FACTORS CONTRIBUTING TO THE EFFECTIVENESS OF AUDIT COMMITTEES AT SELECTED NAMIBIAN STATE OWNED ENTERPRISES

by

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DECLARATION

I declare that **FACTORS CONTRIBUTING TO THE EFFECTIVENESS OF AUDIT COMMITTEES AT SELECTED NAMIBIAN STATE OWNED ENTERPRISES** 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 dissertation 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 education institution.

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ABSTRACT

Audit committees (ACs) can enhance corporate governance in the public sector, particularly in State Owned Enterprises (SOEs). This study adopted a qualitative research approach to identify factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. The empirical data was collected primarily through semi-structured interviews with participants as well as from field notes and company documents. The study highlighted certain AC characteristics and practices contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. The mandate, composition, managing the activities of the AC, performance assessment of the members of the AC and reporting of the AC if applied correctly can enhance effectiveness of ACs. The study also highlighted weaknesses, suggesting that some of the ACs needed improvement in order to enhance corporate governance at SOEs.

Key terms

Audit committee; corporate governance practices; effectiveness; independence, qualitative research; State Owned Enterprises

OPSOMMING

Ouditkomitees kan korporatiewe toesig in die openbare sektor verbeter – veral in staatsondernemings. In hierdie studie is ’n kwalitatiewe navorsingsbenadering gevolg om faktore te identifiseer wat bydra tot die doeltreffendheid van ouditkomitees in uitgesoekte Namibiese staatsondernemings om behoorlike korporatiewe toesig te voorsien. Die empiriese data is hoofsaaklik deur middel van halfgestruktureerde onderhoude met deelnemers ingesamel, en ook van veldnotas en maatskappydokumente verkry. Die studie het bepaalde kenmerke en praktyke van ouditkomitees uitgewys wat bydra tot die doeltreffendheid van ouditkomitees in uitgesoekte Namibiese staatsondernemings om behoorlike korporatiewe toesig te voorsien. Die mandaat, samestelling, beheer oor aktiwiteite van die ouditkomitee, prestasiebeoordeling van die lede van die ouditkomitee, en verslagdoening van die ouditkomitee, kan die doeltreffendheid van ouditkomitees verbeter mits dit reg toegepas word. Die studie het ook op swakpunte gewys, met die voorstel dat sommige van die ouditkomitees verbeter moet word sodat dit korporatiewe toesig in staatsondernemings kan verbeter.

Sleutelterme

Ouditkomitee; korporatiewetoesigpraktyke; doeltreffendheid; onafhanklikheid; kwalitatiewe navorsing; staatsondernemings

KAFUSHANE NGOCWANINGO

Amakomidi ocwaningomabhuku (ACs) angakuphucula futhi akwenze ngcono ukuphathwa kwezikhungo zikahulumeni, ikakhulukazi amaBhizinisi Kahulumeni (SOEs). Lolu cwaningo lwasebenzisa indlela egxile ocwaningweni olukhwalithethivu ukuhlonza izinto/izimo ezifaka isandla ekusebenzeni kahle nangobunyoninco kwamakomidi ocwaningomabhuku emabhizinisini kahulumeni wase-Namibia ngenhloso yokuqinisekisa ukuphatha okuphusile kulezo zikhungo. Idatha egxile kulokho okubonakalayo nokuphathekayo (*empirical data*) yaqoqwa ikakhulukazi ngokusebenzisa ama-*semi-structured interviews* abanjwa nababambiqhaza bocwaningo futhi yaqoqwa nasemanothini alokho okwabonwa futhi kwatholwa ngabacwaningi ngenkathi bevakashele izindawo okwabanjelwa kuzona ucwaningo kanye nasemibhalweni yezikhungo okwenziwa kuzona ucwaningo. Ucwaningo lwaveza ngokucacile izici-bunjalo zama-AC ezithile kanye nezinqubonkambiso ezifaka isandla ekusebenzeni kahle kwama-AC kuma-SOE ase-Namibia akhethiweyo ngenhloso yokuqinisekisa ukuphatha okuphusile kulezo zikhungo. Igunya, isimo sokwakheka, ukuphathwa kwemisebenzi ye-AC, ukuhlolwa komsebenzi owenziwa ngamalungu e-AC, kanye nokubika kwe-AC, uma kwenziwa ngendlela efanele, kungakuphucula ukusebenza kwama-AC ngokuthi kuwenze asebenze kahle futhi ngobunyoninco. Ucwaningo lwabonisa nobuthakathaka obukhona, futhi lwaphakamisa ukuthi ama-AC athile adinga ukuthuthukiswa ukuze akwazi ukuphucula nokwenza ngcono ukuphathwa kwama-SOE.

Amatemu asemqoka

Ikomidi locwaningomabhuku; izinqubonkambiso zokuphathwa kahle kwesikhungo; ukusebenza kahle nangobunyoninco; ukuzimela, ucwaningo olukhwalithethivu; amaBhizinisi Kahulumeni

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Dedication

I dedicate this thesis to my mother, Hendrina Shangheta, for everything she has done to make sure that I have the best in life.

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LIST OF ABBREVIATIONS

AC	Audit Committee
AICD	Australian Institute of Company Directors
AICPA	American Institute for Certified Public Accountants
AUASB	Auditing and Assurance Standards Board
BRC	Blue Ribbon Committee
CAE	Chief Audit Executive
CBG	Center for Board Governance
CEO	Chief Executive Officer
CFO	Chief Financial Officer
GAO	General Accounting Office
IIA	Institute of Internal Auditors
IoDSA	Institute of Directors in Southern Africa
MOPE	Ministry of Public Enterprises
NACD	National Association of Corporate Directors
NSX	Namibian Stock Exchange
PFMA	Public Finance Management Act
SEC	Securities and Exchange Commission
SOE	State-Owned Enterprise

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Good corporate governance practices define the health and credibility of any business entity today (IoDSA, 2009). However, over the last two decades, the world has observed how some entities have stumbled; some were shaken; while the existence of the less fortunate ones came to an abrupt end because of poor governance (Akeju & Babatunde, 2017). Against this backdrop, governance codes and legislation were introduced to help build the credibility of entities and where necessary, restore public confidence in these organisations (IoDSA, 2009). The Cadbury Report was issued in the United Kingdom (UK) in 1992, the Sarbanes-Oxley Act of 2002, Public Law No. 107-204 (SOX Act) was enacted in the United States (US) and in South Africa, a series of King Reports on governance and the Companies Act No. 71 of 2008 were released (IoDSA, 2009). In Namibia, the Namibian Stock Exchange (NSX), jointly with the Institute of Directors in Southern Africa (IoDSA), released the NamCode – the corporate governance code for Namibia (NSX, 2014). The main reason for having these codes and legislation is explained by the Bangladesh Code of Corporate Governance (Bangladesh Enterprise Institute, 2004), which is to improve the overall quality of corporate governance practices. These governance codes and legislation have given considerable attention to the role of the audit committee (AC), an important element of good corporate governance (Kusnadi, Leong, Suwardy & Wang, 2015). When strong and effective, an AC can be vital in, among other things, ensuring the integrity of integrated reporting and internal financial controls as well as identifying and managing financial risks (IoDSA, 2009). Within the context of this study, the terms '"corporate governance" and "governance" and "organisation and company" are used interchangeably.

According to the NamCode (NSX, 2014:2.23), the board of directors should delegate certain functions to well-structured committees without, however, abdicating its own responsibilities. The NamCode (NSX, 2014:2.23:23.1) goes further to say that board committees constitute an important element of the governance process and should be established with clearly agreed reporting procedures and a written scope of authority. The AC is a committee of selected members of the board, whose responsibilities include overseeing the financial reporting process, the integrity of financial reports and the effectiveness of internal controls (Golalipour, 2016; Kusnadi *et al.*, 2015; Loebbecke, 1999:101). This type of arrangement applies more to the private sector and to certain sections of the public sector with similar operations to the private sector such as State Owned Enterprises (SOEs) (Shulman & Kim, 2011; Magrane & Malthus, 2010). The AC concept originated in the US as far back as 1940. Following the fraud perpetrated by McKesson and Robbins during the 20th century where fraudulent sales documentation were generated, the US Stock Exchange Organisation proposed that all listed companies select independent auditors by a special committee of non-executive members of the board. Although the term 'AC' was not mentioned as such, several companies established ACs as a result of the McKesson and Robbins scandal (Braiotta, Gazzaway, Colson & Ramamoorti, 2010:437-469). This proposal was later approved and regulated in 1971 by the US Stock Exchange Organisation (Braiotta *et al.,* 2010). Since then, ACs became widely accepted as an integral part of good governance, charged mainly with oversight of financial reporting and internal control. As ACs evolved, more oversight responsibilities were added, such as risk management, internal auditing, external auditing, compliance and ethics (Braiotta *et al.,* 2010; Vanasco, 1994).

In the public sector, and more specifically in SOEs, an AC can help government establish accountability for the services it provides to taxpayers, citizens and residents. The role of the AC can thus result in benefits such as improved financial reporting and practices, appropriate action against fraud and enhanced internal and external audit functions (Elwood & Lacalle, 2016; AICPA, 2010). In SOEs, an effective AC can increase the integrity and efficiency of the audit process as well as the system of internal control and financial reporting (Akeju & Babatunde, 2017; Nashwa, 2005). Effectiveness can be defined as the extent to which the desired outcome is successfully attained (*Oxford Dictionaries*, 2015). Effectiveness also implies having the necessary capabilities to achieve the desired results (Kalbers & Fogarty, 1998). However, within the context of this study, effectiveness means working as intended.

In Namibia, news reports have highlighted the dismal performance of SOEs, therefore, the release of the NamCode, as a voluntary code, was a step in the right direction to promote good corporate governance by addressing the issue of ACs within the

Namibian context (IPPR, 2011). This is as opposed to the King II report which was previously adopted by Namibia (NSX, 2014). The release of the NamCode was also in line with the suggestion by Boamah (2003) for the development of reporting and enforcement requirements as well as good practices in corporate governance. Before the introduction of the NamCode, Namibia's SOEs operated under the State-Owned Enterprise Governance Act, No. 2 of 2006 (SOE Governance Act). However, this Act is silent on ACs. In comparison, in South Africa, the Public Finance Management Act, No. 1 of 1999 (PFMA) specifically includes a section on ACs (South Africa, 1999).

The study of Hansye (2012) on the AC as a gatekeeper for effective corporate governance indicates that benefits accrue from the use of ACs. These benefits will be explored in this study in the context of Namibia to advocate for strong, governance-driven ACs in SOEs. The role of ACs in corporate governance has been widely explored. However, in the Namibian context, there is scant research on the specific characteristics of ACs and their influence on governance, and by extension, on public service delivery (Ellwood & Lacalle, 2015). A study conducted by Ashipala (2012) examined corporate governance within the framework of the SOE Governance Act in Namibia, however, this work largely ignored the role of ACs in corporate governance.

1.2 PROBLEM STATEMENT

For many years, news reports in Namibia have highlighted the dismal performance of SOEs. These entities have been characterised by shoddy and unreliable service, lack of accountability and transparency, corruption, poor value for money in the use of public funds and draining the resources of the Treasury (IPPR, 2011; Schillinger, 2006). SOEs are continuously being reprimanded by the Parliamentary Standing Committee on Public Accounts for recurring contraventions of financial regulations such as the State Finance Act and the Treasury Instructions (Ihuhua, 2013). Although most of the SOEs have ACs in their governance structures, the problems arising with some of the SOEs call into question the effectiveness of these ACs as part of the governance processes.

The question that this study seeks to address is:

- Which factors contribute to the effectiveness of ACs at selected Namibian SOEs to provide sound corporate governance?

1.3 RESEARCH OBJECTIVE

The study seeks to identify factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance.

1.4 THESIS STATEMENT

This thesis is based on the premise that an effective audit committee will enhance corporate governance in SOEs in Namibia.

1.5 SIGNIFICANCE OF THE STUDY

The NamCode was released in Namibia in 2014, bringing about changes in the governance environment (NSX, 2014). However, the governance principles of the code are applied on a voluntary ‘apply or explain’ basis, with Namibia yet to enact some of these principles and practices as legislation, as has been the case in South Africa and the US. Although the NamCode applies to all Namibian entities, including SOEs, few SOEs have actually adopted the NamCode to improve their corporate governance practices, as evidenced in their annual reports. Therefore, this study seeks to inform SOEs in Namibia about the important role effective ACs can play in improving their corporate governance practices. Moreover, the study provides valuable insights on the operation of ACs in the Namibian public sector, a field which is at present largely under-researched.

1.6 DELINEATION OF THE STUDY

The study examines the Namibian public sector, with a specific focus on SOEs. The research does not attempt to prescribe how ACs should execute their functions but recommends what is considered to be best practice to improve the effectiveness of ACs. The findings cannot be generalised to all Namibian organisations because only the ACs of three SOEs were included in the qualitative study, which is inherently subjective in nature.

1.7 DEFINITIONS OF KEY TERMS AND CONCEPTS

Audit committee – A committee of selected members of the board of directors which is responsible, among other things, for overseeing financial reporting and internal financial controls as well as identifying and managing financial risk and disclosure (IoDSA, 2009:3.1:1).

Best practice – A method or technique that has consistently shown results superior to those achieved through other means and is therefore used as a benchmark (*Business Dictionary*, 2013).

Corporate governance – A system or process through which entities are directed or controlled (Jackson & Stent, 2005:4/5).

Independence – The ability to remain uninfluenced by others (*Cambridge Dictionary*, 2018).

State Owned Enterprise – An entity in which government has a controlling ownership of more than 50% (IPPR, 2011).

1.8 RESEARCH METHODOLOGY

For the purposes of this study, a qualitative research approach was deemed most appropriate and a descriptive case study design was adopted to examine the current state of affairs in the Namibian SOE's ACs. A qualitative approach allowed the researcher to explore different perspectives, experiences, qualities and complexities of ACs and give meaning to them (Ryan, Scapens & Theobald, 2002:143). Descriptive case studies are used to describe an intervention or phenomenon and the real-life context in which it occurs (Baxter & Jack, 2008). The research covered the contextual conditions of the ACs and the case study design provided insights into the nature of ACs, based on their existing practices (Ryan *et al.,* 2002).

The researcher purposively identified three cases (SOEs) with established ACs and internal audit functions in Namibia. Because of the in-depth nature of the study, Cormack (2000) suggests the use of a small, selective sample. Three SOEs were therefore considered adequate to provide rich data.

The empirical data was collected primarily through semi-structured interviews using open-ended questions to obtain testimonial evidence from the participants (Gleim, 2011:253). Data was also collected from field notes and relevant SOE documents. All interviews were recorded using a digital voice recorder and were thereafter transcribed. The transcribed data was summarised, organised and categorised into different themes. The data analysis was conducted using Atlas.ti, version 8, Computer Assisted Qualitative Analysis Software. During the data analysis, similar codes were linked and grouped to form categories. The categories were then reviewed and converged into themes. During this exercise, the researcher arrived at findings using an inductive process of reasoning which involved making concrete observations and analysing the data to arrive at new and general concepts (Yin, 2011). The analysis and interpretation of the empirical data allowed the researcher to make observations and draw conclusions about ACs at Namibian SOEs.

As recommended by Krefting (1990) and taken from (Guba, 1981), the following principles were upheld to enhance the robustness and trustworthiness of the study: credibility, transferability, dependability and confirmability.

1.9 ETHICAL CONSIDERATIONS

The researcher respected and valued the human rights and privacy of the interviewees and confidentiality was maintained at all times. All findings are presented in a confidential manner and no personal or identifiable information was recorded or printed in the study. Thus, no names are included in the dissertation and the participants' responses are not identifiable. All participants' experiences and perceptions are portrayed as they were stated in the interviews. No false information or accusations are included. The findings of one SOE are not compared to that of another, however, as more information was gathered during the interviews, the questions were constantly adjusted. After transcription, the data was stored in password-protected folders on an external hard drive which was only accessible by the researcher.

Interviewees' participation was voluntary. The participants signed letters of consent before the interviews and were informed that they could withdraw from the study at any time. However, as suggested by Kelly and Simpson (2001), to prevent interviewees from withdrawing, the researcher maintained close consultation and inclusion with all participants throughout the research process.

1.10 CHAPTER OVERVIEW OF THE DISSERTATION

The dissertation comprises five chapters, each containing detailed descriptions of activities carried out in this study. The content of the chapters is summarised below.

Chapter 1: Introduction

This chapter gives an overall picture of the study by delineating the background, introducing ACs and emphasising their importance within the corporate governance spectrum. The chapter then set out the problem statement, the research objective, thesis statement and delineation of the study. Key terms and concepts were briefly defined and the research methodology and ethical considerations were discussed.

Chapter 2: Audit Committees as part of Corporate Governance Practices

This chapter provides the reader with an overview of the AC as part of corporate governance practices, followed by a discussion of the public sector and SOEs in Namibia. Corporate governance structures are then described, followed by a discussion of the AC concept, its origin and development and definition, as well as the governance purpose and responsibilities of the AC. The chapter goes on to enumerate the benefits of having an effective AC and the changing expectations of ACs within the context of SOEs. Finally the chapter described the factors generally accepted as influencing the effectiveness of ACs.

Chapter 3: Research Methodology

This chapter describes the research approach and design, the selection of cases and participants, data collection and data analysis. The research trustworthiness and ethical considerations are also discussed.

Chapter 4: Presentation and Discussion of Findings

Here the empirical findings obtained from interviews with participants and corroborated sources are presented and discussed. This chapter also details how the data collected throughout the study was transformed into meaningful information.

Chapter 5: Conclusions and Recommendations

This final chapter discusses the significant findings in relation to the objective of the study, draws conclusions based on these findings and makes recommendations. The chapter also reflects on the limitations of the study, makes recommendations for future research and highlights the significance of the study.

1.11 CONCLUSION

This chapter provided the background to the problem statement and introduced the research objective, which is to identify factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. The thesis statement and delineations of the study were also briefly discussed. This study sets out to inform the SOEs in Namibia about the important role ACs can play in enhancing corporate governance. In particular, it contributes to the development of knowledge about the operation of ACs in Namibia’s public sector. The chapter also defined key terms and concepts and briefly discussed the research methodology and ethical considerations. Finally, the chapter provided the layout of the rest of the study.

The next chapter will focus on the AC as part of the corporate governance practices of Namibian SOEs.

CHAPTER 2

AUDIT COMMITTEES AS PART OF CORPORATE GOVERNANCE PRACTICES

2.1 INTRODUCTION

Chapter 1 provided the background to the problem statement and introduced the research objective. This was followed by the thesis statement and delineation of the study. Thereafter, the research methodology and ethical considerations were briefly discussed. Finally, the chapter ended with a presentation of the layout of the study.

This chapter will provide a focused review of relevant literature about the AC as part of corporate governance practices, followed by a discussion of the public sector and SOEs in Namibia. Next, this chapter will discuss the corporate governance structure, define the AC concept and provide a historical background to the origin and development of ACs, including the governance purpose and responsibilities of the AC. This will be followed by a discussion of the benefits of an effective AC and the changing expectations of the AC. Finally, the factors generally accepted to influence the effectiveness of ACs will be discussed.

2.2 AUDIT COMMITTEES AS PART OF CORPORATE GOVERNANCE

In corporate entities, ACs are essential mechanisms used universally to monitor the financial reporting process and to enhance corporate governance practices (AICPA, 2010). Accordingly, the SOX Act in the US firmly places the responsibility for the integrity of financial reports issued by companies trading publicly in the hands of ACs, thus recognising ACs as necessary and responsible parties (Thiboudeau & Packwood, 2008:39). Likewise, in the public service sector, ACs can assist organisations such as SOEs to establish accountability for the services that they provide to taxpayers and citizens which can result in improved financial reporting, appropriate action against parties involved in fraud and enhanced internal and external audit functions (AICPA, 2010). Like all public sector organisations, SOEs are expected to be transparent and accountable by establishing various governance structures, including ACs (AICPA, 2010).

Since the origin of ACs, there has been a significant focus on using these bodies to improve governance practices and financial reporting processes (Bhasin, 2016; IFAC, 2014). However, much of the focus has been on the private sector which has been at the forefront in advocating the benefits of ACs, which include implementing robust governance codes and internal governance mechanisms. This can no doubt be attributed to the high number of corporate failures in recent years (Ellwood & Lacalle, 2015; Robertson, 2006). Nevertheless, governance in the public sector deserves the same attention as in the private sector and similar practices could be equally applied to ACs in the public sector (Robertson, 2006). It is therefore the express intention of this study to discuss ACs and fit these to the circumstances of the public sector, specifically SOEs.

There are no specific international standards or recommendations adopted worldwide for the establishment of ACs, whether in the private or the public sector (Hepworth & De Koning, 2012). However, to improve corporate governance, different countries have developed legislation and guidelines that underpin the functioning of ACs. For example, the King Reports on Corporate Governance in South Africa (IoDSA, 2016; IoDSA, 2009; IoDSA, 2002; IoDSA, 1994), the Cadbury Report of 1992 in the UK (Cadbury Report, 1992), the UK Corporate Governance Code in the UK (Financial Reporting Council, 2012; Financial Reporting Council, 2003) and the NamCode in Namibia (NSX, 2014). AC practices are therefore to a large extent influenced by the environment in which the AC operates (Golalipour, 2016; Vanasco, 1994).

In the public sector, the requirements for the establishment of an AC are often codified in legislation governing a specific entity or in a resolution adopted by an elected governing board (Armitage, 2011). In Namibia, the NamCode provides guidance for the effective establishment and functioning of ACs in the public sector, however, the application of the code is voluntary, on an ‘apply or explain’ basis and Namibia is yet to legislate some of the principles and best practices of the NamCode (NSX, 2014).

2.3 THE PUBLIC SECTOR AND STATE OWNED ENTERPRISES IN NAMIBIA

The public sector in Namibia has its roots in the Constitution of the Republic of Namibia (Constitution) (Namibia, 2010). The Constitution (Namibia, 2010, art 32(3)(g)) provides that it is within the President's functions, powers and duties to establish government ministries and departments. Furthermore, according to the Constitution, the President must appoint cabinet members (Namibia, 2010, art 35(1)) whose duties and functions include directing, co-ordinating and supervising activities of government ministries and departments, including SOEs (Namibia, 2010, art 40(a)). In addition, the Constitution makes provision for regional and local units (Namibia, 2010, art 102). The public sector in Namibia therefore comprises government ministries, departments, regional and local government authorities and SOEs.

SOEs in Namibia are split into three categories, namely, commercial SOEs, non-commercial SOEs and financial institutions (IPPR, 2017). Commercial SOEs fall under the Ministry of Public Enterprises, non-commercial SOEs fall under specific government ministries or departments which are closely linked to their economic sector or business activity while the financial institutions fall under the Ministry of Finance (IPPR, 2017). The SOEs in Namibia are classified either as State Owned Enterprises, established by an Act of Parliament, or as State Owned Companies, established through the Companies Act, No. 28 of 2004 (Namibia, 2015). For example, NAMWATER was established by the Namibia Water Corporation Act, No. 12 of 1997 while Namibia Power Corporation (Pty) Ltd (NAMPOWER) is a private company established through the Companies Act, No. 28 of 2004.

