

**ENHANCING AUDIT COMMITTEE EFFECTIVENESS IN  
SOUTH AFRICAN MUNICIPALITIES**

by

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## DECLARATION

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### **ENHANCING AUDIT COMMITTEE EFFECTIVENESS IN SOUTH AFRICAN MUNICIPALITIES**

I declare that the above thesis is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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

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



**SIGNATURE**

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# ACKNOWLEDGEMENTS

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*Thank you God and my dear parents for ensuring that I receive crucial basic education.*

*Thank you for teaching me to maintain a dedicated and diligent work ethic.*

*Thank you for the sound foundation you provided, that anchors me in life.*

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**To my Lord, my Creator, my Saviour, my Father, my Love, my Shepherd, my Protector, my Deliverer, my Everything Good,  
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Without You, I do not know where I would be.  
Your everlasting Love, Mercy and Kindness are overwhelming.  
Your overflowing Blessings engulf me.  
You fill my life with joy -

**I THANK YOU!  
ALL THE GLORY AND THE HONOUR BELONG TO YOU,  
ALMIGHTY GOD!  
I THANK YOU!**

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## ABSTRACT

The continuous failure of South African municipal administration, governance and oversight, renders the effectiveness of the municipal audit committee, questionable. The purpose of this study is to propose a framework for improving audit committee effectiveness in South African municipalities. The purpose was achieved by obtaining an understanding of the factors influencing the effectiveness of the municipal audit committees from municipal stakeholders and audit committee members; further exploring the factors identified from the stakeholders and audit committee members through a literature study and review of best practices; and acquiring input from stakeholders regarding the relevance and completeness of the framework developed, leading to refining of the framework. A constructivist ontology and interpretivist epistemologies were employed to achieve the research objective and a qualitative research methodology was embraced, comprising of focus groups, a literature study and an interview survey. The agency theory was adopted as the grand theory for this study and the resource-based view of the firm theory was applied to the literature, to extend and complement the existing literature on the effectiveness of audit committees. During the first phase of the study, the Interactive Qualitative Analysis method was harnessed for conducting the focus groups and analyses of the data. Purposive sampling was applied to select 15 participants who were stakeholders and audit committee chairpersons of municipalities, to conduct two focus groups. Twenty-five affinities (factors) and 139 sub-affinities (sub-factors) that influence the effectiveness of audit committees were identified, consolidated into five themes. The second phase was to explore the factors identified by the focus groups through a literature study. The findings of the literature study and focus groups were employed to develop the draft framework consisting of a Framework for audit committees and a Framework for municipalities. The development of these two guides led to a third guide for National Treasury, provincial treasuries and SALGA. In the third phase, purposive and snowball sampling methods were used to select participants to semi-structured interviews, followed by the refinement of the framework. Based on the findings, a framework is proposed, comprising factors that can improve the effectiveness of audit committees in South African municipalities. Furthermore, activities that can be centralised to enhance the effectiveness of municipal audit

committees are identified, and an improved framework for agency theory is introduced.

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## LIST OF ACRONYMS

AC	Audit Committee
AGSA	Auditor-General South Africa
CAE	Chief Audit Executive
CA(SA)	Chartered Accountant (South Africa)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIA	Certified Internal Auditor
CIO	Chief Information Officer
CoGTA	Cooperative Governance and Traditional Affairs
COO	Chief Operating Officer
DART	Detailed Affinity Relationship Table
FRC	Financial Reporting Council
GEAR	Growth, Employment and Redistribution
GFOA	Government Finance Officers Association
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
IIA	Institute of Internal Auditors
IoDSA	Institute of Directors Southern Africa
IQA	Interactive Qualitative Analysis
IRD	Interrelationship Diagram
King I	King report on corporate governance for South Africa 1994
King II	King report on corporate governance for South Africa 2002
King III	King report on corporate governance for South Africa 2009
King IV	King Report on Corporate Governance for South Africa 2016
MEC	The Member of the Executive Council (of a province responsible for local government in the province)
MFMA	Municipal Finance Management Act, No 56 of 2003
MPAC	Municipal Public Accounts Committee
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SAG	South African Government

SAICA	South African Institute of Chartered Accountants
SALGA	South African Local Government Association
SAPS	South African Police Services
SDBIP	Service Delivery Budget Implementation Plan
SEC	United States Securities and Exchange Commission
SETA	Sector Education and Training Authority
SID	System Influence Diagram
SOX	Sarbanes-Oxley Act
ToR	Terms of reference
UK	United Kingdom
UNISA	University of South Africa
USA	United States of America
VRIO	Value, Rareness, Imitability and Organisation

## TERMINOLOGIES

Terminologies	Definitions	Sources
<b>Affinities</b>	Factors derived from the words of the focus group participants. The words describe the experience of the participants with the phenomenon.	Northcutt & McCoy 2004:44 & 314
<b>Assurance</b>	An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation.	IIA 2017:21
<b>Audit Committee in South African municipalities</b>	An independent advisory committee appointed by council for the municipality.	RSA 2003, s. 166
<b>Chief audit executive (CAE)</b>	The role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework.	IIA 2017:21
<b>Conflict of Interest</b>	Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.	IIA 2017:22
<b>Constituencies</b>	Parties who have something to say about the phenomenon and can do something about the phenomenon.	Northcutt & McCoy 2004:72

<b>Consulting services</b>	Advisory services provided to the client by internal auditors.	IIA 2017:22
<b>Corporate governance</b>	Effective and ethical leadership that promotes ethical culture, legitimacy, effective control and good performance.	IoD 2016:11
<b>Governance</b>	The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organisation toward the achievement of its objectives.	IIA 2017:23
<b>Integrated Development Plan (IDP)</b>	A document that reflects the integrated development and management plan of the municipality.	SAG 2008a, s. 1
<b>Internal Audit Charter</b>	A formal document that defines the internal audit activity's purpose, authority, and responsibility.	IIA 2017:21
<b>Risk</b>	Uncertainty of events and the likelihood of those events happening and can negatively impact the achievement of objectives.	IoD 2016:16; IIA 2017:24
<b>Risk Management</b>	A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.	IIA 2017:2
<b>Stakeholders</b>	Individuals or groups of people that are significantly affected by the organisation activities and outcomes.	IoD 2016:17

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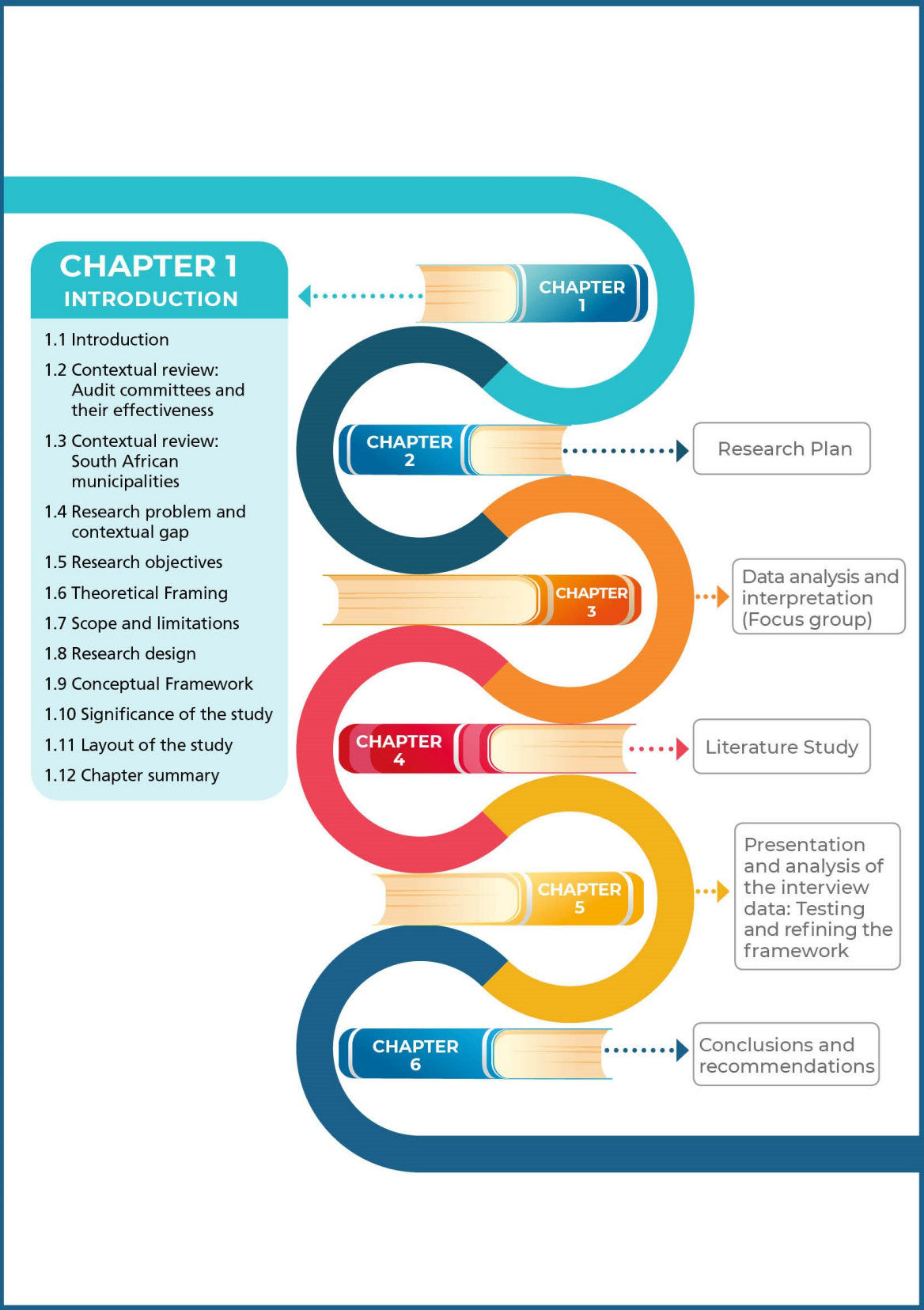
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CHAPTER 1 INTRODUCTION



## 1.1 Introduction

The effectiveness of audit committees is associated with the audit committee reducing organisational challenges and providing some level of assurance to external stakeholders (Thomas, Aryusmar & Indriaty 2020:88). External stakeholders who have a vested interest in the organisation require a level of assurance that the internal parties employed by the organisation are affecting suitable decisions to the advantage of the organisation. Effective audit committees provide independent oversight (Institute of Directors Southern Africa (IoDSA) 2016:55; Motubatse 2016:1) and advice (SAG 2003, s. 166(2)) that will benefit the organisation and external parties with vested interest, especially in areas of finance, internal audit, risk management and governance, amongst others. The organisation with an effective audit committee is expected to have effective audit functions, internal controls, risk management and governance, including, but not limited to, quality financial reporting, reduced fraudulent financial activities and reduced audit fees (KPMG 2017:6; Deloitte 2018:3; Lisic, Myers, Seidel & Zhou 2019:2548; Qasim, Muqattash & Al Barghouthi 2019:265, 273; Thomas et al 2020:88).

The important role of audit committees is likewise confirmed in best practices reports such as the King reports on corporate and public sector governance (IoDSA 1994; 2002; 2009; 2016). The King reports encompass codes of principles and practices that are not legislated but recommended for South African organisations, including the public sector. These internationally recognised reports (Prickett 2014:60) support the establishment of audit committees in public sector organisations to enhance good governance (IoDSA 1994; 2002; 2009; 2016). Audit committees in South African municipalities are established by the public sector legislation in Section 166 of the Municipal Finance Management Act, Act No. 56 of 2003 (hereafter referred to as “MFMA”) as a governance tool, to advise the municipal council and management (SAG 2003, s. 166(1)). Their function includes advice to promote effective governance matters (SAG 2003, s. 166(2)(vi)). They execute a critical advisory role to the council, accounting officer (municipal manager), management and staff members (SAG 2003, s. 166(2)).

The capabilities of effective audit committees are linked to their composition, independence, financial expertise and *inter alia* the number of meetings they

accomplish (Lisic et al 2019:2548; Qasim et al 2019:273). However, failures by organisations that do retain audit committees raise concerns of whether audit committees are effective in their role. Consequently, this study investigates how the effectiveness of audit committees can be enhanced.

The study focuses on South African municipalities. South Africa is a country that is governed by the Constitution of the Republic of South Africa, Act No.108 of 1996, hereafter referred to as “the Constitution”. Three spheres of government are established by Section 40 of the Constitution, namely: national; provincial and local government, intending to serve the citizens and promote equal rights, human dignity and non-racialism (SAG 1996, ss. 1(a)-(b), ss. 3(2)(a)-(b), s. 40(1)). Section 151 of the Constitution establishes the current municipalities within local government, aiming to provide for the basic needs of all communities and to develop previously disadvantaged communities (SAG 1996, s. 151).

During 2019, South Africa boasted 257 municipalities consisting of eight metropolitan-, 44 district- and 205 local municipalities (Yes Media 2019:16). The legislative mandate of the municipalities is to develop and implement socio-economic goals that will meet the needs of the local communities (Binza 2005:69). The main socio-economic services of the municipalities are the provision of electricity, water, transport and sanitation (National Treasury 2016:76). The Bill of Rights of the Constitution denotes that citizens must benefit from government services (SAG 1996, ss. 9-10).

The government formulated different strategies and legislation to develop the local communities governed by municipalities such as the White Paper on the Reconstruction and Development Programme (RDP), focusing on creating new infrastructure and rehabilitating neglected infrastructure to improve the provision of municipal services and the collection of municipal revenue, in a sustainable manner (SAG 1994, ss. 2.3, 2.7.5). The importance of investing in infrastructure to improve service delivery was again emphasised in a policy document titled Growth, Employment and Redistribution (GEAR) (Department of Finance 1996:2, 5). The following legislation and municipal policy documents were also introduced: the Municipal Systems Act, 2000 (Act 32 of 2000) promoting the socio-economic growth of local communities, and the White paper on Municipal Service Partnerships in 2004 (SAG 2000; SAG 2004).

The 2004-White paper on Municipal Service Partnerships encourages municipalities to partner with the public sector, communities, the private sector and non-governmental organisations in developing infrastructure and addressing infrastructure backlogs (SAG 2004:1). Partnership with other sectors is not only viewed as the solution to infrastructure development but also as a way to reduce poverty and inequality in South Africa. The National Development Plan, a vision for 2030 by the government, similarly embraces collaborations between different sectors in order to reduce poverty and inequality (National Planning Commission 2011:2). While solutions have been developed to address poverty and inequality in the constitutional democracy of South Africa, inter-generational poverty and inequality remain entwined throughout the fabric of South Africa (Polus, Kosiński & Tychołiz 2021:303-304).

The Constitution requires municipalities not only to develop local communities by providing sustainable services, but also to possess the capacity to govern, administer and manage their legislated affairs (SAG 1996, s. 156). For the municipalities to deliver the services, they need revenue. Its primary source of revenue should be the municipal levies, duties and taxes charged, also from fees on services provided by the municipalities to local communities such as water, electricity, refuse removal and sanitation, (SAG 1996, s. 229; SAG 1998a, s. 84(1); SAG 1998c, s. 24(a)(ii), (d); National Treasury 2016:76). The National Treasury is responsible for monitoring the pricing structure and municipalities' payment to suppliers (SAG 2003, s. 41(1)). The municipalities servicing cities, urban areas and towns, control areas exhibiting large retail- and industrial development, resulting in sufficient revenue generation to enable them to serve their communities (SAG 1998b, s. 1), whereas the townships and former homelands are predominantly populated by impoverished residents who are unable to contribute adequate municipal revenue, resulting in feeble tax bases (Cashdan 2000:2; Zulu & Mubangizi 2014:424).

The South African government has designed different developmental strategies to address inequality in municipal areas and it is important for the municipalities to have effective tools and procedures to implement these strategies. Such tools and procedures include the Integrated Development Plan (hereafter referred to as "the IDP"), the annual operational plan, budgeting, and performance monitoring (SAG 1998b, ss. 1.2, 3.1- 3.2; SAG 2000, s. 16(1)(a)). Municipalities are expected to



compile the IDP in consultation with its community in accordance with the provisions of the Municipal Systems Act (SAG 2000, s. 81(1)(c)). The IDP is composed by municipalities following assessment of the reality of the social, economic and environmental status of the municipal community. The IDP assists the municipal management to develop strategies for service delivery and development. The costing of the IDP establishes the municipality's expenditure budget, to be approved by the municipal council.

A performance management system is also a tool specified by the Municipal Systems Act, to promote accountability by municipalities and ensuring growth, development and effective service delivery to its communities (SAG 2000, s. 3(e)). The performance of municipalities in achieving the goals set in the IDP and the budget, should be monitored. The municipalities together with their communities set the key performance indicators to measure performance. The municipality must report to its community on its performance (SAG 1998b, s. 3.2). The National Government and other organisations such as the Auditor-General South Africa (hereafter "AGSA") are tasked to assess the effectiveness and efficiency of all municipalities in the delivery of the strategies set out in their IDPs (SAG 1998b, s. 3.2).

Municipalities need revenue to perform well in achieving the IDP goals, including service delivery. As mentioned before, municipalities generate revenue by imposing levies, duties and taxes. Additional revenue is received from government, in the form of grants (SAG 1994, s. 4.4.4). The three spheres of government each receive a share of the national revenue as legislated in Section 214 of the Constitution (SAG 1996, ss. 214(1)(a), 227(1); SAG 2021, ss. 3(1)). Its revenue share provides municipalities with the opportunity to improve service delivery to its communities. During 2015/16, the revenue share allocated to municipalities amounted to R99.7 billion, 8.9 per cent of the total revenue allocated to all three spheres of government. The revenue share for the municipalities continues to increase, demonstrating the significant role of municipal services in poor communities with a depleted tax base, rendering the collection of own revenue a challenge. Municipal revenue share increased from R104.9 billion in 2016/17 to R127.2 billion in the 2019/20 budget (National Treasury 2016, ss. 76, 84; Department of Statistics 2019).

Owing to the significance of the revenue share amount amidst national budget constraints, it is essential that municipalities practise proper financial management, act with integrity and are accountable. The key role players must ensure that there are proper internal controls, risk management, governance, legislation and service delivery, in addition to ensuring that the relevant legislation, regulations, policies and procedures are implemented effectively when administering the budget (SAG 2003, ss. 60-62). To secure assurance on these matters, provision is made for an internal audit function and an independent government auditor that acts as an external auditor for all public sector organisations, the AGSA (SAG 2003, ss. 74(1), 165).

The AGSA is South Africa's supreme audit institution mandated in chapter 9 of the Constitution (SAG 1996, s. 181(1)(e)) to conduct annual audits on financial statements and monitor the financial management of government organisations. Being the external auditor for government organisations, including municipalities, it provides external assurance of compliance to regulations, the financial statements and the performance of municipalities (SAG 2003, s. 92). Its function of continuous assurance is necessary to provide recommendations on how to improve processes in municipalities and to report to authorities and communities on whether the municipalities perform as intended and in accordance with legislation. Audit reports from the AGSA provide details of the financial and non-financial performance of municipalities. AGSA reports are provided to parliamentarians, provincial and national treasuries and are on the websites of municipalities for access by the public (SAG 2003, s. 74-75,134). In principle, any citizen may consider and analyse the AGSA reports to determine any municipal maladministration and corruption. However, the AGSA reports provide no evidence that AGSA reports are disseminated to and used by community members.

Although the 1996 Constitution intends to ensure equality for all citizens, in practice, the inherited unequal systems, the slow pace of transformation, the lack of capacity and many other factors have created a more complex reality at local government level, including municipalities (Department of Finance 1996:18-19; Cashdan 2000:12; Tapscott 2017:82). One of the main factors that pre-occupies the good governance mind-sets of government and the public, is corruption (Motubatse 2016:10). The AGSA reported that 61 per cent (increasing from 53 per

cent in the previous year) of the municipalities during 2015/2016 displayed poor management practices (AGSA 2017:12). The AGSA acknowledges that such poor practices often lead to corruption and fraud, while effective governance will promote municipal sustainability with less reliance on government grants.

Corruption Watch is a South African non-profit organisation researching corruption and reporting to the public on the level of corruption. It defines corruption as the misuse of public funds or resources for personal gain (Corruption Watch 2016b:13). Corruption cases reported to Corruption Watch regarding local government (where municipalities are the executive organisations of local government) have increased from 16 per cent in 2015, to 22 per cent in 2016 (Corruption Watch 2015:18; Corruption Watch 2016b:15). There is ample evidence of the existence of corruption in local government, such as bribery to receive a job, contract or tender (Ethics Institute of South Africa 2015:9-10). The sentiment of entrenched corruption in South African municipalities is echoed by Transparency International. Transparency International is an organisation fighting corruption and it measures the perceived level of corruption in countries around the world. A country is perceived to be more corrupt when it has a higher rank and a lower Corruption Perceptions Index (CPI) score out of 100. In 2019, Transparency International ranked South Africa at 70 out of 180 countries for corruption, with a CPI score of 44/100 (Transparency International 2019). These results attest to the seriousness of the corruption pandemic in South Africa. It is concerning and more effective interventions to curb corruption should be executed.

Most organisations implement corporate governance to ensure that they conduct their business in a responsible, ethical, accountable, effectively controlled, legitimate, fair and transparent manner (Rossouw & Van Vuuren 2010:206; IoDSA 2016:11). Likewise, municipalities are expected to implement good governance principles to curb mismanagement and assist them to achieve their goals. The next section consists of a contextual review of audit committees and their effectiveness in promoting governance practices. It also provides an overview of previous studies on the effectiveness of audit committees, giving rise to the research gap of this study.

## **1.2 Contextual review: Audit committees and their effectiveness**

The history of the audit committee, providing background information for the study and research studies conducted investigating its effectiveness, to identify the research gap, are discussed in this section.

### **1.2.1 Background overview of audit committees**

The existence of the audit committee-concept is traced back as far as the 1940's, when the United States Security and Exchange Commission (SEC) endorsed the audit committee to verify the independence of auditors for the listed United States of America (USA) organisations (Fichtner 2009:227). The audit committee was later incorporated in the best practices of corporate governance by different countries. Corporate governance is the ethical and effective leadership by a governing body promoting ethical culture, good performance, effective control and legitimacy in the organisation (IoDSA 2016:20). Both the successes and the failures of modern corporations in the private sector are attributed to the prominence of good corporate governance (Rossouw & Van Vuuren 2010:205).

Many countries have developed best practices and published reports on corporate governance. The appointment of independent audit committees was introduced as part of private organisation's board of directors' duties during 1978, in the USA (U.S. Securities and Exchange Commission 1989:7) and it became mandatory for private organisations listed on the New York Stock Exchange (NYSE) to have independent audit committees. In 1992, the United Kingdom (UK) followed a similar path as that of the USA, by way of the Cadbury Report. The UK was the first country to compile a good corporate governance practice guide, drafted by a corporate governance committee chaired by Sir Adrian Cadbury (Cadbury 1992). The Cadbury Report is currently combined with other reports, such as The Greenbury-, Hampel-, Turnbull-Smith- and Higgs reports, creating the Combined Code for the UK (IoDSA 2009:5), with the objective to enhance corporate governance. Initially, the corporate governance reports addressed how the private sector should govern their organisation, incorporating the public sector at a later stage.

The USA's Blue Ribbon Committee compiled a corporate governance practice report with recommendations to strengthen the effectiveness of audit committees (Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit

Committees 1999:6, 10, 12). Some of these recommendations are found in South African legislation and applied by South African municipalities, for example, the independent oversight role of audit committees with a minimum of three independent audit committee members (SAG 2003). The USA legislated good corporate governance practice in 2002, requiring organisations to appoint audit committees. This rule, legislated by the Sarbanes-Oxley Act (SOX), intended to enhance good corporate governance following the collapse of Worldcom and Enron (USA Government 2002, ss. 204-205; Rossouw & Van Vuuren 2010:206). Australia is another country that boasts good governance practices for both the private and public sector, similar to that of the UK, USA and South Africa. The Better Practice Guide for Public Sector Audit Committees was developed by the Australian National Audit Office, the external auditors of the public sector (Australian National Audit Office 2011:6).

Likewise, audit committees fulfil a crucial governance role in the South African public sector (SAG 2003, ss. 166(1), 166(2)(a)(vi); Van der Nest 2008:184) - the study is therefore concerned with determining their effectiveness in fulfilling their role in municipalities. The role of the audit committee is further discussed in section 4.3.

Organisations continue to collapse and audit committees are often blamed for not understanding the basic and complex issues of the financial and internal controls they were tasked to oversee (Moeller 2008:93). Similarly, the effectiveness of the audit committee in poor performing municipalities is uncertain, requiring further comprehensive assessments (SALGA 2012:6,13; Chaka 2013:162), and inspiring this study.

An effective audit committee is an important structure, developed to promote good governance and accountability by organisations (Turley & Zaman 2007; Dodo 2017:19). Their initial role of reviewing the fairness and quality of financial reporting and accounting practices, has expanded (Hemraj 2004; Turley & Zaman 2007). This expansion of responsibilities and expectations of audit committees are due to the complexity of organisations and their environment, as well as the failure and collapse of organisations (Bruynseels & Cardinaels 2013). Amongst many responsibilities, their role now includes a comprehensive understanding of the organisation's risks and the monitoring of those risks, in addition to the oversight of

internal and external audit functions and effective governance (Van der Nest 2008:185; Alzeban & Sawan 2015; Salehi & Shirazi 2016; Dodo 2017:26). They monitor and provide some assurance to the governing body that finances and risk are properly controlled by management, that the financial reporting is of quality and that the organisation will achieve its goals (Stamper 2011:48). The role of audit committees in South African municipalities is not only oversight but also that of advice on similar matters of financial reporting, risk management and effective governance (SAG 2003, s. 166(2); Erasmus & Matsimela 2019:2).

### **1.2.2 Previous research informing the research gap**

Research on the effectiveness of audit committees was reviewed by consulting the international and South African body of knowledge. Private sector studies were *inter alia* reviewed due to the availability of extensive literature and the limited number of studies concerning audit committees in the local government. Such adoption of private-sector principles to the public sector is supported by the New Public Management theory (Chowdhury & Shil 2019:504), a theory maintaining that the public sector implements useful private sector principles.

#### **1.2.2.1 International studies**

Table 1.1 presents how some international studies investigated the phenomenon and derived the elements that influence the effectiveness of audit committees. These elements are audit committee composition, characteristics and behaviour of the members, expertise, monitoring and reporting, compliance, ethical practices and their relationship with council and management. The research methodology, methods and the reviewed studies' theories are discussed also in section 1.2.2.3 to demonstrate the existing research gap.

