________

Name: _____________________________

Annexure J: Pareto protocol analysis for focus group 1

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
12 > 14	12	12	0,3	0,9	0,58
2 > 13	11	23	0,7	1,7	1,09
2 > 18	11	34	1,0	2,6	1,59
3 > 6	11	45	1,3	3,4	2,10
13 < 16	11	56	1,6	4,2	2,60
13 < 18	11	67	2,0	5,1	3,11
1 < 11	10	77	2,3	5,8	3,54
3 > 5	10	87	2,6	6,6	3,97
3 > 8	10	97	2,9	7,3	4,40
3 > 9	10	107	3,3	8,1	4,83
3 > 10	10	117	3,6	8,9	5,26
3 > 12	10	127	3,9	9,6	5,69
3 > 15	10	137	4,2	10,4	6,11
3 > 16	10	147	4,6	11,1	6,54
4 > 10	10	157	4,9	11,9	6,97
5 > 13	10	167	5,2	12,6	7,40
5 > 18	10	177	5,6	13,4	7,83
8 > 15	10	187	5,9	14,1	8,26
10 > 15	10	197	6,2	14,9	8,69
12 > 15	10	207	6,5	15,7	9,12
1 < 3	9	216	6,9	16,3	9,48
1 < 9	9	225	7,2	17,0	9,83
2 > 5	9	234	7,5	17,7	10,18
2 > 15	9	243	7,8	18,4	10,54
2 > 16	9	252	8,2	19,1	10,89
3 > 13	9	261	8,5	19,7	11,25
3 > 17	9	270	8,8	20,4	11,60
4 > 8	9	279	9,2	21,1	11,95
4 > 12	9	288	9,5	21,8	12,31
5 > 6	9	297	9,8	22,5	12,66
5 > 8	9	306	10,1	23,1	13,02
5 > 14	9	315	10,5	23,8	13,37
5 > 15	9	324	10,8	24,5	13,72

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
5 > 16	9	333	11,1	25,2	14,08
6 > 8	9	342	11,4	25,9	14,43
6 < 11	9	351	11,8	26,6	14,79
7 > 10	9	360	12,1	27,2	15,14
16 > 18	9	369	12,4	27,9	15,49
1 < 10	8	377	12,7	28,5	15,77
2 > 17	8	385	13,1	29,1	16,05
3 > 4	8	393	13,4	29,7	16,33
3 > 7	8	401	13,7	30,3	16,61
4 > 6	8	409	14,1	30,9	16,89
4 > 7	8	417	14,4	31,5	17,16
4 > 11	8	425	14,7	32,1	17,44
4 > 14	8	433	15,0	32,8	17,72
4 > 16	8	441	15,4	33,4	18,00
5 > 7	8	449	15,7	34,0	18,28
5 > 17	8	457	16,0	34,6	18,56
6 > 10	8	465	16,3	35,2	18,83
6 > 15	8	473	16,7	35,8	19,11
6 > 18	8	481	17,0	36,4	19,39
7 > 8	8	489	17,3	37,0	19,67
7 > 9	8	497	17,6	37,6	19,95
7 > 15	8	505	18,0	38,2	20,23
8 < 9	8	513	18,3	38,8	20,50
9 > 10	8	521	18,6	39,4	20,78
9 > 14	8	529	19,0	40,0	21,06
11 > 14	8	537	19,3	40,6	21,34
12 > 13	8	545	19,6	41,2	21,62
12 > 18	8	553	19,9	41,8	21,90
15 < 18	8	561	20,3	42,4	22,17
1 < 4	7	568	20,6	43,0	22,38
1 < 5	7	575	20,9	43,5	22,58
1 < 6	7	582	21,2	44,0	22,78
1 < 8	7	589	21,6	44,6	22,99
1 > 15	7	596	21,9	45,1	23,19
2 > 14	7	603	22,2	45,6	23,39

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
3 > 11	7	610	22,5	46,1	23,59
3 > 14	7	617	22,9	46,7	23,80
3 > 18	7	624	23,2	47,2	24,00
4 > 5	7	631	23,5	47,7	24,20
4 > 9	7	638	23,9	48,3	24,40
4 > 13	7	645	24,2	48,8	24,61
4 > 18	7	652	24,5	49,3	24,81
5 > 10	7	659	24,8	49,8	25,01
5 < 12	7	666	25,2	50,4	25,21
6 > 16	7	673	25,5	50,9	25,42
7 > 12	7	680	25,8	51,4	25,62
7 > 17	7	687	26,1	52,0	25,82
9 > 15	7	694	26,5	52,5	26,03
10 < 12	7	701	26,8	53,0	26,23
11 < 12	7	708	27,1	53,6	26,43
11 > 13	7	715	27,5	54,1	26,63
11 > 15	7	722	27,8	54,6	26,84
11 > 16	7	729	28,1	55,1	27,04
11 > 18	7	736	28,4	55,7	27,24
1 < 7	6	742	28,8	56,1	27,37
1 < 12	6	748	29,1	56,6	27,50
1 < 14	6	754	29,4	57,0	27,62
2 > 3	6	760	29,7	57,5	27,75
2 > 7	6	766	30,1	57,9	27,88
4 > 15	6	772	30,4	58,4	28,00
4 > 17	6	778	30,7	58,9	28,13
5 > 9	6	784	31,0	59,3	28,26
5 > 11	6	790	31,4	59,8	28,39
7 > 13	6	796	31,7	60,2	28,51
7 > 14	6	802	32,0	60,7	28,64
7 > 18	6	808	32,4	61,1	28,77
8 < 10	6	814	32,7	61,6	28,89
8 < 12	6	820	33,0	62,0	29,02
9 > 16	6	826	33,3	62,5	29,15
9 > 17	6	832	33,7	62,9	29,27