Although the SOEs are expected to comply with the specific Act that established their existence, all SOEs in Namibia are governed in accordance with the provisions of the Public Enterprises Governance Amendment Act, No. 8 of 2015 (Public Enterprises Governance Amendment Act) (Namibia, 2015). This Act provides for effective governance of SOEs, monitoring of performance and restructuring of the SOEs through the establishment of the Ministry of Public Enterprises (Namibia, 2015). The Act does not, however, make provision for ACs. The Ministry of Public Enterprises' functions, are among others, to put in place corporate governance principles for SOEs. The minister under which a particular SOE resides is known as the portfolio minister and oversees the entire administration of the SOE, including making sure that an appropriate governance structure is in place (Namibia, 2015). The portfolio minister is responsible for the appointment of the board in consultation with the Minister of Public Enterprises (Namibia, 2015). The portfolio minister also has a duty to enter into governance agreements collectively with the board of the SOE and individually with each board member (Namibia, 2015). Likewise, the board will also enter into governance agreements with the chief executive officer (CEO) of the SOE as well as with other senior management.

2.4 THE CORPORATE GOVERNANCE STRUCTURE

Corporate governance is defined as a set of procedures by which companies are controlled and organised (Cadbury Report, 1992:par. 2.5). Ellwood and Lacalle (2015:1141) define corporate governance within the context of the public sector as being concerned with processes and structures for making decisions and with the behaviour and controls that support effective accountability for performance outcomes. The King IV Report (IoDSA, 2016) summarises corporate governance as ensuring productive and responsible leadership characterised by the ethical values of responsibility, accountability, fairness and transparency. Robertson (2006:22) notes that governance is linked to accountability which is essentially about performance. Because of this linkage, good governance should ultimately lead to better public sector management, which in turn should improve public sector performance (Robertson, 2006:22). There are many definitions of corporate governance but in principle, it refers to how companies are governed and managed (Marx, 2008). The AC is thus positioned as part of the wider corporate governance structure (Ellwood & Lacalle, 2015).

In the private sector, within the corporate governance structure, the shareholders, and in some instances, the stakeholders, nominate and appoint the board of directors, commonly referred to as the board (Mauritius Institute of Directors, 2012; Companies Act 28, 2004). The board is the company’s governing body and is the source of authority and overall direction to management (Companies Act 28, 2004). The board is accountable to the shareholders (Mauritius Institute of Directors, 2012) and performs oversight responsibilities which involve maintaining the integrity of the company’s financial statements, ensuring compliance with legal and regulatory requirements, validating the external auditor’s qualifications and independence and providing oversight of the internal auditing function and external auditors (Thibodeau & Packwood, 2008).

The board is expected to be at the forefront of an effective corporate governance framework by overseeing management, which performs the day-to-day functions (Marx, 2008). To assist the board in fulfilling its oversight role effectively, the board appoints an AC. The AC is a sub-unit or a sub-committee of the board and consists of board members with specific expertise to assist and enhance the efficiency and effectiveness of the board (Hansye, 2012; Marx, 2008).

In the public sector, the definition of the term ‘board’ varies from country to country, by jurisdiction and among different levels of government (IIA, 2014:4). For example, in a developing country such as Namibia structures exist which relate to the Westminster Model (a democratic system of government modelled after that of the UK), the board’s responsibilities are vested in a single individual, often referred to as a permanent secretary or accounting officer (CRS, 2005). In countries with a congressional system (a system of government in which the head of government, who is the President, holds the executive authority, is not a member of the legislature and is separately elected), the board’s responsibilities are vested in an individual with titles such as secretary, director, or CEO (IIA, 2014:4; CRS, 2005). Other jurisdictions use different terms. The term ‘board’, according to the Institute of Internal Auditors (IIA) (2014:4), can also refer to legislative bodies such as state legislatures or city councils in state or local governments. In a Namibian dispensation, SOEs have independent boards, similar to the structure used in the private sector. In Namibia, the corporate governance framework of public sector SOEs is regulated by the Public Enterprises Governance Amendment Act (Namibia, 2015). As per this Act, the portfolio minister of the ministry under which a specific SOE resides, represents the state as the major shareholder in the specific SOE and has the responsibility of appointing the board of the SOE (Namibia, 2015).

In Namibia there are no specific mandatory, regulatory or legislative requirements for the establishment of public sector ACs, although many SOEs have established ACs. However, in 2014, the NSX published the NamCode based on the King Reports of corporate governance in South Africa (NSX, 2014). The NamCode makes provision for corporate governance principles and recommendations for all Namibian corporate entities, on a voluntary basis of ‘apply or explain’ (NSX, 2014). The NamCode also contains guidelines for the establishment of ACs, membership and resources, internal and external assurance providers and reporting of ACs. The NamCode is applicable to all Namibian companies, including SOEs.

2.5 ORIGIN AND DEVELOPMENT OF AUDIT COMMITTEES

There have been gradual changes in the development of ACs since their inception and their roles and responsibilities have evolved significantly over the years (Braiotta *et al.,* 2010). Literature reveals that the AC concept as we know it today dates back to the 1940s (Böhm, Bollen & Hassink, 2016; Braiotta *et al.,* 2010; SEC, 2007; Munoz, 2005; Walker, 2004). In particular, the McKesson and Robbins case in the US was one of the events that led to the establishment of ACs (Braiotta *et al.,* 2010). This case, which involved the falsification of sales and inventories records, raised questions about the independence of external auditors from management. As a result, the New York Stock Exchange (NYSE) suggested that a special committee of outside directors, selected from the board, be established to make recommendations to shareholders on the appointment of external auditors (Braiotta *et al.,* 2010). Although this committee was not specifically referred to as the AC, numerous companies did establish ACs as a result of the suggestion made by the NYSE. At that stage, however, the AC concept received little support and its functions remained undefined (Braiotta *et al.,* 2010).

The term 'AC' was first used during the 1970s and ACs have since became widely accepted as an integral part of good governance. There were nonetheless several court cases where the establishment of ACs was enforced (Braiotta *et al.,* 2010; Walker, 2004; Vanasco, 1994). In 1972, the Securities and Exchange Commission (SEC) made it a rule to establish ACs consisting of outside directors by all publicly traded companies in the USA. Business and financial communities as well as shareholders were urged to give their full support to the effective implementation of ACs (Hansye, 2012; Walker, 2004). In Canada, several acts called for the establishment of ACs. For example, the Ontario Business Corporation Act of 1979 made it a legal requirement for corporations to submit their financial statements to ACs first, before submitting them to the board (Braiotta *et al.,* 2010). From the 1970s onwards, in Australia the establishment of ACs was required by law, while in the UK the Committee on the Financial Aspects of Corporate Governance (Cadbury Committee) (1992) issued a report that included a Code of Best Practice for the establishment of ACs (Braiotta *et al.,* 2010). Elsewhere, in general, considerable attention was given to ACs. For example, in South Africa, the

King I Report on Corporate Governance was released in 1994, later to be followed by King II, King III and King IV (IoDSA, 2016; IoDSA, 2009; IoDSA, 2002; IoDSA, 1994). The PFMA (South Africa, 1999) was also enacted in South Africa while in the US, the SOX Act was introduced.

Initially, ACs focused primarily on overseeing the financial reporting process, selecting external auditors and accepting audit results (Fitchner, 2009; Hunt & Carey, 2001:37). However, several incidents of fraudulent financial reporting, major corporate failures, defalcations, accounting method choice abuses and ‘opinion shopping’ led to the realisation by shareholders that boards were not effectively carrying out their oversight function (Kalbers & Fogarty, 1998). Over years, irregular activities in corporate organisations led to regulatory reforms and the establishment of increased responsibilities for the AC (Munoz, 2005; IoDSA, 1994). One such regulatory reform occurred in 1999, when the Blue Ribbon Committee (BRC), co-sponsored by the NYSE and the National Association of Securities Dealers (NASD), made several recommendations for improving the oversight effectiveness of ACs and promoting quality financial reporting in order to effect changes in the functions and expectations placed on ACs (Munoz, 2005). Another reform took place in 2002 when the SOX Act increased ACs’ responsibilities and set additional requirements as to the composition of the AC to include more independent directors (Munoz, 2005). In response, the SEC and the US stock exchanges proposed new rules and regulations to strengthen ACs. For instance, ACs became responsible for pre-approving audit and non-audit services, overseeing the audit engagement and auditors’ compensation (Munoz, 2005).

The evolution of ACs as discussed above, occurred in multi-country dispensations. One country, however, did not necessarily adopt what was decided in another country. The chronological listing of the development of AC responsibilities is shown in table 2.1.

Table 2.1 Chronological listing of the evolution of AC responsibilities

Timeframe	Responsibility of AC	Authority	Country	Sources
1972	All public traded companies should establish ACs comprising of outside directors	SEC	US	Hansye (2012), Walker (2004)
1979	In terms of the Business Corporation Act of 1979, corporations must first submit their financial statements to the AC, before submitting them to the board	Parliament of Canada	Canada	Braiotta *et al.*, 2010
1992	Report issued that included a Code of Best Practice for the establishment of ACs	Cadbury Committee	UK	(Braiotta *et al.*, 2010)
1993	Mandatory requirement for all listed companies to have an AC	Australian Securities Exchange	Australia	Lama (2011)
1994, 2002, 2009, 2016	Considerable attention given to the establishment of ACs in the various iterations of the King Reports on Corporate Governance	IoDSA	South Africa	IoDSA (2016), IoDSA (2009), IoDSA (2002, IoDSA (1994)
1999	Recommendations made for improving the oversight effectiveness of ACs and promoting quality financial reporting	NYSE and NASD	US	Munoz (2005)
2002	ACs' responsibilities increased and additional requirements for the composition of the AC to include more independent directors	SEC	US	Munoz (2005)
2014	NamCode on Corporate Governance released with considerable attention given to ACs	NSX	Namibia	NSX (2014)

In conclusion to this section, ACs as we know them today, have evolved considerably since their inception in the 1940s. The governance codes, legislation and regulatory practices that regulate ACs have been amended throughout history to adapt to challenges facing businesses in an ever-evolving world.

2.6 DEFINITION OF THE AUDIT COMMITTEE CONCEPT

Literature does not have a universal definition for the term ‘AC’, although the term is commonly used in recommendations of corporate governance codes and legislative requirements (Marx, 2008). The definitions and attributes associated with the concept of the AC today have evolved over many years. The Accountant International Study Group (1977:2) defines an AC as a “committee comprising of directors of an entity whose specific duty is to review the annual financial statements before submission to the board”. Similarly, Podgorski (1983:4) refers to an AC as “a standing committee of an entity’s board of directors, composed mainly of non-executive directors”.

Without giving a definition, the King I Report on Corporate Governance states that the board should establish an AC, with the majority of its members consisting of non-executive directors with written terms of reference approved by the board (IoDSA, 1994:20.7). The King II Report on Corporate Governance is more exact in defining the AC, stating that the AC is regarded as a committee of the board, consisting of a majority of non-executive directors (IoDSA, 2002:5.3). The King III Report, on the other hand, states that regardless of its size, a company should be fully committed to the goal of supporting and maintaining an effective AC which consists exclusively of independent non-executive directors (IoDSA, 2009:3.2). The King IV Report, however, states that the AC should collectively have the necessary financial literacy, skills and experience to execute its duties effectively (IoDSA, 2016:7.55).

The SOX Act does not have an exact definition for the AC either although it does state that “there shall be a committee established by and amongst the members of the board of directors of an issuer for the purpose of overseeing the financial and accounting reporting process of the issuer and audits of the financial statements of the issuer” (USA, 2002:3A). DeZoort, Hermanson, Archambeault and Reed (2002) define the AC as a committee comprising qualified members with authority and resources to protect stakeholders’ interests. The Combined Code in the UK (2006), without defining the AC, states that the board should establish an AC of at least three, or in the case of smaller companies, two members (Financial Reporting Council, 2006:C.3.1). Golalipour (2016:377) refers to the AC as an operating sub-committee of the board which assists the board in fulfilling its corporate governance and oversight duties relating to financial reporting and disclosure, internal control, risk management and internal and external audit functions.

From the discussion above, it can be concluded that the AC is a sub-committee of the board. Its members should be independent, non-executive directors who collectively have the necessary financial literacy, skills and experience to execute their duties effectively. The AC as a sub-committee of the board is tasked with carrying out certain duties on behalf of the board, as directed by its members. These tasks form the terms of reference for the functioning of the AC.

2.7 GOVERNANCE PURPOSE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

This section discusses the various governance responsibilities of the AC in financial reporting, internal audit, external auditors, compliance with applicable laws and regulations, risk management and powers exercised by the AC. These responsibilities underpin the main purpose of establishing an AC within an organisation.

Ghafran and O'Sullivan (2013) and Cohen, Krishmoorth and Wright (2004) state that the AC can be influential in enhancing corporate governance, which could lead to improved and quality financial reporting, subsequently boosting investor confidence in corporate reporting. Similarly, Robertson (2006:22) observes that there is a strong connection between the AC and sound governance in enhancing organisational performance. The promotion of ACs is aimed at minimising weaknesses that may exist in corporate governance systems (Turley & Zuman, 2004:305).

The AC is expected to have close oversight of the activities associated with the company's financial reporting procedures and internal controls to uphold the integrity of the company (Kusnadi *et al.,* 2015; Oshima, 2005). This can be achieved through the AC reviewing major accounting and reporting matters and assessing their effect; this includes complex or unusual transactions, major issues concerning accounting principles and financial statement presentation as well as analysis of information prepared by management (Kusnadi *et al.,* 2015; Munoz, 2005). ACs should comment on and approve adopted accounting policies; they are also expected to have a strong influence on the company's approach to financial reporting, levels of disclosure and adherence to standard practices in the industry (Bhasin, 2016; Turley & Zaman, 2004). Other expectations of the ACs include monitoring the reliability of the company's accounting processes that produce financial reports, compliance with legal and regulatory requirements, adherence to corporate ethical standards including maintenance of preventive fraud controls (Bhasin, 2016; Fitchner, 2009; Turley & Zaman, 2004). The AC should consider the efficiency and effectiveness of fraud control systems, information technology security and control in the company and understand the scope of the internal and external assurance providers' review of internal control over financial reporting (Lee & Fargher, 2018; Munoz, 2005).

The AC should discuss and review certain areas key to financial reporting – this includes focusing on complex areas and requesting information relating to complex areas, reviewing the financial statements for significant changes from year to year and requesting management to explain these changes, identifying unusual items such as income or expenses from discontinued operations and the cumulative effect of accounting changes and discussing these with management and the external auditors and finally, performing reviews before the interim financial statements are issued (Beasley, Carcello, Hermanson & Lapides, 2009).

The AC should report to the board about its assessment of the internal audit function and should play a significant role in ensuring that the company's internal audit function remains independent and capacitated with the necessary resources, budget, standing and authority within the company to enable it to properly carry out its duties (Li, 2017; NSX, 2014:3.10:10.3.4). The AC should also review the internal audit structure, staffing, qualifications and the internal audit procedures (Li, 2017; Oshima, 2005). In order to strengthen and enhance the integrity of the internal audit process, the AC should play a key role in appointing, reviewing and recommending the salary structure, and retaining the organisation's Chief Audit Executive (CAE) (NSX, 2014:3.7; Oshima, 2005). Together with management and the CAE, the AC should also review the charter, plans and activities of the internal audit function (IIA, 2017; NSX, 2014:3.7). Furthermore, the AC should on a regular basis satisfy itself that the internal audit function is complying with the IIA' International Professional Practice Framework and when necessary, it should meet with the CAE to discuss matters that should be discussed privately (Alzeban & Sawan, 2015; NSX, 2014:3.7).

The attitude and approach of the AC towards internal audit could strengthen the internal audit function and make this function an important resource to the AC in fulfilling its responsibilities (Yasin & Nelson, 2012; Turley & Zaman, 2004). The relationship between the AC and the internal audit function should be characterised by formal meetings (Li, 2017; Munoz, 2005; Oshima, 2005). However, literature suggests that informal interactions between the AC and the internal audit function may complement formal meetings and may provide the AC with an opportunity to monitor the internal audit function (Zaman & Sarens, 2013; Munoz, 2005). Interactions, both formal and informal, between the AC and the internal audit function are thus important for the AC to fulfil its oversight role.

With regard to oversight of the company's external auditing issues, the AC must approve the appointment of the external auditor and resolve any disagreements between management and the company's external auditors. Where necessary, it may also meet with the external auditors privately (Lisic, Meyers & Zhou, 2014; NSX, 2014:3.9; Oshima, 2005:50). The AC must also evaluate the performance of the external auditors, review the scope and staffing of the external audit team, and review the external auditors' work plan (NSX, 2014; Oshima, 2005:50). In addition, according to the NamCode the AC must review, monitor and report on the external auditor's independence and objectivity, define a policy for board approval, address the nature, extent and terms under which the external auditor may perform non-audit services, approve the external auditor's terms of engagement and remuneration by satisfying itself that the level of remuneration is appropriate for an effective audit to be conducted and lastly, at the end of each annual audit, review the quality and effectiveness of the audit process (NSX, 2014:3.9). To strengthen the external auditor's independence, the AC should ensure that the lead audit partner is rotated at least every five years and with effect from 2023 the audit firm should not be appointed as the auditor for more than 10 consecutive years (IRBA, 2017). It should also set clear policies for hiring employees or former employees of the external auditor (Lisic *et al.,* 2014).

The AC should review and satisfy itself that the system for monitoring compliance with applicable laws and regulations is effective (NSX, 2014:3.4). It should review the findings resulting from the examination by regulatory agencies such as the tax regulatory body and obtain regular updates from management and the company's legal counsel regarding compliance with legal and regulatory requirements (Turley & Zaman, 2004).

The AC should also be responsible for making sure that significant risks facing the company are adequately addressed by management (NSX, 2014:3.8). This includes risks in the areas of financial reporting, internal financial controls, fraud relating to financial reporting and information technology (NSX, 2014:3.8:5.7). The AC should discuss risk management programmes, including the minimisation of present and future litigation risk and policies and procedures addressing risk with management (Oshima, 2005).

It is within the AC's power to carry out and sanction investigations into any other matters within its scope of responsibility (Puri, Trehan & Kakkar, 2010). The AC should seek independent advice from experts to assist in conducting an investigation and seek any information it may require from employees (Hundal, 2013).

Finally, within the context of what ACs are expected to do, it is the responsibility of the AC to report on an annual basis on how it carried out its duties (NSX, 2014:3.10; Armitage, 2011). The AC report should be included in the company's annual report.

From the discussion above, it can be seen that there is a clear connection between the AC and sound governance. Through its oversight function, the AC can be influential in promoting corporate governance which could lead to improved and quality financial reporting in SOEs. The AC should have both formal and informal interactions with the SOE's internal auditors and should be instrumental in the appointment, remuneration and review of the scope of the work of the external auditors. The existence of an AC at a SOE fosters an environment of compliance with applicable laws and regulatory requirements. Finally, as part of its duties, the AC of a SOE should satisfy itself that significant risks facing the entity are adequately addressed.

2.8 BENEFITS OF AN EFFECTIVE AUDIT COMMITTEE

An effectively functioning AC can be of great benefit to an organisation. These benefits depend, however, on the AC having appropriate and sufficient members, focusing on quality work, comprising the right expertise and having the support of management (Van der Nest, 2008:181). In the context of government SOEs, an effective AC could assist in establishing accountability within government because it would devote its focus to issues associated with accountability and transparency (Ellwood & Lacalle, 2016; Shulman & Kim, 2011). In so doing, it could result in additional benefits such as improved financial practices and reporting, appropriate action against fraud and enhanced internal and external audit functions (Sharma, Sharma & Ananthanarayanan, 2011; AICPA, 2010).

The consequences of an ineffective AC are seen in errors and misstatements in financial information, the misuse of confidential information or frequent restatements of prior period errors (Larry & Taylor, 2011). An AC that is actively functioning is more likely to detect problems compared to an inactive one (Alleyne, Howard & Greenidge, 2006). Although the ineffectiveness of ACs does not automatically suggest failure, when ACs do fail in their duties, various stakeholders may suffer (Sommer, 1991).

ACs can mitigate threats to external auditors' independence which serves to enhance the quality of financial reporting (Sharma *et al.,* 2011:151; Turley & Zaman 2004:313). Furthermore, Turley and Zaman (2004) note that independent and effective ACs are associated with the decreased likelihood of fraud and irregularities in the financial statements. ACs also have the ability to strengthen the oversight capacity of the board in the area of reporting and also strengthen communication between management and the external auditors (Salehi, Zanjidar & Zarei, 2012).

The presence of an AC in the organisation, particularly in a SOE, can play a key role in regulating the ethical conduct of management and employees (Nashwa, 2005:45). This includes numerous advantages such as an independent internal audit function which operates efficiently and effectively, resulting in the integrity and efficiency of the audit process, a framework for managing risk and an environment where managing risk is a priority, the adoption of sound corporate governance practices as a norm, an internal control system which functions adequately and effectively and the creation of a culture where instances of fraud and corruption are effectively addressed (Van der Nest, 2008:181).

With regard to legal protection, Turley and Zaman (2004:313) explain that the existence of an AC is evidence that the board has acted with due care in performing its oversight duties, which should minimise any potential legal exposure the board may face. However, the legal protection is likely to be influenced by the specific legal context in different countries and should not necessarily be construed as a universal justification for the establishment of ACs internationally. In the case of Namibian organisations, the board can delegate any of its powers to a committee such as the AC but this does not imply that the board has abdicated powers delegated to the AC (Namibia, 2004).

The existence of an effective AC may improve the quality of public financial management and governance. However, it does not necessarily mean that organisations with established ACs function well and have no problems with issues of governance, internal control or financial reporting (Hepworth & De Koning, 2012).

From the discussion above, the introduction of ACs in SOEs is likely to strengthen a system of transparency and accountability, mitigate any potential threat against internal and external auditors' independence and minimise legal exposure. Above all, the existence of an AC in a SOE will yield benefits such as improved financial practices and reporting as well as improved public financial management and governance.

2.9 CHANGING EXPECTATIONS OF THE AUDIT COMMITTEE

In recent years, the corporate landscape has been littered with numerous scandals (Dodo, 2017). Against this backdrop, the AC's role in ensuring accurate and transparent disclosure of information has become more important than ever. Equally, the work of ACs has become more challenging than ever because of increased expectations from stakeholders (Krishnan, Wen & Zhao, 2011; PricewaterhouseCoopers, 2011; Magrane & Malthus, 2010). Today's ACs also face legal exposure because of growing responsibilities, increasing demands from stakeholders, a complex business and economic environment and changing regulatory and reporting requirements (Flanagan, 2008). This exposure can easily threaten the effectiveness of ACs and even discourage people from serving as AC members because the responsibilities that come with this role outweigh the rewards (Flanagan, 2008).

It has become a thing of the past when ACs met only two to three times a year to discuss external audit matters related to audit fees and appointments. This practice did little to improve the effectiveness of the AC (Hunt & Carey, 2001:37). Traditionally, the ACs' duties focused on three areas: i) accounting and financial reporting, ii) auditing and iii) corporate governance (Wolnizer, 1995). However, the ACs' duties have since evolved. ACs, especially of SOEs, face difficult agendas to scrutinise management processes to ensure the efficiency and effectiveness of systems and controls, answer any questions that may arise, cope with the lack of trust from the public when things go wrong and prevent fraud (Carlson, 2015; CBG, 2011; Fitchner, 2009; Hunt & Carey, 2001).