**Table 1.1: Effectiveness of audit committees (International studies)**

Effectiveness of the Audit Committee.	Sources	Sector	Theories	Research methodology (Research methods)
<b>Composition</b>				
The effectiveness of the audit committee is determined by the: <ol style="list-style-type: none"> <li>1. Audit committee size.</li> <li>2. Appointment process.</li> <li>3. The number of independent audit committee members.</li> </ol>	Ng (2013), Feng (2014), Purcell, Francis & Clark (2014); Financial Reporting Council (2016), Salehi & Shirazi (2016).	Public and Private	Agency, Actor-network, Institutional, Power.	Quantitative, Mixed methods. (Surveys, Document Analysis)
<b>Characteristics and behaviour of the audit committee</b>				
The effectiveness of the audit committee is determined by <ol style="list-style-type: none"> <li>1. The number of meetings held and attendance of members</li> <li>2. Behavioural traits and power.</li> <li>3. Conforming to ethical practices.</li> </ol>	Nehme (2013), Ng (2013), Tangruenrat (2013), Purcell, Francis & Clark (2014), FRC (2016), Thomas & Purcell (2019), Qasim, Muqattash and Al Barghouthi (2019).	Public and Private	Agency, Stakeholder, Legitimacy, Signalling, Institutional, Coping behaviour, Managerial hegemony, Resource dependence, Stewardship, Behavioural.	Qualitative, Quantitative and Mixed methods. (Surveys, Document Analysis)
<b>Expertise/ Skills</b>				
<ol style="list-style-type: none"> <li>1. The audit committee with expertise is effective in its role</li> <li>2. The accounting expertise of the audit committee.</li> <li>3. The audit committee with sector/industry knowledge.</li> </ol>	Armitage (2011), Wong (2012), Ng (2013), Tangruenrat (2013), Feng (2014), Purcell, Francis & Clark (2014), Adams (2016), FRC (2016), Salehi & Shirazi (2016), Qasim, Muqattash & Al Barghouthi (2019).	Public and Private	Agency, Stakeholder, Stewardship	Quantitative, Mixed Methods. (Surveys, Document Analysis)

Effectiveness of the Audit Committee.	Sources	Sector	Theories	Research methodology (Research methods)
<b>Monitoring</b>				
<p>The effectiveness of the audit committee is associated with:</p> <ol style="list-style-type: none"> <li>1. Their monitoring capabilities and the support of internal audit and external audit functions by the audit committee.</li> <li>2. Audit committee-monitoring of risk, organisational performance and governance processes.</li> </ol>	Armitage (2011), Wong (2012), Ng (2013), Purcell, Francis & Clark (2014), Bonsu (2015), FRC (2016), Thomas & Purcell (2019).	Public and Private	Agency, Institutional, Managerial hegemony, Resource dependence, Stewardship, Stakeholder.	Quantitative, Mixed Methods. (Surveys, Document Analysis)
<b>Compliance</b>				
<ol style="list-style-type: none"> <li>1. Compliance with charter.</li> <li>2. Charter must be reviewed annually.</li> </ol>	Armitage (2011), Wong (2012), Purcell, Francis & Clark (2014).	Public	Agency, stakeholder, Stewardship.	Quantitative, Mixed Methods (Surveys, Document Analysis)
<b>Ethical Practices</b>				
<p>The audit committee is effective when:</p> <ol style="list-style-type: none"> <li>1. It conforms to ethical practices and</li> <li>2. The organisations embrace ethical practices.</li> </ol>	Wong (2012), Thomas & Purcell (2019).	Public	Agency, Institutional, Managerial hegemony, Resource dependence, Stewardship, Stakeholder, Behavioural.	Quantitative, Mixed Methods (Surveys, Document Analysis)
<b>A good relationship with Council and management</b>				
<ol style="list-style-type: none"> <li>1. Maintain a structured relationship with council and management.</li> <li>2. Transparent relationship and communication with council and management.</li> <li>3. Timeliness of reporting to council</li> <li>4. Rigour of debates</li> </ol>	Purcell, Francis & Clark (2014)	Public		Mixed Methods (Surveys, Document Analysis)

(Source: Own compilation)



With regard to the composition of audit committees, the research methodology applied to investigate the effectiveness of audit committees were that of mixed methods, quantitative and qualitative. Surveys and document analysis were employed to collect data. The studies were conducted in the private sector applying the following theories: agency-, actor-network-, institutional- and power theories. Studies by Ng (2013) and Feng (2014) found that the size of the audit committee influences its effectiveness. The audit committee size was a significant factor and positively influenced the effectiveness of the internal audit function as well as the external audit fees (Ng 2013:190; Feng 2014:72). According to Salehi and Shirazi (2016:1656), the effectiveness of the audit committee is also influenced by its independence - improving the financial reporting quality. An independent audit committee is defined as a committee comprised of members with no conflict of interest, who are not unduly influenced and who do not take bias decisions (IoDSA 2016:13). A minimum of three independent, non-executive members is recommended for the audit committee to be effective in an organisation, or a minimum of two independent members in a small organisation (FRC 2016:3). Also, the appointment of audit committees should be in accordance with the required criteria (Purcell, Francis & Clark 2014:363).

The number of meetings and the behaviour of audit committees are additional elements of an effective audit committee. The study by Nehme (2013:256) found that both independence of the audit committee and its size do not show a significant positive relationship with audit quality, instead, it was the number of committee meetings that influenced audit quality. Qasim, Muqattash and Al Barghouthi (2019:263) also associate the effectiveness of audit committees with the number of audit committee meetings held. As such, the Financial Reporting Council (FRC) (2016:4) in the UK recommends a minimum of three audit committee meetings a year to establish an effective audit committee. The study by Ng (2013:190) likewise supports the notion that effective audit committees have frequent meetings, especially to oversee the quality of the internal audit function, amongst other roles. Furthermore, the effectiveness of audit committees is associated with the audit committees behaving ethically and their strong will to exercise their powers when performing their roles (Tangruenrat 2013:6; Thomas & Purcell 2019:430). These studies were conducted in the private and public sector through surveys, using qualitative, quantitative and mixed methods research methodology. The theoretical

lenses applied were agency-, stakeholder-, legitimacy-, signalling-, institutional-, coping behaviour-, managerial hegemony-, resource dependence-, stewardship- and behavioural theories.

Another element linked to audit committee effectiveness is its expertise, including accounting expertise. The studies were conducted in the private sector using surveys and document analysis to collect data through quantitative and mixed research methods. The theories applied were the agency-, actor-network-, institutional-, stakeholder and power theories. The studies show that the audit committee possessing expertise, including accounting expertise, is associated with the improved quality of financial reporting and the effective functioning of the internal audit (Armitage 2011:99; Wong 2012:190; Ng 2013:190; Tangruenrat 2013:6; Feng 2014:72; Purcell et al 2014:363; Adams 2016:79; FRC 2016:3; Salehi & Shirazi 2016:1656; Qasim et al 2019:267). However, Nehme's (2013:256) findings indicate that the financial expertise of the audit committee does not influence audit quality, rather a sufficient number of audit committee meetings do, as auditors spend more time in an organisation that lacks an audit committee with financial expertise.

Therefore, based on the researched revelations in respect of the elements mentioned, the audit committees with accounting expertise and a sufficient number of meetings are those capable of monitoring and supporting the audit functions to an improved quality (Armitage 2011:100; Wong 2012:190; Nehme 2013:256; Ng 2013:190; Purcell et al 2014:364; Bonsu 2015:59; FRC 2016:3). The monitoring role of an effective audit committee is further extended to monitoring the risk of the organisation, organisational performance and governance processes (Thomas & Purcell 2019:418). Surveys and document analysis were employed to collect the data in the private and public sector, applying quantitative and mixed research methods.

Armitage (2011:102) and (Wong 2012:190) highlight the importance of having a comprehensive audit committee charter that is complied with by the audit committee. The audit committee charter must inform the audit committee, public sector officials and the public about the role, responsibility and authority of the audit committee. The charter must be reviewed annually (Purcell et al 2014:363). Purcell et al (2014:362) adds that the audit committee is effective when it has a structured, transparent relationship and communication with the council and management, resulting in rigorous debates and reports being timeously.

### **1.2.2.2 South African studies**

Table 1.2 presents some of the studies conducted in South Africa to investigate the effectiveness of audit committees and also the theories these studies applied. The elements that influence the effectiveness of audit committees according to South African studies are audit committee composition, characteristics and behaviour of the members, expertise, monitoring and reporting, compliance, relationship with management and training and self assessment of audit committee members. The research methodology, methods and theories employed by the reviewed studies are discussed in greater depth in section 1.2.2.3, to demonstrate the existing research gap.

**Table 1.2: Effectiveness of audit committees (South African studies)**

<b>Effectiveness of Audit Committee</b>	<b>Sources</b>	<b>Sector</b>	<b>Theories</b>	<b>Research methodology (Research methods)</b>
<b>Composition</b>				
The effectiveness of audit committees is determined by the: <ol style="list-style-type: none"> <li>1. Audit committee size</li> <li>2. Appointment process.</li> <li>3. The number of independent audit committee members.</li> </ol>	Marx (2008), La Grange (2015), Motubatse (2016).	Public and Private	Theory of differential liabilities.	Qualitative, Mixed Methods. (Case study, Surveys, Document analysis)
<b>Characteristics and behaviour of the audit committee</b>				
The effectiveness of the audit committee is determined by <ol style="list-style-type: none"> <li>1. The number of meetings held and attendance of members</li> <li>2. Behavioural traits and power.</li> </ol>	Van der Nest (2006), Marx (2008), Van der Nest (2008), Stamper (2011), La Grange (2015). Dlamini, Mutambara and Assensoh-Kodua (2017).	Public and Private	Theory of differential liabilities.	Qualitative, Mixed Methods. (Case study, Surveys, Document analysis)
<b>Expertise/ Skills</b>				
<ol style="list-style-type: none"> <li>1. The audit committee with expertise is effective in its role</li> <li>2. The accounting expertise of the audit committee.</li> </ol>	Van der Nest (2006), Marx (2008), Van der Nest (2008), Stamper (2011), Koranteng (2015), La Grange (2015).	Public and Private	Theory of differential liabilities.	Qualitative, Mixed Methods. (Case study, Surveys, Document analysis)
<b>Monitoring</b>				
The effectiveness of the audit committee is associated with <ol style="list-style-type: none"> <li>1. The monitoring capabilities and support of the internal audit and external audit function by the audit committee.</li> <li>2. Audit committee assessing management effectiveness through assurance reports</li> <li>3. Frequency of meetings between the audit committee and the internal audit function and external auditors.</li> </ol>	Van der Nest (2006), Marx (2008), Van der Nest (2008), Stamper (2011), Chaka (2013), Dlamini, Mutambara and Assensoh-Kodua (2017), Motubatse (2019).	Public		Qualitative, Quantitative, Mixed Methods. (Case study, Surveys, Document analysis)

Effectiveness of Audit Committee	Sources	Sector	Theories	Research methodology (Research methods)
<b>Compliance</b>				
Compliance with charter, legal requirements and best practices.	Van der Nest (2006), Marx (2008), Van der Nest (2008), Stamper (2011), Chaka (2013), La Grange (2015), Motubatse (2016).	Public and Private	Agency.	Qualitative, Quantitative, Mixed Methods. (Case study, Surveys, Document analysis)
<b>Management</b>				
The audit committee is effective <ol style="list-style-type: none"> <li>1. Leadership is stable and competent, especially accounting officer and chief financial officer.</li> <li>2. Constant communication between audit committee and accounting officer, chief financial officer and chief audit executive exist.</li> <li>3. The accounting officer and relevant senior management must attend audit committee meetings.</li> <li>4. When it maintains a productive and supportive relationship with management.</li> <li>5. When the agenda and supporting documents are provided timeously by the organisation to audit committee members to enable preparation for audit committee meetings.</li> <li>6. When administrative assistance and support is provided by the organisation.</li> </ol>	Van der Nest (2006), Marx (2008), Van der Nest (2008), Stamper (2011), Chaka (2013). Koranteng 2015, Dlamini, Mutambara and Assensoh-Kodua (2017).	Public and Private		Qualitative, Quantitative, Mixed Methods. (Case Study, Surveys, Document analysis)

Effectiveness of Audit Committee	Sources	Sector	Theories	Research methodology (Research methods)
<b>Training and self-assessment of audit committee members</b>				
<p>1. For the audit committee to be effective, the members must receive training and execute self-assessment of their performance.</p> <p>2. Both self-assessment and independent assessment methods should be used to measure the independent of audit committees.</p>	<p>Van der Nest (2006), Marx (2008), Van der Nest (2008), Chaka (2013), La Grange (2015), Dintwe (2016), Dlamini, Mutambara, &amp; Assensoh-Kodua (2017), Motubatse (2019).</p>	Public		<p>Qualitative, Quantitative, Mixed Methods. (Case Study, Surveys, Document analysis)</p>
<b>Audit committee reporting</b>				
<p>The audit committee is effective</p> <p>1. If its reports are of quality.</p> <p>2. If the audit committee Chairperson presents the report, not the Speaker of Council.</p>	<p>Marx (2008), Motubatse (2016).</p>	Public and Private	Theory of differential liabilities	<p>Qualitative, Mixed Methods. (Surveys, Document analysis)</p>

(Source: Own compilation)

As mentioned in section 1.2.2.1, the elements to understand the effectiveness of audit committees derived from the international studies reviewed, were those of audit committee composition, characteristics and behaviour of the members, expertise, monitoring, and reporting capabilities. Compliance, relationship with management, and the training and assessment of audit committee members, are additional elements arising from the South African studies.

The element “composition of the audit committee” was investigated with application to both the private and public sectors. Marx’s (2008:475, 476) study of the private sector recommends the composition of the audit committee as consisting of three independent non-executive members. According to Motubatse’s (2016:1) study of the public sector, audit committees are not effective when poor recruitment and appointment processes are implemented, resulting in incompetent, politically connected members being appointed by municipalities. Consequently, the independence of those members is impaired owing to conflict of interest. The independence of the members is necessary because it enables the audit committee to contribute to the good governance of the organisation (Marx 2008:463; Motubatse 2016:2, 6). According to La Grange’s (2015:163) private sector study, an independent audit committee adds value to the organisation as it allows external auditors to express their concerns about management without intimidation.

The characteristics and behaviour of audit committee members are other elements that influence the effectiveness of audit committees. Audit committee members must be diligent in attending meetings, be well prepared for those meetings and must actively participate (Van der Nest 2006:224; Marx 2008:374; Van der Nest 2008:186). For an audit committee and its meetings to be effective, a committed audit committee chairperson with good leadership qualities is required (Van der Nest 2006:224; La Grange 2015:163). Furthermore, Chaka’s (2013:158) study of local government determined that the frequency of meetings influences the effectiveness of audit committees. Marx (2008:374) and Dlamini, Mutambara and Assensoh-Kodua (2017:53) assert that an effective audit committee holds a minimum of four audit committee meetings in a year, whereas Stamper’s (2011:64) public sector study recommends a minimum of six audit meetings per year.

The audit committee members must be qualified, with expertise consisting of financial skills enabling them to assist the governing body with improved quality of internal controls, risk management, financial reporting and audits (Van der Nest 2006; Van der Nest 2008:180; Marx 2008:463; Koranteng 2015:67; La Grange 2015:163). Information technology- and legal skills are also recommended, for an audit committee to be effective (Stamper 2011:64; La Grange 2015:164). An audit committee with the necessary expertise will be capable of providing an oversight or monitoring role to external and internal audit functions, resulting in the improved quality of financial reporting (Van der Nest 2006:230; Marx 2008:408). Koranteng (2015:67) concludes that an organisation's staff members' competency and experience in financial management and regulations, and qualified and competent internal auditors further contribute to audit committee effectiveness.

According to Motubatse's (2019:119), the oversight role of the public sector audit committee must also include financial and risk management control. The assurance audit reports by these functions must be scrutinised carefully and reported on by the audit committee to the governing body, to promote the accountability of management's activities (Van der Nest 2008:186). Furthermore, the audit committee chairperson must have frequent meetings with the senior management of the internal and external audit functions (Stamper 2011:65; Chaka 2013:158; Dlamini, Mutambara & Assensoh-Kodua 2017:53; Motubatse 2019:119). The chairperson of the public sector audit committee must have direct access to the Chief Audit Executive (CAE) and the external audit function (Van der Nest 2008:186).

The audit committee must comply with its charter, legal requirements and best practices (Marx 2008:148, Stamper 2011:63; Chaka 2013:53-54; La Grange 2015:127; Motubatse 2019:119), although Van der Nest's (2006:223) public sector study declares that it cannot be assumed that audit committees are effective when they are compliant. Furthermore, audit committees are effective when they have a productive and supportive relationship with management (Chaka 2013:158; Koranteng 2015:67). The leadership of the public sector must be stable, with individuals preferably occupying their positions for a long period (Koranteng 2015:67), with the individuals being competent and experienced, especially the accounting officer and the Chief Financial Officer (CFO). Also, the accounting officer,



CFO, CAE and relevant senior managers must communicate constantly with the audit committee and be willing to diligently attend all audit committee meetings (Van der Nest 2006:225; Dlamini, Mutambara & Assensoh-Kodua 2017:53). Private sector CFOs find audit committees to be beneficial when they do not interfere with management duties but provide an oversight role (Marx 2008:392). Moreover, management must be willing to implement audit committee recommendations (Stamper 2011:65). The audit committee chairperson must have direct access to the accounting officer, who is the municipality's administrative head (Van der Nest 2006:225; Van der Nest 2008:186). Furthermore, the effectiveness of audit committees is also influenced by the administrative support they receive from the organisation and their preparedness for meetings, requiring the organisation to provide the agenda and the necessary documents timeously to audit committee members (Marx 2008:395, 472; Chaka 2013:158).

Audit committees must receive training, especially specialised training in finance that will enable them to identify maladministration and fraudulent financial transactions (Marx 2008:328, 396; La Grange 2015:163). Studies by Van der Nest's (2008:186) and Dlamini et al (2017:53) recommend an orientation program for new public sector audit committee members. All members must attend on-going learning programs that will educate them with regard to emerging risks and controls, and the internal audit function is expected to provide training to audit committee members concerning risk management (Chaka 2013:160; Motubatse 2019:119). Furthermore, audit committees should perform both self-assessment and independent assessment to examine whether they complied with the terms of reference (ToR), and to measure their effectiveness (Van der Nest 2006:227; Marx 2008:387; Chaka 2013:160; Dintwe 2016:227).

Finally, audit committee reporting is crucial as it enhances the confidence of the stakeholders (Motubatse 2016:2). Reporting is effective, in the municipal context, when it is presented by the audit committee chairperson, not the Speaker of Council (Motubatse 2016:4). Also, the audit committee annual report should be comprehensive, informing the users of the audit committee role and the results achieved during the year (Marx 2008:475). The review of existing research studies gave rise to the development of a research gap for this study.

### **1.2.2.3 Research gap**

In light of the researchs conducted and the factors identified as fundamental to effective audit committees, the South African studies provide fragmented views limited to specific case studies of municipalities. A holistic view from a variety of stakeholders from all categories of South African municipalities has not been obtained; leading to perspectives that will guide municipalities, audit committees and regulators such as National Treasury, provincial treasuries and SALGA on their role to enhance the effectiveness of audit committees. Motubatse (2016:200) supports the view that future studies should be undertaken to reveal more factors that will enhance the effective role of South African public sector audit committees.

Furthermore, the studies reviewed applied qualitative- (Stamper 2011; Tangruenrat 2013; La Grange 2015; Motubatse 2016; Motubatse 2019), quantitative- (Nehme 2013; Chaka 2014; Feng 2014; Bonsu 2015; Salehi & Shirazi 2016; Adams 2016; Thomas & Purcell 2019; Qasim et al 2019) and mixed- research methods (Van der Nest 2006; Marx 2008; Van der Nest 2008; Ng 2013). The following methods were employed to collect data: surveys (Van der Nest 2006; Marx 2008; Van der Nest 2008; Stamper 2011; Nehme 2013; Ng 2013; Tangruenrat 2013; Chaka 2013; Feng 2014; Bonsu 2015; La Grange 2015; Adams 2016; Motubatse 2016; Salehi & Shirazi 2016; Motubatse 2019; Qasim et al 2019), document analysis (Marx 2008; Nehme 2013; Feng 2014; Qasim et al 2019) and case studies (Stamper 2011; Chaka 2013; La Grange 2015).

These studies conducted using pre-existing factors derived from literature to determine the elements of the effectiveness of audit committees mentioned in tables 1.1 and 1.2, i.e. factors drawn from legislation, regulations, corporate governance codes, and best practice standards. None of the reviewed studies employed an exploratory focus group method, using the Interactive Qualitative Analysis (IQA) technique, to first gain the perceptions of stakeholders in investigating the effectiveness of audit committees, in a particular setting. The focus group method and IQA are the qualitative data collection techniques (explained in detail in section 2.5.2) utilised in this study to identify factors influencing the effectiveness of South African municipal audit committees. The approach of this study thus differs from the studies reviewed, as it derives factors that influence audit committee effectiveness at

the beginning of the study from individuals who have practical experience of the phenomenon, employing IQA. This leads to the identification and contextualising of factors directly attributable to the area of investigation. The literature study was then based on the empirical evidence.

Effectiveness of audit committees is defined in numerous ways. Effectiveness is defined as the capability of the audit committee in assisting the board with accomplishment of its responsibilities (Marx 2008:484), and improving corporate governance and accountability in the organisation (Van der Nest 2006:232), and compliance with regulations, audit committee charter and best practices (Stamper 2011:61). Thomas and Purcell (2019:418) define the effectiveness of audit committees as accomplishments and measurements of outcomes exhibiting a purposeful relationship between authority and audit committee composition. For the purpose of this study and from the review of past studies, an audit committee is effective when it is able to reach the optimal role of audit committees - accomplishing its goals and the goals of the organisation, and generating significant value to the organisation while complying with rules and regulations and behaving ethically.

The extant literature has extensively applied the agency theory (Nehme 2013; Ng 2013; Tangruenrat 2013; La Grange 2015; Adams 2016; Salehi & Shirazi 2016) as the grand theory for audit committee effectiveness, with only two studies not applying the agency theory (Marx 2008; Thomas & Purcell 2019). The theoretical research gaps and contributions by the agency theory are addressed by this study (refer to sections 1.6.1 and 6.5.2.2). Furthermore, there is a dearth of application of the resource-based view of the firm theory in public sector, as it is mostly used for strategic management research (Szymaniec-Mlicka 2014:27). This study has applied this theory to expand the existing literature concerning audit committees (refer to sections 1.6.2 and 6.5.2.1).

The next section provides a contextual review of South African municipalities in terms of their establishment, leadership and accountability. These elements give insight into the vital role of municipalities in society. In addition, the current state of municipalities is discussed to emphasise the need for effective audit committees.

### **1.3 Contextual review: South African municipalities**

A brief history of South African municipalities is necessary to understand the government's intentions in establishing the municipalities. Assessing the current state of municipalities, their leadership and accountability were necessary to establish whether they are achieving their mandate. The information so derived assists in determining how audit committees can be effective by assisting municipalities to achieve their mandate.

#### **1.3.1 Establishment of municipalities**

Legislation relating to municipalities was revised through three different phases to establish an all-inclusive and functioning local government:

1. The **pre-interim phase** when provincial administrators were appointed as temporary municipal councils from 1993-1995, to govern until municipal elections. The Local Government Transition Act, Act 209 of 1993, was developed during this stage to promote democracy in local government, including municipalities (SAG 1993; Binza 2005:79).
2. The **interim phase** took place from 1995-1999 when municipal elections for all citizens of South Africa ensued, using the old local government system. This phase transpired following the election of a democratic government in 1994, to meet the socio-economic needs of people irrespective of race and location (Binza 2005:79). The White Paper on Local Government, 1998, was designed during this phase (SAG 1998b).
3. The **final stage** of a democratic non-racial local government came about from the year 2000. New legislation and systems for local government were established and implemented (SAG 1998b; SALGA 2015).

Municipalities are established by the Member of the Executive Council (MEC) for local government in a province, in terms of the Demarcation Act, in an area approved by the Demarcation Board, in consultation with the Minister responsible for local government (SAG 1998a, s. 12(1); SAG 1998c, s. 22(1)). Municipalities are governed under the new local government legislation and systems. The Local Government Municipal Systems Act No. 32 of 2000 (SAG 2000) legislates the administration and management of municipalities. Functions, powers, rights and duties of municipalities,

administrators, municipal council and community, are defined by the Act. Municipalities are categorised into three categories (SAG 1996, s. 155(1); SAG 1998a, ss. 2-11) as indicated by table 1.3, based on their executive and legislative authority (SAG 1996; SAG 1998a).

**Table 1.3: Categories of South African municipalities**

Category	Municipality	Executive and Legislative Authority
Category A	Metropolitan municipalities	It has exclusive municipal executive and legislative authority.
Category B	Local municipalities	It shares municipal executive and legislative authority within a particular area with a district municipality.
Category C	District municipalities	It has municipal executive and legislative authority in an area that includes more than one local municipality.

*(Source: Own compilation)*

The combined categories of municipalities were 278 since 2011, reduced to 257 from 3 August 2017 to 2018. As mentioned, since 2017 there are eight metropolitan municipalities, 44 district municipalities, and 205 local municipalities in South Africa (National Treasury 2016b:82; SALGA 2016:280; Yes Media 2019:16). These municipalities are dispersed across the nine provinces of South Africa with a specific mandate. An effective municipal audit committee should possess the knowledge and capability to provide suitable advice, assisting the municipality in fulfilling its mandate of providing democratic and accountable government services to local communities (SAG 1996a, s. 152(1); Department of Cooperative Governance and Traditional Affairs 2009; SALGA 2015:23). Additionally, municipalities are mandated to develop the infrastructure, economy and social well-being of communities from self-generated revenue and government grants.

### **1.3.2 Leadership in the municipalities and establishment of audit committees**

It is a duty of the municipal council to promote good governance by municipalities (IoDSA 2016:80). The municipal council is the executive committee of the

municipality, politically elected by community members to fulfil their needs (SAG 1998a, s. 21(1)). The council appoints the municipal manager who is the accounting officer and also appoints audit committee members recommended by the accounting officer (SAG 1998a, s. 82(1)(a)(b); SAG 2003, s.166(5)). The accounting officer is the head of the administration (SAG 1998a, s. 82(1)(a)), responsible for the financial affairs and administration of the municipality (SAG 2003, ss. 62-65). The managers reporting to the accounting officer, are appointed to assist in the effectiveness of the financial management and administration of the municipality (SAG 2000, s. 6(2)).