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
10 > 11	6	838	34,0	63,4	29,40
10 > 13	6	844	34,3	63,8	29,53
10 > 14	6	850	34,6	64,3	29,66
12 > 17	6	856	35,0	64,8	29,78
13 < 14	6	862	35,3	65,2	29,91
13 > 15	6	868	35,6	65,7	30,04
15 < 16	6	874	35,9	66,1	30,16
1 > 8	5	879	36,3	66,5	30,22
1 < 16	5	884	36,6	66,9	30,27
5 > 12	5	889	36,9	67,2	30,32
6 > 7	5	894	37,3	67,6	30,37
6 < 12	5	899	37,6	68,0	30,42
7 > 11	5	904	37,9	68,4	30,47
7 < 12	5	909	38,2	68,8	30,52
7 > 16	5	914	38,6	69,1	30,58
8 > 10	5	919	38,9	69,5	30,63
8 < 11	5	924	39,2	69,9	30,68
8 > 14	5	929	39,5	70,3	30,73
8 < 14	5	934	39,9	70,7	30,78
8 > 16	5	939	40,2	71,0	30,83
8 > 18	5	944	40,5	71,4	30,88
9 > 12	5	949	40,8	71,8	30,94
9 > 18	5	954	41,2	72,2	30,99
10 < 11	5	959	41,5	72,5	31,04
10 < 14	5	964	41,8	72,9	31,09
10 > 16	5	969	42,2	73,3	31,14
10 < 16	5	974	42,5	73,7	31,19
10 > 18	5	979	42,8	74,1	31,24
10 < 18	5	984	43,1	74,4	31,30
12 > 16	5	989	43,5	74,8	31,35
13 < 15	5	994	43,8	75,2	31,40
14 > 15	5	999	44,1	75,6	31,45
16 > 17	5	1004	44,4	75,9	31,50
1 > 6	4	1008	44,8	76,2	31,48
2 < 3	4	1012	45,1	76,6	31,45

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
2 > 4	4	1016	45,4	76,9	31,43
2 > 11	4	1020	45,8	77,2	31,40
2 > 12	4	1024	46,1	77,5	31,38
3 < 4	4	1028	46,4	77,8	31,36
3 < 11	4	1032	46,7	78,1	31,33
4 < 17	4	1036	47,1	78,4	31,31
5 < 7	4	1040	47,4	78,7	31,28
5 < 9	4	1044	47,7	79,0	31,26
6 > 12	4	1048	48,0	79,3	31,23
6 > 13	4	1052	48,4	79,6	31,21
6 > 14	4	1056	48,7	79,9	31,19
6 < 14	4	1060	49,0	80,2	31,16
8 < 13	4	1064	49,3	80,5	31,14
8 < 17	4	1068	49,7	80,8	31,11
9 < 12	4	1072	50,0	81,1	31,09
9 > 13	4	1076	50,3	81,4	31,07
10 < 13	4	1080	50,7	81,7	31,04
10 < 17	4	1084	51,0	82,0	31,02
11 > 12	4	1088	51,3	82,3	30,99
11 > 17	4	1092	51,6	82,6	30,97
1 > 2	3	1095	52,0	82,8	30,87
1 < 2	3	1098	52,3	83,1	30,77
1 > 5	3	1101	52,6	83,3	30,67
1 > 10	3	1104	52,9	83,5	30,57
1 < 15	3	1107	53,3	83,7	30,47
1 > 16	3	1110	53,6	84,0	30,37
1 > 18	3	1113	53,9	84,2	30,27
1 < 18	3	1116	54,2	84,4	30,17
2 < 5	3	1119	54,6	84,6	30,07
2 > 6	3	1122	54,9	84,9	29,97
2 < 7	3	1125	55,2	85,1	29,87
2 > 9	3	1128	55,6	85,3	29,77
2 < 9	3	1131	55,9	85,6	29,67
2 < 12	3	1134	56,2	85,8	29,57
2 < 14	3	1137	56,5	86,0	29,47