The AC is expected to be an important component of effective risk management and if it is not proactive in providing oversight of the quality and trustworthiness of the financial reporting process, its contribution is of little value (Krishnamoorthy, Wright & Cohen, 2002:56). In addition to risk management, the mandate of the AC has been extended to non-financial compliance requirements and audit and assurance activities indirectly related to financial reports (Bennie, Soh & Tweedie, 2015). Typically, the expectations of the AC include financial reporting integrity, external and internal audit, risk management, internal control compliance and liaison between the board, management and internal and external auditors (AUASB, AICD & IIA, 2012). Now more than ever, it has become important for the AC and the board to be sensitive to the challenges faced by the AC in effectively meeting its responsibilities, as set out in the terms of reference. ACs have been placed under the spotlight as SOEs' financial management and reporting are under continuous scrutiny by the public, institutional investors and others (PricewaterhouseCoopers, 2005:4). The ACs' workload and the need to establish strong working relationships with management and auditors are driven by increasing responsibilities. Certainly, SOE ACs should be concerned about carrying out their duties effectively and with appropriate mindfulness, as compliance alone is not enough (PricewaterhouseCoopers, 2005:4).

ACs should strike an appropriate balance between overseeing and advising management, while avoiding involvement at operational level

(PricewaterhouseCoopers, 2005:5). Many countries, including Namibia, have recognised the importance of establishing ACs in SOEs to improve the integrity of corporate governance processes. However, it is important that ACs conduct their activities in an effective and efficient manner to help the boards carry out their financial and fiduciary responsibilities to stakeholders (Braiotta *et al.,* 2010).

In the Namibian context, the AC should be set up to fit the circumstances of the SOE (IIA, 2014). This can be achieved by setting the right 'tone at the top' by the SOE's leadership, particularly the board, which fosters an environment within which the AC can thrive (Hepworth & De Koning, 2012). It may also require leadership that is selfless, objective, available, open, honest and provides leadership to the entire organisation (Hepworth & De Koning, 2012). However, the ACs' success in public sector SOEs will depend on the establishment of applicable regulations and legislation with specific rules and guidelines that have definitions and minimum standards. These should be readily available for consultation by the directors serving on ACs (NSX, 2014; Hepworth & De Koning, 2012).

From the above discussion, it is evident that the role of ACs is expanding because of the need to meet the challenges of the constantly changing business, social and economic environment and also because of the value it has to add to the board and stakeholders.

2.10 FACTORS THAT INFLUENCE THE EFFECTIVENESS OF AUDIT COMMITTEES

This section discusses the factors influencing the effectiveness of SOE ACs. The mandate of the AC is considered first, followed by the composition of the AC and the management of its activities. The section then looks at performance assessment and reporting. These factors form the theoretical framework that will be used to determine whether or not ACs are effective in strengthening Namibian SOEs' corporate governance practices and to provide recommendations to enhance such effectiveness.

Effectiveness can be defined as the extent to which the desired outcome is successfully attained (*Oxford Dictionaries*, 2015). Effectiveness is also about doing the right things right. In the context of ACs, effectiveness refers to the AC members' collective ability to achieve the committee's oversight objectives (DeZoort, 1998). The effectiveness of an AC is dependent on its members' commitment to carry out their duties and is viewed as the competency with which the AC carries out its specific oversight responsibilities (Ionescu, 2014; Kalbers & Fogarty, 1993). Effectiveness implies having the necessary capabilities to achieve the desired results and may also entail increasing the level of control and accountability experienced by the entity (Kalbers & Fogarty, 1998). Similarly, ACs' effectiveness lies in its ability and desire to perform its duties. Many ACs exist today but the degree to which they are effective varies greatly (Armitage, 2011; Abbott, Park & Parker, 2000).

According to literature, the effectiveness of ACs was being questioned for some time now in the light of various corporate and financial scandals, with many stakeholders suggesting that cases of fraudulent financial reporting could be minimised by improving the effectiveness of ACs (Brennan & Kirwan, 2015; Malik, 2014; Myers & Ziegenfus, 2006; NACD, 2000; BRC, 1999; GAO, 1996). Stakeholders indicate that an effective AC is not only aware of its responsibilities but also completely appreciates and understands them; it also recognises what is necessary to fulfil them (Bhasin, 2016; Van der Nest, 2008).

AC effectiveness has been examined in many ways and researchers agree that the concept is multidimensional and may involve, among others, a variety of factors such as mandate, characteristics of the AC and its members, management of the AC business, conformity with industrial norms and prescribe standards, resources required and monitoring the performance of the AC (Magrane & Malthus, 2010; Bedard & Gendron, 2005; Abbott *et al.,* 2000; DeZoort, 1998). The tasks performed by the ACs of different companies may be fairly similar, however, the operating methods and style differ and should be tailor-made to the needs, objectives and circumstances of the specific AC (Popescu, Popescus & Eid, 2015). Ultimately, the effectiveness of the AC depends on efforts and attributes of AC members in performing their roles and making sense of why they do what they do (Wu, 2012).

Although much of the literature on AC effectiveness reflects on what is happening in the private sector, the set-up of SOEs is more or less similar to that of the private sector, which could easily be adopted to fit the circumstances of the SOEs in the public sector.

Thus, the private sector approach to governance and AC practices could be equally applied to the public sector (Magrane & Malthus, 2010; Robertson, 2006).

2.10.1 Mandate

The mandate of the AC forms the foundation for its establishment. The mandate provides a practical environment in which the AC has the freedom and power to carry out its duties by establishing an AC charter, thereby also defining who should nominate members to serve on the AC (Kalbers & Fogarty, 1993). The mandate is undoubtedly the first step in creating an effective AC by a SOE (Turley & Zaman, 2007). In SOEs, however, it is necessary to formalise the AC's mandate through government policy (IIA, 2014).

Charter

An effective AC requires a strong institutional mandate established through a well-defined and well-written charter as well as adequate formal recognition by management and staff (Kalbers & Fogarty, 1998). The purpose of the AC charter, according to Böhm *et al.* (2016:119), is to inform the investors about the governance practices within the given company. However, the AC charter is not always available to external stakeholders. Therefore, the board of the SOE should pass a resolution approving and formalising written terms of reference for the AC, which should be set out in the AC charter.

The AC charter is the road map of the AC and should inform its agenda and work plan to ensure that all its responsibilities are properly addressed (NSX, 2014:3.1:1.4). The AC charter is also a key instrument providing authority, direction and discipline to AC members (Böhm *et al*., 2016:119; BRC, 1999). The charter is therefore the most important foundation for achieving an effective AC and any entity implementing an AC should first prepare an AC charter (Armitage, 2011:97). The key question that should be answered by the charter is ‘‘Why do we need an AC?” (IIA, 2014; KPMG, 2009; Walker, 2004).

The charter of the AC within a SOE should clearly spell out the purpose of the AC including its oversight responsibilities towards financial reporting (IIA, 2014). It should define the membership requirements of the AC, specifying that the members should be independent, non-executive directors (IIA, 2014). The charter should also clarify the role of the chairperson, the appointment of the secretary, the induction of AC members and continuous skills development (KPMG, 2009). The parameters of how the powers of the AC should be exercised must also be specified in the charter. This should include sourcing information, access to management, consultation with internal and external auditors and sourcing advice independently (IIA, 2014; KPMG, 2009; Redman, 2009).

Although having an AC charter in place is a significant step for the SOE, this does not automatically imply effectiveness and much depends on the AC members appointed to the committee (Walker, 2004; Krishnamoorthy *et al.,* 2002). Firstly, for the AC to be effective, it should comply with the established charter. Böhm *et al.* (2016:119) found evidence that the AC charters from different companies are ‘cut and paste’ copies of each other and the actual practices of companies are not reflected in their AC charters. Secondly, the success of a SOE’s AC is to a great extent dependent on clear and measurable strategic objectives to be achieved, within a defined period, through the AC charter (Salehi *et al.,* 2012). This is necessary as it provides the framework within which the AC members should work, if they are to function effectively (Salehi *et al.,* 2012).

Literature suggests that the charter should be reviewed periodically, at least annually, by the AC and should be published once every three years in the proxy statement sent to the SOE’s portfolio minister (NSX, 2014:2.23; Oshima, 2005). There should be a commitment by the AC members to review the charter, to ensure that it continues to be relevant in light of the changing business environment (Bromilow & Keller, 2011).

After the AC charter has been approved by the board, the AC needs to come up with a thorough work plan, also to be reviewed and approved by the board (NSX, 2014:3.1; Deposit Insurance Corporation of Ontario, 2009). The work plan outlines in detail how the AC intends to carry out its duties, as defined in the AC charter (Deloitte, 2009). The work plan will be the reference for determining the agendas for future AC meetings (Deloitte, 2009). What should be included in an AC work plan is often influenced by the size of the SOE and by the nature and complexity of its business activities. It should also be drafted in consideration of the activity plans of the internal and external auditors (Deposit Insurance Corporation of Ontario, 2009).

Responsibility for appointment

Selecting appropriate persons to serve as members on the AC of the SOE is very important because the AC's effectiveness depends to a large extent on the composition and interaction of AC members (Bromilow & Keller, 2011). The AC charter should clearly stipulate who should nominate the potential AC members. For this purpose, the IIA (2014) and Popescu *et al.* (2015) recommend that this responsibility should rest with the nomination committee of the board. This committee should recommend the appointment of AC members, and among them, the AC's chairperson. Specifically, the nomination committee should consider the experience, skills and diligence of individuals to serve on the AC (IIA, 2014). The chairperson of the board should not be eligible for appointment as an AC member but may attend AC meetings by invitation (NSX, 2014:3.2).

In the public sector, for example in South Africa, the board of the SOE appoints AC members in consultation with the relevant executive authority (IIA, 2014). However, according to literature, the involvement of the CEO in appointing potential AC members and selecting board members, including the directors who are subsequently appointed to the AC, may undermine the independence of the AC. This may, in turn, reduce the effectiveness of the AC (Beasley *et al.,* 2009; Carcello, Neal, Palmrose & Scholz, 2007:1). The independence of the AC may also be compromised if management is involved in the appointment of AC members (Popescu *et al.,* 2015).

2.10.2 Composition

The AC's composition defines the unique qualities of the AC, namely, the number of AC members in terms of the AC's size, the independence of the members, their skills and experience as well as their expertise in the area of finance. To be effective, the SOEs' AC should possess these unique characteristics, as discussed below.

Number of members

The size of ACs varies. In the context of SOEs, the composition of the AC depends to a large extent on the size of the SOE itself, the nature and complexity of its business, the number of board members, the number of board committees required, the AC members serving on other committees of the board, the type of experience needed on the AC and the duties and responsibilities as provided in the AC charter (Popescu *et al.,* 2015; KPMG, 2009).

A minimum of three and not more than six AC members is suggested to be the appropriate number (IoDSA, 2016; NSX, 2014:3.2). Less than six members means the committee is manageable and will also provide room for AC members to actively and freely participate in discussions (IIA, 2014:4; NSX, 2014:3.2). A large AC size may inhibit its effectiveness (Rainsbury, Malthus & Capper, 2012). However, most importantly, in determining the right size and composition of the AC, the guiding principle should be the required skills expected from AC members. Where specific skills are lacking among the board members, it may be necessary to appoint members on the AC who are not members of the board to enhance the skills and abilities of the AC (Bromilow & Keller, 2011).

Independence

Independence in the context of ACs is described as being free from management's influence (Kusnadi *et al.,* 2015; Magrane & Malthus, 2010; Krishnamoorthy *et al.,* 2002:57). Independence is also described as executing allocated responsibilities in an impartial and independent manner (Hepworth & De Koning, 2012). However, in the context of the public sector SOEs, where politics may play a role in the appointment of AC members, Hepworth and De Koning (2012) define independence as being unwilling to be under an obligation to the executive.

Bronson, Carcello, Hollingsworth and Neal (2009:265) point to AC independence as one of the key aspects of its effectiveness. Without independence, Hepworth and De Koning (2012) argue that it will be difficult, if not impossible, for AC members to give impartial advice. Moreover, the benefits of AC independence are achieved only when the AC is completely independent (Bronson *et al.,* 2009). According to Nashwa (2005), the independence of the AC is a pre-requisite for the AC's effectiveness. The AC can only contribute to the integrity of the financial reporting process if it is independent, both in fact and in appearance, and there should be processes in place to support such independence (Bhasin, 2016). Independence in appearance is what an informed third party would reasonably conclude if that person had knowledge of all relevant information that the AC member's objectivity was compromised (KPMG, 2009). Independence in fact, on the other hand, is the possession of an independent mindset when performing duties as an AC member; it may also refer to a state of mind where an AC member has the freedom to express an opinion without fear or without any outside influence that may compromise judgement (Benjaminsson & Doherty, 2012). Independence according to Leblanc (2007) should be factual and practical and should manifest itself through action. Zaman and Sarens (2013) found that AC independence was to a great extent associated with informal interaction with the internal audit function because independent and active ACs are more likely to have greater information needs and are more likely to be interested in interacting with the internal audit function.

For SOEs to fully realise independence of their ACs, ACs should be completely composed of independent directors (Chan & Li, 2008; DeZoort & Salterio, 2001). The NamCode (NSX, 2014:3.2) recommends specifically that all members of the AC be independent non-executive directors. In the US, all AC members must be independent while the Combined Code on Corporate Governance in the UK requires AC members to be confined to independent non-executive directors (IIA, 2014). The Ontario Securities Commission of Canada indicates that the AC should only have independent directors, while in Australia ACs must be completely independent, with the majority of members being independent directors (IIA, 2014). Independent directors should satisfy the following criteria:

- They should not have been employed by the SOE or any of its associates during the current year or during the past five years (IIA, 2014; Lin, Kang & Rollie, 2009:3).
- They should not have accepted any reward for work performed for the SOE or any of its associates except rewards for performing board duties or receiving benefits from a retirement plan (Lin *et al.,* 2009:3).
- They should have no close family ties with anyone employed by the SOE or any of its associates in an influential position during the past five years (IIA, 2014; Lin *et al.,* 2009:3).
- They should not be directors who are controlling shareholders or executive officers of any organisation to which the SOE made or received payments that are considered to be significant, to the SOE or business organisation during any of the past five years (Lin *et al.,* 2009:3).

- They should not be employed by another company as an executive where any of the company's executives serve on the company's remuneration committee (Lin *et al.,* 2009:3; Robinson & Owens-Jackson, 2009).
- They should not be a member of a public sector organisation which carries out any other activities on behalf of the company (IIA, 2014; Robinson & Owens-Jackson, 2009).

An AC that consists of independent directors is better able to assess objectively the quality of the SOE's financial statements and the adequacy of internal control than an AC that has close ties with management (Robinson & Owens-Jackson, 2009; Oshima, 2005:52). Similarly, independent directors are considered to be better equipped than non-independent directors to maintain the integrity of the financial statements as they do not have personal or economic links with executive management (Ghafran & O'Sullivan, 2013; Robinson & Owens-Jackson, 2009).

ACs are regarded as referees whose role is to oversee and monitor the company's executive management (Lary & Taylor, 2011:340-341; Bradbury, 1990). Hence, the more independent the AC, the less likely there will be changes in external auditors, who could easily be changed because of an unfavourable audit opinion or disagreement with management (Robinson & Owens-Jackson, 2009). Abbott *et al.* (2000) and Beasley *et al.* (2000) support the view that an independent and active AC can prevent financial reporting aggressiveness and fraud. Furthermore, according to Abbott *et al.* (2000) and Ghafran and O'Sullivan (2013), ACs consisting solely of independent directors were more likely to support the internal audit function by having regular meetings with the CAE and reviewing the internal auditing plan as well as comments made by the internal audit function.

While independence is crucial to the operations of the AC, Alleyne *et al.* (2006:572) cautioned that AC members should strike a balance between being independent on the one hand, and working closely with management as non-executive directors on the other. A potential conflict of interest could arise when persons are expected to work with management to maximise shareholders' wealth and interest whilst at the same time serving as members of the AC. This is because in the latter role, they are expected to act independently of management to achieve sound corporate governance (Alleyne *et al.,* 2006:572). The independence of non-executive members serving on the AC thus needs to be strengthened (Salehi *et al.,* 2012). Independence is regarded as essential to the success of ACs and it is necessary for the company to set clear and defined rules and guidelines on the issue of independence (Hepworth & De Koning, 2012).

There is evidence to suggest that independence may be compromised if AC members receive compensation in the form of shares in an entity (Hundal, 2013). This ownership interest could impair the objectivity of AC members (Reidenbach, 2013) who may connive with management to unfairly influence the financial reports by overstating the results (Hundal, 2013). Other evidence suggests that AC influence on the financial results depends on the circumstances of the entity and the options available for AC members to exercise in relation to shares as a form of compensation (Bierstacker, Cohen, DeZoort & Hermanson, 2012; Lynch & Williams, 2012). Independence is more likely to be compromised if AC members benefit from an increase in earnings of the entity, as opposed to when compensation is structured differently (Bierstacker *et al*., 2012; Lynch & Williams, 2012).

From the discussion above, it is clear that independent membership is fundamental to the success of ACs in the private sector and the public sector is no different (Hepworth & De Koning, 2012). It should be noted, however, that in the public sector, Namibia included, the independence of ACs is given less importance as public sector ACs may be composed of members who are not part of the SOE's board, or they may be composed of alternate board members. This is in contrast to the private sector, where AC members are selected from the board (Armitage, 2011). However, as suggested in literature, there should be applicable regulations and legislation with clear definitions that can be used as guidance in establishing independence guidelines, and this should also apply to Namibia (NSX, 2014; Bromilow & Keller, 2011). These specific rules and guidelines, which can be translated into the AC charter, should set the minimum standard and should be readily available for consultation by directors serving on the AC. In the end, the ultimate goal is member independence in action, fact and appearance.

Skills and experience

Experience can be defined as knowledge or skills gained from doing something through practice or through observations of either events or facts (*Oxford Dictionaries*, 2015). In the context of the ACs' experience, it is the time spent working on assigned corporate oversight responsibilities. Such experience is crucial as many oversight judgements are subjective (DeZoort, 1998). Experience can also be derived from the number of ACs on which a member has served and for how long (Robinson & Owens-Jackson, 2009).

AC members should be appropriately skilled and experienced and there should be a basic level of qualification and experience set for members. This should include requirements such as having an understanding of corporate financial reporting, internal controls affecting finance, the workings of internal and external audit processes, company law, risk management, issues of sustainability, information technology, governance relating to integrated reporting and governance processes (NSX, 2014:3.2:2.4-2.8). At individual level, each AC member should possess attributes such as strategic thinking, knowledge of financial language and ability to make decisions (Popescu *et al.,* 2015). DeZoort (1998) asserts that AC members with experience, particularly in auditing, are better equipped to make judgements on internal controls, as those are similar to judgements made by auditors. Experienced AC members are also in a better position to challenge and question internal and external auditors' findings (Ghafran & O'Sullivan, 2013). Furthermore, experienced AC members can easily reach consensus on complex issues and have better technical knowledge as opposed to members without experience (Robinson & Owens-Jackson, 2009).

In overseeing the financial reporting process of a SOE and to assess financial information effectively, AC members should be conversant with the business of the SOE, its major operations and the industry in which it operates (Bricker & Fitts, 2017; Thibodeau & Packwood, 2008). AC members should have an understanding of how management and external auditors evaluate materiality as well as having their own views on the level of materiality (Thibodeau & Packwood, 2008). They should also be familiar with key accounting policies of the SOE and be able to determine whether these are reasonably, appropriately and consistently applied. In addition, AC members should understand the relevant accounting policies well enough to ask the correct questions of the auditors. This is because by asking the correct questions, AC members are able to demonstrate their competence to auditors, ensure that they are satisfied with the results of the audit and obtain assurance about the veracity of the audited financial statements (Thibodeau & Packwood, 2008). Fostering a culture of competency would greatly enhance the establishment of a strong AC in a SOE. Other important considerations are an understanding of which areas involve accounting estimates and how these impact on the reported results as well as familiarity with the processes management uses to ensure that the financial statements capture all relevant data (Thibodeau & Packwood, 2008).

Naturally, AC members will individually have different personalities, which may influence their performance and the way in which they interpret information in carrying out their fiduciary duties (Redman, 2009). Thus Redman (2009) recommends that AC members should be divided into groups: i) those who are experienced, but who are busy in their career or personal life and thus want to spend the minimal amount of time required to fulfil their financial oversight responsibility, ii) those who are not knowledgeable about technical accounting or the financial environment but who have expertise in areas such as technology, risk management, specific industry, etc. that would be valuable to the AC, and iii) those who are knowledgeable and interested in detailed accounting and financial reporting. This grouping of AC members would determine how the content and layout of the information would be presented to the AC members; this would be the first step in improving the efficiency of the AC (Redman, 2009).

The public sector ACs may not necessarily adopt the model and practices of the private sector ACs; they should nonetheless create ACs that meet their specific needs for providing independent review and oversight of the financial reporting process, internal controls and internal and external audit functions (Armitage, 2011).

Financial experts and other experts

According to the NamCode (NSX, 2014:3.2:2.6) and as emphasised by Krishnamoorthy *et al.* (2002:57), it is necessary for AC members, individually and collectively, to have an understanding of International Financial Reporting Standards because of the AC's responsibility to, among others, oversee financial reporting. According to Oshima (2005) and Bennie *et al.* (2015), at least one member of the AC should have accounting or financial management expertise and companies should disclose in their annual reports whether any member of the AC qualifies as an AC financial expert. In the same way, the NYSE and the NASD rules require all AC members to be financially literate while the UK Combined Code of Corporate Governance and the Australian Stock Exchange Corporate Governance Council recommend for at least one member to have financial expertise (Deloitte, 2012).

Financial expertise is defined as past employment experience in finance or accounting, possessing a relevant professional certification in accounting or any other comparable experience or background, including experience in the role of CEO or a senior officer with financial oversight responsibilities (BRC, 1999:25). Badolato, Donelson and Ege (2014) define a financial expert as someone with experience in auditing activities or experience in using or creating financial reports. To meet the definition of a financial expert, according to Kintzele, Arndt, Kintzele and Kwiatkowski (2008), the AC member must have an understanding of generally accepted accounting principles and financial statements as well as the ability to assess the application of such principles in connection with the accounting for estimates, accruals and reserves. In addition, the AC member should have experience in preparing, auditing, analysing or evaluating financial statements and should have an understanding of the internal controls and procedures for financial reporting (Kintzele *et al.,* 2008).

For the purpose of developing ACs' financial expertise, Grenier, Balou and Philip (2012) recommend a certification programme for AC members designated as financial experts. Grenier *et al.* (2012: A20) assert that such a certification would yield the additional benefit of perceived confidence in the AC as well as providing updated information on current financial reporting issues and AC best practices. It would also send a strong signal to stakeholders that the AC members were in charge of the audit process.

ACs with financial experts are better able to evaluate the financial statements, thereby improving the quality of financial reporting (Bennie *et al.,* 2015; Ghafran & O'Sullivan, 2013). The presence of a financial expert on the AC can result in better scrutiny of internal controls and better working relations with internal and external auditors (Ghafran & O'Sullivan, 2013). Literature also suggests that the revenue of the company may improve because of financial experts serving on the AC (Bryan, Liu, Tiras & Zhuang, 2013). Other studies provide evidence of less fraud, less cases of financial restatements and an overall improved governance environment (Erkens & Bonner, 2012). However, Badolato *et al.* (2014:226) report that the presence of a financial expert on the AC does not necessarily lead to lower cases of accounting irregularities without considering the skill, personal attributes and qualities of the individual. This is confirmed by Bennie *et al.* (2015) who suggest that having a financial expert, although important, is by itself not adequate and much depends on other factors contributing to the effectiveness of the AC.