Audit committees are established to be independent advisory bodies to the municipal council and the accounting officer (SAG 2003, s. 166(2)). The audit committee is a separate statutory committee, but still forms part of the municipal council (SAG 2003, s. 166(2)). According to the MFMA, municipal audit committees are tasked with the provision of advice to the municipal council, the accounting officer and the municipal management, in respect of matters relating to: internal control; internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; compliance with legislation; performance evaluation and any other issue referred to it by the municipality, as well as the review of the annual financial statements to provide the council with an authoritative and credible analysis of the municipality's financial efficiency, effectiveness and its overall level of compliance to legislation, reporting to the council on any issues raised by the Auditor-General in the audit report, and executing investigations into the financial affairs of the municipality (SAG 2003, s. 166(2)). A minimum of three independent persons, who are not employed by a municipality, can form an audit committee (SAG 2003, s. 166(5)). The scope of the audit committee serving the municipalities can be extended or stretched, when compared to the audit committees of national and provincial government as the same audit committee can serve in the district municipality, municipal organisations and local municipalities within the district (IoDSA 2014:2).

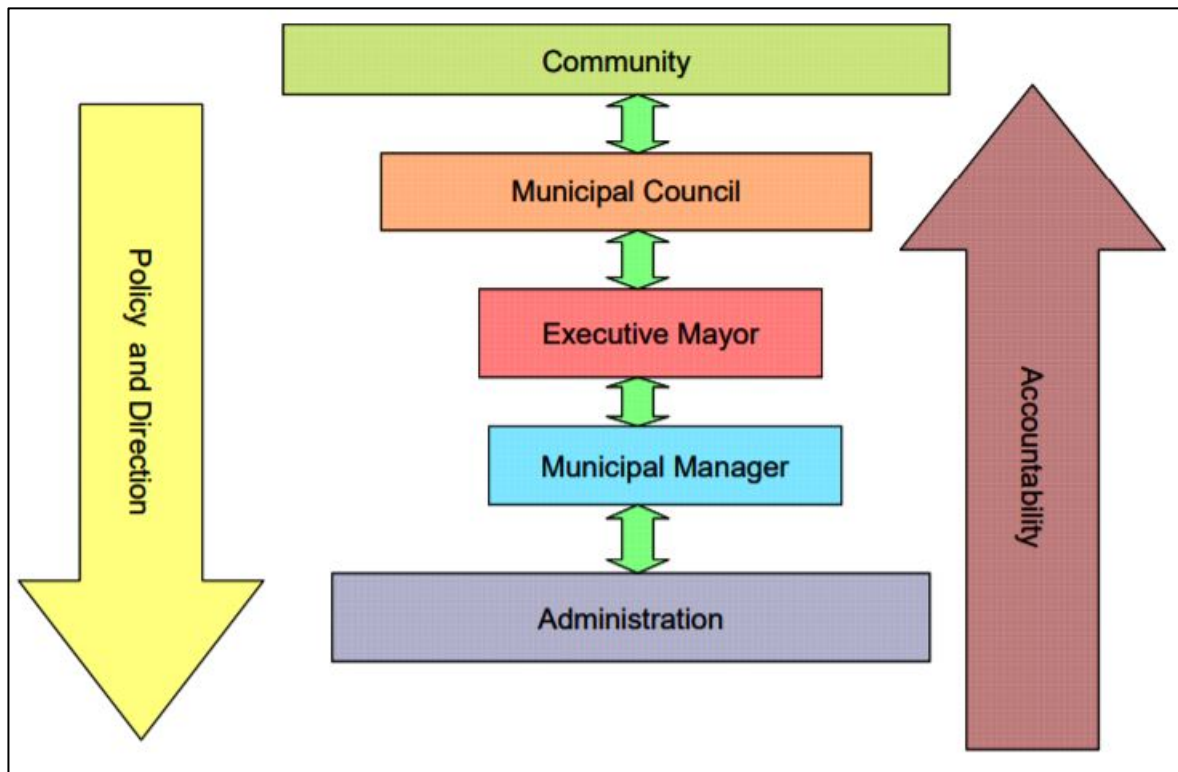
The best corporate practice guides in South Africa were drawn from the successive King reports I to IV (IoDSA 1994; 2002; 2009; 2016). The King Committee was formed in 1992 to establish a voluntary code of principles and best practices of good corporate governance, for South African listed organisations, known as the King

Report on Corporate Governance for South Africa (King I) (IoDSA 1994). The King Committee later developed King II, III and IV (IoDSA 2002, 2009, 2016) that also included the public sector. King IV is the latest best practice guide in South Africa (IoDSA 2016) that contains guidance on how the King governance codes and principles can be applied to municipalities. King III and King IV will be taken into account for the purpose of this study, since King IV was only published in 2016 and the municipalities in the study could only have applied King III as the latest report at the time of gathering the data.

The effectiveness of audit committees in performing their roles is influenced by, but not limited to, the application of MFMA legislation and best practices. Apart from adherence to legislation and best practices, the audit committee must be able to bring skills and expertise to the table, assisting the municipal council and management in improving the performance of the municipality (National Treasury 2012a:2). Therefore, the existence of effective audit committees in the municipal context is vital to ensure good governance practice. Audit committee advice on the systems of internal control, risk management, and governance, should add value to the administration and governing of the municipality.

### **1.3.3 Accountability**

Accountability and policy direction are illustrated in figure 1.1.



**Figure 1.1: Governance and accountability relationships within municipalities**

*(Source: SALGA 2011)*

The staff members of the municipality are accountable, administratively, to the accounting officer - as the head of administration. The accounting officer is accountable to the mayor, who is a member of the council. Eventually, the municipal council that includes the mayor, is accountable to the community (SALGA 2011:5). The policy direction starts from the community who are represented by the council. The policies must be implemented by the executive mayor, then accounting officer and the staff of the municipality.

Concerning irregular or fruitless and wasteful expenditure, the accounting officer reports to the mayor, the MEC for finance and the AGSA (SAG 2003). In addition to the above-mentioned parties, criminal offences need to be reported to the South African Police Services (SAPS), council, National Treasury and AGSA (SAG 2003, ss. 32(6)-(8), 175). Disruptive interference of the municipal council members in the financial and administrative matters of the municipality can be reported by the accounting officer to the Speaker of the municipal council (SAG 2003, s. 103).



The accounting officer must submit municipal reports, including annual reports, to the National Treasury or Provincial Treasury, The Department of Cooperative Governance and Traditional Affairs (hereafter referred to as CoGTA) in the province, the AGSA, the MEC for local government in the province or MEC for finance, and other organisations as required by law (SAG 2003, ss. 126-127). CoGTA oversees the implementation of the legislation in local government, including municipalities (Yes Media 2017:23). The National Treasury is responsible to establish accounting practices, norms and standards for the three spheres of government and enforces compliance (SAG 1996, s. 216). The provincial treasuries' role is to assist the National Treasury in enforcing adherence to the requirements of the MFMA by municipalities (SAG 2003, s. 5).

The MEC for local government in the province or the MEC for finance submit reports to the Minister (the Head of Treasury responsible for finance) and the National Council of Provinces (SAG 2000, s. 47). The reports must include the underperforming municipalities and remedial actions selected. The Minister will then report to parliament and the reports must be published in the Government Gazette (SAG 2000, s. 48(1)-(2)). Although accountability regulations are well documented, the state of municipalities is a concern and it appears that there are not sufficient consequences enforced for non-complying culprits (AGSA 2019:8).

#### **1.3.4 The state of municipalities in South Africa**

AGSA (2019:20) declared that accountability by municipalities is vital and employees must be held accountable for their actions and decisions. AGSA continues to report degenerating audit outcomes caused by the deteriorating accountability of financial- and performance management. Although accountability regulations are well documented, the state of municipalities is a concern and it appears that there are not sufficient consequences enforced for non-complying culprits. The municipalities with clean audit opinions have regressed from thirty-three (14%) during 2016-2017 to eighteen (8%) during the 2017-2018 period (AGSA 2019:20, 42). The total expenditure budget for the 2017-2018 period was R376 billion (AGSA 2019:42).

The South African Local Government Association (SALGA) (2015:62) acknowledges the existence of challenges and explains that:

- municipalities have limited resources and economic potential to cope with the increase in population and households;
- backlogs in services, developing new infrastructure and maintaining the existing infrastructure present a challenge to some municipalities, especially in rural areas;
- excess expenditure is caused by damage to infrastructure by local communities, illegal connections of electricity and community protests against unsatisfactory service delivery.

Studies by Ramutsheli and Janse van Rensburg (2015:115), and other views expressed by De Waal (2012) and AGSA (2016:2-3; 2019:47), provide some clarity on these challenges, that are mainly due to maladministration and operational failures of municipalities as a result of non-compliance with laws and regulations; deficient internal controls; poor management; unethical organisational culture; deficits in supply chain management, triggering unauthorised, fruitless and wasteful expenditure; inadequate contract management; deficiencies in human resources; high staff turnover at senior management levels; irregular or inappropriate appointments; incompetent municipality workers; vacant positions; and shortage of skills. Failure to properly manage municipalities results in the delay in development of infrastructure, economy and social improvement. Local communities are the ultimate stakeholders suffering from the delay that results from mismanagement.

Another challenge faced by municipalities, especially municipalities in rural areas, is insolvency. The municipalities in rural areas provide free basic services to the majority of their households and rely mainly on government grants to fund their operations (National Treasury 2016:80; 2020:72). Annual price escalation by suppliers of bulk services such as electricity and water exacerbates the problem. During 2015/2016 and 2017/2018 the rural district municipalities derived 80 per cent of their revenue from government transfers, in contrast to metropolitan municipalities' 19 per cent, as metropolitan municipalities possess a willing tax base from which they can generate their own revenue, with resources such as rates, levies and taxes (National Treasury 2016:81, 2020:72). Thus, poor municipalities' insufficient revenue and high dependency on grants, result in interruptions to infrastructure development and economic- and social development.

During 2013, municipal rate payers owed R87 billion in municipal services to their municipalities, that escalated to R98 billion debt during 2015 (SA Commercial Prop News 2013; Hampton 2015), with an increase of 14.7 per cent from 2017 to 2018 - recording a total citizen's debt consisting of R72,4 billion with R24.9 billion in debt written off in 2018 (Department of Statistics 2019; National Treasury 2020:74). The debt renders the municipalities unsustainable and unable to pay their suppliers and provide services. The municipal debt to Eskom, the national supplier of electricity, was estimated to be R23,6 billion during 2015, decreasing to R10.2 billion in November of 2016 and massively increasing to R450 billion during 2020 (Hampton 2015; Omarjee & Raborife 2017; Omarjee 2020). An Eskom debt recovery plan - comprising load reduction and hiking tariffs - has resulted in numerous legal actions by civil rights movements protecting the citizens (Omarjee & Raborife 2017; Omarjee 2020).

The courts have also been approached by communities who want the municipal council to be dissolved and for their municipalities to be administered by the provincial government, owing to poor service delivery (National Treasury 2020:75). An example of this kind of legal action is the dissolution of the Makana local municipal council by the court, directing that the municipality be placed under administration (Smit, 2020). Section 139 of the Constitution allows the provincial government to intervene and take over the administration of dysfunctional municipalities (SAG 1996, s. 139). This action may result in improved accountability by council and municipal employees to local communities.

The trend of municipalities placed under administration is continuing. During the period of 2009-2014, 29 municipalities were placed under administration, and 24 municipalities during 2018-2020, due to financial mismanagement, dysfunctional councils and collapsing infrastructure (eNCA 2014a; Evans 2018, Davis 2020). Fifty-eight per cent of community protests between 2012 and July 2016 were reported to be related to dissatisfaction with municipal service delivery (Chigwata, O'Donovan & Powell 2016:15), while other grievances were identified as 15 per cent party politics, 14 per cent governance issues of financial mismanagement and corruption, 12 per cent socio-economics and 1 per cent other reasons. The outcome of these failures of poor or lack of service delivery to the residents has led to violent protests by citizens

against the leadership of the municipalities. The communities protest to communicate their frustrations, not only to the leaders of municipalities but also to the entire country, through media coverage.

Almost two thousand major protests regarding poor municipal service delivery have occurred from 2004 to 2019. Gauteng province has experienced the highest number of protests, followed by KwaZulu-Natal (Municipal IQ 2020). It could have been easily assumed at the advent of democracy that, with the implementation of the new Constitution, previously disadvantaged citizens will be happy and satisfied. However, the opposite seems to be manifesting. The protests demonstrate that citizens are unhappy with the service delivery by their municipalities. It is evident that the municipal councils and management require assistance to keep their local communities satisfied within the parameters of service delivery and legislative mandate. The National Treasury introduced a new municipal systems improvement grant that will help poor-performing municipalities to improve the billing system in collecting revenue, performance management and record-keeping (National Treasury 2016:83). Therefore, effective audit committees are expected to assist the municipal council and management by providing the necessary, suitable advice that will result in improved service delivery and a reduced number of, or zero protests. The audit committees are key governance structures that can contribute to assisting municipalities with utilising their resources effectively and satisfying their customers (local communities).

The effectiveness of audit committees in the context of the challenging condition of South African municipalities, is worth investigating by formulating the research problem and describing the research objectives that can result in an outcome of improved effectiveness of audit committees. The research problem and research objectives are discussed in the next sections.

#### **1.4 Research problem and contextual gap**

Although municipal audit committees are established and operational, municipalities still experience challenges in many areas. As mentioned in sections 1.3.2 to 1.3.4, municipalities continue to experience limitations in governance, internal controls, risk management, compliance, and lack of accountability, resulting in poor service delivery and fraudulent activities (AGSA 2016:2; AGSA 2019:20, 51). Due to the

persistence of municipal mismanagement and corruption, the effectiveness of audit committees is questioned.

Audit committees appear to lack the ability to influence municipalities to attain their legislated objective of complying with legislation and policies. It is questionable whether municipal audit committees are delving into the tough questions that will guide them to bestow advice that could improve the systems of internal controls, risk management and governance, and also produce credible financial statements, amongst other aspects. The audit committee's inability to fulfil an advisory role that improves the governance by municipalities, is in contradiction to their legislated mandate and thus render them ineffective. As a result, a contextual gap in assessing municipal audit committee effectiveness from the perspective of stakeholders, still exists and is alluded to the in next paragraph.

Despite the numerous municipal difficulties that can be linked to the ineffectiveness of its audit committees, additional factors that may influence audit committee effectiveness need to be identified by relevant stakeholders.

Therefore, taking the above into account, the research problem is formulated as:

*In the face of malpractice, maladministration and poor service delivery prevailing in South African municipalities - while being advised by audit committees on aspects such as good governance, effective internal controls, risk management, performance management and compliance - the effectiveness of audit committees as an advisory body is questionable and requires further investigation, using the lens of the theoretical framework of this study, namely agency theory and the resource-based value of the firm theory.*

### **1.5 Research objectives**

The study addresses the research problem by engaging relevant key municipal stakeholders and obtaining their view on the factors influencing the effectiveness of audit committees. Stakeholders' perceptions were considered to direct the focus of the study's literature review. Therefore, the primary research objective is formulated as follows:

**PRO1** To propose a framework for enhancing audit committee effectiveness in South African municipalities.

To achieve the primary research objective, the following secondary research objectives (SRO) are formulated:

**SRO1** To identify the factors influencing the effectiveness of the audit committees in South African municipalities, obtained from 1) stakeholders of municipalities and 2) audit committee members (refer to chapter 3).

**SRO2** To further explore the factors identified by the focus groups through a literature study, linked to theories and best practices (refer to chapter 4).

**SRO3** To obtain input from stakeholders on the relevance and comprehensiveness of the framework developed from the focus group data and literature, and refining the framework (refer to chapter 5).

This research study is underpinned by theories supporting the reasoning of issues pertaining to the phenomenon under investigation.

## **1.6 Theoretical framing**

A theory can be regarded as logic or scientific reasoning that provides the foundation and acceptable meaning to a phenomenon (Van Maanen, Sorensen & Mitchell 2007:1146; Cortina 2016:1142). In this study, the theories applied to provide foundational meaning to the role of audit committees, are agency theory as a grand theory, and the resource-based view of the firm theory, applied contextually. Hegazy (2015:89) supports the view that the agency theory should be employed with other theories as it has limitations and is primarily used in the private sector. Furthermore, Bettis, Gambardella, Helfat and Mitchell (2014:1413) argues that traditional theories are still relevant, but their concepts, assumptions and relationships can be enhanced. In this study, both theories are expanded on, to create an elucidated understanding of the effectiveness of audit committees in municipalities.

### **1.6.1 Agency theory**

The concepts, assumptions and relationships of the agency theory were examined and enhanced by applying the five building blocks of Lange and Pfarrer (2017:410). The five core building blocks, namely: 1) common ground, 2) complication, 3) concern, 4) course of action, and 5) contribution were used to determine possible theoretical contribution. The common ground is what we know about the theory, the

complication represents the inadequacies of the theory, the concern is an explanation of why the inadequacies matter, course of action addresses how the complication can be resolved and lastly, the contribution that is a discussion concerning the value that the course of action will contribute (Lange & Pfarrer 2017:408-411). The common ground, complication and concern of the theory are discussed in this section while the other elements (course of action and contribution) are addressed in section 6.5.1.2.

#### **1.6.1.1 Common ground**

The theory concerns itself with the relationship between a principal (owner of the business) and the agent (management of the business) – the aforementioned being employed by the principal to perform tasks that will benefit the principal (Donaldson & Davis 1991:50). The principal is the party that owns the organisation and pays agency cost, to ensure that the agents are performing the activities on its behalf, as intended. The audit committee, with its role of oversight (Cadbury 1992:22, s. 4.33; USAG 2002, s. 301(2); GFOA 2008:1; IoDSA 2016:55; Zhang & Rich 2016:439) therefore represents agency cost to the principal, hence the agency theory is the dominant theory in the study of audit committees.

The agency theory has two streams of principal-agent that have 1) a basic mathematical proof of principal-agent relationship and is non-empirical focused and 2) a positivist stream that is empirically focused (Kivistö 2007:8-9). The example of the first stream is a basic relationship between an employer and an employee. Positivist stream includes intra-organisational principal-agent relationships that will include structures such as governance that will reduce the self-interest of the agent (Jensen 1983:334; Eisenhart 1989:59). The assumptions of the principal-agent relationships are goal conflict and informational asymmetries (Kivistö 2008:341). Goal conflict occurs when the agent has different goals from the principal, whereby the agent fail to act in the best interest of the principal, but acting in self-interest instead when making decisions (Eisenhardt 1989:58). Agents' goals may conflict with those of the principal and they may seek to advance themselves by utilising the principal's business and resources. The goal conflict assumption may occur in municipalities. Agents such as management and internal auditors may have conflicting goals from that of the principal. Hence the need for structures such as

audit committees, a governance structure that can monitor or oversee the agents (Fama & Jensen 1983:314; Rich & Zang 2014:62; Hegazy & Stafford 2016:848; Thomas & Purcell 2019:418).

The second assumption in agency theory is information asymmetry assumption, which refers to instances whereby agents are at an advantage because they have distinct information that the principal does not have (Waterman & Meier 1998:176-177 & 183; Ben-Ner, Ren & Paulson 2011:613). In municipalities, agents such as management and internal auditors have better technical skills and knowledge than the principal on how municipalities operate. In the public sector context, the principal is the public – the citizens (Alqudah, Amran & Hassan 2019:69). The council members are the representatives of the public within the municipality. Therefore, a risk exists whereby the principal (public) cannot control the agents because of their lack of knowledge.

The existence of both goal conflict and information asymmetry results in agency problem known as moral hazard problem or adverse selection (Eisenhardt 1989:61; Petersen 1993:280-281). The moral hazard problem exists in municipalities when the public as principal is not part of the day-to-day operations of municipalities and cannot observe and monitor the actions of the agents. The agents may act in an opportunistic manner without the knowledge of the principal. To reduce or eliminate the moral hazard problem, the principal must incur agency costs (Jensen & Meckling 1976:308). In addition, the principal must have outcome-based and behavioural based contracts with agents (Kivistö 2008:342). The principal must pay agents to perform their work as per the goals in the contract. Also, agency cost includes payments made to governance structure such as audit committees to monitor management and internal auditors who are agents. Subsequently, the agency theory strengthens governance in organisations such as municipalities.

#### **1.6.1.2 Complication**

The agency theory is clear about the three parties involved: the principal, the agent and the monitoring body. However, there are complexities in the principle-agent relationship in local government, for example the accountability relationships. The same stakeholder in local government can take both roles in the principle-agent relationships. The principal-agent accountability roles of the main stakeholders in the



municipalities are categorised as follows: 1) The public, as the principal (Nyman, Nilsson & Rapp 2005:125-126). 2) The council that was elected by the public, as a governing body, has multiple principal-agent relationships which have a reciprocal role of both principal and agent (Nyman et al 2005:125 & 127). Council becomes a primary agent when the public uses its voting powers to appoint them, but council takes a different role of a principal when council contractually appoints committees such as audit committees to reports to them. Council and agents can have a result-oriented contract that will hold agents accountable and will control the behaviour of the agents (Nyman et al 2005:125 & 130). It is crucial that council provides clear operational objectives and guidelines to the agents to prevent asymmetry of information (Nyman et al 2005:130). When objectives and guidelines are set for agents, council will have coercive power to dismiss members of the committees who fail at delivering their mandate.

This study, however, holds a different view from Nyman et al (2005:125 & 127) concerning the position of council in the principal-agent structure, whereby council is seen to have both agent and principal role. The agency theory does not cater for the growing number of stakeholders in an organisation (Kivistö 2008:346). Classification of council as both agent and principal is limited to a bilateral relationship of agency theory. This study classifies the role of council as the role of a proxy to the principal. Council represents the principal, which is the public, that voted them to power. It means that the primary role of council is to act on behalf of the principal (the public), hence they are proxy. They are accountable to the public. 3) Municipal management, staff members and auditors as agents. 4) The Municipal Public Accounts Committee (hereafter referred to as MPAC) are the monitoring body. 5) Audit committees in South African municipalities advise the proxy and the agents.

The current form of agency theory does not consider additional parties such as proxy who are council members. A proxy may cause agency problem or moral hazard problem whereby their goals differ (goal conflicts) from the principal and it may occur that the proxy are more competent than the principal (informational asymmetries). The proxy is missing in the principal-agent structure. [**Theoretical gap**].

Furthermore, agency theory assumes that agents are those individuals employed by the organisation and does not take into account the complex structure of the public

sector, where an agent can be a party that is not directly employed by the organisation. The theory is not clear as to whether parties that are not employed by the organisation - i.e. in the case of municipalities: employees of the National Treasury and provincial treasuries, CoGTA, SALGA and Provincial legislature, MECs for local government and the Cabinet member responsible for local government (SAG 2003, ss. 127-134) - can be classified as “agents”. The treatment of the goal conflict and information asymmetries of external stakeholders is not addressed in the agency theory. **[Theoretical gap]**.

Although agency theory is found to be relevant in this study, it is crucial to note its limitations. Kivistö (2008:346-347) discusses the limitations as follows: The agency theory has a narrow perspective of human behaviour. The theory assumes that people are not trustworthy and have self-interest. The agency theory ignores the broader range of motives of agents. It also limits the principal losses to agents’ opportunistic behaviour. Furthermore, the socio-cultural aspects of the organisation are ignored by the theory, it only focuses on the economy and the formal structure of the organisation. Also, the justification of principal goals is not assessed. The agency theory is unable to appropriately include all possible stakeholders of the organisation in its structure of principal and agent.

In addition to the listed weaknesses, the broader range of principal goals is not addressed by the theory. The goals of the principal should not be limited to monitoring the goal conflicts and information asymmetries using agency costs and contracts. In some instances, the role of the governing body such as audit committees is not just limited to monitoring, but also advisory. For instance, in the case of South African municipalities the audit committee members are appointed by the municipal council to advise the council and municipal management on financial and non-financial issues (SAG 2003, ss. 166(2), 166(5)). Their role is to assist the agents, who are the management, and stewards, who are council, to attain the principal’s objectives (Thomas & Purcell 2019:419). However, this advisory role is not featured in agency theory, only the monitoring role of agency problems **[Theoretical gap]**

Figure 1.2 illustrates the South African municipal structure and relationships thereof when applying agency theory.

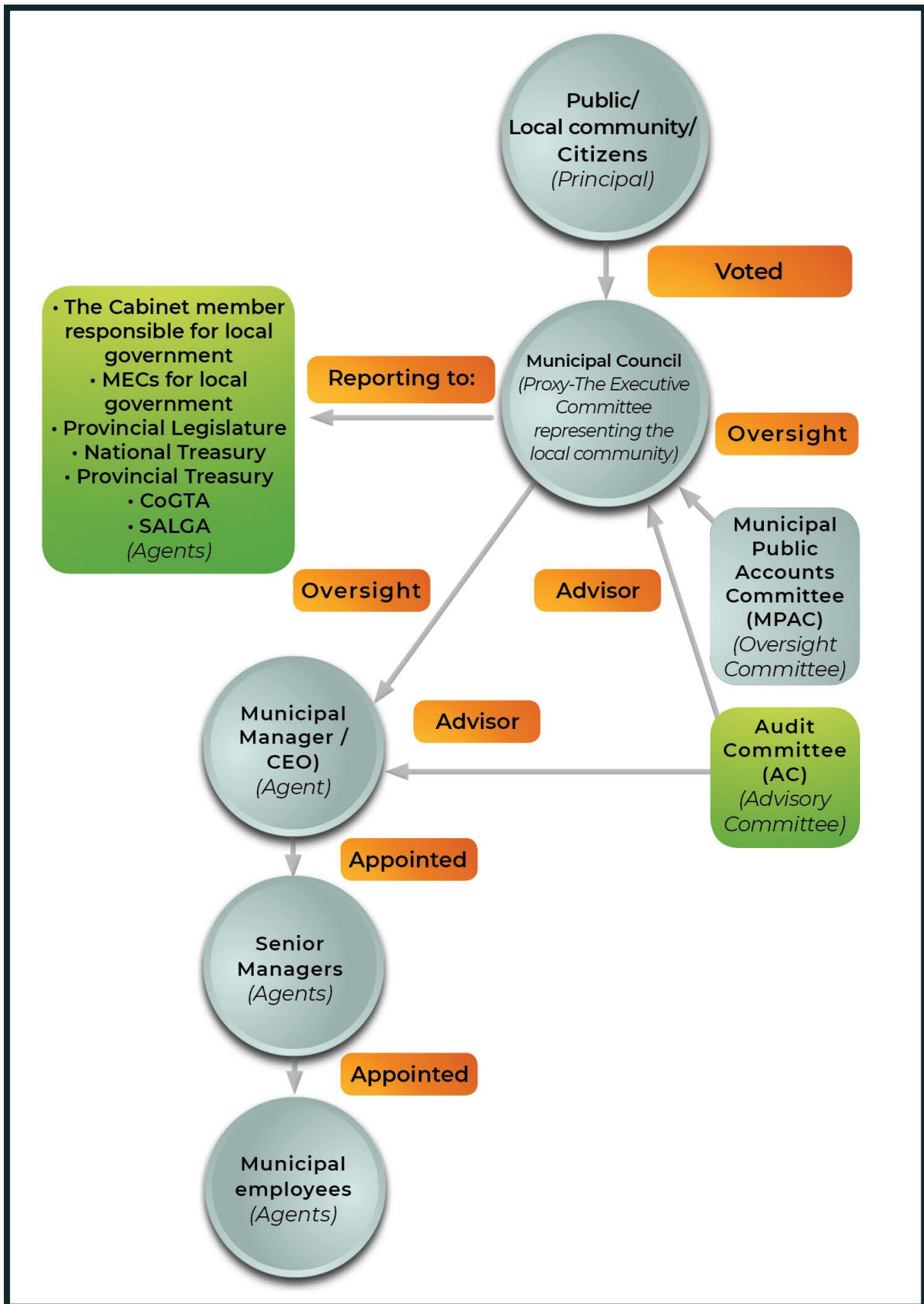


Figure 1.2: Municipalities' structure and agency theory relationships

(Source: Own compilation)

The structure consists of the local community (the principal), the proxy (municipal council) that is elected by the local community and mandated to monitor the agents, who are the employees of the municipalities (accounting officer, senior managers, internal auditors and other staff members).