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
4 < 5	3	1140	56,9	86,2	29,37
4 < 9	3	1143	57,2	86,5	29,27
4 < 11	3	1146	57,5	86,7	29,17
4 < 12	3	1149	57,8	86,9	29,07
4 < 16	3	1152	58,2	87,1	28,97
5 < 10	3	1155	58,5	87,4	28,87
5 < 15	3	1158	58,8	87,6	28,77
6 < 7	3	1161	59,2	87,8	28,67
6 > 9	3	1164	59,5	88,0	28,57
6 < 9	3	1167	59,8	88,3	28,47
6 < 10	3	1170	60,1	88,5	28,37
6 > 11	3	1173	60,5	88,7	28,27
6 < 15	3	1176	60,8	89,0	28,17
8 > 9	3	1179	61,1	89,2	28,07
8 < 18	3	1182	61,4	89,4	27,97
9 > 11	3	1185	61,8	89,6	27,87
13 < 17	3	1188	62,1	89,9	27,77
14 < 15	3	1191	62,4	90,1	27,67
14 < 16	3	1194	62,7	90,3	27,57
14 > 18	3	1197	63,1	90,5	27,47
14 < 18	3	1200	63,4	90,8	27,37
15 < 17	3	1203	63,7	91,0	27,27
15 > 18	3	1206	64,1	91,2	27,17
17 < 18	3	1209	64,4	91,5	27,07
1 > 12	2	1211	64,7	91,6	26,90
1 > 13	2	1213	65,0	91,8	26,72
1 < 13	2	1215	65,4	91,9	26,55
1 > 14	2	1217	65,7	92,1	26,37
1 < 17	2	1219	66,0	92,2	26,20
2 < 4	2	1221	66,3	92,4	26,02
2 < 6	2	1223	66,7	92,5	25,84
2 > 8	2	1225	67,0	92,7	25,67
2 < 8	2	1227	67,3	92,8	25,49
2 < 11	2	1229	67,6	93,0	25,32
2 < 15	2	1231	68,0	93,1	25,14

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
3 < 12	2	1233	68,3	93,3	24,97
3 < 16	2	1235	68,6	93,4	24,79
3 < 17	2	1237	69,0	93,6	24,62
4 < 7	2	1239	69,3	93,7	24,44
5 < 13	2	1241	69,6	93,9	24,27
5 < 14	2	1243	69,9	94,0	24,09
5 < 16	2	1245	70,3	94,2	23,91
6 < 13	2	1247	70,6	94,3	23,74
6 < 16	2	1249	70,9	94,5	23,56
7 < 8	2	1251	71,2	94,6	23,39
7 < 10	2	1253	71,6	94,8	23,21
7 < 14	2	1255	71,9	94,9	23,04
7 < 17	2	1257	72,2	95,1	22,86
8 > 11	2	1259	72,5	95,2	22,69
8 > 13	2	1261	72,9	95,4	22,51
8 < 16	2	1263	73,2	95,5	22,33
9 < 11	2	1265	73,5	95,7	22,16
9 < 17	2	1267	73,9	95,8	21,98
10 < 15	2	1269	74,2	96,0	21,81
10 > 17	2	1271	74,5	96,1	21,63
13 > 14	2	1273	74,8	96,3	21,46
13 > 17	2	1275	75,2	96,4	21,28
14 > 17	2	1277	75,5	96,6	21,11
14 < 17	2	1279	75,8	96,7	20,93
16 < 17	2	1281	76,1	96,9	20,75
1 > 3	1	1282	76,5	97,0	20,50
1 > 4	1	1283	76,8	97,0	20,25
1 > 17	1	1284	77,1	97,1	20,00
2 > 10	1	1285	77,5	97,2	19,75
2 < 10	1	1286	77,8	97,3	19,50
2 < 16	1	1287	78,1	97,4	19,25
2 < 17	1	1288	78,4	97,4	19,00
2 < 18	1	1289	78,8	97,5	18,75
3 < 5	1	1290	79,1	97,6	18,49