Financial reporting is often associated with litigation risk. Krishnan *et al.* (2011) found that directors with legal backgrounds who serve on ACs contribute positively to financial reporting quality because their legal knowledge alerts them to potential legal liability threats. This, however, does not necessarily mean that directors with legal backgrounds have any financial expertise. Krishnan *et al. (*2011) found that legal and accounting expertise appear to play balancing roles in monitoring financial reporting and may make a positive contribution to the financial reporting quality.

2.10.3 Managing audit committee activities

For the AC of the SOE to be able to manage its activities effectively, it needs the appropriate chairperson to drive the AC's business agenda, the necessary resources to manage relationships with key stakeholders, effective meetings and training and development of the AC members.

Chairperson

The AC of a SOE requires an experienced chairperson with strong leadership skills, good facilitation skills and the ability to foster and promote effective working relationships among the AC members to drive the committee's activities (Popescu *et al.,* 2015; Leblanc, 2007). Literature suggests that knowledgeable and experienced AC chairpersons are more likely to seek information from the internal audit function and CAEs are more likely to pursue informal interactions with such chairpersons (Zaman & Sarens, 2013). Therefore, a comprehensive position description or equivalent should exist for AC chairpersons, tailored to individual SOE and industrial circumstances, which may be used as a basis for recruitment, succession planning, assessment and remuneration of future AC chairpersons (Leblanc, 2007).

The AC chairperson should, among others, understand the major financial reporting issues to direct the AC's focus to high-risk areas, which suggests that the chair should have financial expertise. In fact, the background of the AC chairperson and how they are perceived by those engaged in governance within the SOE, including senior management, influence financial reporting, risk management and control outcomes (Bruynseels, Krishnamoorthy & Wright, 2015; Turley & Zaman, 2007). In addition, Bruynseels *et al.* (2015) observe that a chairperson of the AC who is a financial expert can lead to lower audit fees and lower internal control deficiencies and weaknesses.

The chairperson is at the helm of the AC, plays a leadership role and drives the activities of AC meetings. This involves setting the tone and encouraging every AC member's full participation (Bruynseels *et al.,* 2015; Deloitte, 2012). However, the ability of the AC to effectively carry out its oversight function may be impeded if the chairperson has too many responsibilities (Tanyi & Smith, 2015), for example, if the chairperson has many other directorships.

Resources

The AC should have enough resources at its disposal to fulfil its oversight duties (Alleyne *et al.,* 2006:570). ACs require adequate and ongoing administrative assistance from management to be able to schedule meetings, formulate meeting agendas, compile and distribute meeting packs before meetings, draft minutes and coordinate responses to the questions that come up in meetings (Bromilow & Keller, 2011). It has become standard practice for the AC to depend on either the company secretary, the finance department, internal audit or a combination of the finance department and internal audit, to provide such assistance (Bromilow & Keller, 2011).

From an efficiency point of view, the AC is expected to possess the necessary skills to carry out its duties. Nonetheless, the AC should be able to operate within its power and occasionally engage additional resources in exceptional circumstances. Such power may include hiring an independent advisor at the expense of the company (Bromilow & Keller, 2011). However, such authority should be specified in the AC charter to avoid ambiguity.

Relationships

The SOE's AC needs to maintain a smooth relationship with management because management is an important source of information for the AC. The AC should foster a positive working relationship which encourages managers to be honest, candid, transparent, responsive and supportive of the activities of the AC (Leblanc, 2007). Friction between the AC and senior management may result in fear, distrust and lack of participation, to the detriment of both the AC and the SOE as a whole (Leblanc, 2007).

The AC should consider its attitude and approach towards internal audit because appreciating the functions and responsibilities of internal audit could strengthen the internal audit function and make the internal audit function an important resource to the AC in fulfilling its responsibilities (Turley & Zaman, 2004). Beasley *et al.* (2009) provide evidence of ACs relying on external auditors for input. This is necessary because some of the information needed to carry out the duties of the AC, especially when evaluating systems and processes or when benchmarking, requires input from the external auditor.

From the discussion above, it seems inefficient for the AC to perform its oversight duties without having reliance on management and the internal and external auditors' support (Beasley *et al.,* 2009). Therefore, the AC needs to effectively manage the relationship with both management and with internal and external auditors. However, the management of relationships should not compromise the AC's independence. Beasley *et al.* (2009) found that AC members at times became lax, relying on the support of management and internal and external auditors, such that the role of the AC became ceremonial or rubber stamping.

Meetings

Meetings provide an opportunity for the AC to delve deeper into complex areas of the SOE while interacting with managers and the auditors (Bromilow & Keller, 2011). Although phone meetings and video conferencing are increasingly becoming methods of conducting meetings, formal face-to-face meetings remain an important means for the AC to carry out its responsibilities (Bromilow & Keller, 2011).

The responsibilities of ACs vary from entity to entity and are often very complex, hence it is not surprising that an AC meets frequently (Robinson & Owens-Jackson, 2009). The AC should meet as many times as necessary to perform its functions, and enough time should be allocated for these meetings (Bromilow & Keller, 2011). The IIA (2014) suggests that the AC should meet at least four times a year, with meetings scheduled alongside board meetings, seeing that the AC members are also members of the board.

The important fact remains that the AC should have the authority to call additional meetings as circumstances require (IIA, 2014).

The AC should establish a meeting calendar well in advance as this will assist it to address all its responsibilities over the course of a year (Popescu *et al.,* 2015). In addition, such a calendar should spread the committee's responsibilities across meetings and should incorporate additional activities such as educational sessions (Bromilow & Keller, 2011). The meeting calendar should include, among others, the AC's private sessions with the internal and external auditors, topics for discussion by the AC members with time allocated to each topic, presentations by the company executives and provision for special meetings (Popescu *et al.,* 2015:57-68).

To aid the AC's effectiveness, members should receive detailed written agendas along with briefing materials ahead of each meeting, preferably a week in advance (Bromilow & Keller, 2011). This allows the AC members to carefully study the materials, in preparation for the meeting (Beasley *et al.,* 2009). In this regard, the AC members, particularly the chairperson, should ensure that all important issues are covered in the agenda and that the agendas are structured according to the AC's satisfaction (Bromilow & Keller, 2011). Beasley *et al.* (2009) suggest, however, that when management takes control of the AC agenda, there is a risk that the AC may not get the right information to fulfil its responsibilities.

It is important that AC members have enough time to discuss important matters and although different factors may influence what may be considered a standard or minimum meeting length, the deciding factor should be whether the AC members are satisfied that they have properly addressed significant agenda items without pressure of having to rush discussions (Deloitte, 2012). For meetings to be efficient, AC members are expected to review the briefing materials well in advance of each meeting, as this will minimise formal presentations during meetings and can allow AC members to spend time discussing relevant issues (Deloitte, 2012).

The chief financial officer (CFO), the CAE, external auditors and company secretary should attend AC meetings when required. However, to maximise effectiveness and support an atmosphere that allows for honest discussions of sensitive matters, the AC should limit attendance of meetings to those that can make meaningful contributions to the agenda topics (Deloitte, 2012).

Minutes reflect how the AC discharges its assigned responsibilities. Apart from the minutes, which only reflect the topic covered, other important information such as the total time spent in the meeting, who was present and the conclusions reached, should also be recorded (Bromilow & Keller, 2011). Minutes should include action sheets detailing the title of the discussion, planned action to be taken, responsible person and the deadline (United Kingdom, 2011). Action sheets also make provision to report on the progress of outstanding issues. Moreover, the AC minutes should reflect the process the AC used to discuss or resolve issues and relevant information taken into consideration in arriving at each decision. The AC minutes should provide sufficient information for members to draw from should questions arise later. Furthermore, the minutes should be drafted by the secretary appointed to the AC, although studies indicate that minutes should preferably be drafted by company lawyers, who understand the implications involved in capturing details (Bromilow & Keller, 2011). The use of lawyers may, however, not be necessary if the minutes truly reflect what transpired during the meeting.

Training and development

AC members should be taken through suitable orientation and regular training if they are to perform well in their oversight role (Deloitte, 2012). Although AC members are expected to have technical knowledge before being appointed, this knowledge should be further developed through ongoing training. This places AC members in a better position to comprehend what is expected of them and to carry out their responsibilities effectively (Deloitte, 2012).

There should be orientation programmes in place for new AC members to have a clear picture of the AC's roles and responsibilities (Popescu *et al.,* 2015). New AC members should become familiarised with the control processes and related risks affecting the financial reporting of the SOE before starting with the AC activities (Deloitte, 2012). Similarly, according to Leblanc (2007), the orientation programmes for new AC members should be comprehensive, formal, tailor-made and suit the environment and industry in which the SOE operates. The orientation programme may cover, among others, topics about financial reporting, areas where a high degree of judgement may be required and understanding of internal control over financial reporting (Popescu *et al.,* 2015). The orientation programme may also include other topics of importance such as compliance requirements, legal issues, whistle blowing, self-review by AC members and the AC charter review process (Popescu *et al.,* 2015; Bromilow & Keller, 2011).

Continuous training programmes such as understanding the impact of changes in accounting and regulatory developments allow AC members to stay abreast of major changes that could affect the SOE either directly or indirectly, as it may impact on the environment in which the SOE operates (Bromilow & Keller, 2011). Ongoing training may also include i) regular seminars and refresher workshops to update AC members on the latest developments in finance, ii) understanding, assessing and interpreting the SOE's financial statements, iii) briefings on integral support services such as the importance of information technology and risk management and how these affect financial reporting and iv) updates on governance codes and best practices (Bromilow & Keller, 2011).

Finally, AC members can make use of training developed in-house or facilitated by external consultants. They can also attend conferences tailor-made for directors, where directors and leading authorities share practical experience and understanding of issues. Lastly, they can also benefit from training offered by auditing firms *(*Bromilow & Keller, 2011).

2.10.4 Performance assessment

Constant assessment of the AC is necessary as it establishes whether or not the AC is meeting its oversight responsibilities and is adding value to the SOE (Bennie *et al.,* 2015). To improve performance and effectiveness, the NamCode thus specifically requires that board committees, including ACs, be evaluated every year (NSX, 2014:2.22). However, no guidance is provided in literature on the criteria to evaluate the performance of ACs and their members (Bennie *et al.,* 2015). Bennie *et al.* (2015) also note that where performance assessments of ACs and AC members do exist, they are used infrequently and are ineffective.

The AC of a SOE can evaluate its performance by comparing the AC's activities against the AC charter, which will confirm whether or not the AC has fulfilled its responsibilities during the year (Popescu *et al.,* 2015). Evaluation can also be done by comparing the AC's activities against known leading practices as this will help the AC to understand alternative and more efficient approaches to carry out the AC's oversight responsibilities (Bromilow & Keller, 2011). Evaluation can also be done through the AC evaluating itself (Deloitte, 2013). This method can be accomplished through discussions with AC members of other SOEs. Discussing the AC's performance among AC members allows each member to give their view on what worked well in the committee and what could improve (KPMG, 2008). The AC can also have a discussion with management and others who interact with it on a regular basis, such as the internal and external auditors. This will assist the AC to obtain views on its performance and insight into issues to which the AC should give attention (Bromilow & Keller, 2011).

The AC may assess the performance of individual AC members, which can be facilitated by the chairperson (IIA, 2014). The assessment could focus on the member's meeting attendance, understanding of the SOE's objectives and activities or whether or not the member demonstrates an understanding of the responsibilities of the AC (IIA, 2014). The assessment may also focus on the member's professional contribution, conduct, preparation for meetings, suggestions of practical solutions, giving constructive criticism and interaction at AC meetings (Bromilow & Keller, 2011). Furthermore, the AC member can be assessed on their suggestions for new ideas as opposed to accepting the status quo (IIA, 2014). The AC member's willingness to devote the time necessary to prepare for and participate in the committee's deliberations and meeting attendance must also be assessed (Bromilow & Keller, 2011). The most challenging assessment is the assessment of the independence and objectivity of the AC member (Bromilow & Keller, 2011) because these qualities are difficult to judge.

Ongoing AC evaluation is important, however, irrespective of the method used, whether formal or informal, the objective should be to improve the AC's effectiveness (KPMG, 2008). Accordingly, the evaluations should focus not only on what the AC does but also on how effectively it conducts its activities and the extent to which it is following best practice (Bromilow & Keller, 2011; Magrane & Malthus, 2010).

2.10.5 Reporting

It is good practice for the AC to annually report on how it carried out its duties (Armitage, 2011). In some countries, Namibia included, such reporting requirements are set down in governance codes or regulations (Armitage, 2011). The AC is required to report internally to the board as well as to shareholders at the annual general meeting. This report is generally included in the annual report of the SOE (NSX, 2014:3.10).

The AC report should typically start with a brief description of the role and responsibilities of the AC as well as a declaration as to whether or not the AC has adopted an AC charter approved by the board (NSX, 2014:3.10). The report should include a description of how the AC carried out its duties in accordance with the charter and also provide information on the independence of the AC (NSX, 2014:3.10:10.3.3). In addition, the report should include the following: i) demonstrate the AC's satisfaction that the external auditor was independent of the company, ii) indicate whether there is an internal audit charter approved by the board, iii) confirm whether the company complied with its legal, regulatory or other responsibilities and iv) state whether or not the AC recommended the annual report to the board for approval (NSX, 2014:3.10; Bromilow & Keller, 2011). Moreover, the AC should include comments that it reviewed the appropriateness of the financial statements, the accounting practices and the internal financial control of the SOE (NSX, 2014:3.10:10.2.3). Also vital is the inclusion of the names and qualifications of all members of the AC during the period under review, and the period for which they have served on the committee (NSX, 2014:3.10:10.3.3). The number of AC meetings held during the period under review and attendance of these meetings should also be included in the AC report (NSX, 2014:3.10).

2.11 CONCLUSION

This chapter demonstrated how an AC forms part of the broader corporate governance structure which enhances the efficiency and effectiveness of the board as well as assisting the board to fulfil its oversight responsibilities. The use of an AC may result in certain benefits that accrue to the SOE if the AC functions effectively. The AC should have the appropriate mandate from which to draw authority. The appointment of AC members should be handled by a nomination committee. Specifically, the CEO's involvement in selecting board members who are subsequently appointed to the AC may curb the AC's independence and in turn, reduce its effectiveness. Three and not more than six AC members is the appropriate size for the AC as six members is manageable. Independence in particular is regarded as essential to the success of ACs and members should exhibit independence of mind and appearance. Other important characteristics under composition are the skills and experience of AC members as well as expertise in the area of finance. The activities of the AC should be properly managed which requires a strong AC chairperson to drive the agenda of the AC. This includes the resources at the disposal of the AC to effectively carry out its duties, its relationships with stakeholders, the quality and frequency of meetings and the training and development of members. There should be performance assessments to evaluate both the AC's and its members' contribution to the activities of the AC and also to evaluate whether the AC is meeting its oversight objectives. Lastly, the AC has an obligation to report to shareholders and stakeholders on its activities.

In conclusion, for a SOE's AC to be effective, the committee should first and foremost comply with the established AC charter, secondly members should actively participate in the activities of the AC and thirdly, the AC should be viewed as adding value to the SOE.

The next chapter will cover the research methodology adopted in this study to obtain empirical evidence on the effectiveness of SOEs' ACs to provide sound corporate governance.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In Chapter 2, a comprehensive literature review was carried out, describing the historical development of ACs and establishing how they fit into the corporate governance framework. The review also identified the benefits of an effective AC, the changing expectations of ACs as well as factors that influence the effectiveness of ACs. This was necessary to set the theoretical framework against which the empirical findings will be assessed and thus inform the questions posed to the various participants.

In Namibia, although most SOEs have ACs, the problems evident in some SOEs call into question the effectiveness of these ACs as part of the governance processes. The primary research question of this study is which factors affect the effectiveness of ACs at selected Namibian SOEs to provide sound corporate governance. In order to answer this question, this study employed a qualitative research design to identify the factors that contribute to the effectiveness of ACs in selected Namibian SOEs.

This chapter will discuss the research methodology used in this study, outlining the research approach, research design, selection of cases and participants, data collection, data analysis, trustworthiness and the ethical considerations.

3.2 RESEARCH APPROACH

In order to achieve the research objective, a qualitative research approach was adopted to examine the current state of affairs of ACs in Namibia's SOEs. A qualitative approach was deemed suitable because it seeks answers that explain how, why and in what way things happen in the way they do (Hancock, 2002). Qualitative research gives the researcher the freedom to explore perspectives, experiences, qualities and complexities of ACs and give them meaning (Ryan *et al.,* 2002:43). Qualitative research is a well-established method which has been extensively tried and tested in similar cases (Shenton, 2004).

The qualitative researcher does the following (Hancock, 2002): i) seeks out the opinions, experiences and feelings of participants, ii) narrates the situation as it occurs in real life without manipulation, iii) approaches the whole situation holistically, iv) collects information intended for future social development, v) develops future concepts and theories and vi) does not attempt to manipulate the situation under consideration.

Another possible approach that could have been considered is quantitative research. This type of research is concerned with finding answers to questions that are quantified in frequency, timing, value, weight, etc (Hancock, 2002). Quantitative research seeks to statistically generalise the outcome of the research to the broader population (Baskarada, 2014). A quantitative design would not have been appropriate to examine and explore the complexities of ACs or to answer the questions of how, why and in what way things operate in ACs.

There are no standardised models on how ACs are expected to operate which makes ACs a complex phenomenon. Comparing the ACs of poorly performing SOEs with those of successful SOEs could have warranted the use of a quantitative approach, however, the characteristics and practices of ACs vary and are often influenced by distinct business, regulatory, cultural and marketplace factors. As a result, direct comparison would have been difficult (Hancock, 2002). Therefore, a qualitative design was considered most appropriate.

3.3 RESEARCH DESIGN

There are different types of qualitative designs which can be followed. Ethnography research explores culture holistically, with the researcher being a participant observer (Salkind, 2013:46). Historical research involves collecting, organising and summarising historical data to draw conclusions about what might have really happened (Salkind, 2013:46). Case study research focuses on capturing human behaviour by examining a person or a thing (Salkind, 2013:46). Grounded theory research focuses on the collection and analysis of data to develop new theories (Hancock, 2002).

The current study followed a descriptive case study design. This type of design is used to “describe an intervention or phenomenon and the real life context in which it occurred” (Baxter & Jack, 2008:544). Furthermore, a case study design is suitable when describing a component that is made up of one unit, for example the AC (Hancock, 2002). In this regard, the researcher used a case study approach to gather in-depth information about the specific unit of analysis. Hence, by capturing as much information as possible about a single unit observed at a single point in time, the researcher is in a much better position to map out the situation and obtain a broader understanding of the entire population (Baskarada, 2014).

In the context of the current study, the purpose was to identify the factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. The researcher covered the contextual conditions applicable to the ACs and the case study provided insights into the nature of ACs based on their existing practices (Ryan *et al.,* 2002).

The use of case studies has been criticised as being subjective, with researchers at times failing to justify the reason behind the selection of a particular case (Dube & Pare, 2003). However, case studies are chosen because of the unique situations they present in bringing together various sets of circumstances that form an entire picture (Hancock, 2002). One way of justifying the use of case studies according to Yin (2004) is to make sure that the research is reliable. Reliability in case study research is achieved by including a study protocol for use by other researchers to arrive at similar results using the same data collection procedures (Hancock, 2002). A study protocol includes an overview of the research, field procedures, guiding questions and report outline.

3.4 SELECTION OF CASES AND PARTICIPANTS

Collecting data through a qualitative approach is time-consuming and often involves one-on-one interaction with interviewees to obtain detailed information on a phenomenon without generalising the results. This therefore justifies using smaller samples (Hancock, 2002). Smaller samples allow the researcher to conduct an in-depth study, explore and obtain rich information, thereby gaining penetrating insights into a phenomenon (Saunders, Lewis & Thornhill, 2009). While the samples for quantitative research are selected statistically at random using probability techniques, the qualitative sampling approach is based on subjective judgement. It is a non-probability sampling method which does not specify the possibility that any case will be included in the sample (Saunders *et al.,* 2009). The use of subjective judgement in qualitative sampling is influenced by the relationship between the objective and the focus of the research as well as the technique used to sample (Saunders *et al.,* 2009).

There were 98 SOEs in Namibia at the time of selecting the research sites (cases) (Namibia, 2016). Three of these were selected as cases for the study. The selection was purposive, targeting a homogeneous sub-group of SOEs in order to understand the phenomenon of ACs (Patton, 2015). Because of the in-depth nature of the study and the analysis of data required, a small, selective sample of three SOEs was considered to be the most appropriate to yield rich data and reach data saturation (Cormack, 2000). Furthermore, the results were not intended to be generalised and the focus was more on the specific ACs' characteristics and not on those of the entire population (Saunders *et al.,* 2009).

Purposive sampling is described as the selection of sampling units within the segment of the population with the most information on the characteristic of interest (Guarte & Barrios, 2006). Although random sampling, as used in quantitative research, would have been appropriate in nullifying any possibility of the researcher's bias, the use of purposive sampling minimises the possibility of choosing participants who would not be cooperative and there is also no need for the participants to be representative of the population in the study (Shenton, 2004).

The criteria used to select the SOEs are as follows:

- Accessibility – The SOE had to be accessible (Creswell, 2007)
- AC – To be eligible for the study the SOE had to have an AC (Patton, 2001:238).

From the three selected SOEs, three participants were selected per SOE, namely, the chairperson of the AC, the CAE and the CFO. However, a human resource executive of one of the SOEs was also selected because they were in charge of the internal audit function and attended the AC meetings. The chairpersons of the ACs were selected because they are in charge of the ACs and would have had insight and first-hand information about the ACs. They could also arrange for the researcher to have access to information needed for this study. The CAEs and CFOs were selected because of their regular interactions with the ACs. These are people who hold positions of trust within the ranks of the SOEs and are experienced professionals. Therefore, it was highly anticipated that they would be candid and act with diligence and due care when approached to participate in the interviews.

Participants are more likely to agree to participate in interviews as opposed to completing questionnaires because interviews provide participants with the opportunity to reflect on issues without writing them down (Saunders *et al.,* 2009). Participants feel more confident and act more openly when sharing confidential information in person, during interviews, as opposed to sharing information with someone they have never met through the completion of questionnaires (Saunders *et al.,* 2009). Three participants from each SOE were considered appropriate so that individual experiences and points of view could be verified against other participants in order to construct a clear picture of the research topic (Shenton, 2004).

A letter was sent to the Ministry of Public Enterprises in Namibia, requesting permission to approach the SOEs (see Annexure A). After permission was granted, each selected SOE was requested in writing, through the office of the CEO, to provide contact details such as telephone numbers and email addresses of individuals selected for interviews (see Annexure B). CEOs were particularly requested to avail themselves to provide information that may be required for the purposes of the study or to avail anyone at the SOE who could be of assistance.

3.5 DATA COLLECTION

Various data collection techniques can be employed in sourcing information in qualitative case study research (Shenton, 2004). These techniques include document reviews, interviews, archival records, physical artefacts, observation and focus group discussions (Salkind, 2012). For the purpose of this study, three data collection techniques were used, namely, i) annual report reviews, ii) individual interviews with the chairpersons of ACs, CAEs and CFOs and iii) field notes.