### **1.6.1.3 Concern**

The aforementioned limitations of the agency theory, represents an area where the agency theory may be expanded on. These shortcomings limit the theoretical and practical understanding of other/additional parties. The agency theory does not accommodate assumptions regarding the goal conflict and information asymmetries of the proxy, and those of external parties not employed by the organisations. **[Theoretical gaps]**. Therefore, in complex environments such as public sector organisations, the agency theory needs further exploration. For example, the proxy, employees of the National and Provincial treasuries, CoGTA, SALGA and Provincial legislature, MECs for local government and the Cabinet member responsible for local government, may hold goal conflict and information asymmetries in the following manner: they may be in cahoots with managers or councils for selfish reasons; they may form syndicates that influence the appointment of municipal officials to execute the bidding of their political masters by committing criminal acts; they may seek to advance their political careers by taking decisions that will benefit a particular political party and not the needs of their respective communities; they may use their mandate and knowledge, to formulate internal policy, to benefit themselves and not the municipality and community; they may use the strategies and programmes not to address the needs of the local communities, but of self, i.e. approve budgets that will not prioritise the community's needs but that of self; they may appoint an accounting officer that does not possess the necessary skills of financial management and administration, but is willing to serve their selfish needs; they may support the appointment of audit committee members whose independence is impaired, to serve their own interest, and may accept and support annual reports containing material misstatements.

Furthermore, the impact of an audit committee ensnared by the principal or proxy, can bring about devastating results. The audit committee can have a goal conflict and information asymmetries and be dishonest when reporting issues. The

committee may fail to conduct proper investigations into the financial matters (SAG 2003, s. 166(2)(d)) of the organisations, owing to a conflict of interest. It is a concern that the agency theory does not explicitly classify the advisory cost as agency cost especially if it reduces the risk of the agency problem.

### **1.6.2 The resource-based view of the firm theory**

The resource-based view of the firm theory is a strategic management theory that emphasises the use of resources and capabilities as crucial to determine strategies leading to a sustainable competitive advantage for the organisation (Barney 1991:101; Holdford 2018:1; Gao, Tate, Zhang, Chen & Liang 2018:47; Shan, Luo, Zhou & Wei 2018:407). In the application of this theory, it is important to know and understand the concept of a “resource”. Resources have traditionally been defined as “...*all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc....*” that are controlled by the organisation for implementation of improved, effective and efficient strategies (Barney 1991:101). The definition was extended by recent research from tangible or intangible assets (Wernerfelt 1984:172) to anything internal or external that can be utilised to support the envisioned objectives (Greer, Lusch & Hitt 2017:139). Barney (1991:101) divides the resources into three categories, namely physical capital resources, human capital resources, and organisational capital resources. First, the physical capital resources refer to assets, physical technology, geographic location, and access to raw material. Secondly, human capital resources refer to management and workers, training, experience, judgement, intelligence, and relationships. Lastly, the organisational capital resources include the reporting structure, planning, and the controlling and coordination of systems.

The resource-based view of the firm theory is applied as a mid-range theory in this study. The intention of the mid-range theory is “*to apply to specific kinds of contexts*” (Sanchez & Heene, 2017:1). Relevant tenets from the resource-based view of the firm theory are therefore incorporated into this study to enhance the effectiveness of audit committees. The theory is often applied to the private sector, however, due to the advancement of the public sector, the public administration literature has applied this strategic management theory (Boyne & Walker, 2010:185). The theory is therefore suitable for municipal administration. The first aspect to support the

application of this theory is the New Public Management concept of promoting the transformation of public administration by employing private sector management styles (Hegazy & Stafford 2016:848). The second endorsement for the application of this theory is that it is used to provide strategies to improve the audit committee's role in respect of the municipality.

Although the theory has been applied in the public administration literature, this theory has been neglected in the literature of audit committee effectiveness (refer to tables 1.1 and 1.2). In the literature that has been reviewed, only Al-Shaer (2014) applied the theory to understand the relationship between audit committees, corporate environmental disclosure, and environmental reputation, however, the theory has not been applied to evaluate the effectiveness of audit committees. Hence, the gap has been identified as the application of the theory (Alvesson & Sanberg 2013) on the phenomena of audit committee effectiveness. The application of this theory may provide a broader and valuable perspective of South African municipalities and their audit committees. It can potentially provide guidance on the type of resources and procedures needed to enhance the effectiveness of the audit committee. Therefore, this study applies the resource-based view of the firm theory to extend and complement the existing literature on the effectiveness of audit committees.

The public sector controls its own resources and needs capabilities to govern and administer those resources (Klein, Mahoney, Mcgahan, & Pitelis 2013:70). The public sector organisations are supposed to use resources to deliver the greatest value to the public at a reasonable cost (Bryson, Ackermann & Eden 2007:702). Furthermore, there is a link between the performance of the resources that have a competitive advantage and the culture (internal characteristics) of the organisation (Vargas-Hernández & Garcia 2018:233). Competitive advantage means that the organisation uses its resources to perform better than its competitors (Ologbo, Oluwatosin & Okyere-Kwakye 2012:367). It is the ability of the organisation to create a value-adding strategy that cannot be simultaneously implemented by competitors. When the competitive advantage can be sustained by the organisation for a longer period, it is referred to as sustained competitive advantage (Barney 1991:102).

The first assumption by the resource-based view of the firm theory for sustained competitive advantage is that the organisation must be heterogeneous, meaning the organisation must have resources that are different from other organisations. Secondly, the resources must be immobile, meaning the organisation must be in a position to create entry barriers – preventing other organisations from implementing their strategy (Barney 1991:105). The organisation must also have four attributes aligned to the assumption of the theory, namely: 1) *value*-use its resources to exploit opportunities and neutralise threats; 2) have *rare* resources; 3) have *imperfectly imitable* resources that cannot be obtained by competitors; and 4) no *substitutability* - competitors should not be able to acquire the same strategy and/or results when attempting to substitute their resources to be equivalent to that of the organisation (Barney 1991:105-112).

It is difficult to prove sustainable competitive advantage in the public sector because of heterogeneity, immobility, rarity, inimitableness and non-substitutability. These elements of competitive advantage cannot be applied to municipalities, since their purpose is not commercial gain – they do not have competitors in their main offerings of basic services, i.e. electricity, water, waste management. The established nature of an municipality does not allow to compete against each other but rather to collaborate, by assisting and supporting one another (SAG 1996, s. 155). The public sector organisations engage cooperatively amongst each other in matters such as developing policies and service delivery strategies to benefit the public (Matthews & Shulman 2005:233). It is thus implied that several municipalities can have the same value-adding strategy and implement it simultaneously, resulting in non-compliance with the assumptions and attributes of sustainable competitive advantage as directed by the resource-based view of the firm theory.

Strategy in the public sector differs from the private sector. The private sector strategy is concerned about competing with rivals while strategy in the public sector is about taking actions that can lead to changing current circumstances to be better and realising the opportunities to achieve the desired goal of the organisation (Rubin 1988: 88). Two of the four outcomes of applying the theory are improved performance and value creation (Ologbo, Oluwatosin & Okyere-Kwakye 2012:367). The outcomes are relevant to the public sector as the study aims of bringing

valuable inputs that will enhance the performance of audit committees. Therefore, applying this theory, the audit committee could advise on valuable innovative ways that can improve the processes, procedures and performance of the municipality and its service delivery.

Critical steps were followed to investigate the phenomenon and to achieve the research objectives. The next sections, consisting of the research design, the conceptual framework and the layout of the study, describe the flow of the study and how research objectives are achieved, concluding with the significance of the study. The scope and limitations applicable to this study are first discussed, to provide context.

### **1.7 Scope and limitations**

The study is limited to South African municipalities. The themes that are explored in the study are limited to those formed from the focus group results and the literature study focuses on those themes only. A qualitative research methodology was applied and although participants in the focus groups and interviews were limited, sufficient participation was achieved to provide significant and valid statements for the purpose of this study (refer to sections 2.5.2.1 and 2.5.4.1).

### **1.8 Research design**

The researcher followed the research philosophies of common beliefs and assumptions to achieve the research objectives. The elements of a research paradigm of ontology, epistemology, research methodology and axiology were applied (Guba 1990:18; Mertens 2007:215). Table 1.4 illustrates the research design used in this study, discussed further in chapter 2.



**Table 1.4: Research design**

<b>PARADIGM</b>	<b>Ontology</b>	<b>Epistemology</b>	<b>Research Methodology</b>	<b>Axiology</b>
	Nature of reality	Nature of knowledge	The research approach used to acquire knowledge	Nature of value and ethics
<b>RESEARCH DESIGN</b>	<i>Constructivism</i>	<i>Interpretivism</i>	<i>Qualitative</i>	<i>Ethical considerations</i>
	<b>Phenomenology</b>			
	Individual experiences			
<b>RESEARCH METHODS</b>				

**Focus Groups**

Interactive Qualitative Analysis (IQA) Technique

To identify the factors influencing the effectiveness of audit committees in South African municipalities, obtained from 1) stakeholders of municipalities and 2) audit committee members.

*(Refer to chapter 3)*

**Literature review**

To further explore the factors identified from the focus group results through a literature study, and to identify best practices.

*(Refer to chapter 4)*

**Survey**

*Interviews*

To obtain input from stakeholders on the relevance and comprehensiveness of the framework developed from the focus group results and literature. This also led to refining the framework.

*(Refer to chapter 5)*

*(Source: Own compilation)*

Given the research problem and research objectives, the choice of a constructivist/interpretivist paradigm was consistent for this study. The methodological approach consists of gathering evidence, through qualitative methods, from experienced individuals who are familiar with the phenomenon and have opinions about the effectiveness of audit committees. The research methods are focus groups, using IQA techniques, and a survey, employing interviews.

The study does not consider preconceived measurements of audit committee effectiveness derived from the literature. Instead, it allowed key stakeholders of the municipalities to record new insight into the phenomenon. Conventional content analysis was used to analyse the interview data, in order to refine and test the draft framework (Hsieh & Shannon 2005:1279). The data collected from the stakeholders were analysed in the following manner: data condensation; data display and conclusions; and drawing and verifying (Miles, Huberman & Saldana 2014:14). Data

condensation is the process whereby the collected data is simplified and, where necessary, combined, to emphasise the core information without diluting the quality. The process consists of coding, developing themes and categories, and writing summaries (Mayer 2015:58). The data is then assembled and displayed in graphs and matrices that support the conclusion (Miles, Huberman & Saldana 2014:13). The researcher drew conclusions based on the condensed and displayed data and proceeded to assess the trustworthiness of data (Punch 2009:174-175).

The trustworthiness of data was achieved by applying the criteria of credibility, transferability, dependability, confirmability and reflexivity (Northcutt & McCoy 2004:7; Denzin & Lincoln 2018:57). Triangulation of sources - using focus groups, literature and interviews as sources of data - peer review and member checks were employed to achieve credibility, dependability and confirmability of the data. Rich descriptions of the IQA and a semi-structured interview process and analysis, provided for transferability. Reflexivity was achieved with the researcher's acknowledgement of an own, subjective factor, that influenced the study.

The study is underpinned by the paradigm element of axiology that concerns itself with the nature of values and ethics (Mertens 2010:10; Saunders, Lewis & Thornhill 2016:128). The axiological skills of the researcher in this study are demonstrated by the application of the principles of Murphy and Dingwall (2001:339), namely: 1) the researcher did not harm the participants; 2) the research has positive and identifiable benefits; 3) the research participants' values and decisions were respected; and 4) all participants were treated equally. The researcher acquired ethical clearance from the University of South Africa's (UNISA) Ethics Committee to conduct the literature review, focus groups and interviews (refer to annexures 1 and 7). The sequence of annexures follows the flow of the study. The first annexure is the ethical clearance certificate, permitting the study, followed by annexures related to focus group data collection and IQA analysis. Thereafter, the draft Frameworks, compiled using the focus group findings and literature, are included. Amendments to compose the final Frameworks for audit committees and municipalities, are indicated on the same documents. Only the final Framework for the National Treasury, provincial treasuries and SALGA do not possess draft actions, as its development was prompted by the validated interview responses. The Frameworks are followed by annexures relating

to the interviews, including the ethical clearance certificate to conduct interviews. Finally, annexures relating to the analysis of the interview responses are listed.

The research participants signed their written consent and participated voluntarily. Confidentiality and anonymity of the research participants were upheld. The overall process of conducting the research was executed ethically and for the social good. The key point of the research is to promote the social good of the researcher as well as the practising and participating community (Biddle & Schafft 2015:330).

### **1.9 Conceptual Framework**

The conceptual framework is defined as the tool that visually displays the order or process of the study performed by a researcher, using a map (Weaver-Hart 1988:11; Miles & Huberman 1994:33). Berger and Patchener (1988:156-159) emphasise the importance of the researcher's map, as it assists to link theory, the research problem and the research objectives. Leshem and Trafford (2007:97, 103) go on to comment that the conceptual framework provides a clear path for the reader and examiners to understand how theory is linked to what the researcher aims to achieve and how it will be achieved. Some researchers distinguish between the conceptual framework and theoretical framework, considering the research underpinned by one theory as a theoretical framework, while the conceptual framework is formed when applying various theories (Parahoo 2006). It is, however, Green's (2014:35) contention that these terms can be used interchangeably and that researchers should not become entangled in a terminology debate. Nevertheless, for this study, the term "conceptual framework" is used to display the researcher's rigour in figure 1.3.

**RESEARCH PROBLEM**  
Maladministration and malpractice by municipalities that are advised by audit committees

Secondary Research Objectives (SRO1)	Methodology	Methods
To obtain key factors (affinities) from key stakeholders	Qualitative	Focus Groups (IQA Technique)

Secondary Research Objectives (SRO2)	Methods
To explore the literature on identified key factors (Developed a proposed framework)	Literature Review

**THEORETICAL GAP FOR THE GRAND THEORY & CONTRIBUTION**

**AGENCY THEORY**

**Gap:** The agency theory is silent about the proxy and external parties who are involved in the organisation. It is also silent about advisory services and the importance of measuring the effectiveness of agency costs.

**Contribution:** Develop an improved agency theory framework.

**CONTEXTUAL GAP & CONTRIBUTION**

**RESOURCE-BASED VIEW OF THE FIRM THEORY**

**Application Gap:** The resource-based view of the firm theory has been neglected in the audit committee effectiveness literature.

**Contribution:** Apply the resource-based view of the firm theory to themes in the literature to extend and complement the literature with a less used theory in audit committee effectiveness studies.

- Theme 1: Municipal administration**
- The use of physical capital resources, human capital resources and organisational capital resources to enhance municipal administration.
- Theme 3: The appointment of audit committee members**
- Apply the human capital resources antecedents dimension that deals with policies and practices of human resources management. Also apply heterogeneous and Valuable and Organisation as elements of the VRIO framework for the appointment of audit committees. Furthermore, apply the human capital resources type dimension criteria of knowledge, skills, abilities and other characteristics to improve the ethical conduct of audit committees.
- Theme 4: The competencies of the audit committees**
- Apply the human capital resources type dimension criteria of knowledge, skills, abilities and other characteristics to enhance the competencies of audit committees.
- Theme 5: Challenges the audit committee face when executing their mandate**
- Apply the human capital resources type dimension criteria of knowledge, skills, abilities and other characteristics to reduce political interference and for audit committees to gain influence and political buy-in.

**Additional theories used to define and explain some of the concepts**

- Theme 2: The audit committee mandate**

  - Neo-institutional theory to define the effective audit committee mandate.
  - Practice theory to examine the mandate of the audit committee.
- Theme 3: The appointment of audit committee members**

  - Social representation theory to describe risks associated with the appointment of audit committee members.
  - Expectancy theory of motivation to justify remuneration of audit committees.
- Theme 5: Challenges the audit committee face when executing their mandate**

  - Social judgement theory to justify the competencies that the audit committee should possess to be influential and to gain political buy-in.

Secondary Research Objectives (SRO3)	Methodology	Methods
To obtain input from various relevant stakeholders on whether the framework developed will address the research problem <i>(Refined the proposed framework)</i>	Qualitative	Survey <i>(Interviews)</i>

**Primary Objective**  
Develop a final Framework that will enhance the effectiveness of audit committees in South African municipalities.

**Conclusion & Recommendation**

Figure 1.3: Conceptual framework

(Source: Own compilation)

The theories used were drawn to make up a conceptual framework to respond to the comprehensiveness of the study that involves different stakeholders from multiple sectors. The framework furnishes the basis for positioning the grand theory and other theories to address the substantive or middle range and practice theory landscape.

### **1.10 Significance of the study**

Theoretically, the study is significant because it addresses a deficiency in agency theory and introduced new constructs of agency theory that can be applied in complex organisations, such as municipalities. Methodologically, the effectual approach of the study to first start out by presenting enquiries to the relevant and credible stakeholders in order to derive trustworthy factors that influence the effectiveness of audit committees, is valuable and significant. This approach revealed new factors and expanded an in-depth understanding of the participants' real-life experiences. It adds significantly to the literature in respect of the audit committee and municipalities.

Contextually, the factors that impact the effectiveness of audit committees revealed by the focus groups, literature study and interviews, can be applied to improve audit committee effectiveness in municipalities. The framework can be employed by audit committee members, municipal council and policymakers to render the necessary changes to policies, oversight and legislation with regard to organisations of the municipalities like MPAC, SALGA, the National Treasury, the Provincial Treasury, internal and external auditors, the local community, municipal management and staff, training providers, professional bodies and researchers, to improve audit committee effectiveness. The framework can also contribute to standards of best practices.

### **1.11 Layout of the study**

Figure 1.4 displays the flow of the study which is also the process that the study has followed and includes the layout of the chapters.

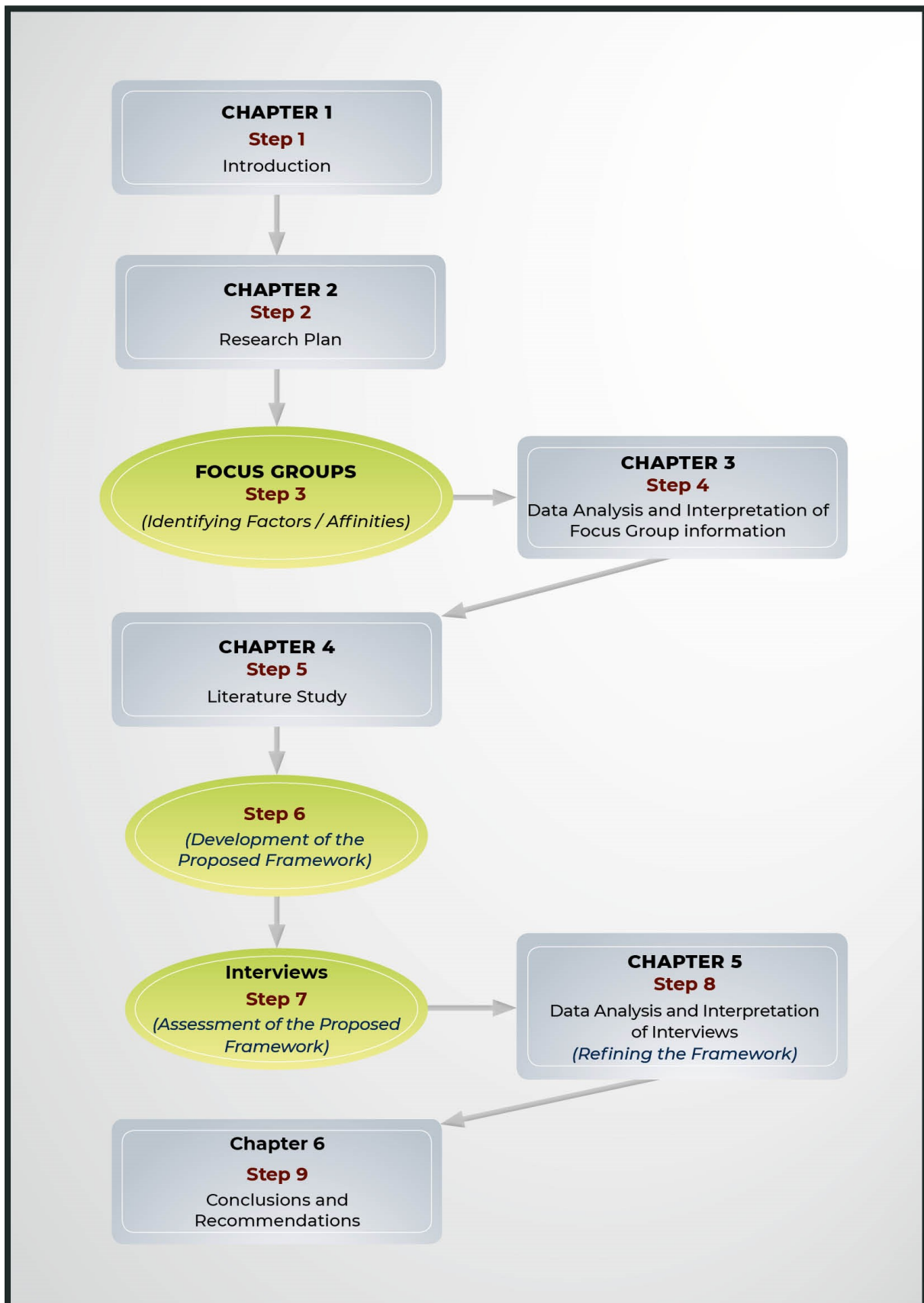


Figure 1.4: Layout of the study

(Source: Own compilation)

The layout of the study is as follows:

### **Step 1 (Chapter 1)**

The introduction of the study is presented in this chapter.

### **Step 2 (Chapter 2)**

The research plan is applied in this chapter.

### **Step 3**

The two focus groups were conducted with the stakeholders of municipalities and the audit committees of municipalities. The viewpoints of key stakeholders of the municipalities regarding the effectiveness of audit committees were obtained to identify the affinities (factors affecting the effectiveness of the audit committees) that will guide the study.

### **Step 4 (Chapter 3)**

The researcher analysed and interpreted the results of the focus groups.

### **Step 5 (Chapter 4)**

The identified affinities (factors affecting the effectiveness of the audit committees) are explored further, utilising the literature study.

### **Step 6**

The proposed framework is developed from the outcomes of the focus groups and literature study.

### **Step 7**

The framework was assessed by key stakeholders that can influence change in legislation, policies and practice. The stakeholders included regulators, municipal workers, audit committee chairpersons and other relevant stakeholders. Qualitative methods were used and interviews were conducted with these stakeholders.



### **Step 8 (Chapter 5)**

Data analysis and interpretation of interviews were performed, to refine the proposed framework.

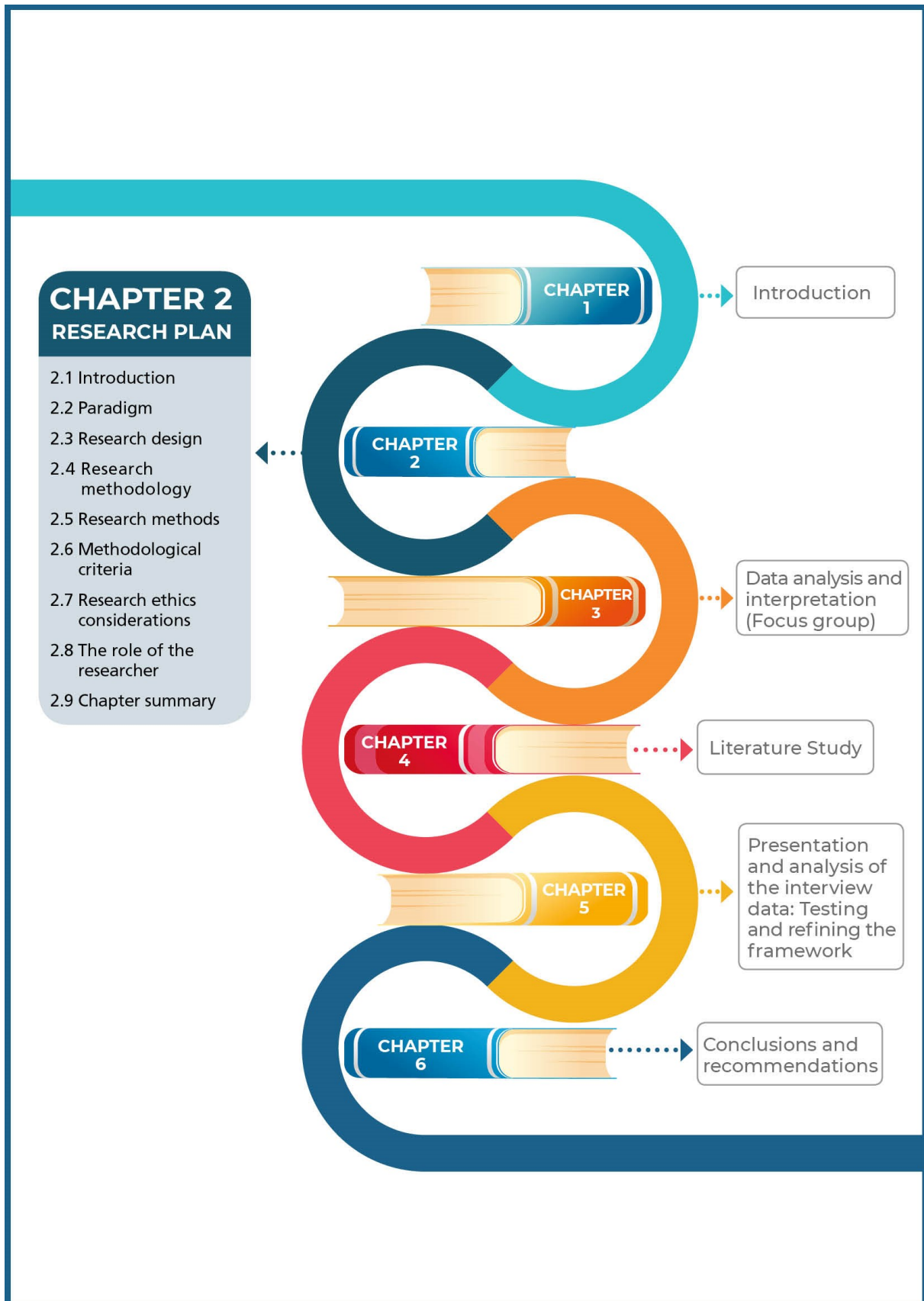
### **Step 9 (Chapter 6)**

Conclusion and recommendations about the study are recorded.