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
3 < 9	1	1291	79,4	97,7	18,24
3 < 14	1	1292	79,7	97,7	17,99
3 < 15	1	1293	80,1	97,8	17,74
3 < 18	1	1294	80,4	97,9	17,49
4 < 6	1	1295	80,7	98,0	17,24
4 < 13	1	1296	81,0	98,0	16,99
4 < 15	1	1297	81,4	98,1	16,74
4 < 18	1	1298	81,7	98,2	16,49
5 < 6	1	1299	82,0	98,3	16,23
5 < 8	1	1300	82,4	98,3	15,98
5 < 11	1	1301	82,7	98,4	15,73
6 < 8	1	1302	83,0	98,5	15,48
6 < 17	1	1303	83,3	98,6	15,23
6 < 18	1	1304	83,7	98,6	14,98
7 < 9	1	1305	84,0	98,7	14,73
7 < 11	1	1306	84,3	98,8	14,48
7 < 15	1	1307	84,6	98,9	14,22
8 < 15	1	1308	85,0	98,9	13,97
8 > 17	1	1309	85,3	99,0	13,72
9 < 10	1	1310	85,6	99,1	13,47
9 < 14	1	1311	85,9	99,2	13,22
10 > 12	1	1312	86,3	99,2	12,97
11 < 15	1	1313	86,6	99,3	12,72
12 < 16	1	1314	86,9	99,4	12,47
12 < 17	1	1315	87,3	99,5	12,22
12 < 18	1	1316	87,6	99,5	11,96
13 > 16	1	1317	87,9	99,6	11,71
13 > 18	1	1318	88,2	99,7	11,46
14 > 16	1	1319	88,6	99,8	11,21
15 > 16	1	1320	88,9	99,8	10,96
15 > 17	1	1321	89,2	99,9	10,71
16 < 18	1	1322	89,5	100,0	10,46
1 > 7	0	1322	89,9	100,0	10,13
1 > 9	0	1322	90,2	100,0	9,80

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
1 > 11	0	1322	90,5	100,0	9,48
2 < 13	0	1322	90,8	100,0	9,15
3 < 6	0	1322	91,2	100,0	8,82
3 < 7	0	1322	91,5	100,0	8,50
3 < 8	0	1322	91,8	100,0	8,17
3 < 10	0	1322	92,2	100,0	7,84
3 < 13	0	1322	92,5	100,0	7,52
4 < 8	0	1322	92,8	100,0	7,19
4 < 10	0	1322	93,1	100,0	6,86
4 < 14	0	1322	93,5	100,0	6,54
5 < 17	0	1322	93,8	100,0	6,21
5 < 18	0	1322	94,1	100,0	5,88
6 > 17	0	1322	94,4	100,0	5,56
7 < 13	0	1322	94,8	100,0	5,23
7 < 16	0	1322	95,1	100,0	4,90
7 < 18	0	1322	95,4	100,0	4,58
8 > 12	0	1322	95,8	100,0	4,25
9 < 13	0	1322	96,1	100,0	3,92
9 < 15	0	1322	96,4	100,0	3,59
9 < 16	0	1322	96,7	100,0	3,27
9 < 18	0	1322	97,1	100,0	2,94
11 < 13	0	1322	97,4	100,0	2,61
11 < 14	0	1322	97,7	100,0	2,29
11 < 16	0	1322	98,0	100,0	1,96
11 < 17	0	1322	98,4	100,0	1,63
11 < 18	0	1322	98,7	100,0	1,31
12 < 13	0	1322	99,0	100,0	0,98
12 < 14	0	1322	99,3	100,0	0,65
12 < 15	0	1322	99,7	100,0	0,33
17 > 18	0	1322	100,0	100,0	0,00
	1322	**Equal Total Frequency**	**Equals 100%**	**Equals 100%**	**Power = E-D**

Annexure K: Pareto protocol analysis for focus group 2

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
12 > 14	17	17	0,4	1,0	0,6
1 < 2	16	33	0,8	2,0	1,2
1 > 10	16	49	1,3	3,0	1,7
2 > 5	16	65	1,7	4,0	2,3
1 > 11	15	80	2,1	4,9	2,8
3 > 5	15	95	2,5	5,8	3,3
5 < 7	15	110	2,9	6,7	3,8
7 > 8	15	125	3,3	7,6	4,3
1 > 13	14	139	3,8	8,5	4,7
2 > 13	14	153	4,2	9,3	5,1
3 > 10	14	167	4,6	10,2	5,6
3 > 11	14	181	5,0	11,0	6,0
4 > 5	14	195	5,4	11,9	6,4
10 > 11	14	209	5,8	12,7	6,9
12 > 15	14	223	6,3	13,6	7,3
1 > 3	13	236	6,7	14,4	7,7
1 > 4	13	249	7,1	15,1	8,1
1 > 5	13	262	7,5	15,9	8,4
1 > 15	13	275	7,9	16,7	8,8
2 > 14	13	288	8,3	17,5	9,2
3 > 13	13	301	8,8	18,3	9,6
6 < 12	13	314	9,2	19,1	9,9
9 > 13	13	327	9,6	19,9	10,3
13 < 16	13	340	10,0	20,7	10,7
14 < 16	13	353	10,4	21,5	11,1
2 > 3	12	365	10,8	22,2	11,4
2 > 8	12	377	11,3	22,9	11,7
3 > 4	12	389	11,7	23,7	12,0
3 > 14	12	401	12,1	24,4	12,3
4 < 7	12	413	12,5	25,1	12,6
4 < 8	12	425	12,9	25,9	12,9