3.5.1 Document reviews

The first data collection technique consisted of examining documentation which was created by the selected SOEs and made available to the public. The documents in question were the annual reports of the selected SOEs which were downloaded from the SOEs' websites. Where an annual report could not be found on the website, it was requested from the specific SOE. The review of documentation allowed the researcher to familiarise himself with the SOEs before engaging with the participants (Shenton, 2004). This was necessary because documentation provided valuable information which could be used to confirm information gathered through interviews (Salkind, 2012). The guiding questions used in the review of the annual reports are provided in Annexure C.

The documentation review covered the following areas:

- Question 1 recorded the name of the chairperson of the board.
- Questions 2 and 3 recorded the disclosure of the SOE's audit committee in the annual report and the members of the audit committee.
- Question 4 recorded the existence of a financial expert among the members of the audit committee.
- Questions 5 to 7 recorded the positions of the audit committee members, their qualifications and experience.
- Question 8 recorded the existence of an audit committee charter.
- Questions 9 to 10 recorded the activities performed by the audit committee during the year as well as the frequency of meetings.

3.5.2 Interviews

The second data collection technique consisted of interviews with the chairpersons of the ACs as well as the CFOs and CAEs of the SOEs. Interviews are described as guided conversations and interactions between the interviewer and the interviewee and are suitable if the interviewer seeks information which may be difficult to obtain (Baskarada, 2014). Interviews were considered most appropriate for the study because of the numerous questions that needed to be asked, some of which were complex and had to be asked in various ways and in varying order (Saunders *et al.,* 2009).

The interviews were semi-structured and consisted of the interviewer asking the participants questions to cover issues that the researcher wanted to be sure of addressing (Hancock, 2002). Semi-structured interviews were considered appropriate as opposed to more structured or unstructured interviews as this form enabled the interviewer to explore the phenomenon under investigation in depth while maintaining comparable data on the participants' views. Semi-structured interviews also allowed the interviewer to ask open-ended questions while giving the participant the opportunity to explain an issue in detail (Salkind, 2012). Semi-structured interviews also allowed the interviewer to ask probing questions and request interviewees to expand on their answers (Saunders *et al.,* 2009).

Structured interviews, on the other hand, involve the use of standardised questions and are thus more suitable for collecting quantitative data (Saunders *et al.,* 2009). Unstructured interviews do not use predetermined questions, are more informal and require the interviewer to have a clear knowledge of the subject being researched (Saunders *et al.,* 2009).

In this study, guiding questions were prepared based on the theoretical framework of the factors influencing the effectiveness of ACs (refer to section 2.10 in Chapter 2). To encourage participation and the easy flow of information, the interviews were started with conversations to relax the interviewees and put them at ease. These conversations included explaining the importance of the research topic and informing the interviewee of their right to answer or not answer questions. This included the right to withdraw from the interview. The interviewees were also informed that the sessions would be recorded. It was also clearly explained that there were no right or wrong answers to the questions. This was necessary to help establish rapport between the interviewer and interviewee, as suggested by Salkind (2012).

Furthermore, to avoid misinterpretation or misunderstanding, the interviewer avoided interjecting while the interviewee was talking and also avoided leading the interviewee to provide influenced and biased answers (Baskarada, 2014). Instead, the interviewer accepted what the interviewee said as the participant's views and perspectives. The interviewer steered away from 'why?' questions, which had the potential to make the interviewee defensive or biased (Baskarada, 2014).

To avoid distraction during the interviews by taking notes and posing questions at the same time, the interviews were digitally recorded. Taking notes during interviews increases the risk that the interviewer will most likely write down only notes that make immediate sense (Hancock, 2002). By recording the interviews, the interviewer was able to tentatively listen and respond to the interviewee (Hancock, 2002). The recording also made it possible to produce a full transcript as the entire interview was captured and a complete set of data was available for analysis (Baskarada, 2014). Interviewees' permission to record the conversations was, however, sought before each interview was recorded.

To add credibility to the interviews, the interviewer carefully prepared for each interview by familiarising himself with the SOE, as recommended by Saunders *et al.* (2009). In this regard, the interviewer drew information about the selected SOEs from the document reviews. This allowed the interviewer to demonstrate credibility and to assess the relevance and accuracy of answers. It also allowed the interviewer to provide accurate and relevant information to interviewees before commencing with interviews (Saunders *et al.,* 2009).

The interviews took place on the premises of each SOE. This setting was considered to be the most convenient environment, allowing the interviewees to feel comfortable when answering questions. The questions were designed to simplify conversation with interviewees and to ensure the interviews were completed within the shortest possible time. Each interview lasted on average 40 to 60 minutes and the length of time was influenced by the responses provided by the interviewees.

The guiding questions for the chairpersons of the ACs covered the following areas (see Annexure D):

- Question 1 recorded the experience of the chairperson of the audit committee.
- Question 2 recorded the existence of a formal approved AC charter as well as the existence of a work plan.
- Questions 3 to 4 recorded the nomination of members to serve on the AC and the composition of the AC.

- Question 5 recorded the previous skills and experience of the AC members, the existence of an AC member designated as a finance expert and the experience of AC members in finance and auditing.
- Question 6 recorded the management of the activities of the AC.
- Question 7 recorded the training and development of the AC.
- Question 8 recorded the performance assessment of the AC.
- Question 9 recorded the general awareness of the AC members of issues concerning governance.

The guiding questions for the CFOs covered the following areas (see Annexure E):

- Question 1 recorded the reporting relationship of the finance department with the AC.
- Questions 2, 3, 4 and 5 recorded the involvement of the AC in the internal control, maintenance of the integrity of financial reporting, accounting policies and accounting processes of the SOE.
- Question 6 recorded the involvement of the AC in the review of the legal and regulatory environment of the SOE.
- Question 7 recorded the extent of involvement of the finance department in the activities of the AC.
- Question 8 recorded the contribution of the finance department to the training and development of the AC members.
- Question 9 recorded the expectations of the AC from the CFO with regard to the meetings of the AC.
- Question 10 recorded the general opinion of the CFO about the AC's understanding of the International Financial Reporting Standards.
- Questions 11 and 12 recorded the budget and the opinion of the CFO on the AC members' understanding of their role.

The guiding questions for the CAEs covered the following areas (see Annexure F):

- Question 1 recorded the reporting structure of the internal audit function in relation to the AC.

- Questions 2 and 3 covered the involvement of the AC in the staffing of the internal audit function as well the appointment of the head of the internal audit function.
- Questions 4 and 5 covered the role of the AC in the charter, plans and compliance of the internal audit function with the internal audit standards.
- Questions 6 and 7 recorded the extent of involvement of the internal audit function in the activities of the AC and the training and development of the AC members.
- Question 8 recorded the expectations of the AC from the CAE with regard to the meetings of the AC.
- Questions 9 and 10 recorded the frequency of meetings of the internal audit function with the AC.
- Question 11 recorded the relationship between the AC and the internal audit function.
- Question 12 recorded the general opinion of the CAE about the functions of the AC.

An information sheet describing areas to be addressed during the interviews was e-mailed to the participants before the interviews (see Annexure G). This was considered necessary so that the participants would have an idea of what to expect during the interviews. The information did not include the interview questions, however, to avoid rehearsed answers.

3.5.3 Field notes

Field notes provide a record of observations or conversations taken during the qualitative research (Thorpe & Holt, 2008). Field notes were written up in conjunction with document reviews after the interviews. Immediately after each interview, the researcher recorded the name of the SOE, where the interview took place, the interview setting, background information about the interviewee and the overall impression of the interview (Robson, 2002).

3.6 DATA ANALYSIS

The purpose of data analysis is to systematically put the data in order, come up with a structure and extract meaning from information gathered (Polit & Beck, 2008). Data analysis involves scrutinising, classifying, arranging and analysing the qualitative evidence to address the research objective (Kohlbacher, 2005). Particularly in qualitative case studies, the qualitative data analysis process should enable the researcher to draw empirically based conclusions from the evidence that was gathered (Baskarada, 2014). Qualitative data refer to data that is not quantified or not numeric. It ranges from data collected from interviews to data collected through questionnaires (Saunders *et al.,* 2009). The idea of qualitative data analysis is to discover the bigger picture through the use of conceptualisation (Saunders *et al.,* 2009). Data collection and data analysis are highly interactive and enable the researcher to identify themes and patterns (Saunders *et al.,* 2009).

Ongoing data analysis was conducted throughout the study using an inductive approach. This type of approach involves the researcher proposing theories based on the data and then relating these to literature (Saunders *et al.,* 2009). The idea is to let the data lead to the emergence of concepts (Saunders *et al.,* 2009). Data collected through the document reviews was mainly used to verify the data generated through the interviews.

The researcher familiarised himself with the data by listening to the interview recordings and reading the field notes in order to list key ideas (Pope *et al.,* 2000). The recordings were then given to a transcriber to reproduce a written account of the actual words spoken during the interviews (Saunders *et al.,* 2009). The use of a professional transcriber was necessary because the process of transcribing is time-consuming and requires not only transcribing what was actually said by the interviewees, but also the way it was said and the tone used. In addition, the use of a transcriber improves the reliability of the data, because it is done by an independent and impartial person.

After the transcription process was completed, the researcher read through all the transcripts to get a sense of the data (Creswell, 2003). Each transcript was then saved as a separate file and given a name to protect the identity of the interviewees (Saunders *et al.,* 2009). The transcribed data were then carefully summarised, organised and categorised into different themes. This was done in order to establish and identify a pattern which was interpreted in accordance with the social settings in which the ACs functioned (Kohlbacher, 2005). During the process of summarising and organising the transcribed data, the researcher coded the data. This was done by reading the text several times over and highlighting key segments. These were assigned a code word or phrase that best described the meaning of the segment, which was most relevant to the research objective and question. The researcher kept track of the study objective while assigning codes as per the suggestion of Creswell (2003). During the process of assigning codes, codes that were similar were linked to each other and grouped to form categories. The categories were then reviewed and converged into themes, provided that there was sufficient data to support them.

To assist with the coding and analysis of data, Computer Assisted Quality Data Analysis (CAQDAS) was used. The use of CAQDAS offers various analytical procedural advantages, for example, it aids transparency, ensures continuity and enhances methodological rigour (Saunders *et al.,* 2009).

3.7 TRUSTWORTHINESS

All findings and results were based on data collected through document analysis, interviews and field notes. The researcher adopted the principle that quality in qualitative research cannot be guaranteed through the careful application of predetermined procedures and strategies (Rolfe, 2004). Quality is revealed by the researcher in the writing-up of this report, therefore, qualitative research calls for the prudent decision and keen attention of the reader to appraise the quality of the report (Rolfe, 2004).

Rigour was ensured in the study by leaving an audit trail. To enhance the robustness of the study, as suggested by Guba (1981), the research included naturalistic elements insofar as it took place in a real-world setting, without attempts by the researcher to manipulate the phenomenon (Frey, Botan & Kreps, 1999). One such criterion is ensuring the credibility of the study – this refers to the congruence of the findings with reality.

Credibility was achieved by following the recommendations of Guba (1981) by i) adopting well-established research methods in qualitative research, ii) becoming familiar with the participating organisations before engaging the participants in interviews, iii) using an appropriate sampling method to increase confidence that the selected participants were part of the wider population, iv) triangulating data from the interviews with field notes and relevant SOEs documents, v) giving the participants the right to refuse participation in the interviews and vi) emphasising the independence of the researcher, thereby increasing the likelihood of honest responses by participants.

Another criterion taken into consideration was transferability. This refers to the researcher relating the study observations to similar situations (Guba, 1981). The researcher also incorporated the criterion of dependability by describing the process of undertaking this study in detail, so that future researchers could arrive at similar results if they were to repeat the work (Guba, 1981). Finally, the researcher was also concerned about the confirmability of the findings and took care to remain objective and to ensure that the results were a true representation of what actually transpired during the interviews, without researcher bias (Guba, 1981).

3.8 ETHICAL CONSIDERATIONS

Objectivity was maintained during the analysis of the results to ensure that the data was not misinterpreted. This was extended to the reporting stage to avoid distortion of conclusions and recommendations (Saunders *et al.,* 2009). The privacy and confidentiality of the participants were maintained at all times to avoid harming the participants in any way (Saunders *et al.,* 2009). The participants' anonymity was guaranteed and no personal or identifiable information was recorded in the study. All participants' experiences and perceptions are portrayed as stated during the interviews, no false information was included. The findings of one SOE were not compared against another SOE. After transcription, the data was stored in password-protected folders on an external hard drive to which only the researcher had access.

Participation in the study was voluntary. In this regard, a consent form was emailed to each participant requesting them to sign it (see Annexure H). The participants were informed that they could choose to withdraw from the study at any time. However, to avoid participants from withdrawing, the researcher explained the importance of the research and how the results would be utilised.

As suggested by Kelly and Simpson (2001), regular contact was maintained throughout the research process with the participants out of concern that some may change their minds and decide not to participate. Prior approval from the Research Ethics Review Committee of the College of Accounting Sciences at UNISA aided in securing the participation of the interviewees.

3.9 CONCLUSION

This chapter discussed the ‘road map’ adopted to execute the empirical component of the study. Firstly, it discussed the research approach and the research design, emphasising the reason for adopting a qualitative approach. This was followed by a discussion of which SOEs were selected and who was selected to participate. This was followed by a discussion on the data collection methods and the data analysis procedures. Finally, the criteria to ensure the trustworthiness of the study was mentioned as were the ethical considerations.

The next chapter will present the findings of the empirical component of the study.

CHAPTER 4

PRESENTATION AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

The previous chapter discussed the research approach and design applied in the study as well as the method used to select the cases (SOEs) and participants. Data collection and analysis were also described, followed by a discussion of trustworthiness and ethical considerations.

This chapter will present the analysis and discussion of the research findings. The discussion will start with the interpretation and reporting style, followed by an overview of the participants' profiles. The context of the interviews will be described and thereafter the empirical findings will be presented and discussed, guided by the theoretical framework of the factors influencing the effectiveness of ACs, as discussed in Chapter 2 (section 2.10).

4.2 INTERPRETATION AND REPORTING STYLE

As discussed in Chapter 3, data analysis involves systematically putting data in order, classifying and arranging it in order to extract meaning. This is to enable the researcher to draw empirical conclusions from the data (Polit & Beck, 2008; Kohlbacher, 2005). Semi-structured, in-depth, individual interviews were conducted with participants, observations in the form of field notes were made and the annual reports and charters of the ACs were reviewed in order to achieve the research objective.

The researcher started with data analysis by organising the collected data into computer files documenting each SOE. These included the audio recordings of the interviews. To facilitate the analysis of the data, a total of 282.39 minutes of audio files was given to a transcriber for transcription. This was a necessary step because transcription is labour-intensive and the transcriber enhances the credibility thanks to their independence and professional expertise (Creswell, 2014).

Each transcribed interview was then saved as a separate file in the sequence in which the interviews took place. The files were named in a way that allowed easy linkage to the interview audio. The researcher then immersed himself in the detail of the data by reading and re-reading the transcripts. This was necessary to extract sense from the collected data (Creswell, 2014).

The transcribed files were then inserted into Atlas.ti version 8 for further analysis and coding. Using Atlas.ti, the researcher opened a document and started reading and re-reading the data while highlighting text segments and assigning a code word or phrase that best described the meaning of the segment. When assigning a code to text segments, the researcher was cognisant of the research objective and theoretical framework of factors influencing the effectiveness of ACs. Each code created through Atlas.ti consisted of the primary document number and the number indicating the order in which the code was created. During the process of assigning codes, codes that were similar were linked to each other and grouped to form categories. The categories were then reviewed and refined into five final themes, provided there was sufficient data to support them. The themes and categories reflected different groupings and relationships identified using the main interview questions.

Transcripts of interviews were imported into Atlas.ti in the order in which the interviews took place. Atlas.ti provided the referencing method used to present the empirical findings. The reference “D2:8” for example, is referenced as follows: “D” refers to the primary document, number “2” represents the second participant or interviewee and number “8” represents the code number from source document number “2”.

The copies of annual reports and AC charters of participating SOEs that were obtained or made available to the researcher for review were also inserted into Atlas.ti. The software also provided the reference method to present empirical findings or to verify the views expressed by the participants during the interviews. In the reference “D8:1”, for example, the “D” refers to the primary document, number “8” represents the document number and number “1” represents the code number from source document number “8”. Some of the findings were supported by verbatim quotes provided by the research participants and these were indented and displayed in inverted commas. Shorter verbatim quotes that were used as part of the researcher’s paraphrasing were displayed in inverted commas. Despite maintaining the anonymity of the participants, the relevance of their respective responses was enhanced by using two broad perspectives, namely, AC member(s) and non-AC member(s). Verbatim quotes that revealed gender such as “he” or “she” were supplemented by using words such as “they” to further protect the anonymity of the participants (Saldaña, 2011).

Through the analysis process, the researcher arrived at findings using an inductive process of reasoning. Inductive reasoning involves making concrete observations and analysing data in order to arrive at new and general concepts (Yin, 2011). The analysis and interpretation of the empirical data allowed the researcher to make observations and draw conclusions about ACs at Namibian SOEs.

A summary of the participant groups and references to the participants are shown in table 4.1 below.

Table 4.1 Participant groups and references to the participants

Participant group	**References to participants**
Non-AC members (referred to as non-AC participants)	D1; D3; D4; D5; D6; D9; D10
AC members (referred to as AC participants)	D2; D7; D8

A summary of the groups of SOE documents reviewed and references to the reviewed documents are shown in Table 4.2 below.

Table 4.2 Groups of SOE documents reviewed and references to the reviewed documents

Groups of documents reviewed	**References to the reviewed documents**
SOE AC charter	D12; D13
SOE Annual report	D15; D17

To prevent findings from being biased, the empirical findings were discussed in the third person (Saldaña, 2011). Where possible, information obtained from the interviews was validated with information from relevant SOE documents.

4.3 PARTICIPANT PROFILES

Ten interviews were conducted with the following participants: two AC chairpersons, one AC member, three CAEs, one human resources executive and three CFOs. One AC chairperson who was invited, did not respond to invitations to participate in the study, therefore another member of the AC was interviewed instead. It also emerged during the interviews that one of the CAEs had no interaction with the AC and that the AC reported directly to the human resources executive, therefore an invitation to participate in the study was extended to the human resources executive who had interaction with the AC. One of the CAEs who participated was an outsourced external audit firm who had access to the AC. This resulted in ten interviews being conducted. The description of the participants and their attendance of AC meetings is provided in Table 4.3 below.

Table 4.3 Description of participants and involvement in audit committee meetings

Description	AC member (Yes/No)	Attend AC meetings (Yes/No)
Independent non-executive board member, D2	Yes	Yes
Independent non-executive board member, D7	Yes	Yes
Independent non-executive board member, D8	Yes	Yes
Chief Financial Officer, D1	No	Yes
Chief Financial Officer, D3	No	Yes
Chief Financial Officer, D4	No	Yes
Chief Audit Executive, D5	No	No
Chief Audit Executive, D6	No	Yes
Chief Audit Executive (outsourced external audit firm), D9	No	Yes
Human Resources executive, D10	No	Yes

4.4 CONTEXT OF THE INTERVIEWS

Field notes provide a record of observations or conversations which occurred during the research (Saldaña, 2011:76; Thorpe & Holt, 2008). The researcher used his field notes to describe what happened and the sense he made of the site, situation and participants (Creswell, 2014). These field notes were used to provide background to the interviews as shown in Table 4.4.

Table 4.4 Interviews background

Description	Category
Participant 1 The participant confirmed the interview as soon as an invitation was forwarded through an email. The interview took place in the participant's work office at 8 o'clock in the morning. The researcher was nervous because it was the first interview. However, when the discussion started, the researcher became calm and confidence took over. The participant was also nervous at the beginning and was eager to start with the interview. However, the participant complained at the beginning that they had been studying the whole night and had to prepare for meetings. The participant mentioned the need to maintain a good relationship between the internal audit function and the CEO, therefore anything that was reported to the AC was first discussed with the SOE's CEO. The participant was straightforward in answering questions and wanted to finish the interview and move on to other daily work activities.	CAE
Participant 2 The interview was confirmed through the participant's secretary. The interview took place at the participant's workplace, in the participant's office. The participant made it clear before the interview started that they were happy that this was an academic project that had the potential to bring changes to the operations of ACs at SOEs. The participant was calm and collected throughout the entire discussion, often making reference to their own workplace or making general references to how something should be when responding to questions asked. The researcher had to be very patient and at times had to direct the participant to conclude when the participant was drifting from the intended discussion. The interview lasted 58 minutes.	AC member
Participant 3 The interview was confirmed directly with the participant after several attempts had been made through emails and through the participant's secretary. The interview took place in the morning at the participant's office, 15 minutes later than the agreed time. The participant was eager to know how the interview would be conducted, whereafter the researcher explained to the participant that it would be a discussion whereby questions would be asked by the researcher to which the participant would answer. The participant appeared to be well-prepared, and straightforward in responding to the questions.	CFO
Participant 4 The interview was confirmed with the participant. On arrival at the participant's office, the researcher found that the participant had forgotten about the meeting and was not in the office. The researcher had to reach the participant on their mobile phone after which the participant took 20 minutes to arrive. The discussion took place in the office of the participant. The participant mentioned during the interview that they had no direct relationship with the AC, which became evident because the participant was unable to provide answers to	CAE

some of the questions with authority and confidence. The meeting only lasted 14 minutes because the participant deferred some of the answers to their immediate superior.	
Participants 5 The interview was confirmed through the secretary of the participant; however, it took time to have the actual interview because of the participant's busy schedule. The participant was preparing for annual audits. The interview took place at the participant's office. During the discussion, it emerged that the participant had been acting in the position and had few interactions with the AC. During the interview, the researcher had to ask more follow up questions to ensure that the participant understood the questions and responded appropriately.	CFO
Participant 6 The interview was confirmed through the secretary of the participant. The interview took place at the office of the participant. The participant appeared nervous throughout the entire discussion and was careful to give general answers to questions and at times they read off answers from a specific document. However, the participant provided sufficient information because they had many years of experience interacting with the AC.	HR
Participant 7 The interview was confirmed directly with the participant. However, at the first scheduled date for the interview, the researcher was disappointed because the participant was not at the office and only informed the researcher that the interview had to be postponed, when called by the researcher. The interview took place at the participant's private office. The participant was not collected and wanted to finish the interview as quickly as possible because another meeting was scheduled. The interview was often interrupted by the ringing of the participant's cellular phone. It emerged during the interview that the participant was not familiar with financial terms and jargon.	AC member
Participant 8 The interview was confirmed directly with the participant. The interview took place at the participant's workplace. The researcher was looking forward to this interview because of the confidence gained during the interviews with the previous participants. What also gave the researcher confidence was the participant's enthusiasm and response to emails and phone calls. The participant was relaxed throughout the interview. Although this participant was acting in the position at the time of the interview, they were willing to share their experiences with ACs both in the public and private sector.	CFO
Participant 9 The interview was confirmed directly with the participant's secretary. This participant was looking forward to the interview and wanted to know beforehand what the discussion would be about. The interview took place in the boardroom at the participant's workplace. The participant was straightforward and professional in their answers.	CAE

Participant 10 The interview was confirmed directly with the participant. The interview was long overdue because it had to take place a month after the first day the interview was requested because the participant's SOE was busy with annual audits. The participant was very professional and gave corroborating documents to support answers.	CFO

No further interviews were considered necessary because the researcher believed that data saturation had been reached by noting the recurring categories and themes that emerged from the data analysis.