### **1.12 Chapter summary**

An overview of the background of audit committees is provided, as well as an introduction to the establishment and the state/condition of municipalities in South Africa. The role of audit committees in South African municipalities is explained. The research problem is presented, together with the research objectives. The need for the study is identified in the literature review section. The impact and the beneficiaries of the study were also identified. The scope and limitations of the study are discussed. The next chapter will explain the research paradigm adopted and the research methodology, methods, and design of the study.

## CHAPTER 2 RESEARCH PLAN



## **2.1 Introduction**

In this chapter, to begin with, the underlying philosophical system that underpins the study (paradigm) is discussed. Thereafter follow explanations regarding the research design, the research methodology or approach, the research methods employed and each methods' data gathering techniques and analyses to achieve the secondary research objectives (refer to section 1.5, table 1.4 and figure 1.3), that ultimately lead to achieving the primary research objective, namely developing a proposed framework that can enhance the effectiveness of audit committees in South African municipalities. Lastly, the methodological criteria for the specific research methodology followed, as well as the ethical considerations and the role of the researcher in the study, are discussed.

## **2.2 Paradigm**

A research paradigm is known as a common and universal belief system that brings about an understanding of problems and dictates the action required to address the problems (Kuhn 1962; Guba 1990:17; Johnson & Onwuegbuzie 2004:15). It is the philosophical base of the knowledge process (Crotty 1998:3). The elements of a research paradigm are ontology, epistemology, research methodology and axiology (Guba 1990:17; Mertens 2007:10; Denzin & Lincoln 2018:195). The ontology contains assumptions about the nature of reality, constructed by the worldview (Crotty 1998:10). The nature of reality, for this study, was constructed from multiple participants' views on a specific phenomenon, namely the effectiveness of the audit committee. The participants were divided into two groups. The first group was comprised of the 'users' of the phenomenon (demand side), namely stakeholders of the audit committee such as directors of national and provincial treasury, and consultants of the municipalities, as they understand the role of the audit committee and how it can be utilised for the benefit of the municipality. The second group included the 'owners' and 'regulators' of the phenomenon (supply side), namely audit committee members, members of the National Treasury and SALGA. The reason for this grouping was to understand the reality of the phenomenon from the perspective of those who experience it first-hand. This approach of constructing reality from the participant view, is called constructivism (Denzin & Lincoln 2018:56).

The second component of the paradigm, namely epistemology, is the global view concerning the nature of knowledge and how the world can be known (Crotty 2003; Sandoval 2005:635). The epistemological position for this study is that of interpretivism (Denzin & Lincoln 2018:56), signifying that the phenomenon is defined by human beings based on their experience and interpreted by the researcher - the reliability of the source of information and the interpretation of the information are crucial and are discussed in more detail, in section 2.7. The third component of the research paradigm is the research methodology, which focuses on the best ways to collect knowledge about the world (Denzin & Lincoln 2018:195), specifically referring to the ontology and epistemology addressed within a particular study. For this study, where a constructivism-ontology and interpretivism-epistemology are required to solve the research objective, a qualitative research methodology was adopted - discussed in greater detail in section 2.4. The last component of the research paradigm is axiology, focusing on ethical considerations of the research process (Saunders et al 2016:128). This research was guided by an ethical foundation, explained in section 2.7.

The rationale for adopting the constructivist/interpretivist paradigm perspective to drive this study was based on the following aspects: 1) The research was conducted from the realities and knowledge gained from knowledgeable people within the phenomenon and interpreted by the researcher (Lincoln, Lynham & Guba 2018:216); 2) Subjective realities and knowledge were obtained from multiple voices with experience and understanding of the phenomenon; 3) Trustworthiness and authentic knowledge were constructed and interpreted with all fairness and without bias (Guba & Lincoln 1989: 245-251); and 4) Ethical considerations were considered throughout the study.

### **2.3 Research design**

The research design adopted for this study is phenomenology. Phenomenology is a qualitative research design that attains the essence of the phenomenon through the experiences of individuals (Creswell & Poth 2018:76). Phenomenology categorises analyses and compares the perspectives of participants through simple units of experiences (Abercrombie, Hill & Turner 2006: 291; Merriam & Grenier 2019:8). It also describes the everyday human experiences (Schwandt 2007:225-226).

Phenomenology as a research design suits this study based on the source of the data collection - being individuals with human experience of the audit committees in the municipalities.

## **2.4 Research methodology**

The study employs a qualitative research methodological approach. It is a field of enquiry consisting of observations, interpretations and practices that illuminate the subject (Denzin & Lincoln 2018:41, 43). It is an interactive process whereby the phenomenon can be interpreted from different, real worldviews and the perspectives of multiple people, to explain the behaviour or reasoning - consequently contributing to existing or new concepts (Yin 2016:9). The qualitative methodology was selected as relevant to this study, since the study is grounded in constructing knowledge gained from human experiences. The qualitative research methodology allows the collection of data from the perspective of multiple people with real-world experience of the audit committee. The views and perspectives of the participants were vital in the understanding of the reasoning and behaviour concerned with how the effectiveness of audit committees in the South African municipalities can be optimised. Qualitative research is richly descriptive, therefore, this study painstakingly describes the process of collecting and interpreting the data, the findings and the recommendations (Merriam & Grenier 2019:6). The value of this study rests in the collection of rich data from a variety of sources with real-life experience of the phenomenon, to gain valuable input that enhances the effectiveness of audit committees in municipalities.

## **2.5 Research methods**

Qualitative research displays no definite, fixed research flow prior to the collection of data (Yin 2016:84-85). Researchers may choose to develop the research flow prior to data collection or following data collection. The research flow of this study was discovered following the initial fieldwork. The study was conducted with an open-minded attitude. The initial fieldwork was used to discover emerging ideas from multiple individuals with experience of the phenomenon – thus utilising focus groups was found to be relevant. Based on the findings from the focus groups, it was fitting to further explore the factors derived from the focus groups, through literature study.

Using the rich data collected from the focus groups and literature study, it was possible to pursue the primary goal of the study, i.e. developing the proposed framework for improving the effectiveness of audit committees in municipalities. In order to refine the proposed framework, interviews were conducted. Therefore, more than one research method (refer to table 2.1) were executed, employing multiple data collection sources - a process referred to as methodological- and data triangulation (Denzin 1978:297; Mathison 1988:13; Alexander 2018:561-562). This process strengthens the validity and reliability of the findings (Patton 2002:247; Merriam & Grenier 2019:14).

The data collected from the multiple sources was analysed. Data analysis is the process of inductive reasoning - making sense of the data collected from the participants and refining the interpretations (Anderson-Levitt 2006:289; Taylor, Bogdan & Devault 2016:168-169). The researcher was in charge of interpreting the rich data that was constructed by the participants, using field notes, documents, and electronic and hard copy files generated by the researcher (Plath 1990:374; Sanjek 1992:386). A hardcopy notebook was utilised, not only to script field notes but also to document ideas. The electronic files were used to save the data that was collected, and to interpret and document the findings. The rich descriptive data was analysed using a form of narrative to the readers (Richardson 1990: 20-21). Diagrams, charts and figures are employed to illustrate the patterns and relationships between data and findings (Spradley, 1980; Taylor et al 2016:178).

The data was collected and analysed inductively to identify factors that influence the effectiveness of audit committees, from the focus groups (Yin 2016:100; Merriam & Grenier 2019:6-7). Coding of data was used to generate the factors (open coding) and also to refine the factors (focused coding) (Strauss 1987). The open coding in this study was achieved through IQA first, by identifying factors and secondly, by describing the perceived relationships amongst those factors (refer to section 2.5.2) (Northcutt & McCoy 2004:199). Open coding is best described with three activities of the IQA method, i.e. clarification, clustering and refining (Northcutt & McCoy 2004:95). These activities were accomplished through IQA axial and theoretical coding (refer to sections 2.5.2.2 & 2.5.2.3). Clarification occurred when participants agreed on the meaning of each factor during the focus group (refer to section 2.5.2.2)

and clustering, when similar factor meanings were grouped together and named (refer to section 2.5.2.2). The relationship amongst the factors was refined in the theoretical coding phase (refer to section 2.5.2.3).

The focus coding of the data was performed during the survey interviews, by analysing the information obtained from interviewees using computer-assisted qualitative data analysis software (CAQDAS), namely ATLAS.ti™ Version 8 (Silverman 2013). Before discussing the various research methods employed by this study in more detail – i.e. IQA focus groups, the literature review and survey - the sampling method applied to the study is first discussed.

### **2.5.1 Sampling methods**

Sampling is the process of selecting the participants in the study (Mertens 1998). The selection of participants in this study ensued through purposive sampling. Purposive sampling is a well-known non-probabilistic sampling method in qualitative research that allows the researcher to select participants based on the researcher's judgement (Miles & Huberman 1994:27; Yin 2016:93). The criteria for selecting the participants was based on the participants' experience with audit committees in municipalities. The selected participants contributed rich data from their various experience and perspectives (Ames, Glenton & Lewin 2019:4). The participants with the relevant experience and potential rich data contribution were invited to participate in the two focus groups and interviews.

Snowball sampling was also applied to the interviews, via an open-ended question. It is a sampling process whereby the researcher seeks out the participants with potential rich data contribution and experience, through the recommendations of key informants in the relevant field (Suri 2011:69; Benoot, Hannes & Bilsen 2016:3). The researcher requested key interview participants to recommend individuals in the field who have the experience and may potentially contribute rich data concerning audit committees in South African municipalities. These individuals were contacted to confirm their experience of the phenomenon and interest in participating in the interviews. The process of the selection of participants for the focus groups is further explained in the next section, 2.5.2, and the selection process for interviews in section 2.5.4.

### **2.5.2 Focus groups**

The focus group consists of a group of individuals with a similar background knowledge of the phenomenon, but who may hold different opinions and experiences (Northcutt & McCoy 2004:47). The IQA is a qualitative data collection and analysis technique employed to conduct focus group sessions, as explained by Northcutt and McCoy (2004:81). It is seen as an appropriate tool, as data was collected from knowledgeable participants, without influence by the researcher. The focus group's function is to collect information and investigate the meaning of the phenomenon, by applying the social experiences of the participants (Mtika & Payne 2014:441-442). The focus group should consist of a homogeneous group of people who share a common experience, work or structure, and can allow for contrasting opinions (Northcutt & McCoy 2004:47; Krueger & Casey 2015:81). The benefits of focus groups are that 1) data is collected from multiple participants in less time and in a less expensive manner, 2) the group effect stimulates the sharing of ideas, memories and experiences by individuals, and 3) individuals are more willing to disclose information they would not normally disclose during one on one interviews, owing to the supportive group effect (Tracy 2013:167).

As mentioned, the focus groups were conducted during the initial phase of this study, with a purpose to identify factors (also known as affinities in IQA), that is open coding, and to understand how the factors (affinities) relate to each other (Northcutt & McCoy 2004:44). "Affinities" are defined as the words used by the participants in the focus group to describe their perceptions of the phenomenon (Northcutt & McCoy 2004:314). These affinities guide the rest of the research flow of the study. Questions developed by Kamberelis, Dimitriadis and Welker (2018:1233) were used as tools to frame the focus group study, namely: 1) How will theory shape the study?; 2) Who will be the participants?; 3) What is the facilitation strategy?; 4) At what point does the focus group end?; and 5) Which data transformation strategies must be used? To answer these five questions, the constructivist/interpretivist paradigm theory directs the study, whereby knowledge is constructed and interpreted through the experience of multiple individuals. The facilitation strategy was to stimulate the participants' unbiased views by using an independent professional facilitator - an educational psychologist - to facilitate the focus groups, and not the researcher. The focus group



concluded at a point of data saturation, when all affinities and the relationships within the affinities, were generated. The data transformation strategy employed was to deconstruct data collected from participants and to later reconstruct it, to develop the framework that will add value to the effectiveness of audit committees in municipalities.

In preparation for conducting the two focus groups, the following aspects were taken into account: 1) Setting the date, time and venue - the dates were 22 and 30 November 2017, the duration of each focus group session was three and a half hours maximum from 8:30 am to 12:00 am, at the offices of the IoDSA in Sandton, South Africa; 2) Distributing invitations to potential participants; 3) Determining the number of participants in respect of each focus group; 4) Grouping the participants amongst the two focus groups; 5) Sending reminders to participants about the focus groups via email and reminding them telephonically; 6) Ensuring that a laptop and printer were available to print the affinities for further analysis; 7) Ensuring that the consent forms were readily available for participants to read and sign before commencement of the focus group interviews; 8) Arriving early to ensure that the venue was adequate and all the necessary stationery was supplied; and 9) Ensuring that refreshments were available.

As the IQA method was used to conduct the focus group and the analyses of the data gathered, this method is explained in greater detail. IQA is a research data collection method grounded by social constructivism, where a group of people derive meaning from the phenomenon (Northcutt & McCoy 2004:4). The phases of IQA were followed to develop the affinities for this study and also to understand the relationships amongst those affinities. The flow of the phases is explained below.

#### **2.5.2.1 IQA research design phase, data gathering and analyses**

The IQA research flow started off with the IQA research design stage, consisting of the following elements: problem statement, constituencies, constituency classification, issue statement, comparisons and research questions (Northcutt & McCoy 2004:45 & 71). This stage was used to prepare for the focus groups. The researcher formulated the problem statement as follows:

*With the trend of malpractice, maladministration and poor service delivery prevailing*

*in South African municipalities, while being advised by audit committees on good governance, effective internal controls, risk management, performance management and compliance, the effectiveness of audit committees as the advisory body is questionable and requires further investigation using the lens of the theoretical framework of this study, namely agency theory and the resource-based value theory of the firm.*

Based on the research problem, it was necessary to identify those who have knowledge and understanding of the problem and have something to say concerning it (Northcutt & McCoy 2004:46). A group of people who had experienced the phenomenon and had opinions about the phenomenon, known as constituents (or participants), were identified for data collection (Northcutt & McCoy 2004:44 & 85). The IQA technique allowed the participants to express their perception of the phenomenon without the researcher's influence. The participants discussed their experiences, developed affinities and articulated how they relate to each other (Northcutt & McCoy 2004:81).

The selection of the participants was executed based on the characteristics of individuals as recommended by Northcutt and McCoy (2004:87). The characteristics preferred resulted in the selection of individuals who are knowledgeable, are able to transfer their thoughts into words, who volunteered their time to participate, who respected the group dynamics and who were homogenous in power and distance. Purposive sampling was applied when selecting participants as explained in section 2.5.1. In terms of the sample size of the constituencies of the focus groups, literature holds different views. This study considered ideal sizes as ranging from five to eight, six to nine and six to ten individuals, as smaller sizes allow everyone to share intense and lengthy experiences of in-depth information, unlike in large groups (Morgan 1998:71; Krueger & Casey 2015:82).

The Public Sector Audit Committee Forum within the IoDSA was identified as the relevant source to obtain information in respect of selecting individuals to participate in the focus groups. The Forum was established in 2011 by the IoDSA, The Institute for Internal Auditors in South Africa (hereafter referred to as IIASA), the South African Institute of Chartered Accountants (hereafter referred to as SAICA), The Institute of Risk Management South Africa, National Treasury, AGSA and the Development

Bank of Southern Africa. The main aim of the forum is to provide guidance and support to the subscribed members, who are audit committee members and audit committee stakeholders in the public sector (Public Sector Audit Committee Forum 2018).

The invitation to potential participants was sent on 26 October 2017, via electronic mail to all members in the Public Sector Audit Committee Forum database, with the assistance of the Governance Liaison Manager of the IoDSA. An appeal regarding participation in the focus groups was posted on the IoDSA website - the research platform's web page. On the 1st of November 2017, another email was sent, reminding members as regards the bid to participate in the study. The researcher followed up telephonically with all respondents keen to participate in the focus group. The constituencies were classified into two groups (refer to table 2.1) in terms of distance and power within the phenomenon (Northcutt & McCoy 2004:81).

**Table 2.1: Constituency classification**

Constituency	Continuum
Focus Group 1: Stakeholders of audit committees	Some distance to the phenomenon Some power to effect change
Focus Group 2: Municipal audit committee members and individuals of government organisations that support the function of audit committees	Closest to the phenomenon Most power to effect change

*(Source: Own compilation)*

The first category comprised of the stakeholders in a direct relationship with the audit committees. The reason for excluding audit committee members from the first constituency was to allow individuals to express their views without intimidation by audit committee members and to understand the viewpoints from the demand perspective. The first focus group consisted of six professionals in a direct working relationship with audit committees in the municipalities, possessing the relevant experience as employees of both the Provincial- and National Treasury, supporting the audit committees in the municipalities. Their occupations ranged from that of senior managers in the public sector, a public finance management consultant and

an experienced senior manager in one of the 'Big 4'-audit firms. It was assumed that they possessed specific power/authority to effect change within audit committees.

The second category included audit committee members and government employees that support the audit committees, closest to the phenomenon and possessing the power/authority to effect change. The perspective of the audit committee members, as the suppliers of the service, was essential to understanding the phenomenon. This second focus group constituency consisted of nine participants. Five audit committee members, one member from the National Treasury and three members from SALGA who works directly with audit committees. All the participants in both focus groups understood the phenomenon and professed the relevant experience of the phenomenon. As the groups were each separated from influencing authorities, each group's participants were thus able to fully express their views of the phenomenon, without being apprehensive of consequences (refer to table 2.2).

**Table 2.2: Constituency of focus groups**

<b>Participants</b>	<b>Focus Group 1</b> <i>(Audit committee stakeholders)</i>	<b>Focus Group 2</b> <i>(Audit committee members &amp; organisations supporting audit committees)</i>
<b>Total number of participants = 15</b>	6	9
<b>Participant source</b>	<ul style="list-style-type: none"> <li>*Public Sector Audit Committee Forum</li> <li>*National Treasury</li> <li>*Provincial Treasury</li> <li>*SALGA</li> </ul>	<ul style="list-style-type: none"> <li>*Public Sector Audit Committee Forum</li> <li>* Metropolitan, District and Local municipalities.</li> <li>*National Treasury</li> <li>*SALGA</li> </ul>
<b>Occupation</b>	<ul style="list-style-type: none"> <li>* Chief Director (1 participant)</li> <li>* Director (1 participant)</li> <li>*Senior Consultant (1 participant)</li> <li>*Senior managers (2 participants)</li> </ul>	<ul style="list-style-type: none"> <li>* Audit Committee chairpersons of Metropolitan, District and Local municipalities (5 participants)</li> <li>* Director (1 participant)</li> <li>* Managers (3 participants)</li> </ul>
<b>Province</b>	Gauteng & Eastern Cape	Gauteng, Eastern Cape & Limpopo
<b>Highest qualification</b>	<ul style="list-style-type: none"> <li>Master's degree (2 participants)</li> <li>Honours degree (2 participants)</li> <li>Bachelor's degree (2 participants)</li> </ul>	<ul style="list-style-type: none"> <li>Doctorate degree (1 participant)</li> <li>Master's degree (3 participants)</li> <li>Honours degree (4 participants)</li> <li>Bachelor's degree (1 participant)</li> </ul>
<b>Professional qualification</b>	<ul style="list-style-type: none"> <li>• CA(SA) (1 participant)</li> <li>• Other professional designation (1 participant)</li> </ul>	<ul style="list-style-type: none"> <li>• CA(SA) (3 participants)</li> <li>• CIA (2 participants)</li> <li>• Other professional designation (3 participants)</li> </ul>
<b>Average years of working experience</b>	21	16
<b>Number of audit committee served</b>	Not applicable	<ul style="list-style-type: none"> <li>Six to ten (1 participant)</li> <li>Two to five (3 participants)</li> <li>One (1 participant)</li> </ul>

*(Source: Own compilation)*

The purpose of compiling more than one constituency was to derive answers to the following research questions: “1) what are the components of the phenomenon? 2) how do the components relate to each other? and 3) how do the systems compare” (Northcutt & McCoy 2004:72). The “components” are the affinities generated by the participants in defining the phenomenon and illustrate how the affinities relate and compare to each other, in a system. To determine the affinities that define the phenomenon, the researcher prepared the following research question for the constituencies:

*What are the factors that influence the effectiveness of audit committees functioning within municipalities?*

The researcher also prepared an issue statement that was presented to the constituencies during the focus groups. The issue statement was as follows:

*“You should assume that the researcher has NO knowledge of audit committees’ functioning within municipalities.*

*We know what is required in terms of the MFMA, King Report IV, etc. Therefore, we are not interested in the theory. We know that.*

*You are all highly qualified, experienced and well respected within the public sector and business. We are interested in YOUR thoughts and opinions regarding the factors that influence the effectiveness of public sector audit committees. It could be bad, it could be good, it could be recommendations, it could be what we already know, etc.*

*We want to be like a sponge and absorb everything you have to say, to really understand what is an effective municipal audit committee in the real world and not in theory.”*

### **2.5.2.2 Inductive and axial coding**

The second phase of the IQA research flow was affinity production through focus groups. This phase started off with a warm-up exercise for the participants of the focus groups. This was followed by the facilitator requesting the participants to write down their thoughts about the phenomenon on a notecard, one thought per note

card. This process is called *silent brainstorming* (Northcutt & McCoy 2004:47). The written note cards were taped to the wall. The facilitator read each card to the group, to clarify and confirm the meaning. Next followed the *inductive coding*, where the facilitator requested the groups to silently organise the cards into groups of meaning (Northcutt & McCoy 2004:47). After this process was complete, the grouped note cards were assigned headings, labelled as affinities, and the miscategorised cards were sorted to the correct groups. This process is called *axial coding* (Northcutt & McCoy 2004:47), during which the affinities were assigned names, and were reorganised, clarified and refined, by the participants (Northcutt & McCoy 2004:47).

### 2.5.2.3 Theoretical coding

The next stage in the IQA research flow, following the production of affinities, is *theoretical coding* (Northcutt & McCoy 2004:45), a stage where participants determine the perceived cause-and-effect relationships amongst all the affinities produced (Northcutt & McCoy 2004:149). The purpose of theoretical coding is to collect data from the participants, to understand how the affinities influence each other, and thereafter analyse the data. The participants completed worksheets titled Detailed Affinity Relationship Table (DART) that illustrated the possible relationships amongst affinities (refer to annexure 3). “If/then” hypothesis was used to indicate the direction of the relationship on the DART worksheet. For example:

- If you think that 1 influences 2, then indicate  $1 \rightarrow 2$
- If you think that 2 influences 1, then indicate  $1 \leftarrow 2$
- If you think that there is no relationship between 1 and 2, then indicate  $1 < > 2$ .

An arrow may only go in one direction. The participants were asked to indicate the direction they think illustrates the strongest or most important influence in instances where two directions were possible, and also to give examples to explain the relationships they selected. Each participant worked independently so that they can express their thoughts without being dominated by other participants - a process called *independent coding* (Northcutt & McCoy 2004:154).

The information from the participants’ completed DART worksheets was collected and all the relationships were counted (refer to tables 3.2 and 3.8) to determine the optimal relationships to be included in the Interrelationship Diagram (IRD), using a statistical method called the Pareto Protocol (Northcutt & McCoy 2004:156) (refer to

tables 3.3 and 3.9). The statistical method is based on a Pareto principle of 20/80, meaning that addressing fewer problems (relationships) with the most variance (frequencies) will solve the majority of the problems in a system (Northcutt & McCoy 2004:156-157). In this study, the optimal number of relationships with most variation, formed part of the system illustrated in the IRD (refer to tables 3.4, 3.5, 3.10 and 3.11) and, later on, the System Influence Diagram (SID) (refer to figures 3.1, 3.2, 3.6 and 3.7). The following process was followed: 1) All the relationships from the DART form were recorded in a Microsoft Excel spreadsheet (refer to tables 3.2 and 3.8); 2) The relationships were counted and cumulative frequencies in number value and percentage for each relationship were determined and illustrated in a Pareto chart (refer to tables 3.3 and 3.9). The cumulative frequency represented the frequency of votes cast for an affinity pair, added to the previous total. The cumulative percentage (relation) represented the cumulative percentage based on the total number of relationships. The cumulative per cent (frequency) represented the percentage of votes cast for an affinity pair added to the previous total (Northcutt & McCoy 2004:160); 3) The cut-off point for the optimal number of relationships to be included in a system, IRD, was selected based on the maximum power. Power is the difference between cumulative per cent (frequency) and cumulative percentage (relation) and represents the optimisation of the system.

#### **2.5.2.4 Interrelationship Diagram (IRD)**

The next phase was to determine whether each affinity in a pair was a perceived *cause* or an *effect*, or if there was *no relationship* between the affinities. These perceived relationships were summarised in an IRD using arrows in a table - a process known as *rationalising of the system* (Northcutt & McCoy 2004:170). The IRD ultimately classified the affinities as drivers, or outcome, or neutral (refer to table 2.3).