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
4 > 13	12	437	13,3	26,6	13,2
6 > 14	12	449	13,8	27,3	13,6
7 > 11	12	461	14,2	28,0	13,9
7 > 13	12	473	14,6	28,8	14,2
8 < 16	12	485	15,0	29,5	14,5
10 > 15	12	497	15,4	30,2	14,8
10 < 16	12	509	15,8	31,0	15,1
12 > 13	12	521	16,3	31,7	15,4
15 < 16	12	533	16,7	32,4	15,8
1 > 9	11	544	17,1	33,1	16,0
2 > 4	11	555	17,5	33,8	16,3
2 > 11	11	566	17,9	34,4	16,5
3 > 8	11	577	18,3	35,1	16,8
3 > 15	11	588	18,8	35,8	17,0
4 > 11	11	599	19,2	36,4	17,3
4 > 15	11	610	19,6	37,1	17,5
4 < 16	11	621	20,0	37,8	17,8
5 > 13	11	632	20,4	38,4	18,0
5 < 16	11	643	20,8	39,1	18,3
6 < 16	11	654	21,3	39,8	18,5
7 > 9	11	665	21,7	40,5	18,8
8 < 12	11	676	22,1	41,1	19,0
9 > 11	11	687	22,5	41,8	19,3
11 < 12	11	698	22,9	42,5	19,5
1 > 6	10	708	23,3	43,1	19,7
1 > 8	10	718	23,8	43,7	19,9
1 > 14	10	728	24,2	44,3	20,1
3 < 12	10	738	24,6	44,9	20,3
4 < 10	10	748	25,0	45,5	20,5
4 < 12	10	758	25,4	46,1	20,7
5 < 8	10	768	25,8	46,7	20,9
5 < 10	10	778	26,3	47,3	21,1
5 < 12	10	788	26,7	47,9	21,3

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
6 > 8	10	798	27,1	48,5	21,5
7 < 12	10	808	27,5	49,1	21,6
7 > 15	10	818	27,9	49,8	21,8
8 < 10	10	828	28,3	50,4	22,0
8 > 11	10	838	28,8	51,0	22,2
8 > 13	10	848	29,2	51,6	22,4
9 > 14	10	858	29,6	52,2	22,6
9 < 16	10	868	30,0	52,8	22,8
10 < 12	10	878	30,4	53,4	23,0
10 > 13	10	888	30,8	54,0	23,2
10 > 14	10	898	31,3	54,6	23,4
11 < 16	10	908	31,7	55,2	23,6
13 > 14	10	918	32,1	55,8	23,8
1 < 16	9	927	32,5	56,4	23,9
2 > 6	9	936	32,9	56,9	24,0
2 > 9	9	945	33,3	57,5	24,1
2 > 10	9	954	33,8	58,0	24,3
2 < 15	9	963	34,2	58,6	24,4
4 < 6	9	972	34,6	59,1	24,5
4 > 14	9	981	35,0	59,7	24,7
6 > 11	9	990	35,4	60,2	24,8
6 > 13	9	999	35,8	60,8	24,9
9 > 15	9	1008	36,3	61,3	25,1
14 < 15	9	1017	36,7	61,9	25,2
1 > 16	8	1025	37,1	62,3	25,3
3 < 9	8	1033	37,5	62,8	25,3
3 < 16	8	1041	37,9	63,3	25,4
4 > 9	8	1049	38,3	63,8	25,5
5 < 9	8	1057	38,8	64,3	25,5
5 > 11	8	1065	39,2	64,8	25,6
7 > 14	8	1073	39,6	65,3	25,7
7 < 16	8	1081	40,0	65,8	25,8
8 < 14	8	1089	40,4	66,2	25,8

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
11 > 13	8	1097	40,8	66,7	25,9
12 < 16	8	1105	41,3	67,2	26,0
13 > 15	8	1113	41,7	67,7	26,0
2 > 7	7	1120	42,1	68,1	26,0
2 > 12	7	1127	42,5	68,6	26,1
2 < 16	7	1134	42,9	69,0	26,1
3 > 6	7	1141	43,3	69,4	26,1
3 > 7	7	1148	43,8	69,8	26,1
3 < 7	7	1155	44,2	70,3	26,1
3 > 9	7	1162	44,6	70,7	26,1
5 < 11	7	1169	45,0	71,1	26,1
5 > 14	7	1176	45,4	71,5	26,1
5 > 15	7	1183	45,8	72,0	26,1
6 > 9	7	1190	46,3	72,4	26,1
6 < 10	7	1197	46,7	72,8	26,1
7 > 10	7	1204	47,1	73,2	26,2
8 > 9	7	1211	47,5	73,7	26,2
8 > 15	7	1218	47,9	74,1	26,2
11 < 14	7	1225	48,3	74,5	26,2
11 < 15	7	1232	48,7	74,9	26,2
13 < 15	7	1239	49,2	75,4	26,2
1 < 7	6	1245	49,6	75,7	26,1
1 < 12	6	1251	50,0	76,1	26,1
3 < 8	6	1257	50,4	76,5	26,0
3 > 16	6	1263	50,8	76,8	26,0
4 > 6	6	1269	51,2	77,2	25,9
4 < 9	6	1275	51,7	77,6	25,9
4 > 10	6	1281	52,1	77,9	25,8
5 > 6	6	1287	52,5	78,3	25,8
5 < 6	6	1293	52,9	78,6	25,7
5 > 10	6	1299	53,3	79,0	25,7
5 < 14	6	1305	53,7	79,4	25,6
6 < 9	6	1311	54,2	79,7	25,6