4.5 EMPIRICAL FINDINGS

The empirical findings presented in this study were derived from the transcribed interviews and relevant company documents (annual reports for the years ended 2015 and 2016 and AC charters). Chapter 2 (section 2.10) discussed the theoretical framework consisting of the factors that influence the effectiveness of ACs in SOEs: i) the source of the AC's power and authority to carry out its mandate, ii) the composition of the AC in terms of skills, experience and size, iii) how the AC manages its activities to achieve its oversight responsibilities, iv) the performance of the AC members collectively and individually and v) how the AC accounts for what it was entrusted to carry out. The empirical findings will be presented according to the theoretical framework outlined above. Each section will start with the presentation of the theme followed by a detailed discussion of the categories. Table 4.5 shows the themes and categories for ease of presentation.

Table 4.5 Themes and categories related to the factors that influence the effectiveness of SOE ACs

Themes	Categories
Mandate of the AC	• Empowerment of the AC • Appointment of members to serve on the AC
Composition of the AC	• Size of the AC • Independence of AC members • Skills and experience of AC members • Existence of financial expert on AC
Managing the activities of the AC	• Role of the chairperson of the AC • Resources of the AC • Role of the AC in the activities of the internal audit function • Role of the AC in the activities of the finance functions • Role of the AC in the activities of the external auditors • Role of the AC in compliance • Role of the AC in risk management • Frequency of meetings, attendance and management of meetings • Training and development of AC members • Principles guiding the activities of the AC
Performance assessment of the AC	• Performance assessments for the AC and AC members • Actions against non-performing AC members • Benchmarking of the AC
Reporting of the AC	• A comprehensive AC report

4.5.1 Mandate of the audit committee

It emerged from this study that the ACs of participating SOEs derived their authority from approved AC charters (D2:1; D7:1; D8:1). In particular, two participants (D2:53; D8:2) revealed that the AC charters were approved by their boards. An approved AC charter is in line with the principles of the NamCode (NSX, 2014:3.1:1.4), which stipulates that the board should approve a written charter for the AC which should inform its agenda and work plan. However, the researcher noted during the interviews that some of the AC participants (D2; D8) were unaware of the content of the AC charters nor were they able to make any specific reference to the charter. Furthermore, three participants (D2:70; D8:68; D7:36) were not able to provide the researcher with a copy of their charter but instead referred him to the company secretary or legal department for a copy. Yet, according to Salehi *et al.* (2012), AC members ought to demonstrate knowledge of their AC charters which should contain clear and measurable strategic objectives to be achieved within a defined period. Demonstrating knowledge of the charter by an AC member may be construed as a sign of a strong and effective AC.

The participants (D2:5; D8:3) further revealed that some of the charters were not reviewed on a regular basis. In particular, one participant (D8:3) revealed that:

> "In my mind, if you have a proper audit committee charter it should last you for a long time. But, yes, at times demands may change. But it's not fixed … there is really no need to review it annually."

Again, another participant (D2:5) revealed that:

> "Not regular enough ... The one from [SOE] is about five years ago it was done …"

Although the AC charters were not reviewed regularly, one of the participant's (D13:1) charter makes provision for it to be amended from time to time as required, while another participant's (D12:1) charter states that the AC should review it at regular intervals. These findings (D8:3; D2:5; D13:1; D12:1) are not in line with the NamCode (NSX, 2014:2.23:23.2) or Bromilow and Keller's (2011) views that the AC charter should be reviewed every year and any changes should be approved by the board. Reviewing the charter on a regular basis ensures that it is updated and incorporates any legal or regulatory changes that may have occurred (Bromilow & Keller, 2011).

It also emerged that some AC members were appointed from the SOEs' board (D2:8; D7:30). SOE board members are appointed by the minister responsible for the specific SOE, therefore AC members are appointed from the available board members (Namibia, 2015). Two AC participants (D2:54; D8:7) revealed that the issue of appointment to serve on the AC is discussed at board meetings and nomination is done by selecting people with financial experience and who are willing to serve on the AC. However, one participant (D8:8) revealed that there are no specific requirements for one to become an AC member:

> "…not specific requirements for an audit committee member, no. And that's maybe something we should consider."

Although the findings (D2:54; D8:7) did not reveal further details of how the board handles the nomination of the members to serve on the AC, the NamCode (NSX, 2014:3.2:2.4) proposes that nomination should be the responsibility of a nomination committee of the board. Similarly, in line with the NamCode, Beasley *et al.* (2009) and Carcello *et al.* (2007:1) state that the role of management and the CEO in the appointment of potential members of the AC could diminish the independence of the AC and may in turn reduce its effectiveness.

This study further revealed from the interviews with participants (D2:9; D8:9) that some of the chairpersons of the boards made the appointments of the AC chairperson. It also emerged (D8:9) that the CEO and management of one of the SOEs made recommendations for the appointment of AC chairpersons. In this regard, one participant (D8:9) reported that:

> "The chairman of the audit committee, like the members of the audit committee would normally be appointed by the board from a recommendation either by management or a decision between the chairman of the board and CEO or managing director."

These findings are not in line with the NamCode (NSX, 2014:3.1), which states that the chairperson of the AC should be appointed collectively by the board with minimal or no involvement by management. Similarly, the IIA stipulates that the appointment of the AC chairperson, as in the case of AC members, should be handled by the board's nomination committee (IIA, 2014).

4.5.2 Composition of the audit committee

During the interviews, it emerged that one SOE had four AC members serving on its AC (D6:12), while two SOEs had five members. These numbers are in line with the minimum of three and maximum of six members recommended by the IIA (2014:4) and the NamCode (2014:3.2). The Institute (2014b:4) clarifies that less than six members is manageable and will allow members to actively participate in discussions. However, some participants reported that the number of members serving on the AC was influenced by the size of the board of the SOE (D2:55; D7:37; D8:51). One participant (D8:52) explained that the size of the AC should not be too big to avoid AC meetings being overcrowded, but should also not be too small so that the AC members would not be intimidated by the management representatives. Accordingly the participant (D8:12) revealed that:

> "… it must just be a practical composition. With independent directors serving on an audit committee or committees of the board, sometimes not all of them can be there and then you struggle with a quorum …"

The views of the participants (D2:55; D7:37; D8:51) are in line with those of Rainsbury *et al.* (2012) that a large AC may prove cumbersome and that the most appropriate size should provide room for AC members to freely participate in discussions.

It was noted from the annual report (D17:3) and AC charter (D12:2) of one of the SOEs that a CEO was among the AC members. Having an executive director among the members of the AC is not supported by the NamCode (NSX, 2014:3.2), which recommends that ACs should be composed completely of independent, non-executive directors. An AC that is composed of independent directors is able to objectively assess the quality of the SOE's financial statements and the adequacy of internal controls (Robinson & Owens-Jackson, 2009; Oshima, 2005:52). Furthermore, a participant (D8:10) revealed that one CEO played a pivotal role in electing board members to serve on the AC of their SOE. The involvement of a CEO in the selection of board members to serve on the AC could compromise the independence of the AC (Beasley *et al.,* 2009; Carcello *et al.,* 2007:1). Nonetheless, to ensure the independence of AC members, one participant (D2:12) revealed that it was a requirement for AC members to declare any conflicts of interest at each meeting of the AC.

Individuals who serve on the AC should be appropriately skilled, experienced and diligent (IIA, 2014). This study revealed that one of the ACs included one member with auditing experience who was a qualified chartered accountant, another with a legal background, one from the banking sector and one from the financial sector (D8:53; LinkedIn, 2018). Accordingly one participant (D10:15) reported that:

> "... but [that person] is a chartered accountant, and other members come from the banking industry. So, for me, they bring quite a good mix of the theoretical knowledge as well as practical knowledge and I think that what's really helpful is he is having seasoned people that bring a perspective, a maturity when looking at that and willing to ask difficult questions in such a way that it actually focuses on the company and not on the issue."

An AC that has members with appropriate skills and experience is able to make judgements related to internal controls (IoDSA, 2009:13-14). In contrast, however, one AC included a member with a legal background, another member with economics, statistics and marketing experience and another with media qualifications (D7:40; LinkedIn, 2018). Although this AC could be well positioned to be aware of matters concerning legal liability threats, it would have been better equipped had there been a member with a financial background to provide a balancing role in monitoring financial reporting (Krishnan *et al.,* 2011). Another AC comprised someone with an engineering, marketing and banking background and did not have any member with experience in finance and auditing (D19:1; LinkedIn, 2018). In this regard, one participant (D3:14) commented as follows:

> "We are sitting with an audit committee that does not have a finance person in it. …The rest of the audit committee members are not finance people."

This type of combination of experience and skills may impair the ability of the AC to effectively challenge and question internal and external auditors' audit findings or reach consensus on complex financial issues since the members are likely to lack sufficient financial knowledge (Ghafran & O'Sullivan, 2013; Robinson & Owens-Jackson, 2009).

It became apparent during the discussion with the AC participants that they were unfamiliar with the skills and experience of fellow members serving on the ACs (D2:16; D7:3; D8:54). The participants could only refer to their own skills and experience. In this regard, one participant (D8:54) made the following remark:

> "In our case I doubt, I think it is only me that has that experience."

The ACs of SOEs can be strengthened and the corporate governance of SOEs can be enhanced if records are maintained to show the skills and experience of the AC members. According to Redman (2009), when the skills and experience of AC members are known, it is easier to identify members who are not knowledgeable about a particular aspect and who may need further development. It also helps to determine how the content and layout of information is to be presented to members. Furthermore, knowing the skills and experience of AC members will ultimately help the SOE to create an AC that meets its specific needs (Armitage, 2011).

It emerged during the interviews that one AC had a member (D10:16) with a financial background that met the requirements of a financial expert. In contrast, another AC (D3:14) did not have a member meeting the requirements of a financial expert. Although a participant (D7:4) revealed that the other AC had a financial expert, the qualifications and experience profile (LinkedIn, 2018) of that individual did not meet the requirements of a financial expert. This member only had qualifications in economics (LinkedIn, 2018). The characteristics of a financial expert were defined in Chapter 2 (section 2.10.2). One AC participant (D7:6) claimed that the absence of a financial expert in the AC was because the governing structure of the SOE did not approve the appointment of a designated financial expert. However, this view contradicted the AC charter (D13:3) of their SOE, which made provision for members with significant, relevant and recent financial experience. An AC without a financial expert, according to Grenier *et al.* (2012), does little to assure stakeholders that the AC members are well-qualified to manage the audit process. A financial expert can assist the AC to evaluate financial statements, improve the quality of financial reporting and focus on internal control of the SOE (Ghafran & O’Sullivan, 2013).

4.5.3 Managing the activities of the audit committee

4.5.3.1 Role of the chairperson of the audit committee

The interviews revealed that the chairpersons of two ACs (D3:18; D10:15) took a leading role in driving the activities of their ACs. This is aligned with literature that suggests that the chairperson of the AC is at the helm of the AC and should steer the AC meetings (Deloitte, 2012). This involves setting the tone and encouraging each member’s participation, thereby strengthening the AC and enhancing the corporate governance of the SOE (Deloitte, 2012). Similarly, one participant (D9:25) expressed that the chairperson of the AC should take the lead in discussions, should be supportive at meetings and should not be 'surprised' when issues were discussed at meetings. This is what the participant (D9:25) had to say:

> "… because he is supposed to lead the meeting, we don't want him to be caught blind-sided. So that he knows what the issues are and also from our side if we feel like management isn't performing as it should or not taking action."

The views of the participant (D9:25) are consistent with Bruynseels *et al.* (2015) insofar as in meeting their responsibilities, the AC chairperson is expected to promote the effective functioning of the committee and to serve as the primary liaison between the AC and the board and management. Likewise, for the AC to be effective and to strengthen the SOE's corporate governance, the AC requires an experienced chairperson with strong leadership skills, good facilitation skills, the ability to foster effective working relations among members and to drive the AC's activities (Leblanc, 2007). Based on the comments of two non-AC participants (D10:15; D9:20), it transpired, however, that one AC chairperson did not play an active role in the activities of the AC. According to the participant (D9:20):

> "… the chairman of the audit committee has resigned and he wasn't active in previous meetings in any case."

The views expressed by these two participants (D9:20; D10:15) about the chairperson's leadership role are in line with Leblanc's (2007) view that without an effective chairperson, the AC is unlikely to make a positive contribution to corporate governance. This is confirmed by Zaman and Sarens (2013), who state that an AC chairperson has an important role to play in leading the AC to make a valid contribution to corporate governance.

With regard to the qualifications of the AC chairpersons, it emerged that one AC chairperson was an engineer by profession, and at the time of the interview, had been leading the AC for more than six years (D3:28; D2:11). Another AC chairperson (D8:55) was a chartered accountant by profession, with more than 20 years' experience, including being a managing partner at one of the Big Four accounting firms. This individual also had prior experience as a chairperson of an AC and as a member of an AC. Another AC chairperson (D7:29) had a qualification in law and had also been leading their AC for more than six years. Bruynseels *et al.* (2015:4) maintain that an AC chairperson with financial and/or accounting expertise, compared to an AC chairperson with engineering or law qualifications, would make a more meaningful contribution to the quality of the financial reporting process. Such expertise provides the chairperson with good leadership skills to oversee the AC agenda and to ensure an appropriate mix of financial and non-financial skills among AC members. This view is also supported by Abernathy, Beyer, Masli and Stefaniak (2014) who note that an AC chairperson with accounting expertise contributes to more timely financial reporting when compared to a chairperson without a financial qualification. In addition, Abernathy *et al.* (2014) suggest that a chairperson with an accounting qualification would strengthen the AC and enhance the SOE's corporate governance. In fact, the AC chairperson should also understand financial reporting issues to direct the AC's focus to high-risk areas affecting financial reporting, risk management and internal controls (Turley & Zaman, 2007).

4.5.3.2 Resources of the audit committee

The study confirmed that the ACs of the selected SOEs had resources in the form of financial and management support at their disposal to effectively carry out their activities. One non-AC participant (D3:17) indicated that their AC had an unlimited budget with which the AC could execute its activities. Similarly, another AC participant (D8:44) indicated that all activities such as sitting allowances, workshops and conferences were adequately catered for under the directors' fees budget line item. The findings of the study about the financial and management support of the ACs are confirmed by Alleyne *et al.* (2006:570) who note that the AC should have enough resources at its disposal to effectively fulfil its oversight responsibilities.

4.5.3.3 Role of the audit committee in the activities of the internal audit function

ACs play an important role in the effectiveness of the internal audit function by ensuring the adequacy of scope for internal audit activities and reviewing internal audit programmes. This is because the internal audit function can be useful to the AC in performing its duties and can enhance its effectiveness (Yasin & Nelson, 2012). In particular, two non-AC participants (D1:7; D6:3) indicated that the process to appoint the head of the internal audit function was handled by the management of their respective SOEs. Furthermore, two non-AC participants (D4:11; D6:3) revealed that the competency, qualification and remuneration criteria for the position of head of internal audit are pre-determined, just like any other position in the SOE, and are reviewed by the human resources board committee, with no involvement of the AC. This finding is not supported by the NamCode (NSX, 2014:3.7:7.2) which stipulates that the AC should be responsible for the appointment, performance assessment and dismissal of the head of internal audit. One non-AC participant (D9:4), however, indicated that their AC recommended the appointment of co-sourced or outsourced internal auditors to the board for approval, which is in agreement with the recommendation of the NamCode (NSX, 2014:3.7.7.2), which states that ACs should be involved in the staffing of the head of the internal audit function. Co-sourcing internal auditors refers to a combination of internal audit responsibilities using the resources of both internal and external service providers (Deloitte, 2011). Outsourcing internal auditors is when the activities of the internal audit function of a SOE are entirely outsourced to an external service provider (Deloitte, 2011). Further studies should be done to establish the effectiveness of co-sourced internal audit functions in Namibian SOEs. However, participants (D9:4; D9:6) indicated that the qualifications and competencies of members of the team of an outsourced internal audit company are considered in the evaluation report which is reviewed and recommended by the AC for approval by the board, which is in agreement with the recommendations of the NamCode (NSX, 2014:3.7.7.2).

The AC of the participating SOEs (D1:11; D8:23; D9:10) reviewed and approved the internal audit plans including the budget of the internal audit function prior to the commencement of activities by the internal auditors. One non-AC participant (D9:10) remarked:

> "… on an annual basis we [internal audit function] put together an audit plan with a budget attached to it, which is a proposal; which they [AC] need to review and approve or recommend for approval to the board."

Another non-AC participant (D1:11) observed the following:

> "Once we [internal audit function] are done with that process, then we sell it to management then we finally take it to the audit committee for approval. And audit committee also again have the right to add or omit some of the audits. But whatever now the final product is we take it as an approved internal audit plan by the audit committee."

These findings (D1:11; D9:10) of AC involvement in the review of the internal audit plans are supported by the NamCode (NSX, 2014:3.7:7.3), which states that the AC should approve the internal audit plan as well as oversee the staffing of the internal audit function. This is because the internal audit function can strengthen the AC to effectively discharge its responsibilities.

Three non-AC participants (D1:10; D4:5; D9:8) indicated that their ACs approved the internal audit charter of their SOEs. In particular, one non-AC participant (D9:8) revealed that their AC had recently participated in the approval of the internal audit function of the SOE. The AC approving the internal audit charter is in agreement with the International Standards for the Professional Practice of Internal Auditing which prescribe that the AC should approve the internal audit charter (IIA, 2017:1110).

One AC participant (D8:57) revealed that their AC reviewed the internal audit reports. Another AC participant (D2:22), however, revealed that they had not seen a report from the internal auditors in a long time, despite the AC approving the internal audit plans. The review of the internal audit reports by the AC is in line with the IIA (2017), which recommends that together with management and the CAE, the AC should review the activities of the internal audit function. However, the finding that the AC had not seen the internal audit report for a long time would do little to ensure the effectiveness of the AC in fulfilling its role.

ACs often rely on the work of internal auditors to carry out their duties. One AC participant (D2:17) revealed that their AC relied on the work of the internal auditors as a tool to assess the quality of internal control in the SOE. Similarly, another non-AC participant (D6:10) commented:

> "… would rely on their [internal auditors] reports because that is how they [AC] keep check whether management is implementing all the recommendations of the internal auditors. These are the only independent people who can verify that."

The involvement of the AC in the review of the internal audit reports is corroborated by Yasin and Nelson (2012), who state that appreciating the functions and responsibilities of the internal audit function could strengthen its role, making it a useful resource for the AC in fulfilling its responsibilities.

Two non-AC participants (D1:17; D6:9) revealed that they had met in private with the AC on numerous occasions in their capacity as internal auditors. One AC participant (D8:26) indicated that they had initiated some meetings where the AC met in private with the internal auditors. Such meetings are encouraged by Alzeban and Sawan (2015) and should be used to discuss confidential matters. Similarly, the NamCode (NSX, 2014) recommends that the AC should meet with internal auditors in private without management being present. In contrast, however, one non-AC participant revealed that the chairperson of their AC was never available to meet in private with internal auditors (D9:24):

> "But like I mentioned already we do not meet enough [with] of the chair [of the AC] on his own, because there has been a mix up there …"

4.5.3.4 Role of the audit committee in the activities of the finance function

From the interviews, it transpired that the ACs expected the finance departments to make presentations and provide information for discussion at the AC meetings (D3:13; D5:12; D10:11). One non-AC participant (D5:12; D5:18) indicated that the AC expected them to make presentations on the finances, budgets and budgetary reviews, financial overview and financial position and investments of the SOE at each quarterly AC meeting. Another non-AC participant (D10:2) stated that the financial performance of the SOE was a standing issue at each meeting of the AC, as was information technology and the business plan of the SOE (D10:20). As stated by one participant (D10:11), among other things also expected from finance departments and specifically from the CFO, was reporting on the funding strategies in place to ensure that the SOE was financially sound and whether the strategies were updated. The CFO should also highlight issues of importance regarding the SOE (D10:11).

With regard to the accounting policies, two non-AC participants revealed that the AC reviewed and recommended the accounting policies affecting the SOE to the board for approval (D3:8; D10:6). The AC expects the information from the finance department to be in the standard reporting format and to be accompanied by supporting documentation (D2:58). However, some ACs relied only on what was presented by management (D3:29). The above comments by the participants are in agreement with Oshima's (2005) views that the AC is expected to have close oversight of the activities associated with financial reporting and internal control to uphold the integrity of the SOE. However, for ACs to be effective and enhance the SOE's corporate governance, they are expected to have a strong influence on the SOE's approach to financial reporting as opposed to simply relying only on what was presented by management (Turley & Zaman, 2004).

4.5.3.5 Role of the audit committee in the activities of the external auditors

ACs have the potential to improve the effectiveness of the external audit by overseeing the quality of audits (Yasin & Nelson, 2012). One participant (D2:3; D2:24) reported that their AC reviewed and recommended management's proposal to appoint external auditors to the board for approval. Another AC participant (D7:10) affirmed that their AC also participated in an evaluation process to appoint an external auditor. However, these two participants (D2:25; D7:13) felt that they did not have much influence on who should be included in the audit team and the remuneration of the external auditors. They merely accepted the staffing and external auditors remuneration contained in the auditors' proposals for appointment as external auditors for the SOE. The fact that the views of these participants (D2:25; D7:13) had little influence on the staffing and remuneration of external auditors could be attributed to the lack of financial expertise on the committee, as reported in section 4.5.2. It could equally be the result of having chairpersons with limited experience or qualifications in finance.

One AC participant (D8:27) indicated that their AC was more concerned with the quality of work done than the fees charged by the external auditors and expected that the external auditors would be professional in executing their duties. This participant's

(D8:27) views are supported by Golalipour (2016) and Bruynseels *et al.* (2015), who maintain that higher quality external audits can lead to external auditors charging higher fees.

Two AC participants (D2:59; D8:25) indicated that they had reviewed the scope and work plan of the external auditors before they started with work every year. The views expressed by these participants concur with Oshima (2005:50), who suggests that ACs review the work plan of the external auditors. Furthermore, it places the AC in a better position to recommend the annual financial statements for approval by the board (NSX, 2014).

One AC participant showed full confidence in the independence of the external auditors (D2:60), stating that:

> "There is no way that the external auditors cannot be independent."

The AC should monitor and report on the external auditors' independence and objectivity, including defining a policy for board approval addressing the nature, extent and terms under which the external auditors may perform non-audit services (NSX, 2014:3.9.3).

One AC participant (D7:33) revealed that their AC did meet with the external auditors in private while another participant (D2:61; D2:72) reported that, to the contrary, their AC did not meet in private with external auditors. ACs should, where necessary, meet in private with the external auditors as part of fulfilling their oversight duties (Lisic *et al.,* 2014; Oshima, 2005:50). These views also concur with Golalipour (2016), who recommends that ACs meet in private with external auditors to discuss matters that the AC believe should be discussed in private.

One participant (D8:67) revealed that their AC used external auditors to verify the work of the internal auditors when it was unable to obtain a satisfactory answer from the internal auditors. This finding is construed by the researcher to strengthen the AC's effectiveness and contribute to enhancing a SOE's corporate governance.

4.5.3.6 Role of the audit committee in compliance with legal and regulatory requirements

Two non-AC participants (D3:10; D10:9) reported that a compliance report from the legal department or company secretary was among the items that appeared on the agenda of every AC meeting (D3:10; 10:9). In particular, this is what one participant (D3:10) had to say:

> "As far as the quarterly audit and risk meeting is concerned, the company secretary provides a compliance matrix that shows all the relevant regulations and noting where like what is [the SOE's] status, is it complying or any deviations on that. So, that is reported at least quarterly."