**Table 2.3: Classification of affinities**

<b>Classification of Affinities</b>	<b>Cause/Effect</b>	<b>Description</b>
Primary Driver	Significant cause	Affects many other affinities, but it is not affected by others
Secondary Driver	Relative cause	Affects many other affinities, but is less affected
Neutral	-	An equal number of affinity relationships of those that influence (causes) and those that are influenced (effects)
Secondary Outcome	Relative effect	Affected by many affinities, but affect fewer affinities
Primary Outcome	Significant effect	Affected by many affinities, but does not affect others

*(Source: Own compilation)*

Northcutt and McCoy (2004:32, 173) define “driver” and “outcome” as follows: A primary driver is a significant cause in the system as it influences many affinities, but it is not influenced. A primary outcome is converse - it is a significant effect that is influenced by many affinities but does not influence others. A secondary driver is a relative cause that influences many affinities but is influenced to a lesser extent. A secondary outcome is converse - it is a relative effect that is influenced by many affinities but influences fewer affinities. When an equal number of affinity relationships of those that influence (causes) and those that are influenced (effects) exist, the affinity is classified as a neutral affinity. Refer to sections 3.2.3 and 3.3.3.

#### **2.5.2.5 System Influence Diagram (SID)**

The results from the IRD of the drivers, outcomes and neutral affinities, were first displayed in a tentative SID assignment chart. This chart assisted in identifying the position of the affinity in the SID. The drivers were placed on the left-hand side and outcomes on the right-hand side (Northcutt & McCoy 2004:176). The visual chart (SID) displayed the entire system of influences and outcomes and the relationships amongst affinities (Northcutt & McCoy 2004:174). The SID provided relationship-analysis, revealing the dynamics of the system (Northcutt & McCoy 2004:176). The first version of the cluttered SID, with its rich data and a large amount of connections, was difficult to interpret, owing to the affinities that were interlocked (Northcutt & McCoy 2004:176). The redundant associations were removed, to form a second SID,

namely the uncluttered SID (Northcutt & McCoy 2004:176) - the visual mind map, illustrating the participants experiences with the phenomenon and the relationship amongst those experiences (refer to sections 3.2.4 and 3.3.4).

#### **2.5.2.6 Feedback loops and naming**

The uncluttered SID contains feedback loops (Northcutt & McCoy 2004:335). The feedback loops must consist of a minimum of three affinities that interconnect. The SID was made simpler by extracting connected affinities to make meaning of the system - a process known as *zooming out* (Northcutt & McCoy 2004:335). The feedback loops were named to reflect the components of the subsystem that was extracted from the main system of uncluttered SID - a process called *zooming* (Northcutt & McCoy 2004:335). Zooming assisted interpretation of the feedback loops, by using names that reflect on the story within a sub-section of the SID (refer to sections 3.2.5 and 3.3.5).

#### **2.5.3 Justification of the literature review themes**

The ultimate goal of this study is to generate new knowledge by creating a framework that could be used in reality to improve the effectiveness of municipal audit committees. Therefore, it is vital that the literature review focuses on constructive context that can be applied in real life. The literature review was executed in three phases. Firstly, the need for the study was assessed, by examining existing literature to reveal what is already known, what is not known, the different views of researchers, the different research methods applied in various studies, and also topics that need to be investigated in future. Secondly, multiple studies on audit committees and municipalities were examined, with the intent to identify existing problems and gaps in the studies of municipal audit committees and the reliable existing body of knowledge was considered in this study (refer to tables 1.1 and 1.2). Finally, the sources of knowledge were confirmed, being peer-reviewed articles, theses, books, authoritative literature, legislation, surveys, newspapers, websites, databases and other reliable sources of information, that were examined during the literature review phase (refer to sections 1.1,1.2 and1.3).

After conducting the focus group, the views of the focus group-participants were used to develop the topics or themes for the literature study (refer to section 3.4). The

advantage of starting off with empirical data collection before executing an extensive literature review, is that the study addresses real-world perspectives and not just extant literature. Another advantage of this approach is that the focus group-results direct the emphasis of the extensive literature review onto matters that are relevant in reality. The literature review was employed to develop the theoretical framework for the study, as exploration of the literature determined the appropriate theories applied to this study.

#### **2.5.4 Survey**

A survey is a systematic, professional method of scientific inquiry to collect information for both qualitative- and quantitative studies (Groves, Fowler, Couper, Lepkowski, Singer & Tourangeau 2009:2). Surveys are descriptive in nature as they describe the state of affairs (Kothari 2004:2). In this study, data was collected using survey interviewing (Groves et al 2009:291). An interview is a conversation that produces information about the real-life experience of the person that is being questioned (Brinkmann 2018). The disadvantages of using survey interviewing are the biased selection of participants, bias responses by participants in the presence of the interviewer, and researcher-influence of interpretations of the interview responses (Grove et al 2009:292).

In this study, the bias was reduced by the sources dictating the selection of participants. The provincial treasuries were tasked to select the participants who were employees of the municipalities and audit committee members. The researcher also requested members of the Public Sector Audit Committee Forum to select audit committee members and stakeholders of the municipalities. The relevant members of the Public Sector Audit Committee Forum that were interested in participating in the focus groups during 2017, but could not take part due to geographical distance and other commitments, were requested to participate in the interviews conducted during 2020. Participants were also found through snowball sampling, where key interview-participants were requested to recommend relevant individuals in the field for interview purposes and the researcher contacted these individuals - obtaining their profiles to confirm their experience with the phenomenon and requesting individuals with rich data potential and experience with the phenomenon to participate. Lastly, organisations that regulate the municipalities were used as a source to select

individuals that represent the regulators. Refer to table 2.3 for details of the interviewees.

The second manner of reducing bias was to select professional, vastly experienced individuals that cannot be easily intimidated. Thirdly, the researcher maintained a professional and task-oriented approach when communicating with and interviewing the participants. Lastly, to minimise bias, fabrication, and falsification of data, the responses from the interviews were captured without alterations, the participants confirmed the accuracy of the interview transcripts, and a professional individual other than the researcher was employed to verify the accuracy of the researcher's interpretations of the survey interviews.

#### **2.5.4.1 Data collection**

This study conducted interviews with an open-ended question (Taylor et al 2016:102, 123), allowing the interviewees to express themselves and elaborate on their answers, without restrictions. The power relations in the interview were as follows: the researcher initiated the interview, posed questions to the interviewee, asked follow up-questions in respect of some of the interviewee's answers, terminated the interview and interpreted the interview information; while the interviewee answered the questions and also asked questions for clarity, when needed (Brinkmann 2018:1016). The researcher applied the art of asking clear, simple and meaningful questions, and listening, during interviews (Torre, Stoudt, Manoff & Fine 2018:900).

The following categories of participants were invited by the researcher and participated in the interviews:

Category 1- Current or former audit committee members

Category 2- Current or former municipal workers

Category 3- Regulators

Category 4- Stakeholders of municipalities

The appropriate number of interviews were determined when the interviews reached saturation. Saturation is a point where adding a new participant to the sample will not produce any new, significant information (Lincoln & Guba 1985:202). The criteria used for the planned saturated point is supported by Guest, Bunce and Johnson

(2006:79) who maintain that a saturated point for interviews suffices within the first twelve interviews. Hence, this study conducted 14 interviews with an open-ended question. If data saturation was not obtained after the 14 initial interviews, additional interviews were planned - however, this was not necessary, as data saturation was achieved.

The participants were three audit committee chairpersons, five municipal workers, three regulators and three stakeholders of the municipalities, composed of 71 per cent males and 29 per cent females. This confirms the statistics that most senior positions in South Africa are occupied by males (Vallie 2018), which renders the sample representative of the gender balance. All the participants (100%) are members of a professional body. The lowest qualification was equivalent to a Bachelor's degree, for two participants, with the other 12 participants holding post-graduate qualifications. Also, most of the participants possess professional qualifications (64%). The 14 participants represent every type of municipality and seven (78%) of South Africa's nine provinces. All participants, except for one Analyst in category three, occupied a position of Manager and above (refer to annexure 9 for the demographic overview of the interview participants).

The purpose of the interviews was for participants to refine the proposed Framework developed to enhance the effectiveness of audit committees in municipalities. The researcher kept an up-to-date spreadsheet, to record the details of the interviewees and script necessary notes. The interviews were conducted using two modes, i.e. the telephone and an online platform (Shuy 2002; James & Busher 2012). The advantage of conducting interviews via telephone or online platform is that there are no geographical limits - people from anywhere could be reached (Brinkmann 2018:1000). There are also disadvantages to conducting interviews using technology such as the telephone and an online platform. The interviews can be accessed by unauthorised people or owners of those platforms (Iacono, Symonds & Brown 2016:9). In this study, the interviewees were informed of the technological risks prior to consenting to participate. Furthermore, telephonic- and online platform interviews are criticised for lacking rapport - a phase when the participant is comfortable with the interviewer (King & Horrocks 2010:48). However, this claim was found to not always be true by Deakin and Wakefield (2013:8), when the rapport was less in face-

to-face interviews when compared to telephonic and online interviews. Still, face-to-face interviews are preferred by some researchers as they provide immediate social contact and interaction to read body reaction (Peräkylä & Ruusuvuori 2018:1173).

In this study, the body reaction of participants was not deemed to be of significance. However, the researcher strengthened rapport by regularly emailing the participants and telephonically conversing with them prior to the interviews. The ultimate, essential outcome of the interviews was to obtain the richest possible data from the participants. This objective was achieved using telephonic and online platform interviews. Also, supporters of face-to-face interviews acknowledge the advantage of a telephonic and online platform for substantially saving time and money (Krouwel, Jolly & Greenfield 2019:7). The main reason for this study using telephonic and online platform interviews, was due to the timing of the interviews. The interviews occurred during the country's Covid-19 lockdown period, when air travel was abolished and ground travel restricted. It was also prohibited to travel to the office or visit people, other than for permissible emergencies.

Ethical approval to conduct the interviews was received from the academic institution, before conducting the interviews. The informed consent forms that included the background of the study and the Frameworks, were sent to interviewees via email. The interviewees were telephonically contacted to confirm receipt of the information sent by email. The interviewees provided a convenient date, time and venue (where applicable) to conduct the interviews. The consent forms had to be signed by the interviewees to permit participation in the study. The Frameworks exhibit categories with corresponding actions, derived from the themes generated from the focus groups and literature study. Each interviewee was requested to comment on each action in the Frameworks and return it, together with the signed consent form, before the interview took place.

The researcher conducted pre-testing to ascertain the smooth flow of the interview, and the functioning of the telephone, the internet platform and the audio recording device. Prior to the commencement of the interviews, the researcher emphasised issues of confidentiality and the risks associated with telephone and online interviews, to the interviewees, also explaining the purpose of the interview and the procedures to be followed during the interview. The researcher was clear, brief and

simple in asking questions, and allowed the interviewees sufficient time to respond (Brinkmann 2018:1001). The interview protocol included a list of actions proposed for the Frameworks and a question asking whether the interviewees agree with, contest or wish to add anything to the proposed (draft) actions. During the interview, the researcher composed notes and probed with further questions, when necessary. Following the conclusion of the interviews, the audio recordings were copied to the researcher's computer hard drive and the external USB hard drive for backup. The data preparation phase of the data analysis stage followed thereafter.

#### **2.5.4.2 Data analysis and interpretation**

Data analysis and interpretation were performed with the main purpose of testing and refining the draft framework. Phases were undertaken during qualitative data analysis and interpretation, using the support of qualitative data analysis software (QDAS), namely ATLAS.ti™ Version 8 (hereafter Atlas.ti) (Smit 2005). The phases were: Phase 1- Data preparation, Phase 2- Data exploration, Phase 3- Data reduction and Phase 4- Reporting (Miles & Huberman 1994:44).

#### **Data preparation phase**

Ten of the interviews were conducted via an online platform application, while four interviews were conducted via telephone, owing to poor internet connection. Informed consent was obtained to record the video, and included in the audio recording. The data preparation phase entailed a process of transcribing the audio recordings of the participants' interviews, employing a professional transcriber. To ensure confidentiality, the professional transcriber signed a confidentiality agreement before transcribing the interviews. Each transcription from the transcriber displays a pseudonym, and an interview date and time. The audio recordings of all interviews were transcribed verbatim to Microsoft Word. The content of the transcriptions from the audio-recorded interviews was used by the researcher to describe, compare and analyse the data (Ochs & Capps 2001:2).

As part of the methodological norms (refer to section 2.6) of ensuring the quality of the research process, the researcher emailed the transcripts to the participants to effect a member-check of the accuracy of the content. This member-checking-step specifically addresses the dependability, conformability and credibility of qualitative

studies' trustworthiness (refer to section 2.6). All 14 interview participants confirmed the accuracy of their transcripts, with only minor changes to some transcripts. The transcripts were anonymised and named employing the pseudonyms. Pseudonyms used were: 1A, 1B and 1C for current or former audit committee members, 2A, 2B, 2C, 2D and 2E for current municipal workers, 3A, 3B and 3C for regulators and 4A, 4B and 4C for stakeholders of the municipalities.

All the transcripts were read at least twice by the researcher before any coding was done. This is known as the *pre-coding phase* (Saldana 2015:20). The researcher logged the substantive content of the participants' replies through manual scripting in addition to the transcripts. The transcripts were ethically saved using password protection on the researcher's computer hard drive and the external USB hard drive for back-up.

### **Data exploration phase**

Before commencing with systemising the data exploration phase, the researcher consulted a qualitative advisor (see Acknowledgements) regarding how best to set up the Atlas.ti project units. The researcher then incorporated the advice in setting up Atlas.ti and created two project units named 'Audit Committee Guide' and 'Municipal Guide'. This allowed for the data per Frameworks to be reviewed as an intact context, complemented the trustworthiness of the study (refer to section 2.6) and credible data treatment was achieved. The two Atlas.ti projects were created to systemise and create sophistication in the data analysis inclusive of Atlas.ti - supporting integration of the transcripts, codes, code groups, and networks that were created (Friese 2020:20).

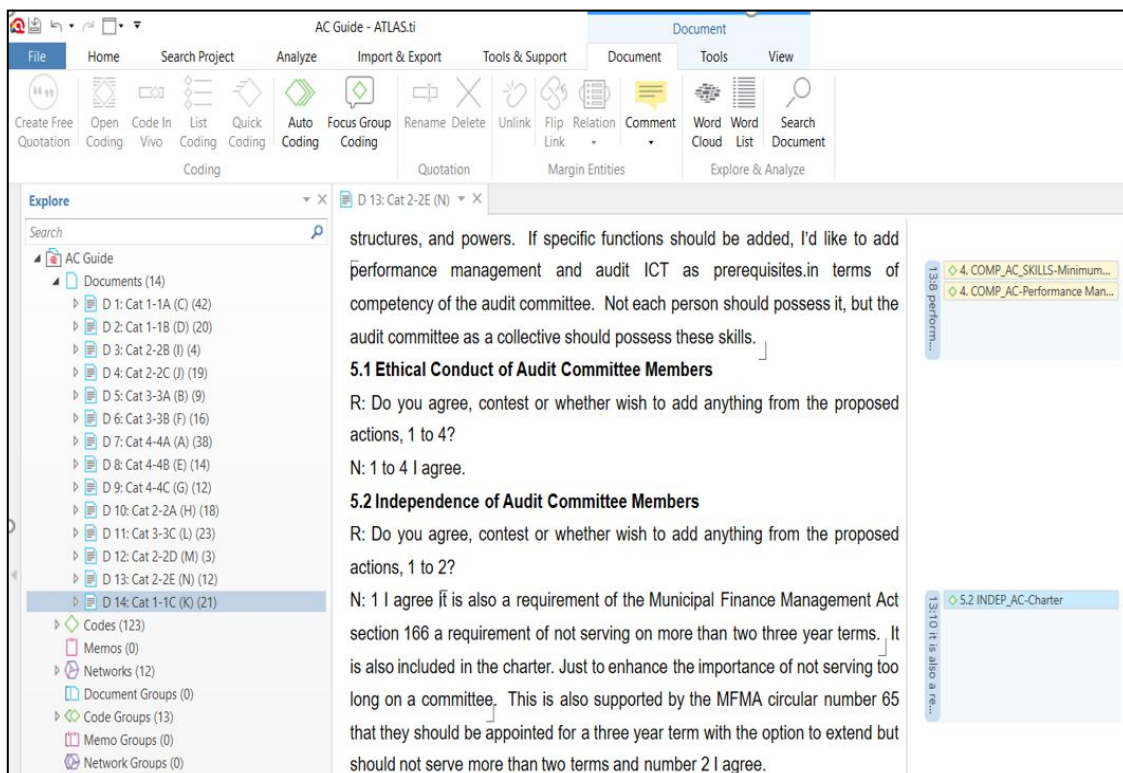
The 14 participant-transcripts were uploaded to the two project units, for the systematisation and integration of interview content, to enable conceptual analysis (Smit 2005; 2014). Within Atlas.ti the transcripts were read word for word by the researcher, with significant segments of the text identified, selected and processed through three coding cycles (Saldana 2015:9). Several the meaningful segments were assigned more than one code, to expose all the concepts. The codes were context-rich distillations of the meaningful concepts that were found in the transcripts (Saldana 2015:4). The code names generated were assigned prefixes (Friese 2020:93) that relate to the main category from the Frameworks. For example, all the



codes that were generated from the text discussing the municipal administration started with the prefix MUN\_ADM, followed by descriptive words for the code, i.e. MUN\_ADM-Financial Tools.

Prefixes were used to establish early deductive links to the framework. Friese (2020:93, 122) refers to prefixes as the name of the code representing a specific semantic domain. These prefixes are part of pattern recognition. Analysis of qualitative studies is indeed based on seeking patterns within the data (Saldana 2015:5-6) and this was thus achieved through the process outlined above. After the cycles of coding, which included thinking through the codes and the attendant refinement, the coding was stabilised. The ‘audit committee guide’ project thus consists of 123 codes (refer to annexure 12), while the ‘municipal guide’ project consists of 76 codes (refer to annexure 13).

Figure 2.1 shows a sample of the coding process from Atlas.ti. The sample shows the highlighted transcript text (quotation) and the assigned codes in the margins. The codes show the prefixes (for example, COMP\_AC, referring to competencies of audit committees).



**Figure 2.1: Quotations and codes screenshot-excerpt from Atlas.ti version.8.4**

*(Source: Own compilation)*

The codes and their quotations from the transcripts of the interviews, as exemplified above, were in service of validating the contents of the Frameworks (framework).

### Data reduction phase

During the data reduction phase, the codes were grouped, based on the prefixes. The grouping of codes assisted in comparing and mapping codes (concepts) and also revealed emerging concepts (Merriam & Grenier 2019:199). The codes were categorised into 12 groups named after the categories from the Frameworks (refer to section 4.7). These code groups were listed and visible in Atlas.ti and were translated into networks (refer to figures 5.1 to 5.24) for reporting. Networks are a graphic representation of codes in a relational manner (Saldana 2015). The researcher chose to report the code groups based on the categories of the framework, to achieve a coherent and systematic flow. Figure 2.2 shows the grouping of codes in Atlas.ti, as per the left-hand margin of the image. Different colours were assigned to the code groups for differentiation purposes.

Code Groups	Name	Grounded	Density	Groups
1.1 Municipal administration (11)	1.1 MUN_ADM- Financial Tools	2	1	[1.1 Municipal administration]
1.2 Organisational maturity (4)	1.1 MUN_ADM- Legislation	8	2	[1.1 Municipal administration]
1.3 Risk Management (11)	1.1 MUN_ADM-AC meetings	1	2	[1.1 Municipal administration]
1.4 Internal Audit Function (12)	1.1 MUN_ADM-AC Skills	1	1	[1.1 Municipal administration]
2. The audit committee mandate (16)	1.1 MUN_ADM-Charter	1	3	[1.1 Municipal administration]
3.1 Appointment of audit committee members (15)	1.1 MUN_ADMIN-Accountability	1	1	[1.1 Municipal administration]
3.2 Remuneration of audit committee members (9)	1.1 MUN_ADM-Independent	2	3	[1.1 Municipal administration]
4 Competencies of the audit committee (9)	1.1 MUN_ADM-Not the role of AC	3	1	[1.1 Municipal administration]
5.1 The ethical conduct of the audit committee members (7)	1.1 MUN_ADM-Professional Development	1	1	[1.1 Municipal administration]
5.2 Independence of audit committee members (10)	1.1 MUN_ADM-Remuneration	1	1	[1.1 Municipal administration]
6.1 Political interference (7)	1.1 MUN_ADM-The role and responsibility of AC	8	10	[1.1 Municipal administration]
6.2 Ability to influence and gain political buy-in (12)	1.2 OM- The role and responsibility of AC	13	3	[1.2 Organisational maturity]
7. Framework Improvement (0)	1.2 OM-Assurance	2	1	[1.2 Organisational maturity]
	1.2 OM-Governance	1	1	[1.2 Organisational maturity]
	1.2 OM-Independence	1	1	[1.2 Organisational maturity]
	1.3 RISK_MANG-Legal skill	1	1	[1.3 Risk Management]
	1.3 RISK_MANG_Broader meaning	3	1	[1.3 Risk Management]
	1.3 RISK_MANG- Challenges	4	1	[1.3 Risk Management]
	1.3 RISK_MANG-Aspects of advice	2	2	[1.3 Risk Management]
	1.3 RISK_MANG-Budget	1	2	[1.3 Risk Management]
	1.3 RISK_MANG-Importance	1	6	[1.3 Risk Management]

Figure 2.2: Code manager screenshot-excerpt from Atlas.ti version.8.4

(Source: Own compilation)

As mentioned, in this study, the patterns sought were aligned to the different categories of the Frameworks (framework), following deductive, confirmatory logic. It is important to note that conceptual (meaning making) clustering occurred through the formation of the groups. The researcher applied her mind to the codes being assigned to groups, appropriately named in relation to the framework. Atlas.ti then enables the function of an automatic network that provides the relational connections between the codes, as noted above and referenced by Saldana (2015:34).

### The reporting phase

The reporting phase followed a staggered approach. The first stage was for the researcher to create Atlas.ti Network's output for each category derived from the grouping of the codes. This serves as a holistic overview and orients the reader to the category. The relationships amongst codes were connected by interpreting the interview transcripts and providing connecting names which are a sub-function provided under the "relation manager" in the network function of Atlas.ti (Friese 2020:16). The purpose of network outputs is to visually display the connections between codes (concepts) used to interpret the data (Friese 2020:198). Figure 2.3 shows an example of the network.

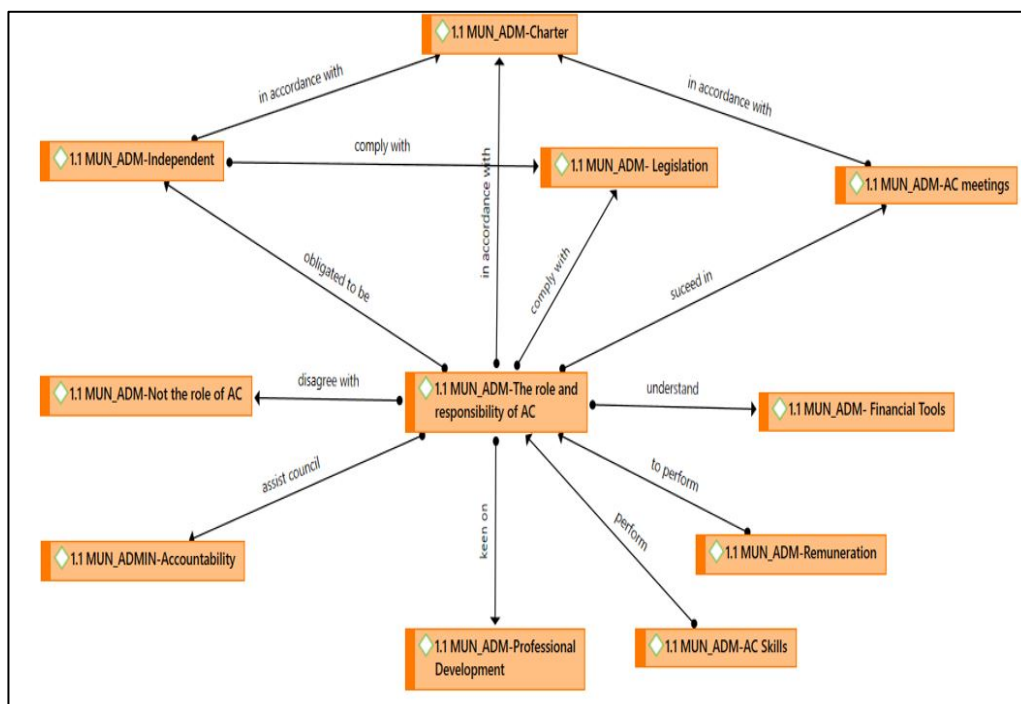


Figure 2.3: Network screenshot-excerpt from Atlas.ti version.8.4

(Source: Own compilation)

The relationships amongst codes are linked and given meaning as displayed in figure 2.3. The second stage of reporting was quantitising. It is a process of converting qualitative data to numerical analysis, where qualitative data is assigned numerical values (Sandelowski, Voils, Knafelz 2009:208-209). The first data conversion stage during quantitising was translating the experiences of the interview participants into codable data, followed by a second conversion stage of displaying the data in numbers (Sandelowski et al 2009:209). The responses from the interview participants to the question ‘Do you agree with, contest or wish to add anything to the proposed actions?’ from the draft Framework, were first assigned a semantic scale that was: ‘agree’, ‘partially agree’, ‘disagree’ or ‘no comment’. The responses were quantified, given that they were only “Yes” or “No” or “partially agree” or “no comments”. Thereafter the responses were counted. Figure 2.4 shows a screenshot of quantitising in this study.

RESPONSES FROM PARTICIPANTS									
<i>Do you agree with, contest or wish to add anything to the proposed actions?</i>									
PARTICIPANTS	1.1. Municipal administration (1)			1.1. Municipal administration (2)			1.2. Organisational maturity (1a)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1				1	
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1				1	
Participant 3A	1					1			1
Participant 3B	1			1			1		
Participant 3C	1			1				1	
Participant 4A	1			1					1
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>9</b>	<b>3</b>	<b>2</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>64,3%</b>	<b>21,4%</b>	<b>14,3%</b>

**Figure 2.4: Quantitising- Frequency count screenshot-excerpt from Excel spreadsheet**  
(Source: Own compilation)

Each response for each participant was given one as a number under the various semantic terms of the scale (agree, partially agree, etc.) and captured in Microsoft Excel as illustrated in figure 2.4. There was no double counting as each response was counted as a singular response per participant. The sum of each action for all the participants' responses of whether they ‘agree’, ‘partially agree’, ‘disagree’ or ‘no comment’ was calculated and recorded as the frequency count in number and

percentage. Qualitative data are thus treated enumeratively (Sandelowski et al 2009) with frequency counts, converted into percentages and shown for their confirmatory strengths. The frequency count assisted the researcher to interpret whether the actions should form part of the final framework, or not. The proposed actions that did not form part of the final framework were based on the valid reasons provided by the participants that disagreed with the proposed actions.