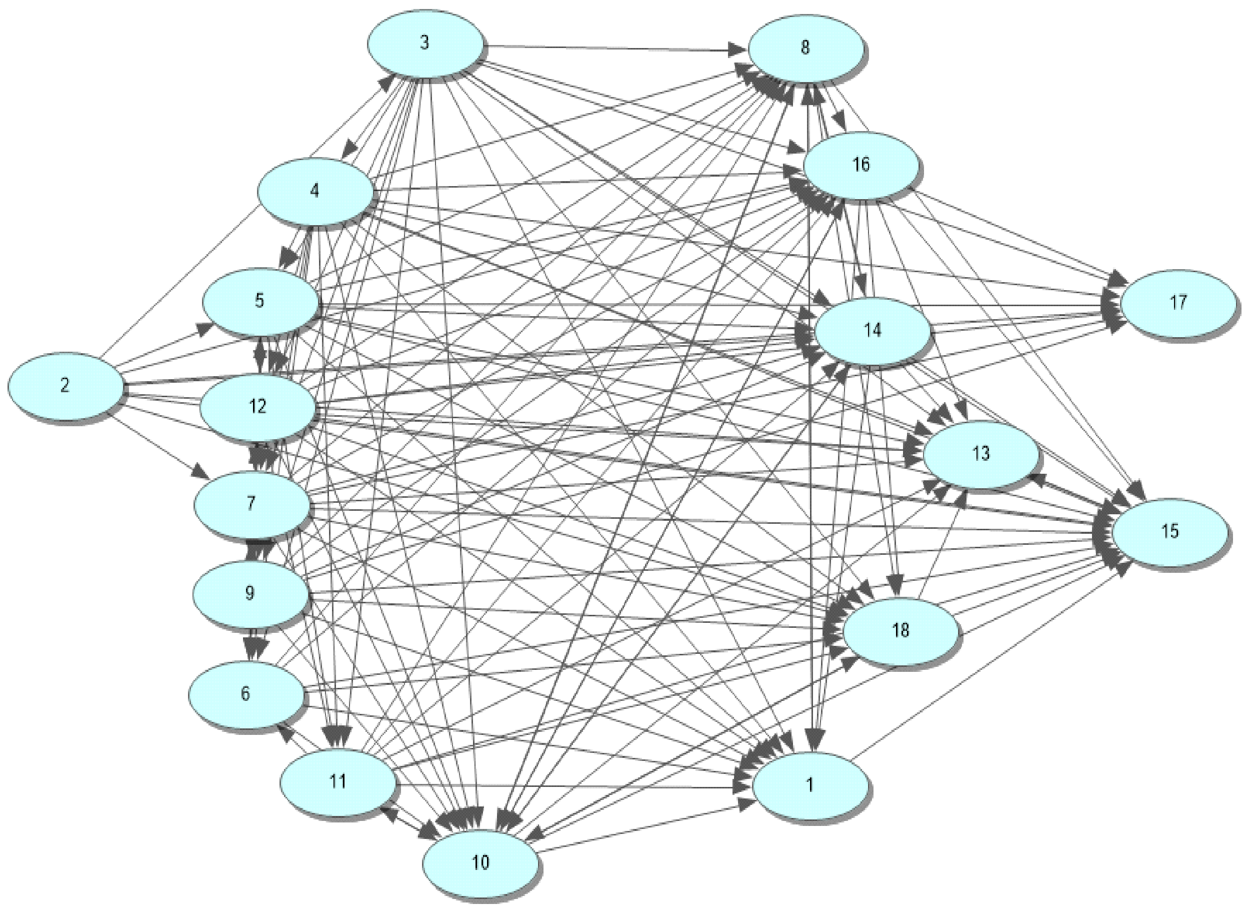
Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
6 < 13	6	1317	54,6	80,1	25,5
6 > 15	6	1323	55,0	80,5	25,5
7 < 10	6	1329	55,4	80,8	25,4
8 < 13	6	1335	55,8	81,2	25,4
8 < 15	6	1341	56,2	81,6	25,3
9 > 10	6	1347	56,7	81,9	25,3
9 < 10	6	1353	57,1	82,3	25,2
10 > 12	6	1359	57,5	82,7	25,2
11 < 13	6	1365	57,9	83,0	25,1
11 > 15	6	1371	58,3	83,4	25,1
1 > 12	5	1376	58,7	83,7	24,9
2 > 16	5	1381	59,2	84,0	24,8
3 < 6	5	1386	59,6	84,3	24,7
3 < 15	5	1391	60,0	84,6	24,6
5 > 8	5	1396	60,4	84,9	24,5
5 < 15	5	1401	60,8	85,2	24,4
6 > 10	5	1406	61,2	85,5	24,3
6 < 15	5	1411	61,7	85,8	24,2
8 < 9	5	1416	62,1	86,1	24,0
8 > 14	5	1421	62,5	86,4	23,9
9 > 12	5	1426	62,9	86,7	23,8
9 < 12	5	1431	63,3	87,0	23,7
9 > 16	5	1436	63,7	87,3	23,6
11 > 14	5	1441	64,2	87,7	23,5
13 < 14	5	1446	64,6	88,0	23,4
1 < 9	4	1450	65,0	88,2	23,2
2 < 12	4	1454	65,4	88,4	23,0
2 > 15	4	1458	65,8	88,7	22,9
3 < 4	4	1462	66,2	88,9	22,7
3 < 13	4	1466	66,7	89,2	22,5
4 < 14	4	1470	67,1	89,4	22,3
5 > 9	4	1474	67,5	89,7	22,2
5 < 13	4	1478	67,9	89,9	22,0