The views of these two non-AC participants (D3:10; D10:9) are in line with the NamCode (NSX, 2014:3.4:4.4) which provides that the AC should be informed about any monitoring or enforcement actions against the SOE. One participant, however, had a different view, stating that the AC relied on management to be truthful in disclosing the SOE's compliance with legal and regulatory requirements in their report (D5:11). Furthermore, the participant (D5:23) explained that the AC relied on the reports of the internal auditors to point out issues of non-compliance with legal and regulatory requirements in their reports. Although the ACs may rely on management's honesty to report on compliance and internal auditor reports, the AC would be more effective if it was to review and satisfy itself that the SOE indeed had an effective system of monitoring compliance in place and that compliance matters were on the agenda for every AC meeting (Turley & Zaman, 2004).

4.5.3.7 Role of the audit committee in risk management

The study revealed that the participating SOEs' ACs considered risk management within the SOEs. Indeed, one AC participant (D8:28) indicated that risk management was a standing item for discussion at AC meetings. Furthermore, the participant (D8:28) indicated that the AC relied on a designated risk management unit within the SOE to review risk issues. In this regard, the participant (D8:28) reported that:

> "… we also have a head of risk, who would attend every meeting and report to us on all the different risk matters."

Another AC participant (D2:27) revealed that their AC assessed risk management by reviewing the risk logs maintained by the internal audit function. The AC also relied on internal audit to carry out risk management activities and to report, through internal audit reports, on how the specific risks highlighted in the risk logs were being managed within the SOE. Furthermore, one AC participant (D7:14) revealed that the AC discussed issues related to risk management during AC meetings but could not confirm whether the SOE has a dedicated unit that handled risk management. The revelations by the participants (D8:28; D2:27; D7:14) conform to the provision of the NamCode that the AC should have an understanding and have an adequate level of comfort regarding the SOE's process for identifying, managing and reporting risk (NSX, 2014:3.8:8.6). This is confirmed by Oshima (2005) who notes that the AC should discuss programmes, including the minimisation of present and future litigation risks, policies and procedures addressing risk with management (Oshima, 2005). It was observed that some participating SOEs used the internal audit function while others did not have a dedicated unit within the SOEs to manage risk; this could be a subject of a future study at Namibian SOEs. Further research would be required to establish whether risk management should be carried out by the internal audit function or by a risk management unit.

4.5.3.8 Audit committee meetings

This study revealed that the ACs of the participating SOEs held a minimum of four scheduled meetings during the financial year (D2:32; D7:16; D8:33). In addition to these meetings, the participants (D2:22; D7:16; D8:33) reported that the ACs also met on an *ad hoc* basis when necessary. These findings are consistent with Bromilow and Keller (2011), who state that ACs should hold meetings at least four times a year and should also hold *ad hoc* meetings in addition to scheduled meetings. Likewise, the findings are consistent with the NamCode (NSX, 2014:3.1:1.7), which stipulates that the AC should meet at least twice a year and when necessary.

Bromilow and Keller (2011) suggest that ACs require adequate and ongoing administrative assistance to effectively carry out their activities. The participants (D2:52;

D7:17; D8:29) confirmed that their ACs enjoyed the support of management in scheduling meetings, drafting agendas and preparing board packs through the company secretary or legal department. In particular, one participant (D7:18) reported that:

> "... we have got electronic devices as well like iPads and most of the time it would be the document converted into pdf, portable document format and it's easy to read and our reports would want just high level."

Likewise, another participant (D8:48) reported that:

> "... we have very competent company secretaries and in time you build up a normal agenda for such a meeting and they would then prepare all those."

However, two of the AC participants reported that they had little or no involvement in the setting of the agenda for the AC meetings (D7:39; D8:49). Although the findings suggest that ACs had support from management, the fact that some AC chairpersons were not involved in setting the agenda is not in line with the recommendations of Bromilow and Keller (2011) and Deloitte (2012), who propose that the AC, and particularly the AC chairperson, should be satisfied that all important issues are covered in the agenda before meetings start. According Beasley *et al.* (2009), when management takes control of the AC agenda, there is a risk that the AC may not obtain the right information to fulfil its responsibilities. Two participants (D2:62; D8:5) also revealed that the ACs did not operate with annual work plans and relied mostly on the reports presented by management to set the agenda and discussions during the AC meetings. This finding is not in line with the NamCode (NSX, 2014:3.1:3.6), which specifies that ACs should operate according to annual work plans that address all AC responsibilities. All AC participants (D2:56; D7:34; D8:35) were in agreement that the meeting agendas and minutes of the previous AC meetings were circulated in time to allow them to provide quality input at AC meetings. One participant (D7:26) remarked that:

> "Especially the audit area is the biggest part of the board pack so you need more time to read, you need more time to make comments."

This finding is consistent with Bromilow and Keller's (2011) view, which states that AC members should be well-prepared in order to make meaningful contributions during meetings. This can be achieved by circulating important documents well ahead of meetings.

It was revealed during the interviews with participants (D2:33; D7:17; D8:34) that CEOs, CAEs or outsourced internal auditors and CFOs were among the people who regularly attended AC meetings. In addition, one of the AC participants (D8.28) indicated that the head of the risk management unit was required to attend meetings of the AC. This is in agreement with Deloitte (2012), which recommends that the CEO, CFO, head of internal audit, the company secretary and the head of risk management or compliance officer should regularly attend AC meetings. The external auditors need only attend AC meetings when required, to respond to questions from AC members about concerns regarding management, issues concerning finance and internal control, resources and the external auditors.

4.5.3.9 Training and development of audit committee members

The study revealed that ACs did not have induction programmes tailor-made for ACs and members were only inducted at the board level (D2:64; D7:22; D8:39). Two participants (D8:61; D9:17) indicated that training was often only proposed for the board of a SOE and not necessarily for the AC. In particular, one non-AC participant (D6:7) indicated that the AC did not drive the process to develop and train AC members. Instead, it relied on management to identify and propose training. In addition, the AC participants (D2:38; D7:22; D8:70) reported that their ACs did not have a programme in place to develop the AC members' skills to enable them to carry out their work effectively. One participant (D7:22) commented:

> "I have not gone to any training for now that I can say and our term ends 30 December … I have not gone to any, I have only gone to one training but not any audit [AC] function training."

These findings are not consistent with Leblanc's (2007) view that ACs should have orientation programmes that are comprehensive, formal, tailor-made and well-fitted to the environment and industry in which the SOE is operating. In support, Deloitte (2012) is of the view that new AC members should specifically be introduced and familiarised with control processes and related risks affecting financial reporting before starting with their AC activities. Furthermore, Deloitte (2012) maintains that AC members should have technical knowledge before being appointed and that this knowledge should be further developed through ongoing training. This could take the form of regular seminars or refresher workshops. Such training may result in effective ACs which enhance the SOEs' corporate governance.

4.5.3.10 Principles guiding the activities of the audit committee

One AC participant (D8:63) revealed that their AC adopted the principles of King III and the NamCode to guide their operations and reporting on the activities of the AC. This was also confirmed in the participating SOE's annual reports (D17:1). Similarly, another AC participant (D7:3) indicated that their AC did not officially adopt a specific code of good corporate governance, however, they followed and considered the King reports and the NamCode. Although one participant (D8:65) considered that the NamCode and King reports should be tailor-made to fit the business of a specific SOE and should not be 'a one size fits all', the NamCode (NSX, 2014:3.10:10.4) suggests that all government institutions, including SOEs, should comply with the minimum criteria established in the NamCode. These findings (D8:63; D17:1) demonstrate the commitment of some of the ACs to strengthening their role.

4.5.4 Performance assessment of the audit committee

The AC participants (D2:39; D7:23; D8:40) revealed that there were no specific performance assessments in place, either for the ACs collectively or for members individually. In this regard, one participant (D2:71) reported that:

> "It is not done. It is not done and yes, there can be a lot of debate into how it should be done … It should be done but it is not done."

Another participant (D8:40) similarly indicated that their AC's performance is only measured at the board level and not at the AC level while *a*nother participant (D7:23) reiterated that:

> "I have not seen whether the board audit committee performance is measured on its own."

The views expressed by the participants (D2:71; D7:23; D8:40) are not in line with Bromilow and Keller's (2011) recommendation that constant assessment of ACs and AC members is necessary to establish whether the committee is meeting its oversight responsibilities. Furthermore, the views of the participants are not consistent with the NamCode (NSX, 2014), which requires regular and timely appraisal of the AC chairperson and individual directors. This would result in improved performance of the AC, could be used for future training needs or for explaining why a re-appointment may or may not be appropriate.

This study further revealed that there were no specific measures taken against non-performing members. In particular, one participant (D2:68) reported that:

> "Currently, no steps are taken for [non-performing members]. But I don't think it is necessary to take steps if people are doing their work."

Another participant (D8:71) echoed that:

> "That's a tough one. It's not always easy but it should be there. Yes, unfortunately in our case it is a personal thing. It is managed normally by the chairman of the board should someone not really perform."

These findings could be attributed to ACs not having assessments in place to evaluate the performance of the chairperson or individual members. Bromilow and Keller (2011) caution that failing to take action against non-performing AC members will lead to an AC not effectively conducting its activities, as ACs can only be effective if all the AC members are actively participating in the work of the AC.

The study also revealed that the ACs of the participating SOEs did not have formal processes in place to benchmark activities with best practices (D2:44; D8:66). In this regard one participant (D8:66) conveyed that:

> "Unfortunately, not. I think individually we do it, because I am involved in a number of private big corporations and companies. So, I do it but it's not a formalised review process."

Similarly, another participant (D2:69) recounted that:

> "Not directly, there is nothing formal. We try to look at what is happening at others, as I explained I am involved now coincidentally with one SME [small or medium entity] and this is another one. So, you actually to a certain extent benchmark them against each other."

These findings (D2:44; D8:66) are not consistent with Bromilow and Keller's (2011) recommendation, that benchmarking AC activities against leading practices will help the AC to understand alternative and more efficient approaches to carry out its oversight responsibilities.

4.5.5 Reporting of the audit committee

By reviewing the annual reports of the SOEs, it became apparent that one of the annual reports (D17) included a comprehensive AC report. This document included i) the names of the AC members, ii) a summary of the main activities undertaken during the year, iii) the AC's involvement in the appointment of the external auditors and ensuring their independence, iv) the meetings held during the financial year, v) attendance of meetings by each member of the AC and vi) specifications as to who, in addition to AC members, could attend the meetings of the AC (D17:2). This finding is in line with the NamCode (NSX, 2014:3.10), which confirms that the AC should report to the board and shareholders on how it discharged its responsibilities, including those assigned during the financial year.

In contrast, the annual reports of the other two SOEs only included brief statements about the responsibilities of their ACs, without disclosing the names of the members or the activities that had been undertaken during the specific financial year (D19; D15). These findings (D19; D15) are contrary to the principles of the NamCode (NSX, 2014:3.10:10.3) which requires that the minimum information to be reported by ACs should include the names and qualifications of all AC members, a statement on whether the AC had adopted a formal charter, a statement on whether the AC had considered the internal audit charter and the number of AC meetings held during the year. The AC report should also describe how the AC had carried out its duties in accordance with the charter and also give information on the independence of the AC (Bromilow & Keller, 2011).

4.6 CONCLUSION

This chapter's main purpose was to present and discuss the study findings related to the AC practices in three Namibian SOEs. This was in order to identify factors contributing to the effectiveness of these ACs to provide sound corporate governance. The findings were obtained through semi-structured interviews with participants from selected SOEs, comprising both AC members and non-AC members. In addition, the findings were corroborated through a review of the SOEs' annual reports and AC charters, while the researcher's field notes were also used to support findings.

The chapter discussed the interpretation and reporting style, followed by the participants' profile and thereafter the context of the interviews. The rest of the chapter considered the empirical findings within the context of the effectiveness of ACs in enhancing SOEs' corporate governance. The findings were examined in relation to the mandate of the AC, the composition of the AC, management of the activities of the AC, performance assessments of the AC and its members and reporting by the AC.

The study revealed that some of the ACs functioned with approved AC charters, however, the lack of commitment by some ACs to regularly review their charters could mean that the AC omit necessary legal or regulatory changes, which could impede the effectiveness of the ACs. The fact that the CEOs and management of some SOEs were involved in the nomination of AC members could undermine the independence of the AC which could, in turn, reduce its effectiveness.

The findings further revealed that the ACs comprised four or five members which was well in line with prescribed numbers. One CEO was found to be a member of the AC. According to corporate governance best practice, the fact that the CEO is an executive director and because of the associated power relationship, the AC would be less able to objectively assess the quality of the SOE's financial statements and adequacy of internal controls.

It was also revealed by the study that some of the ACs did not include financial experts, which put the AC at a disadvantage when evaluating financial statements and improving the reporting of the SOE. The study also revealed that AC members were not conversant with the skills and experience of the other members serving on the AC. AC members not having the required skills and experience has the potential to weaken the AC's ability to discharge its responsibilities. When the skills and experience of AC members are known, it is easier to identify members who need further development and to determine how the content and layout of information should be presented to AC members. In this manner, the SOEs would have ACs that are effective in enhancing the governance of SOEs.

This study found that some of the chairpersons of ACs took a leading role in driving the activities of their ACs, as suggested by literature, and had appropriate finance qualifications or expertise to provide sound leadership skills to oversee the activities of the AC. It also emerged that some of the AC chairpersons did not have an appropriate finance qualification or financial accounting expertise, which would have ensured an appropriate mix of financial and non-financial skills among AC members. The study further revealed that participating ACs enjoyed resources from their SOEs, both in terms of financial and management support to carry out their activities. However, the adequacy of resources is an area for future research.

The findings revealed that only some of the ACs were involved in the staffing of the heads of the internal audit function, including recommending the appointment of the co-sourced/outsourced internal auditors for board approval. The fact that some ACs did not participate in this process could undermine the effectiveness of the AC as ACs rely on the internal audit function to review internal controls. Some of the ACs participated in the approval of the internal audit charter and considered and approved the internal audit plan, including the budget for the internal audit function, prior to the commencement of activities by the internal auditors. Although some ACs reviewed the reports of the internal auditors, others have not seen the internal auditors' reports. It was found that some ACs relied on the work of the internal auditors as a tool to increase their confidence about the strength of the internal controls of the SOE. Two ACs met with the internal auditors in private to discuss issues that should be discussed confidentially, while one AC was unable to meet in private with the internal auditors.

As revealed by the findings of this study, the ACs' expectation from the finance departments to make presentations and provide information for discussions at AC meetings about the funding strategies in place, may strengthen the AC to ensure that the SOEs were financially sound and their strategies were updated. In line with literature, the findings revealed that the ACs reviewed management's proposals to appoint external auditors and recommended these to the board for approval. In addition, some of the ACs considered the independence of the external auditors.

Some of the ACs of the participating SOEs considered compliance with applicable laws and regulations and required a compliance report from the legal department or company secretary to be among the items always included in the agenda of the AC. However, other ACs relied on management to be truthful in disclosing the compliance with legal and regulatory requirements while others relied on the reports of the internal auditors to identify non-compliance within their SOEs.

Risk management was also considered by the participating ACs. In particular, some ACs had risk management among the items that were regularly discussed at meetings. Other ACs reviewed the risk logs of their SOE. In addition, some ACs relied on the internal auditors to carry out risk management activities and to report through their internal audit reports on how the specific risks highlighted in the risk logs had been managed within the SOE. Other ACs relied on the risk management unit at the SOE to review the risk issues. The question of whether risk management should be carried out by the internal audit function or by a risk management unit falls outside the scope of this study.

The ACs did not have a specified annual work plan and they relied mostly on the reports presented by management to dictate the agenda and discussion at the AC meetings. The ACs also did not have a specific induction programme for new members, nor did they have a programme to develop the AC members' skills to carry out their work more effectively. The ACs did little to drive the process of training AC members, but such training often came as proposals from management.

The study also revealed that some of the ACs in this study adopted the principles of the King III report and the NamCode in guiding their operations and reporting on their activities. However, some of the ACs had not adopted a specific code of good corporate governance. As shown by the study findings, there seems to be a lack of formal and specific performance assessment, both collectively for the ACs and individually for AC members. This may weaken the role of ACs as it would be difficult establish whether the AC was meeting its oversight responsibilities. It would also be difficult to note individual members' performance towards the effectiveness of the AC. Moreover, the results revealed that there were no processes in place to take action against non-performing members, which could lead to ACs not effectively carrying out their responsibilities, thereby weakening the contribution of the AC to enhancing corporate governance at SOEs.

The findings show that while two of the SOEs' annual reports only included brief statements about the responsibilities of the ACs, the third SOE's annual report included a comprehensive AC report with not only a summary of the main activities undertaken by the AC during the year, but also the names of the AC members and their attendance at meetings. This demonstrates ACs' effectiveness in enhancing SOEs' corporate governance.

The next chapter will present an overview of the study, conclusions and recommendations for future research based on the findings of this chapter.

CHAPTER 5

CONCLUSION

5.1 INTRODUCTION

The previous chapter presented the analysis and discussion of the research findings. This chapter will present the conclusion of the study based on the research objective, methodology and empirical findings. The chapter will start with an overview of the research, reflecting on the objective of the study, it will then summarise the main points of the literature review and the research methodology. Conclusions on the findings will then be drawn to identify factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. Thereafter, the chapter will consider the limitations of the study, make suggestions for future research and indicate the importance of the study.

5.2 STUDY OVERVIEW

Chapter 1 provided an introduction to the research topic, highlighting the importance of corporate governance and introducing the AC as an important element of corporate governance. If effective, the AC can ensure the integrity of annual reports and internal financial controls and can manage financial risks. The chapter states the objective of this study as follows: The study seeks to identify factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. Chapter 1 also addressed the delineation of the study, touched upon the research methodology and ethical considerations and summarised the study layout.

Chapter 2 started by providing an overview of the public sector and SOEs in Namibia, followed by a discussion of corporate governance structure. The chapter continued with the origin and development of ACs followed by a definition for the concept AC. The governance purpose and responsibilities of ACs were described and thereafter, the benefits of an effective AC were indicated, as well as the changing expectations of ACs. Finally, the chapter listed the factors that influence the effectiveness of ACs within the context of SOEs, namely, the mandate, composition, management of activities, performance assessment and reporting.

Chapter 3 discussed the research approach and design adopted in the study. A qualitative descriptive case study research design was used to identify factors contributing to the effectiveness of the ACs in SOEs. The chapter also discussed the selection of the cases, which was done purposively, targeting a homogenous sub-group of SOEs in order to best understand the phenomenon of ACs. The empirical data was collected primarily through interviews with participants, who comprised AC chairpersons, CFOs, CAEs and one HR representative. The data was also collected through the review of relevant SOE documents (annual reports and ACs charters). The chapter then described the data analysis, which was conducted using an inductive process of reasoning which allowed the researcher to make observations and draw conclusions. The chapter ended with a discussion of the trustworthiness of the study as well as the ethical considerations.

Chapter 4 began by discussing the reporting style of the data. Once the interview audio files were transcribed, the data was analysed and coded using Atlas.ti. The emergent categories and themes formed the basis upon which the empirical findings of the study were presented.

The next section will discuss the conclusions on the factors contributing to the effectiveness of the ACs of three Namibian SOEs to provide sound corporate governance. The discussion is based on the findings presented in Chapter 4.

5.3 CONCLUSIONS ON FACTORS CONTRIBUTING TO THE EFFECTIVENESS OF THE AUDIT COMMITTEES OF THREE NAMIBIAN STATE OWNED ENTERPRISES

The study conclusions will be presented within the context of the themes that emerged from the study, namely, the mandate of the AC, the composition of the AC, managing the activities of the AC, performance assessments of the AC and its members and the reporting of the AC.

5.3.1 Mandate of the audit committee

The ACs of some of the SOEs operated with AC charters which were approved by the board. This charter provides an institutional mandate to the ACs and also informs the agenda and work plan, thereby improving the effectiveness of the ACs. Some AC members, however, failed to demonstrate knowledge of their ACs' charters, which is a sign of weakness in an AC because charters provide clear and measurable strategic objectives to be achieved within a defined period. Another finding was that the AC charters were not reviewed on a yearly basis, which suggests that the charters were not updated and may have omitted legal or regulatory changes.

When appointing members to serve on the AC, some ACs did not have specific requirements, which could negatively affect the operations of the AC. In addition, members were not appointed by a nomination committee of the board, which could result in the committees not having the required skills to operate effectively. It was also noted that some of the CEOs played a role in the appointments, which could undermine the independence of the AC. The appointment of members should be the sole preserve of a nomination committee of the board, with minimal involvement by management or the CEO.

5.3.2 Composition of the audit committee

The number of members serving on the ACs ranged from four to five which is well acceptable, as literature suggests a minimum of three and a maximum of six. However, it was noted that some of the participating SOEs had CEOs serving as members which can weaken the ability of the AC to objectively assess the quality of financial statements and the adequacy of internal controls. The ACs should comprise solely independent, non-executive directors; CEOs should regularly attend the meetings of ACs to serve as an information resource by answering questions or clarifying any issues that may arise.

Some AC members did not have the appropriate accounting or auditing background nor did they have members who could be deemed financial experts. This can undermine the AC's ability to challenge and question internal and external auditors' findings or to reach consensus on complex financial issues. An AC composed of members with appropriate experience in finance would be able to make informed judgements related to internal controls and could monitor the financial reporting of the SOE. Furthermore, a financial expert would contribute to the strength of the AC by assisting it to evaluate financial statements, improve the quality of financial reporting and focus on internal control of the SOE.

The AC members in this study were unaware of the mix of skills and experience possessed by their fellow members. This implies that the members needing further development are not identified. Having a sound grasp of the skills and experience of AC members will gear the SOE towards creating an effective AC that is able to offer independent oversight of financial reporting processes and internal control.

5.3.3 Managing the activities of the audit committee

Experience, strong leadership skills, good facilitation skills and the ability to foster effective working relations among AC members enabled some AC chairpersons to take a leading role in driving the activities of their ACs. These qualities contributed to the ACs' effectiveness insofar as the AC chairperson would be able to set the tone and encourage full participation by members. However, some of the chairpersons played only a minor role in the affairs of the committee, thereby diluting the effectiveness of the AC.

Some AC chairpersons did not possess the appropriate financial or accounting qualifications, which could otherwise have strengthened the AC by ensuring an appropriate mix of financial and non-financial skills among its members. An AC chairperson with an appropriate financial qualification contributes to timely financial reporting and directing the AC's focus to high-risk areas affecting financial reporting, risk management and internal controls.

The ACs had resources in the form of financial and management support at their disposal to effectively carry out their activities. Adequate financial and management support enables the AC to effectively fulfil its oversight responsibilities.

It was noted that some of the ACs did not participate in the process of appointing the head of the internal audit function, including setting the competency, qualification and remuneration criteria for the head of the internal audit function, as this process was handled by the management of the SOE. ACs would be more effective if they were responsible for the appointment, performance assessment and dismissal of the head of the internal audit function, including a co-sourced or outsourced internal audit function.

The ACs approved the charters of the internal audit function and reviewed and approved the internal audit plans, including the yearly budget, prior to the commencement of activities by the internal auditors. The ACs that reviewed internal audit reports placed reliance on the work of this function in assessing the quality of the SOEs' internal controls. There were, however, some ACs which did not receive any internal audit reports. It is suggested that reviewing the work of the internal audit function would inform the AC whether material risks had been identified and were being appropriately mitigated. It would also strengthen the internal audit function, which is an important resource in fulfilling the AC's responsibilities. There were some ACs that have met in private with internal auditors to discuss matters that should be discussed confidentially.