The third stage of reporting was derived from the Atlas.ti code reports of audit committees and municipalities. The code reports consisted of quotations from all the participants commenting on the proposed actions from the draft framework and assigned to relevant codes that were derived from the framework. Refer to figure 2.5 for an example of the Atlas.ti code report.



**Figure 2.5: Code report screenshot-excerpt from Atlas.ti version.8.4**

*(Source: Own compilation)*

The quotations were compared to the proposed actions from the proposed Frameworks, also known as the draft framework. Subsequently, the proposed actions

from the draft framework either remained the same or were revised or removed, based on the interviewees' valid reasons from the code report quotations. Also, interviewees' quotations from the code report (statements) represented emerging data (not initially part of the draft Frameworks), but relevant and apposite, were reflected in the refined final framework. The framework was expanded and reconstructed by employing the richness of the interviewees' quotations (statements).

Ethical peer review was performed by an academic qualitative research expert with extensive experience, who verified the substance of the coding and narrative reports for their trustworthiness in research rigour. The academic did not influence the findings or theorising. Trustworthiness and authenticity of the data and its interpretations were thus achieved and are further discussed in the next section.

## **2.6 Methodological criteria**

In qualitative research, the realities and perspectives of the participants are interpreted by the researcher (Merriam & Grenier 2019:25). It is therefore essential to ensure that the data collected and interpreted is trustworthy and authentic (Guba & Lincoln 1989:245-251; Lincoln et al 2018:241-242). The authenticity of this study was achieved through the fair and sound processes and methods applied throughout, as discussed in the sections from 2.2 to 2.5. The views of all the participants were taken into consideration, without bias. The researcher's interpretation, findings and conclusions reflected the accurate data collected (Maxwell 2013:122). The trustworthiness criteria or properties of rigour adopted in this qualitative study were 1) credibility, 2) transferability, 3) dependability, 4) confirmability and 5) reflexivity (Lincoln 1995:277; Northcutt & McCoy 2004:7; Denzin & Lincoln 2018:57).

Credibility in this study was realised through triangulation of sources, peer review and member checks, to reinforce the reliability and validity of the data. As mentioned before, triangulation occurs when using multiple sources of research methods and/or data collection. Credibility was therefore achieved throughout the study by using multiple research methods, i.e. the focus groups, which was further enriched by a literature review, as well as a survey, leading to multiple sources of data collection, i.e. applying the IQA technique (section 2.5.2) and interviews with an open-ended question (section 2.5.4) (Gibson & Brown 2009:59). Data was collected from two

different focus groups consisting of multiple stakeholders of municipalities and multiple audit committee members.

Credibility was also achieved through a peer-review process. It is a process whereby verification is performed by a knowledgeable person (Merriam & Grenier 2019:26). Peer review was performed by the independent Educational Psychologist who facilitated the focus groups. He verified the correctness of the interpreted data from the focus groups. In addition, an Academic with extensive experience verified the accuracy of interpretation and the findings of the interviews from Atlas. ti coding. Credibility was also achieved through member checks. Member checks is a process of participants verifying the correctness of the researcher's interpretation of data (Lincoln & Guba 1985:301-304, 314; Merriam & Grenier 2019:25-26). Following the transcription of the audio-recorded interviews, the transcriptions were sent to interviewees to verify the accuracy of the interview data. The checks were necessary to ensure that the analysed data is the true reflection of the participants' interview responses, who were afforded one week to respond with any proposed corrections. Minor changes to the transcripts were considered when refining the framework.

The second element of the properties of rigour in qualitative research, is transferability. Transferability is when similarities or comparisons of context are possible (Lincoln & Guba 1985:297). In this study, rich descriptions of how IQA was applied to develop the affinities and how the affinities relate to each other, were provided. Rich descriptions were provided for readers in section 2.5.2 and findings in chapter 3, for readers who wish to duplicate the IQA processes and discover relevant factors and relationships amongst factors for their own studies. Also, rich descriptions on how the interviews were conducted, transcribed and interpreted are provided, for duplication. Rich descriptions on how to perform and analyse interviews are found in section 2.5.4, and findings in chapter 5. The rich descriptions are also useful to those readers who wish to expand the study of audit committees in municipalities.

The third and fourth elements of properties of rigour in qualitative research are dependability and confirmability. Dependability is achieved when the interpretations and findings use dependable processes that can be verified by a designated person and confirmability is a process of ensuring conformance with dependable processes (Lincoln & Guba 1985:318; Lincoln & Guba 2013:105). This study employed

dependable processes such as triangulation, member checks and peer review to ensure the accuracy of interpretations and findings. Confirmability was achieved by following a sound methodological approach, from section 2.2 to section 2.5, and also conforming ethically. The study also conformed to a dependable process of using a transcription expert to transcribe interviews, as well as by obtaining ethical clearance from the academic institute and informed consent from the participants in focus groups and interviews.

The fifth element of the properties of rigour in qualitative research, is reflexivity. Reflexivity implies self-disclosure or critical self-reflecting by the researcher (Guba & Lincoln 1981; Northcutt & McCoy 2004:8). It is a process by which the researcher declares his or her subjectivity in the research (Lincoln & Guba 2000:183). This researcher acknowledges that there was a human element that influenced the research. The researcher acknowledges that prior knowledge was applied to develop the research problem and subjective judgement was exercised in selecting the categories of participants (Alcoff & Potter 1993; Reinharz 1997). However, as discussed in sections 2.5.2 and 2.5.4, the participants were nominated by reliable sources and organisations that are not connected to the researcher.

## **2.7 Research ethics considerations**

The researcher applied the ethical principles of Murphy and Dingwall (2001:339) before, during and after the research study, namely: 1) The researcher did not cause any harm to the participants; 2) The research holds positive and identifiable benefits; 3) The research participants' values and decisions were respected; and 4) All people were treated equally. The rights and needs of the participants were considered. The researcher did not invade privacy or impose on the participants. The participants were informed in writing and verbally of the objectives of the research, that ethical clearance to conduct the study had been obtained, of the importance of participation in the study, and that the interviews will be recorded, transcribed, interpreted and reported and will remain anonymous (Cresswell 2009:198).

The ethical considerations relating to the use of technology and the telephone as platforms in conducting interviews, were considered. The researcher suggested that participants who used internet platforms for interviews, create new accounts that will



protect their identity. However, none of the participants believed it necessary to open new accounts and they all used their existing accounts, selecting the preferred platform and also the date and time for the interviews (refer to annexure 8 for the information sheet sent to interview participants and consent form completed by participants). The participants consented to voluntary participation in the online and telephonic interviews. No illegal discussions or activities took place during interviews.

## **2.8 The role of the researcher**

The main role of the researcher was to be an instrument of selecting participants, collecting data, analysing the data and reporting the findings. Fairness was exercised by the researcher in this role. The researcher did not have prior experience with the phenomenon, apart from possessing theoretical knowledge concerning audit committees and municipalities and also, as a South African resident, experiencing service delivery by the municipalities. Owing to prior knowledge of the challenges and issues faced by municipalities and their audit committees, the researcher was motivated to conduct the study. The commencement of the study was thus influenced by the theoretical knowledge and experience as a resident, that enhanced the study. The importance of this methodology was affirmed by receiving the Best Paper award in Track 1 of Management Accounting and Finance & Public sector and Internal Audit, and publication in the accredited conference proceedings, at the South African Accounting Association's (SAAA) Biennial International Conference 2019 - the title of the paper was 'Interactive Qualitative Analysis (IQA) as an exploratory qualitative method in governance research on South African municipalities'.

Another role of the researcher was to obtain research ethics clearance for the study. Before the focus groups and interviews were conducted, the researcher applied and obtained ethics clearance to conduct focus groups (ERC Reference number 2017\_CAS\_032- (refer to annexure 1) and interviews (ERC Reference number 2020\_CAS\_005- (refer to annexure 7) from the UNISA's College of Accounting Sciences Ethics Review Committee. The researcher also selected the methods and sources of data collection. Participants were selected for the focus groups and interviews by the researcher. The selection criteria were based on the purpose of the study and knowledge of the phenomenon. The research participants participated voluntarily with written consent. Confidentiality and anonymity of the research

participants were upheld. The entire process of conducting the research was executed ethically and for the social good.

### **2.8.1 Focus groups**

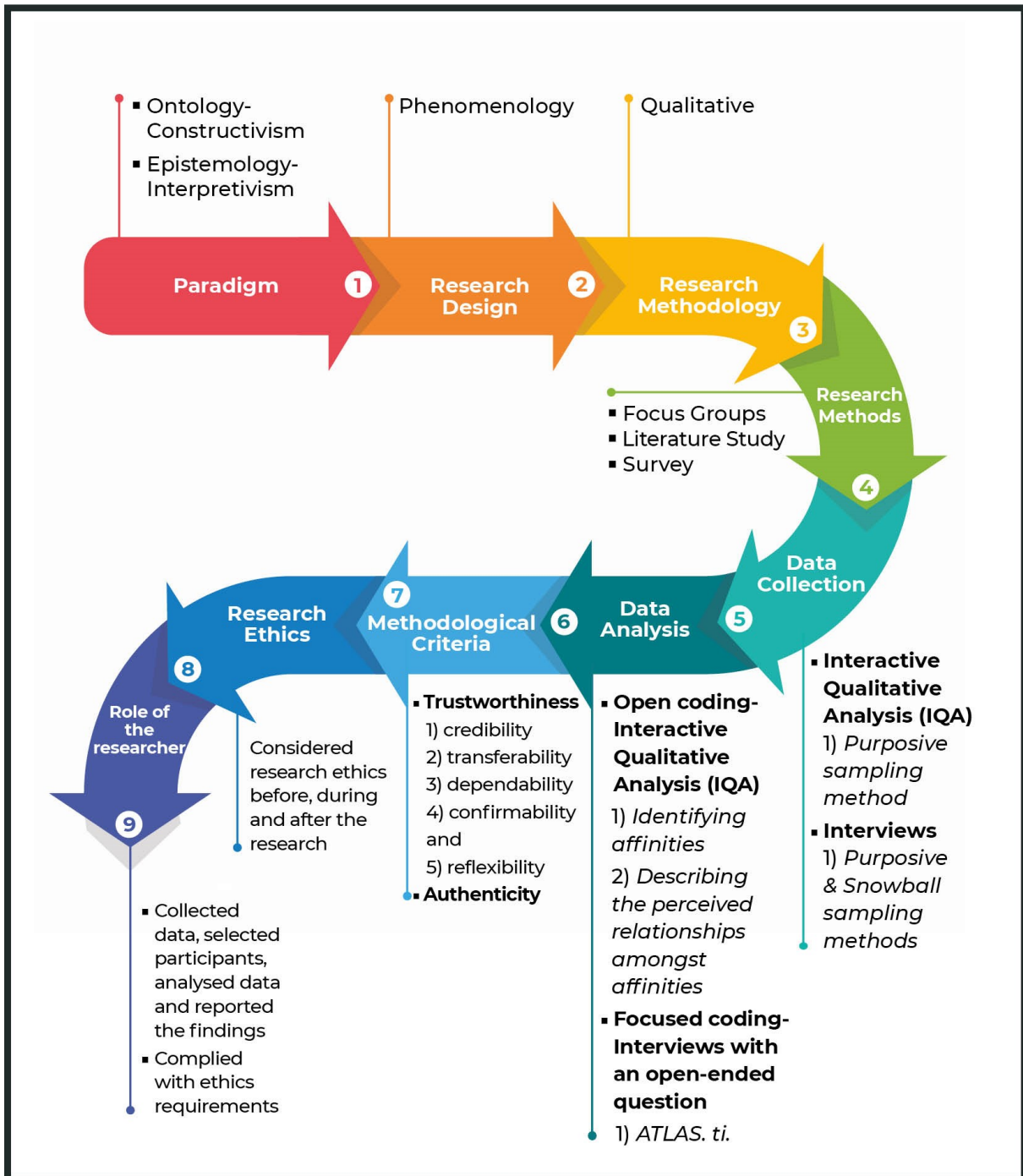
Before the focus group discussions commenced, the researcher identified the relevant and necessary number of focus groups to be facilitated. Written consent was prepared and supplied to all the research participants, who participated voluntarily (refer to annexure 2) and signed the consent forms. As mentioned before, the researcher also drafted the research question and issue statement to be used by the focus group. During the focus group interviews, the researcher was an observer and scripted notes of the discussions by the participants. The Educational Psychologist was able to facilitate the focus groups with no interruption from the researcher. Following conclusion of the focus groups, the researcher received all the necessary information from the facilitator. The researcher used the information and the notes compiled during the focus groups to analyse the data. The findings from the data are explained in the next chapter (refer to chapter 3).

### **2.8.2 Survey**

In addition to seeking ethical authorisation to conduct interviews, the role of the researcher was to prepare an open-ended question for the interviewees. The researcher identified the potential participants for the interviews, requested them to participate in the interviews, and also conducted the interviews.

## **2.9 Chapter summary**

The summary of the research plan discussed in this chapter is illustrated in figure 2.6.

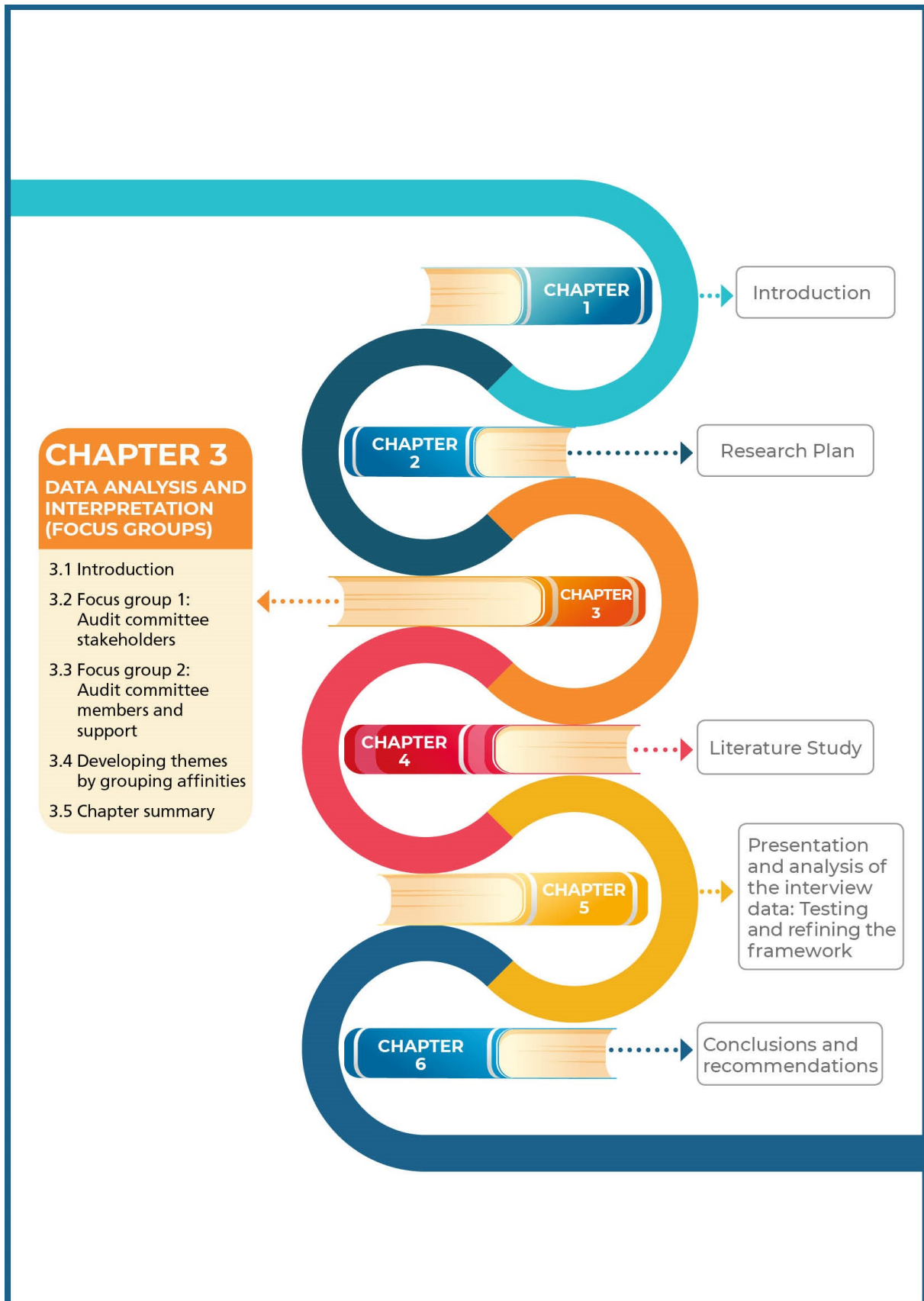


**Figure 2.6: Research plan**

*(Source: Own compilation)*

The research plan was appropriate for this study as it achieved the primary objective of developing a framework that enhances the effectiveness of audit committees in municipalities, based on the views and perspectives of multiple experienced individuals. Ethics were considered throughout the process of the research.

## CHAPTER 3 DATA ANALYSIS AND INTERPRETATION (FOCUS GROUPS)



### **3.1 Introduction**

The first sub-objective of the study is to acquire an understanding of factors that influence audit committee effectiveness (refer to section 1.5). The factors (hereafter referred to as affinities) were acquired by means of two focus groups, using the IQA technique as discussed in the previous chapter, section 2.5.2. This chapter presents the findings of the focus group discussions. The chapter comprises of the inductive and axial coding, to describe how affinities were identified and to present a brief description of affinities, and the theoretical coding, to show the relationships amongst affinities, following which it presents the IRDs - to classify affinities - and SIDs - to display the relationships of the affinities in a system. Different parts of the system are discussed in the Feedback Loops section, followed by an explanation of how themes were developed from these affinities. The themes are further explored in the next chapter.

### **3.2 Focus group 1: Audit committee stakeholders**

#### **3.2.1 Inductive and axial coding**

As mentioned in section 2.5.2.2, following the silent brainstorming and the verbal debate amongst participants, 11 affinities and 53 sub-affinities (outlined in table 3.1) emerged from the focus group that was comprised of six audit committee-stakeholders.

Factors (Affinities)	1 Location of municipalities	2 Terms of reference	3 Remuneration of audit committee members	4 Ethics of audit committee members	5 Political buy-in
Sub-factors (Sub-Affinities)	<ul style="list-style-type: none"> <li>1. Logistics/Time</li> <li>2. Location</li> <li>3. Getting skills cost</li> </ul>	<ul style="list-style-type: none"> <li>4. Reporting structure</li> <li>5. Frequency of meetings</li> <li>6. Lack of structure (time &amp; organisation)</li> <li>7. Length of tenure</li> <li>8. Constant interaction</li> <li>9. Not reporting to council</li> <li>10. Late delivery packs</li> <li>11. Lack of time for preparation</li> <li>12. Relevant information/ Overload</li> <li>13. Compliance</li> </ul>	<ul style="list-style-type: none"> <li>14. Financial resources</li> </ul>	<ul style="list-style-type: none"> <li>15. Objectivity</li> <li>16. Independence</li> <li>17. Professional association (accountability)</li> <li>18. Not preparing for meetings</li> <li>19. Attitude of members</li> </ul>	<ul style="list-style-type: none"> <li>20. Overall political buy-in</li> <li>21. Role clarification</li> </ul>

Factors (Affinities)	6 Audit committees (in)ability to influence	7 Selection of audit committee members	8 Organisational maturity	9 Internal Audit function	10 Risk Management	11 Management of municipalities
Sub-factors (Sub-Affinities)	22. Ability to influence outcome 23. Lack of power/ consequences 24. Audit committee members influence 25. Punitive power/ Disclosure influence	26. Selection 27. Appointing members that do not meet requirements 28. Not understanding their role 29. Balance skills and knowledge 30. Non-specialists skills 31. Skills capability 32. Availability	33. Maturity of organisation 34. Monitoring 35. Implementation 36. Compliance mentality 37. Consequence 38. Information 39. Documentation (Records) 40. Institutional knowledge	41. Capacity within internal audit unit 42. Dysfunctional internal audit function 43. Resources 44. Remuneration of internal auditors 45. Support	46. Not a credible risk management plan	47. Leadership 48. Management 49. Lack of management skills in municipal management 50. Administration 51. Processes 52. Management response to the implementation of internal controls 53. Staff/Human capital

**Figure 3.1: List of affinities and sub-affinities for focus group 1**

*(Source: Own compilation)*

The descriptions of the affinities were derived from the input by participants. The descriptions of each identified affinity are clarified below.

*Affinity 1. Location of municipalities*

The focus group members identified the *location of municipalities* as municipal audit committee challenges in rural areas. Challenges with logistics, lack of relevant skills, high travelling costs, long travelling time and accommodation expenses, were mentioned. They held the view that these challenges are compounded by inadequate municipal budgets. In addition, these challenges result in the likelihood of a rural municipality only procuring the services of incompetent and inexperienced audit committee members. They also mentioned that at times meetings are cancelled due to absenteeism of audit committee members travelling from afar, or lack of basic needs on the municipal premises - such as water - during meetings.

*“Rural municipalities are highly politicised” (P4).*

*“Rural municipalities pay less” (P4).*

### *Affinity 2. Terms of reference*

The focus group members strongly associated the independence of audit committees with its ToR. They agreed that the audit committee ToR and the municipal structure [an organisational structure assigning council as the party that should appoint the audit committee members and with an audit committee reporting line to council] should support the independence of audit committees. Members expressed their concern that in some municipalities, audit committees do not report to the council but to structures that they are overseeing (advising), such as the accounting officer. They were also concerned that the ToR is not always complied with. In their view, the audit committee receives its meeting packs (documents in preparation for the meeting) late, resulting in under-preparedness of audit committee members for meetings. Occasionally, the meeting packs contain irrelevant information that wastes the audit committee’s time. The focus group members also mentioned that interaction between the audit committee and management, and the frequency of audit committee meetings as per the ToR, are, at times, inadequate.

*“Terms of reference set the tone for the working [work] of audit committees and expectations from [of] council to [from] audit committees” (P1).*

### *Affinity 3. Remuneration of audit committee members*

*Remunerations of audit committee members* were linked to the value of human resources. The focus group members agreed that inconsistency of remuneration rates between municipalities influences the quality of applicants to serve on the audit committee. Metropolitan municipalities attract the best-skilled members as they are situated in urban areas and they have a larger budget to pay higher remuneration rates compared to local and district municipalities. Local and district municipalities offer lower remuneration owing to their smaller budget and inferior economic status, especially in the most remote rural areas.



*“Municipalities in [of] affluent places [areas] generally pay more” (P1)*

*“Rural municipalities pay less” (P4).*

*“Ability to attract skills” (P5).*

*“Remuneration offered can influence how audit committee members behave” (P6).*

#### *Affinity 4. Ethics of audit committee members*

*Ethics of audit committee members* were associated with independence and objectivity. The focus group members emphasised that ethical conduct can be enforced when municipalities recruit audit committee members that belong to professional bodies. These audit committee members are expected to comply with the code of ethics/conduct prescribed by their affiliated professional bodies. Focus group members were also concerned about nepotism. Nepotism occasionally occurs in situations where audit committee members are recruited based on their personal relationship with management, and/or the council of the municipality. In addition, audit committee members are often members of several other audit committees and the quality of their input is compromised due to the workload they are subjected to. Moreover, audit committee members are often double-booked for meetings, resulting in preference to those organisations offering higher remuneration.

*“The functioning of the municipality can directly impact how the audit committee members conduct themselves in meetings” (P6).*

*“Requiring [appoint] professional body members” (P5)*

*“Audit committee members should behave in accordance with code of ethics and governance” (P3)*

#### *Affinity 5. Political buy-in*

The focus group members expressed that some council members do not support the operations of audit committees, owing to the misunderstanding of the role of internal audit, external audit and audit committees. They connected these causes to the difficulty of audit committees to acquire political buy-in.

*“The political buy-in will ensure that the current members are successful” (P6).*

#### *Affinity 6. Audit committees’ (in)ability to influence*

The focus group members stated that municipalities do not implement all the recommendations from the audit committees. They pointed out that some audit committees lack the skills and abilities to influence an outcome. In addition, they mentioned that audit committees do not exercise their disclosure power in the annual reports to expose the maladministration in municipalities and thereby miss the opportunity to ensure its influence. Focus group members associated the main cause of non-disclosure with the lack of independence of audit committee members (links to ethics (4)). They were concerned that some audit committee members may wish to secure their next audit committee appointment at the expense of not reporting appropriately. The focus group members suggested that those audit committee recommendations not implemented, should be disclosed to the public. They believed that such an action would compel municipalities to consider and act on recommendations timeously.

*“An influential audit committee would direct the organisation either in the right or wrong direction” (P1).*

#### *Affinity 7. Selection of audit committee members*

The focus group members stated that the recruitment and *selection of audit committee members* influence the independence of audit committee members. They indicated that independence is compromised (links to ethics (4)) when recruitment and selection are conducted by the accounting officers or other parties, other than the council, whom the audit committee ought to oversee (advise). Furthermore, the concern was raised that, occasionally, unqualified audit committee members are recruited (links to nepotism (4) and location (1)). Those members, consequently, do not understand their roles and lack the skills and experience required. Another concern was the availability of audit committee members (links to double-booked (4) and location (1)) to attend all meetings. Another point was made that not all veteran audit committee members are competent. Also, some audit committees lack specialised skills, e.g. legal expertise, engineering expertise, etc. The focus group

members recommended that the audit committees must comprise of members that, together, possess a suitable balance of specialised skills.

*“The selection of audit committee members can influence how the organisation improves in all aspects of governance” (P6).*

*“If skilled audit committee members are appointed, the municipalities will be able to implement proper controls” (P2).*

#### *Affinity 8. Organisational maturity*

The focus group members explained that the effectiveness of the audit committee is influenced by the maturity of the municipality. They mentioned that some municipalities do not possess institutional knowledge and experience. Also, non-availability of proper procedural documents (records), result in a lack of compliance with legislation, policies and procedures. The focus group members revealed that aberrant municipalities are immature and usually have numerous vacant positions, especially on the executive level, accompanied by unskilled or incompetent officials, in general. They pointed out that it renders the function of the audit committee ineffective when audit committee recommendations are not implemented (links to influence (6)) by municipalities, without consequences.