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
6 > 7	4	1482	68,3	90,1	21,8
6 < 8	4	1486	68,7	90,4	21,6
7 < 9	4	1490	69,2	90,6	21,5
7 > 12	4	1494	69,6	90,9	21,3
7 < 15	4	1498	70,0	91,1	21,1
7 > 16	4	1502	70,4	91,4	20,9
8 > 10	4	1506	70,8	91,6	20,8
8 < 11	4	1510	71,2	91,8	20,6
9 < 14	4	1514	71,7	92,1	20,4
9 < 15	4	1518	72,1	92,3	20,3
10 < 13	4	1522	72,5	92,6	20,1
10 < 14	4	1526	72,9	92,8	19,9
11 > 16	4	1530	73,3	93,1	19,7
12 > 16	4	1534	73,8	93,3	19,6
14 > 15	4	1538	74,2	93,6	19,4
1 < 3	3	1541	74,6	93,7	19,2
1 > 7	3	1544	75,0	93,9	18,9
2 < 7	3	1547	75,4	94,1	18,7
2 < 9	3	1550	75,8	94,3	18,4
2 < 10	3	1553	76,3	94,5	18,2
4 > 8	3	1556	76,7	94,6	18,0
4 < 13	3	1559	77,1	94,8	17,7
4 > 16	3	1562	77,5	95,0	17,5
5 > 16	3	1565	77,9	95,2	17,3
6 < 7	3	1568	78,3	95,4	17,0
6 < 11	3	1571	78,8	95,6	16,8
6 < 14	3	1574	79,2	95,7	16,6
6 > 16	3	1577	79,6	95,9	16,3
7 < 14	3	1580	80,0	96,1	16,1
8 > 16	3	1583	80,4	96,3	15,9
9 < 13	3	1586	80,8	96,5	15,6
10 > 16	3	1589	81,3	96,7	15,4
12 < 15	3	1592	81,7	96,8	15,2

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
13 > 16	3	1595	82,1	97,0	14,9
1 < 15	2	1597	82,5	97,1	14,6
3 < 5	2	1599	82,9	97,3	14,3
3 < 10	2	1601	83,3	97,4	14,1
3 > 12	2	1603	83,8	97,5	13,8
3 < 14	2	1605	84,2	97,6	13,5
4 < 5	2	1607	84,6	97,7	13,2
4 > 7	2	1609	85,0	97,9	12,9
4 < 11	2	1611	85,4	98,0	12,6
4 < 15	2	1613	85,8	98,1	12,3
7 < 8	2	1615	86,3	98,2	12,0
7 < 11	2	1617	86,7	98,4	11,7
7 < 13	2	1619	87,1	98,5	11,4
9 < 11	2	1621	87,5	98,6	11,1
11 > 12	2	1623	87,9	98,7	10,8
12 < 13	2	1625	88,3	98,8	10,5
15 > 16	2	1627	88,8	99,0	10,2
1 < 5	1	1628	89,2	99,0	9,9
1 < 8	1	1629	89,6	99,1	9,5
1 < 10	1	1630	90,0	99,1	9,1
1 < 13	1	1631	90,4	99,2	8,8
1 < 14	1	1632	90,8	99,3	8,4
2 < 3	1	1633	91,3	99,3	8,1
2 < 6	1	1634	91,7	99,4	7,7
2 < 8	1	1635	92,1	99,5	7,4
2 < 11	1	1636	92,5	99,5	7,0
2 < 13	1	1637	92,9	99,6	6,7
3 < 11	1	1638	93,3	99,6	6,3
4 > 12	1	1639	93,8	99,7	5,9
5 > 7	1	1640	94,2	99,8	5,6
6 > 12	1	1641	94,6	99,8	5,2
10 < 11	1	1642	95,0	99,9	4,9
10 < 15	1	1643	95,4	99,9	4,5