Some ACs ensure that the SOE's financial performance was a standing issue at each AC meeting. This made provision for the CFO to make presentations to the AC about the finances, budgets and budgetary reviews, financial overview and financial position and investments of the SOE at each quarterly AC meeting. Some ACs also reviewed the accounting policies affecting the SOE and recommended them to the board for approval. However, some ACs relied solely on what was presented by the SOE's management and had no specific expectations of the management, which can be construed as a sign of inefficiency. For ACs to be effective, they would be expected to have a strong influence on the SOEs' approach to financial reporting as opposed to simply relying only on what was presented by management.

The ACs in this study recommended the appointment of external auditors for approval, which is a positive sign. Others, however, had little say as to who should be included in the audit team or the remuneration of the external auditors. This could be explained by the finding that some ACs did not include financial experts. Some ACs reviewed the work plan of the external auditors before the external auditors commenced work, which placed the ACs in a better position to recommend the annual financial statements for approval by the board. Some ACs met in private with the external auditors to discuss matters that should be discussed confidentially. This allows the AC the freedom to have frank discussions with external auditors without management being present.

Some ACs require that the compliance report from the legal department or company secretary be included in the agenda of every AC meeting, which ensures the AC is informed about any monitoring or enforcement actions against the SOE. Some ACs, however, relied on the SOEs' management being truthful in disclosing the compliance of the SOE to legal and regulatory requirements in their reports. The AC would be better advised to satisfy itself that the SOE had an effective system of monitoring compliance and when matters for compliance are among the agenda points to be discussed at every AC meeting.

The study revealed that ACs considered the SOEs' risk management as a standing item on the agenda of some of the AC meetings while some ACs reviewed the risk logs of their SOE. This consideration of risk management by the ACs gives the ACs an understanding and level of comfort as to the SOEs' process of identifying, managing and reporting on risk. It also gives the ACs an opportunity to discuss with management the policies and procedures addressing the risks identified.

The ACs held a minimum of four meetings a year, which is the recommended number of meetings for an effective AC. In addition, some ACs held *ad hoc* meetings as necessary. ACs enjoyed support from management to schedule meetings, draft agendas and prepare AC packs through either the company secretary or legal department of the SOE. This administrative assistance from the management of the SOE enabled the AC to effectively carry out its duties.

The findings suggested that some of the AC members, including the AC chairpersons, had little or no involvement in setting the agenda for the meetings which means that some important issues could be bypassed. It was revealed that some ACs operated without an annual work plan and relied on management to take the lead in setting the agendas and discussions of the AC meetings. The study suggests that ACs operate most effectively if they follow an annual work plan that addresses all AC responsibilities.

There were no specific induction programmes tailor-made for AC members. Moreover, some ACs did not drive the process to train and develop members to carry out their duties effectively. The findings suggest that the ACs instead relied on management to identify and propose training for the ACs. The study suggests that to be effective, ACs should prepare orientation programmes for both old and new AC members which are comprehensive, formal, tailor-made and well-suited to the environment and industry in which the SOE operates. In addition, AC members' technical knowledge should be further developed through ongoing training which may include regular seminars and refresher courses.

Some of the ACs had adopted the principles of King III and the NamCode in guiding their operations and when reporting on AC activities. This demonstrates the commitment of these ACs to enhancing the SOE's corporate governance.

5.3.4 Performance assessment of the audit committee

The findings revealed that the ACs did not have specific performance assessments in place for the ACs, either collectively or individually. In addition, the ACs did not have specific measures to take action against non-performing AC members. This could weaken the AC's ability to establish whether it was meeting its oversight responsibilities. The study findings suggest that regular and timely appraisal of the AC chairperson and individual members would improve the performance of the AC. This would also provide the basis for future training needs or for explaining why a re-appointment may or may not be appropriate. If ACs put in place measures to take action against non-performing members, it will encourage active participation of members in the activities of the AC.

5.3.5 Reporting of the audit committee

The findings revealed that the activities of some of the ACs had been adequately reported in the annual report of their SOE. This included a comprehensive AC report outlining the names of the AC members, a summary of main activities during the year including involvement in the appointment of the external auditors and ensuring the external auditors' independence. The report also included the meetings held during the financial year and attendance of these meetings by each member of the AC. However, it was also noted that some of the ACs only included brief statements without disclosing the names of the members or activities undertaken during the specific financial year. The study suggests that the minimum information that should be reported by the ACs should include the names and qualifications of all AC members, a statement on whether the AC had adopted a formal charter, a statement on whether the AC had considered the internal audit charter and the number of AC meetings held during the year. In addition, the study suggests that the AC report should also describe how the AC carried out its duties in accordance with the charter and give information on the independence of the AC.

5.4 STUDY LIMITATIONS

No matter how well structured, every study has limitations which may affect its outcomes (Magidi, 2014). Therefore the limitations of this study are noted even though it was conducted with due consideration of the research design which was well-suited to achieving the objective of the study.

The study sought to identify the factors contributing to the effectiveness of ACs in three Namibian SOEs to provide sound corporate governance. Therefore the ACs of other SOEs in Namibia were not investigated. Non-probability sampling was used to identify participants who would be most likely to yield rich data. Selection was thus based on the researcher's judgement. The participants selected for this study did not represent a sample of a particular population. The experiences and views of the participants may therefore not represent the views and experiences of all those who participate in AC activities in SOEs in Namibia.

The findings of this study are a reflection of the real experiences shared by participants in relation to the ACs in selected SOEs in Namibia and cannot be taken to prove or disprove any perception. This is because qualitative studies occur within the natural settings of the phenomenon under investigation, making it difficult to replicate the study and findings.

It was difficult to address the experiences that emanated from this study with recommendations to enhance the effectiveness of the ACs. Such a task would require collective action from the Ministry of Finance, the Ministry of Public Enterprises and various other ministries under which specific SOEs fall, the SOEs' boards of directors and management. The researcher has nonetheless made recommendations towards enhancing the effectiveness of the ACs of Namibian SOEs.

5.5 RECOMMENDATIONS FOR FUTURE RESEARCH

In light of the findings of this study and its limitations, the researcher proposes several recommendations for future research. This study revealed that ACs of selected SOEs enjoyed resources, both in the form of monetary and management support, without establishing the adequacy of the resources provided to the ACs. Future research could explore the adequacy of resources provided to ACs at SOEs in Namibia.

To be a member of an AC calls for great commitment (BRC, 1999). This study did not focus in depth on the commitment of the individual AC members in carrying out their tasks. Therefore, a future study could be done on the commitment of AC members in fulfilling their responsibilities as AC members at SOEs in Namibia.

There were contrasting views expressed by the participants on the risk management activities at the SOEs. Some of the risk management activities were performed by the internal audit functions while some SOEs had designated risk management units to carry out the risk management activities. There is therefore a need for a future study to explore the risk management activities performed by an internal audit function versus the risk management activities performed by a designated risk management unit.

Some of the participating SOEs outsourced their internal audit activities while others co-sourced this function. This study did not establish the effectiveness of having an in-house internal audit function compared to co-sourcing or outsourcing the internal audit functions in Namibian SOEs. Therefore, a future study could establish the impact on the effectiveness of ACs by having an in-house internal audit function compared to co-sourcing or outsourcing the activities of an internal audit function in Namibian SOEs.

This study revealed that the internal audit function has an important role to play in the performance of the ACs. However, the extent of the impact of the internal audit function on the performance of the ACs was not established. Hence, the need to explore the impact of the internal audit function on the performance of ACs at SOEs in Namibia.

5.6 THE SIGNIFICANCE OF THE STUDY

This study contributes to the existing body of knowledge on ACs. In particular, it contributes valuable insights on the factors contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. This study is useful insofar as it informs Namibian SOEs of the important role played by ACs towards enhancing corporate governance. In particular, the outcomes of this study can be used to promote the effectiveness of ACs in the areas of operational mandate, composition, management of activities, performance assessments and reporting on activities. The study could encourage policy makers to enhance the effectiveness of ACs in Namibian SOEs by addressing deficiencies, specifically those linked to the operations of ACs in the current legislation governing SOEs or by establishing guidelines.

5.7 CONCLUSION

The study highlighted certain AC characteristics and practices contributing to the effectiveness of ACs in selected Namibian SOEs to provide sound corporate governance. The mandate, composition, managing the activities of the AC, performance assessment of the members of the AC and reporting of the AC if applied correctly can enhance effectiveness of ACs. The study also highlighted weaknesses, suggesting that some of the ACs needed improvement in order to enhance corporate governance at SOEs. It is hoped that if this study’s recommendations are adopted, an improvement will be seen in the performance of SOEs and restoring public confidence.

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Annexure A

Sample letter to the Ministry of Public Enterprises

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nathaoomo3@gmail.com

Enquiries: N. Amoomo   Date

081 3675 435

XXX

XXX

XXX

Dear XXX

PERMISSION TO CARRY OUT RESEARCH IN NAMIBIAN STATE OWNED ENTERPRISES

My name is Natanael Amoomo. I am a student at the University of South Africa in the College of Accounting Sciences, studying towards a Master's of Philosophy Degree in Accounting Sciences. I intend to carry out a study entitled Strengthening Audit Committees in Namibian State Owned Enterprises (SOEs).

The purpose of the study is to understand how audit committees in Namibian SOEs are operating to improve corporate governance and add value to SOEs. This study has been approved by the ethics committee of the College of Accounting Sciences at the University of South Africa.

The research will cover three SOEs, namely Namibia Water Corporation Limited, Agricultural Bank of Namibia and the Motor Vehicle Accident Fund. A minimum of three participants will be selected for interviews per enterprise, namely, the chairperson of the audit committee or the vice chairperson, chief financial officer and the chief audit executive. The number of participants from each enterprise may be expanded if it becomes necessary to include more participants.

The results of the interviews will be kept strictly confidential. Participation in this research is completely voluntary and each participant may refuse to participate without consequence. Each participant will sign a letter of consent before the interviews and they will be informed that they can choose to withdraw from the study at any time. Participants are, however, encouraged not to withdraw because the results of the study are intended to promote good governance and adoption of best practice. The participants will not receive compensation for participating in the research.

The information from individual interviews will be reported in aggregated form to protect the identity of participants. Neither I nor UNISA have a conflict of interest with the results. All findings will be presented in a confidential manner and no personal or identifiable information will be recorded or printed in the study, thus no names will be included in the dissertation. All participants' experiences and perceptions will be portrayed as they have stated in the interviews, no false information or accusations will be included in the final report.

After examination of the dissertation, the findings will be presented to the board and audit committee in a formal report. This will enable the participating stakeholders to evaluate their AC's performance against those of other SOEs. The results of this study could inform the debates by policy and decision makers on the important role that an effective AC can play in improving the quality of State-Owned Enterprises' governance and accordingly performance.

If you wish further information regarding this research or the rights of the research participants, you may contact my supervisor Prof EM Odendaal work tel: +27 12 4294 363 and email: odendem@unisa.ac.za or my co supervisor: Prof B Ackers work tel: +27 12 4298 993 and email: ackerb@unisa.ac.za .

Thank you for your consideration. Your assistance in this regard is greatly appreciated.

Yours sincerely

NATANAEL AMOOMO
STUDENT NUMBER 34722068

Annexure B

Sample letter to the State Owned Enterprises

Natanael Amoomo

P.O. Box 22368 Windhoek Namibia, Mobile MD: +264813675435
nathaoomo3@gmail.com

Enquiries: N. Amoomo

081 3675 435

Date

XXX

XXX

XXX

Dear XXX

PERMISSION TO CARRY OUT RESEARCH AT XXX

My name is Natanael Amoomo. I am a student at the University of South Africa in the College of Accounting Sciences, studying towards a Master's of Philosophy Degree in Accounting Sciences. I intend to carry out a study titled Strengthening Audit Committees in Namibian State Owned Enterprises (SOEs).

The purpose of the study is to understand how audit committees at Namibian SOEs are operating to improve corporate governance and add value to SOEs. This study has been approved by the ethics committee of the College of Accounting Sciences of the University of South Africa.

The research will cover a minimum of three participants namely the chairperson of the audit committee or the vice chairperson, chief financial officer and the chief audit executive. The number of participants from your enterprise may be expanded if it becomes necessary to include more participants.

The results of the interviews will be kept strictly confidential. Participation in this research is completely voluntary and each participant may refuse to participate without consequence. Each participant will sign a letter of consent before the interviews and they will be informed that they can choose to withdraw from the study at any time. Participants are, however, encouraged not to withdraw because the results of the study are intended to promote good governance and adoption of best practice. The participants will not receive compensation for participating in the research.

Information obtained from the individual interviews will be reported in aggregated form to protect the identity of participants. Neither I nor UNISA have a conflict of interest with the results. All findings will be presented in a confidential manner and no personal or identifiable information will be recorded or printed in the study, thus no names will be included in the dissertation. All participants' experiences and perceptions will be portrayed as they have stated in the interviews, no false information or accusations will be included in the final report.

After examination of the dissertation, the findings will be presented to the board and audit committee in a formal report. This will enable the participating stakeholders to evaluate their AC's performance against those of other SOEs. XXX will benefit from the results because they could inform debates by policy and decision makers on the important role that an effective audit committee can play in improving the quality of State-Owned Enterprises' governance and accordingly performance.

If you wish further information regarding this research or the rights of the research participants, you may contact my supervisor Prof EM Odendaal work tel: +27 12 4294 363 and email: odendem@unisa.ac.za or my co supervisor: Prof B Ackers work tel: +27 12 4298 993 and email: ackerb@unisa.ac.za .

Thank you for your consideration. Your assistance in this regard is greatly appreciated.

Yours sincerely

NATANAEL AMOOMO

STUDENT NUMBER 34722068

Annexure C

Documentation review

Annual report

Name of the SOE: ______________________________

Financial year end: ______________________________

Physical address: ______________________________

____

____

Contact details: Tel: ______________________________

Fax: ______________________________

Email: ______________________________

Instructions

Obtain a copy of the annual report and complete the questions below:

1. What is the name of the chairperson of the board?

____

2. Is information about the audit committee disclosed? Yes No

3. What are the names of the members of the audit committee and their positions?

3.1 ______________________________ Position ______________________________

3.2 ______________________________ Position ______________________________

3.3 ______________________________ Position ______________________________

3.4 ______________________________ Position ______________________________

3.5 ______________________________ Position ______________________________

3.6 ______________________________ Position ______________________________

4. What is the name of the audit committee member designated as a financial expert?

____

5. How many of the members of the audit committee are designated as follows:

5.1 Executive ___________

5.2 Non-executive ___________

5.3 Co-opted members ___________

6. How many of the members of the audit committee have the following qualifications:

6.1 Diploma ____________

6.2 Bachelor degree ____________

6.3 Master's degree ____________

6.4 Professional qualification ____________

7. How many members of the audit committee have the following number of years' experience as audit committee members:

7.1 One year ____________

7.2 Two years ____________

7.3 More than two years ____________

7.4 No previous experience ____________

8. Does the audit committee have an approved audit committee charter? Yes No

9. What activities did the audit committee perform during the year?

____

____

____

____

____

____

____

____

10. How many audit committee meetings were held?

____

Annexure D

Guiding questions - Chairperson of the audit committee

1. About the chairperson

1.1 Kindly share your experience in audit committees?

2. Audit committee charter

2.1 Is there a formal charter (terms of reference) in place for the audit committee? Provide a copy.

2.2 Who approved the audit committee charter (terms of reference)?

2.3 How often is the audit committee charter (terms of reference) reviewed?

2.4 In your opinion, does the audit committee charter adequately empowers the audit committee to carry out its duties and responsibilities?

2.5 Does the audit committee have an annual work plan in place to guide it in carrying out its duties and responsibilities? Provide a copy.

3. Nomination to serve on the committee

3.1 Explain how the audit committee members are nominated to serve on the audit committee and are there specific criteria for the appointment of audit committee members in place?

3.2 Explain how the chairperson of the audit committee is appointed.

4. Audit committee composition

4.1 How many people are serving on the audit committee?

4.2 In your opinion, is the size of the audit committee adequate?

4.3 Explain how the audit committee manages potential threats to audit committee members' independence.

5. Skills and experience

5.1 How many audit committee members previously served on audit committees of other companies?

5.2 Does the audit committee have a member designated as a financial expert?

5.3 Can the audit committee source expert advice outside the audit committee?

5.4 How many audit committee members have experience in finance and auditing?

5.5 Explain the process and approach taken by the audit committee to carry out reviews with regard to the company's internal control and financial reporting procedures.

5.5.1 How are the recommendations of the audit committee handled?

5.6 Explain the approach taken by the audit committee to review the financial statements of the company.

5.7 What is the involvement of the audit committee in accounting policy decision making?

5.8 What procedures does the audit committee perform with regard to the effectiveness of the internal audit function?

5.9 What is the role of the audit committee in the appointment of the external auditors?

5.10 What is the involvement of the audit committee in the scope and staffing as well as the work plan of the external auditors?

5.11 What is the approach of the audit committee to the independence and objectivity of the external auditors?

5.12 How often does the audit committee meet in private with external auditors?

5.13 How is the audit committee involved in the remuneration of the external auditors?

5.14 Kindly discuss the approach the audit committee has on risk management.

6. Managing the activities of the audit committee

6.1 How does the audit committee manage in having audit committee meetings scheduled, agendas formulated and minutes drafted?

6.1.1 Describe the process followed in preparing the agenda for an audit committee meeting.

6.2 How often does the audit committee meet per financial year?

6.3 Besides the audit committee members, who else attends the meetings of the audit committee?

6.4 Does the audit committee receive relevant, reliable, sufficient and accurate information from management and the internal audit function for decision-making at audit committee meetings?

6.4.1 Is there a prescribed format, type, extent and due date for the required information?

6.4.2 How often is the information required by the audit committee requested from management and the internal and external auditors?

6.5 How would you describe the relationship between the audit committee and management and the internal and external auditors and how can it be improved?

7. Training and development

7.1 What arrangements are in place to give the audit committee members induction at the beginning of their term?

7.2 What are the plans for training or ongoing training for the audit committee members?

8. Performance assessment

8.1 Explain how the performance of the audit committee members is evaluated and what does performance evaluation entail?

8.2 What steps are taken against non-performing audit committee members?

9. Good governance

9.1 What code of good governance guides the operation of your audit committee?

9.2 In your opinion, should the audit committee of SOEs prescribe to the principles of the NamCode of corporate governance?

9.3 In your opinion, how can government assist in strengthening the audit committee, thereby improving their performance?

9.4 Is there a process in place to benchmark the activities of the audit committee against best practices such as in the private sector or elsewhere?

9.5 In your opinion, is your audit committee adding value to the company and what can be done to improve the audit committee?

9.6 Is the audit committee receiving sufficient support from the board?

Annexure E

Guiding questions - Chief Financial Officer

1. Explain the reporting relationship between the audit committee and the finance department?

2. Kindly explain the involvement of the audit committee in the internal control of the organisation?

3. What is the involvement of the audit committee in achieving the integrity of the company's financial reporting?

4. To what extent is the audit committee involved in the accounting policies adopted by the company?

5. To what extent is the audit committee involved in the accounting processes producing financial reports?

6. How often does the audit committee review the company's compliance with legal and regulatory requirements and adherence to corporate ethical standards?

7. To what extent is the finance department involved in assisting the audit committee to carry out its activities?

8. What contribution does the finance department make as far as training and development of audit committee members are concerned?

9. What are the audit committee's expectations from you (the Chief Finance Officer/ Finance Manager) with regard to the meetings of the audit committee?

10. What is your opinion regarding audit committee members' understanding of International Financial Reporting Standards?

11. Is the budget sufficient for the audit committee to carry out its activities?

12. What is your opinion regarding the audit committee's understanding of the role of the audit committee?

Annexure F

Guiding questions - Chief Audit Executive

1. Kindly explain the reporting structure of the internal audit function in the organisation.

2. Explain the role of the audit committee in the structure and staffing, budget and other resources of the internal audit function.

3. Explain the role of the audit committee in the appointment, remuneration and setting of the required qualifications of the head of the internal audit function.

4. Explain the role of the audit committee in the charter, internal audit plans and other activities of the internal audit function.

5. To what extent is the audit committee involved in determining whether the internal audit function complies with the internal audit standards?

6. Explain to what extent the internal audit function is involved in assisting the audit committee to carry out its activities.

7. Explain what contribution does the internal audit function make as far as training and development of members of the audit committee are concerned.

8. What are the audit committee's expectations from you (the Chief Audit Executive/Head of Internal Auditor/Internal Audit Manager) with regard to the meetings of the audit committees?

9. How often do you (the Chief Audit Executive/Head of Internal Auditor/Internal Audit Manager) meet with the audit committee?

9.1 What is the purpose of such meetings?

10. How often do you (the Chief Audit Executive/Head of Internal Auditor/Internal Audit Manager) meet with the audit committee in private?

11. Explain the relationship between the internal audit function and the audit committee.

12. Kindly share your opinion regarding the audit committee members' understanding of the role and objective of the audit committee.

Annexure G

Letter to participants

STRENGTHENING AUDIT COMMITTEES IN NAMIBIAN STATE OWNED ENTERPRISES

Dear Participant

My name is Natanael Amoomo. I am a student at the University of South Africa in the College of Accounting Science, studying towards a Masters of Philosophy Degree in Accounting Sciences. The focus of my study is to understand how audit committees at Namibian State Owned Enterprises (SOEs) are operating to improve corporate governance and add value to SOEs.

REASON TO PARTICIPATE

Your SOE has been selected to participate in the study. Approval was obtained from the Ministry of Public Enterprises and also from the chief executive officer. The chief executive officer was also required to assist in providing the contact details of the potential participants. You have been specifically selected because of your involvement in the audit committee or because of the close relationship you have with the audit committee. The selected participants for interviews are: chairpersons of the audit committee, chief audit executives and chief financial officers.

HOW THE PARTICIPANT WILL ASSIST WITH THE STUDY

Your role as a participant is to participate in the interview / discussion. The interview will comprise of semi-structured questions which I will be asking you. The interview questions will focus on the following:

- Membership of the audit committee
- Qualifications and experience of the audit committee members
- Activities of the audit committee
- Meetings involving the audit committee
- Training and development of the audit committee members
- Evaluation of the audit committee and its members

The interviews will be recorded with a digital voice recorder to ensure that information is correctly recorded. However, this will be done with your consent. The interview is expected to take 40 to 60 minutes.

IMPORTANCE OF THE STUDY

The aim of the study is to promote the important role that audit committees can play in adding value to SOEs and the economy of the country. Many studies were done on SOEs but none has focused on SOEs' audit committees.

PLACE OF INTERVIEWS

Interviews will preferably take place at a place you are most comfortable with, preferably at your work place.

CONFIDENTIALITY

The study will not record your name and will not link the results of the interview to you or to your SOE. No names will be used during the transcribing process and the information collected will be properly stored and protected.

COLLECTED DATA

Information collected will be kept for a period of up to five years and then destroyed.

ETHICS PERMISSION

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

Yours faithfully

Natanael Amoomo

Annexure H

Consent to participate in this study

I………………………………………………………………….. (Name) hereby give Natanael Amoomo consent to use information obtained from the interview in his study as part of his Master's degree.

- I understand that the information I provide will be treated as confidential and that anonymity will be maintained.
- I confirmed having participated under informed consent.
- I confirm that I am aware that I may at any point during the interview cease to participate without being adversely affected.

Participant signature ……………………………………..

Date ……………………………….