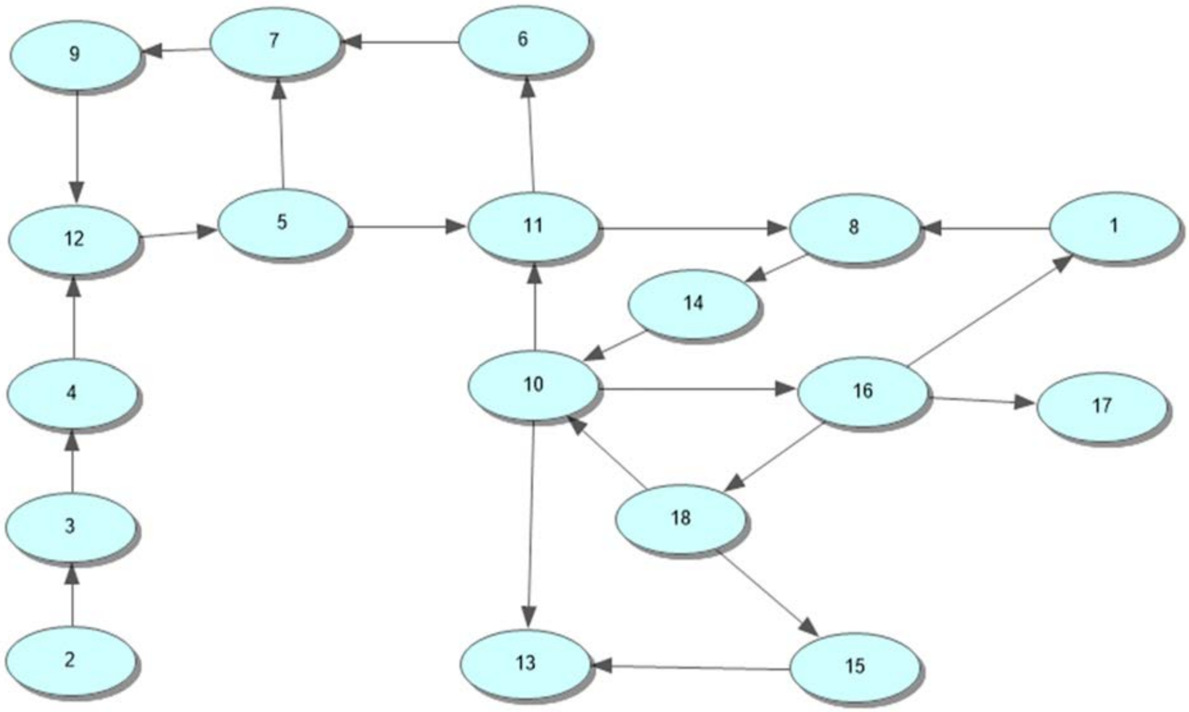
Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
14 > 16	1	1644	95,8	100,0	4,2
1 > 2	0	1644	96,3	100,0	3,7
1 < 4	0	1644	96,7	100,0	3,3
1 < 6	0	1644	97,1	100,0	2,9
1 < 11	0	1644	97,5	100,0	2,5
2 < 4	0	1644	97,9	100,0	2,1
2 < 5	0	1644	98,3	100,0	1,7
2 < 14	0	1644	98,8	100,0	1,2
5 > 12	0	1644	99,2	100,0	0,8
8 > 12	0	1644	99,6	100,0	0,4
12 < 14	0	1644	100,0	100,0	0,0
Total Frequency	**1644**	**Equal Total Frequency**	**Equals 100%**	**Equals 100%**	**Power = E-D**

Annexure L: Cluttered Systems Influence Diagram for focus group 1



Affinities: Focus group 1	
1. Combined assurance 2. Company secretary 3. Competence 4. Composition 5. Corporate governance and trust 6. ERM (Risk) 7. Ethics 8. External audit 9. Independence	10. Internal Audit 11. Knowledge of the business/ industry 12. Leadership 13. Meetings 14. Relationship with management 15. Reporting 16. Scope and Charter 17. Self-evaluation 18. Work plan and Agenda

Annexure M: Uncluttered Systems Influence Diagram for focus group 1



Affinities: Focus group 1	
1. Combined assurance 2. Company secretary 3. Competence 4. Composition 5. Corporate governance and trust 6. ERM (Risk) 7. Ethics 8. External audit 9. Independence	10. Internal Audit 11. Knowledge of the business/ industry 12. Leadership 13. Meetings 14. Relationship with management 15. Reporting 16. Scope and Charter 17. Self-evaluation 18. Work plan and Agenda