*“Organisational maturity would determine the level of commitment to running the organisation” (P1).*

#### *Affinity 9. Internal Audit Function*

The focus group members emphasised the importance of the internal audit function as a critical governance component of the municipality and as a support to the effectiveness of the audit committee, through reporting and secretarial duties to audit committees. The focus group members mentioned that some municipalities' internal audit functions are dysfunctional and lack adequate competent resources (staff members). The dysfunctional internal audit function is unable to render credible service to the municipality and report to the audit committee. The focus group members indicated that budgetary constraints might render a municipality unable to appoint and remunerate an appropriate number of qualified internal audit staff members, possessing the desired combination of skills. This challenge results in the

recruitment of inexperienced staff members, particularly in rural areas (links to *Affinity 1: Location of the municipality*).

*“Location does affect the internal audit due to skills” (P6).*

*“Internal audit plan influence[s] municipal maturity and effectiveness” (P2).*

#### *Affinity 10. Risk Management*

The focus group members highlighted that some municipalities do not possess a credible risk management plan. If municipalities do not have a credible risk plan and competent staff members, audit committee recommendations to reduce or prevent risk are often not implemented.

*“Risk management influence[s] municipal performance and effectiveness” (P2).*

*“Risk evaluation will improve processes” (P4).*

#### *Affinity 11. Management of municipalities*

The focus group members expressed that the leadership [refers to council] and management [refers to accounting officer and other managing staff employed by the municipality] do not always support the effectiveness of audit committees. The reasons provided were that leadership, management and staff members in some municipalities do not possess adequate skills particularly relating to leadership, management, administration, responding to internal controls, general support, and adhering to processes.

*“...an effective leadership team can influence organisational maturity...” (P6).*

### **3.2.2 Theoretical coding – Detailed Affinity Relationship Table**

Following the clarification of affinities by the participants, the relationship between the affinities had to be established (refer to section 2.5.2.3 for a detailed discussion of the process followed to complete the DART form). The Pareto Protocol was used to tally all the relationships from the DARTs and determine the frequency of each relationship. This is presented in table 3.2.

The focus group members' total votes were 193 in 110 possible relationships amongst affinities. Some of the relationships did not receive any votes as the focus group members did not deem the affinities to have a relationship. The next step was to construct the Pareto chart by sorting the relationships in descending order of frequency. The cumulative frequencies and percentages in terms of both the number of votes (193) and relationships (110) were also calculated.

In table 3.3 the results of relationships from the DART form are presented.

**Table 3.2: Focus group 1 participants' voting results from the DART forms**

No.	Participant	1	2	3	4	5	6	Total	No.	Participant	1	2	3	4	5	6	Total	No.	Participant	1	2	3	4	5	6	Total
1	1 > 2		1				1	2	37	2 > 11					1	1	2	74	5 < 8							0
2	1 < 2							0	38	2 < 11			1				1	75	5 > 9	1			1	1	1	4
3	1 > 3	1	1	1	1	1	1	6	39	3 > 4			1	1	1		3	76	5 < 9			1				1
4	1 < 3							0	40	3 < 4							0	77	5 > 10	1			1	1	1	4
5	1 > 4		1					1	41	3 > 5		1					1	78	5 < 10			1				1
6	1 < 4							0	42	3 < 5			1			1	2	79	5 > 11	1		1	1	1	1	5
7	1 > 5			1	1			2	43	3 > 6							0	80	5 < 11							0
8	1 < 5							0	44	3 < 6				1			1	81	6 > 7							0
9	1 > 6						1	1	45	3 > 7			1	1	1	1	4	82	6 < 7	1		1		1	1	4
10	1 < 6							0	46	3 < 7							0	83	6 > 8	1				1	1	3
11	1 > 7	1	1				1	4	47	3 > 8			1				1	84	6 < 8			1				1
12	1 < 7							0	48	3 < 8							0	85	6 > 9	1		1	1	1	1	4
13	1 > 8	1		1	1		1	4	49	3 > 9					1		1	86	6 < 9					1		1
14	1 < 8							0	50	3 < 9							0	87	6 > 10	1			1	1	1	3
15	1 > 9	1	1	1	1	1	1	6	51	3 > 10							0	88	6 < 10					1		1
16	1 < 9							0	52	3 < 10							0	89	6 > 11	1		1	1	1	1	4
17	1 > 10		1				1	3	53	3 > 11							0	90	6 < 11					1		1
18	1 < 10			1				1	54	3 < 11			1			1	2	91	7 > 8		1			1		2
19	1 > 11	1	1		1	1	1	5	55	4 > 5	1						1	92	7 < 8	1		1	1	1	1	3
20	1 < 11			1				1	56	4 < 5			1			1	2	93	7 > 9					1		1
21	2 > 3	1	1					2	57	4 > 6	1		1	1	1		4	94	7 < 9	1				1		2
22	2 < 3					1		1	58	4 < 6						1	1	95	7 > 10						1	1
23	2 > 4			1				1	59	4 > 7	1						1	96	7 < 10							0
24	2 < 4	1				1		2	60	4 < 7						1	1	97	7 > 11						1	1
25	2 > 5					1		1	61	4 > 8							0	98	7 < 11	1		1	1	1	1	3
26	2 < 5	1		1	1		1	4	62	4 < 8			1			1	2	99	8 > 9	1	1	1	1	1	1	5
27	2 > 6			1	1	1		3	63	4 > 9	1		1	1			3	100	8 < 9							0
28	2 < 6	1					1	2	64	4 < 9						1	1	101	8 > 10	1	1	1	1			4
29	2 > 7	1		1			1	3	65	4 > 10							0	102	8 < 10					1		1
30	2 < 7					1		1	66	4 < 10			1			1	2	103	8 > 11	1	1	1	1			4
31	2 > 8			1				1	67	4 > 11			1				1	104	8 < 11					1		1
32	2 < 8					1		1	68	4 < 11						1	1	105	9 > 10	1			1			2
33	2 > 9				1	1	1	3	69	5 > 6	1		1	1	1	1	5	106	9 < 10		1	1		1		3
34	2 < 9			1				1	70	5 < 6							0	107	9 > 11	1	1		1			3
35	2 > 10					1	1	2	71	5 > 7	1		1	1	1		4	108	9 < 11			1		1		2
36	2 < 10			1				1	72	5 < 7							0	109	10 > 11							0
									73	5 > 8	1		1			1	3	110	10 < 11	1		1	1	1		3
																			<b>Total number of votes</b>						<b>193</b>	

(Source: Own compilation)

**Table 3.3: Focus group 1 affinities in descending order of frequency with Pareto and Power analysis**

Affinity Pair Relationship	Frequency Sorted (Descending)	Cumulative Frequency	Cumulative Percent (Relation)	Cumulative Percent (Frequency)	Power
1   1 > 3	6	6	0.9	3.1	2.2
2   1 > 9	6	12	1.8	6.2	4.4
3   1 > 11	5	17	2.7	8.8	6.1
4   5 > 6	5	22	3.6	11.4	7.8
5   5 > 11	5	27	4.5	14.0	9.4
6   8 > 9	5	32	5.5	16.6	11.1
7   1 > 7	4	36	6.4	18.7	12.3
8   1 > 8	4	40	7.3	20.7	13.5
9   2 < 5	4	44	8.2	22.8	14.6
10   3 > 7	4	48	9.1	24.9	15.8
11   4 > 6	4	52	10.0	26.9	16.9
12   5 > 7	4	56	10.9	29.0	18.1
13   5 > 9	4	60	11.8	31.1	19.3
14   5 > 10	4	64	12.7	33.2	20.4
15   6 < 7	4	68	13.6	35.2	21.6
16   6 > 9	4	72	14.5	37.3	22.8
17   6 > 11	4	76	15.5	39.4	23.9
18   8 > 10	4	80	16.4	41.5	25.1
19   8 > 11	4	84	17.3	43.5	26.3
20   1 > 10	3	87	18.2	45.1	26.9
21   2 > 6	3	90	19.1	46.6	27.5
22   2 > 7	3	93	20.0	48.2	28.2
23   2 > 9	3	96	20.9	49.7	28.8
24   3 > 4	3	99	21.8	51.3	29.5
25   4 > 9	3	102	22.7	52.8	30.1
26   5 > 8	3	105	23.6	54.4	30.8
27   6 > 8	3	108	24.5	56.0	31.4
28   6 > 10	3	111	25.5	57.5	32.1
29   7 < 8	3	114	26.4	59.1	32.7
30   7 < 11	3	117	27.3	60.6	33.3
31   9 < 10	3	120	28.2	62.2	34.0
32   9 > 11	3	123	29.1	63.7	34.6
33   10 < 11	3	126	30.0	65.3	35.3
34   1 > 2	2	128	30.9	66.3	35.4
35   1 > 5	2	130	31.8	67.4	35.5
36   2 > 3	2	132	32.7	68.4	35.7
37   2 < 4	2	134	33.6	69.4	35.8
38   2 < 6	2	136	34.5	70.5	35.9
39   2 > 10	2	138	35.5	71.5	36.0
40   2 > 11	2	140	36.4	72.5	36.2
41   3 < 5	2	142	37.3	73.6	36.3
42   3 < 11	2	144	38.2	74.6	36.4
43   4 < 5	2	146	39.1	75.6	36.6
44   4 < 8	2	148	40.0	76.7	36.7
45   4 < 10	2	150	40.9	77.7	36.8
46   7 > 8	2	152	41.8	78.8	36.9
47   7 < 9	2	154	42.7	79.8	37.1
48   9 > 10	2	156	43.6	80.8	37.2
49   9 < 11	2	158	44.5	81.9	37.3
50   1 > 4	1	159	45.5	82.4	36.9
51   1 > 6	1	160	46.4	82.9	36.5
52   1 < 10	1	161	47.3	83.4	36.1
53   1 < 11	1	162	48.2	83.9	35.8
54   2 < 3	1	163	49.1	84.5	35.4
55   2 > 4	1	164	50.0	85.0	35.0
56   2 > 5	1	165	50.9	85.5	34.6
57   2 < 7	1	166	51.8	86.0	34.2
58   2 > 8	1	167	52.7	86.5	33.8
59   2 < 8	1	168	53.6	87.0	33.4
60   2 < 9	1	169	54.5	87.6	33.0
61   2 < 10	1	170	55.5	88.1	32.6
62   2 < 11	1	171	56.4	88.6	32.2
63   3 > 5	1	172	57.3	89.1	31.8
64   3 < 6	1	173	58.2	89.6	31.5
65   3 > 8	1	174	59.1	90.2	31.1
66   3 > 9	1	175	60.0	90.7	30.7
67   4 > 5	1	176	60.9	91.2	30.3
68   4 < 6	1	177	61.8	91.7	29.9
69   4 > 7	1	178	62.7	92.2	29.5
70   4 < 7	1	179	63.6	92.7	29.1
71   4 < 9	1	180	64.5	93.3	28.7
72   4 > 11	1	181	65.5	93.8	28.3
73   4 < 11	1	182	66.4	94.3	27.9
74   5 < 9	1	183	67.3	94.8	27.5
75   5 < 10	1	184	68.2	95.3	27.2
76   6 < 8	1	185	69.1	95.9	26.8
77   6 < 9	1	186	70.0	96.4	26.4
78   6 < 10	1	187	70.9	96.9	26.0
79   6 < 11	1	188	71.8	97.4	25.6
80   7 > 9	1	189	72.7	97.9	25.2
81   7 > 10	1	190	73.6	98.4	24.8
82   7 > 11	1	191	74.5	99.0	24.4
83   8 < 10	1	192	75.5	99.5	24.0
84   8 < 11	1	193	76.4	100.0	23.6
85   1 < 2	0	193	77.3	100.0	22.7
86   1 < 3	0	193	78.2	100.0	21.8
87   1 < 4	0	193	79.1	100.0	20.9
88   1 < 5	0	193	80.0	100.0	20.0
89   1 < 6	0	193	80.9	100.0	19.1
90   1 < 7	0	193	81.8	100.0	18.2
91   1 < 8	0	193	82.7	100.0	17.3
92   1 < 9	0	193	83.6	100.0	16.4
93   3 < 4	0	193	84.5	100.0	15.5
94   3 > 6	0	193	85.5	100.0	14.5
95   3 < 7	0	193	86.4	100.0	13.6
96   3 < 8	0	193	87.3	100.0	12.7
97   3 < 9	0	193	88.2	100.0	11.8
98   3 > 10	0	193	89.1	100.0	10.9
99   3 < 10	0	193	90.0	100.0	10.0
100   3 > 11	0	193	90.9	100.0	9.1
101   4 > 8	0	193	91.8	100.0	8.2
102   4 > 10	0	193	92.7	100.0	7.3
103   5 < 6	0	193	93.6	100.0	6.4
104   5 < 7	0	193	94.5	100.0	5.5
105   5 < 8	0	193	95.5	100.0	4.5
106   5 < 11	0	193	96.4	100.0	3.6
107   6 > 7	0	193	97.3	100.0	2.7
108   7 < 10	0	193	98.2	100.0	1.8
109   8 < 9	0	193	99.1	100.0	0.9
110   10 > 11	0	193	100.0	100.0	0.0
Total Frequency	193	Equal Total Frequency	Equals 100%	Equals 100%	Power = E-D

(Source: Own compilation)

The cumulative percentage (relation) is based on the total number of 110 relationships. Each relationship represents 1/110 or approximately 0,9 per cent of the total possible number, added to the previous percentage. The relationships from 85 through to 110 had to be excluded because these received no votes, as their frequencies are zero. Therefore, 26 out of 110 affinity pairs did not have a relationship. The cumulative per cent (frequency) is calculated as follows: (cumulative frequency/193votes \*100). The cut-off point of 49 relationships was selected as the system contains the maximum power of 37.3. The relationships represent 81.9 per cent of the total variation in the system.

### 3.2.3 Interrelationship Diagram

The 49 relationships were used to classify each affinity as the cause (drivers), neutral or effect (outcomes) using the IRD. The IRD also distinguishes the affinities that did not have a relationship in the system. From the 49 relationships, eight relationships are conflicting ( $2 \rightarrow 6$  &  $2 \leftarrow 6$ ); ( $7 \rightarrow 8$  &  $7 \leftarrow 8$ ); ( $9 \rightarrow 10$  &  $9 \leftarrow 10$ ); and ( $9 \rightarrow 11$  &  $9 \leftarrow 11$ ). This refer to affinity- relationships that attracted votes from both directions. From the conflicting relationships, the votes that will be included in the IRD are the four votes with the highest frequencies, resulting in a total of 45 relationships. These perceived relationships are summarised in table 3.4.

**Table 3.4: Focus group 1 interrelationship diagram**

IRD														
	1	2	3	4	5	6	7	8	9	10	11	OUT	IN	$\Delta$
1		↑	↑		↑		↑	↑	↑	↑	↑	8	0	8
2	←		↑	←	←	↑	↑		↑	↑	↑	6	3	3
3	←	←		↑	←		↑				←	2	4	-2
4		↑	←		←	↑		←	↑	←		3	4	-1
5	←	↑	↑	↑		↑	↑	↑	↑	↑	↑	9	1	8
6		←		←	←		←	↑	↑	↑	↑	4	4	0
7	←	←	←		←	↑		←	←		←	1	7	-6
8	←			↑	←	←	↑		↑	↑	↑	5	3	2
9	←	←		←	←	←	↑	←		←	↑	2	7	-5
10	←	←		↑	←	←		←	↑		←	2	6	-4
11	←	←	↑		←	←	↑	←	←	↑		3	6	-3
<b>Total</b>												45	45	0

↑ **arrows out** (the affinity on the vertical side influences the affinity on the horizontal side)

← **arrows in** (the affinity on the vertical side is influenced by the affinity on the horizontal side)

(Source: Own compilation)

As indicated above, the system has 11 affinities that were identified by the participants, with 45 relationships amongst these 11 affinities. Each affinity's relationship, as indicated by the participants, is summarised at the right side of the table. For example, the 8 – 0 – 8 of the first affinity refers to *Affinity 1* influencing eight other affinities, hence the arrow is going out ↑. The 11 shaded blocks refer to 11 affinities that cannot have a relationship with itself. The total of 45 arrows facing to

the left and also 45 arrows facing upwards, refer to the 45 relationships derived from the 11 affinities.

The next step is to sort the IRD in the descending order of the *delta* ( $\Delta$ ). Delta is the difference between the total number of arrows out  $\uparrow$  and arrows in  $\leftarrow$ . It is used to classify affinities as drivers, outcome or neutral (refer to section 2.5.2.4). Drivers are affinities with positive deltas, outcomes are affinities with negative deltas and neutral affinities have a delta of zero (refer to table 3.5).

**Table 3.5: Focus group 1 interrelationship diagram in descending order of delta ( $\Delta$ )**

IRD – Sorted in Descending Order of $\Delta$														
	1	2	3	4	5	6	7	8	9	10	11	OUT	IN	$\Delta$
1		$\uparrow$	$\uparrow$		$\uparrow$		$\uparrow$	$\uparrow$	$\uparrow$	$\uparrow$	$\uparrow$	8	0	8
5	$\leftarrow$	$\uparrow$	$\uparrow$	$\uparrow$		$\uparrow$	$\uparrow$	$\uparrow$	$\uparrow$	$\uparrow$	$\uparrow$	9	1	8
2	$\leftarrow$		$\uparrow$	$\leftarrow$	$\leftarrow$	$\uparrow$	$\uparrow$		$\uparrow$	$\uparrow$	$\uparrow$	6	3	3
8	$\leftarrow$			$\uparrow$	$\leftarrow$	$\leftarrow$	$\uparrow$		$\uparrow$	$\uparrow$	$\uparrow$	5	3	2
6		$\leftarrow$		$\leftarrow$	$\leftarrow$		$\leftarrow$	$\uparrow$	$\uparrow$	$\uparrow$	$\uparrow$	4	4	0
4		$\uparrow$	$\leftarrow$		$\leftarrow$	$\uparrow$		$\leftarrow$	$\uparrow$	$\leftarrow$		3	4	-1
3	$\leftarrow$	$\leftarrow$		$\uparrow$	$\leftarrow$		$\uparrow$				$\leftarrow$	2	4	-2
11	$\leftarrow$	$\leftarrow$	$\uparrow$		$\leftarrow$	$\leftarrow$	$\uparrow$	$\leftarrow$	$\leftarrow$	$\uparrow$		3	6	-3
10	$\leftarrow$	$\leftarrow$		$\uparrow$	$\leftarrow$	$\leftarrow$		$\leftarrow$	$\uparrow$		$\leftarrow$	2	6	-4
9	$\leftarrow$	$\leftarrow$		$\leftarrow$	$\leftarrow$	$\leftarrow$	$\uparrow$	$\leftarrow$		$\leftarrow$	$\uparrow$	2	7	-5
7	$\leftarrow$	$\leftarrow$	$\leftarrow$		$\leftarrow$	$\uparrow$		$\leftarrow$	$\leftarrow$		$\leftarrow$	1	7	-6

(Source: Own compilation)

According to the IRD, the system has four positive deltas that are drivers in the system: affinities 1, 5, 2 and 8. There are six negative deltas which are outcomes: affinities 4, 3, 11, 10, 9 and 7. *Affinity 6* has a zero delta, indicating that there is an equal number of affinities influencing and those that are influenced. The results are visually presented in table 3.6 in the tentative SID Assignments. The table specifies the categories of each affinity. Each affinity is classified in one of the following categories: primary driver, secondary driver, neutral, secondary outcome or primary outcome (refer to section 2.5.2.4).



Affinities		Tentative SID Assignments
1	Location of municipalities	Primary driver
5	Political buy-in	Secondary Driver
2	Terms of reference	Secondary Driver
8	Organisational maturity	Secondary Driver
6	Audit committees (in)ability to influence	Neutral
4	Ethics of audit committee members	Secondary Outcome
3	Remuneration of audit committee members	Secondary Outcome
11	Management of municipalities	Secondary Outcome
10	Risk Management	Secondary Outcome
9	Internal Audit function	Secondary Outcome
7	Selection of audit committee members	Secondary Outcome

**Table 3.6: Focus group 1 Tentative SID Assignment**

*(Source: Own compilation)*

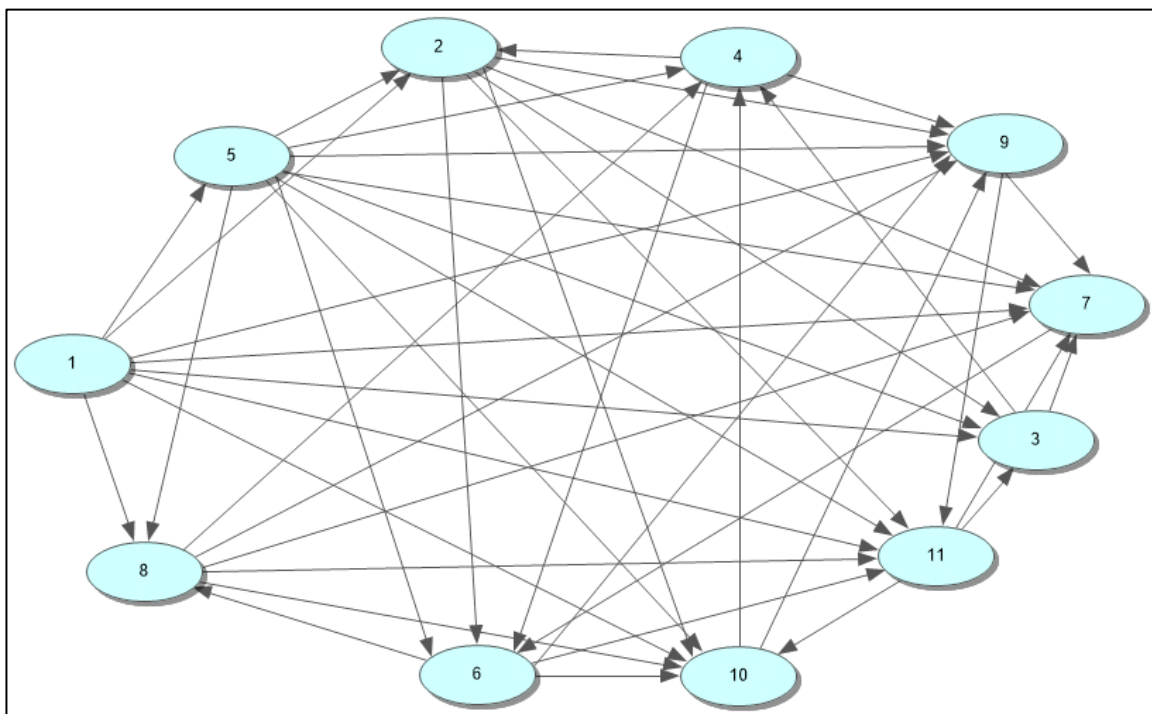
The Tentative SID Assignments display that the system does not have a primary outcome - *Affinity 1, The Location of the Municipality* is the primary driver that influences other affinities, but it is not being influenced. *Affinities 5 - Political Buy-in, 2 - Terms of Reference* and *8 - Organisational Maturity* are the secondary drivers. They influence other affinities while being influenced by a lesser number of affinities. Conversely, *Affinities, 4 - Ethics of Audit Committee Members, 3 - Remuneration of Audit Committee Members, 11 - Management of Municipalities, 10 - Risk Management, 9 - Internal Audit Function* and *7 - Selection of Audit Committee Members* are the secondary outcomes that are influenced by other affinities and only influencing a lesser number of affinities. *Affinity 6 - Audit Committees' (in) ability to Influence* has an equal number of affinity relationships that influences and are also influenced - it is, thus, a neutral affinity.

It makes sense that the location of the municipality is not influenced but influences the majority of the affinities as not much can be done to change the location of the municipalities, since all the communities, irrespective of the area, need municipal services. It is a factor that is beyond the control of council, management and audit committees. The secondary drivers that influence other affinities are controlled by council and management. Therefore, the influence that the council and management

of the municipalities have on the optimal functioning of audit committees, is vital. Council establishes the terms of reference for the audit committee. Council also holds the power of whether the audit committee has political buy-in, or not. Both the council and management are responsible for the maturity of the municipality. Thus, the tentative SID assignments illustrate that all of the secondary outcomes are as a result of drivers which are politically driven within the municipality, the maturity level of the municipality and the role of the audit committee in the ToR.

### 3.2.4 Systems Influence Diagrams

In order to present the links of the affinities within the system, the cluttered SID was developed, presented in figure 3.2 below, using the affinities according to the tentative SID assignment. This is to display the relationship among affinities in a system.



**Figure 3.2: Focus group 1 cluttered SID** (Source: Own compilation)

The primary driver, *Affinity 1 - The Location of the Municipality* is placed on the left of the screen, together with the secondary drivers. The primary outcome is normally placed on the right of the screen together with the secondary outcomes, however, the system does not have a primary outcome. The neutral *Affinity 6 - Audit Committees' (in)Ability to Influence* is placed at the bottom of the system. The positions of the

categories of affinities are standard, as provided by the IQA methodology. The standard positions serve to logically separate the categories of affinities in a system. The arrows demonstrate the direction of the relationship of the affinities, as presented in the IRD. Due to many links within the system, it is difficult to interpret the cluttered SID, hence the need to create the uncluttered SID (presented in figure 3.3 on the next page) where the redundant links are removed. This is to allow the reader to make sense of the system.

The system begins with a primary driver, *Affinity 1 - The location of the municipalities*, influencing *Affinity 5 - Political buy-in*, the secondary driver, leading to the first feedback loop.

The reasons for *the location of the municipalities* as the primary driver to influence *political buy-in*, may be owing to the availability of funds, the availability of skills and the political culture, amongst others. It is reported that rural municipalities are incapable of raising their own revenue because 81 per cent of their population is poor and they depend on government funding that does not take into account the poverty level of a specific area (Dlamini-Zuma 2019). Therefore, it may be difficult for audit committees in rural areas to receive political buy-in from the council due to insufficient funds to implement audit committee recommendations.

Lack of skills can also encourage resistance to political buy-in. Due to lack of skills, the council may refuse to implement audit committee recommendations. It has been confirmed that more than 50 per cent of the heads of administration and CFOs in municipalities are not qualified and lack the competencies to do their jobs (Ensor 2018). Furthermore, in support of the focus group view, rural municipalities find it difficult to attract and recruit skilled people due to their location (Van der Mescht & Van Jaarsveld 2013:18). Hence, the possibility of resistance to implementing audit committee recommendations can be due to a lack of skills within rural municipalities to implement the recommendations. Alternatively, audit committees in rural areas may be incompetent and provide inadequate advice that is rejected by the council, resulting in council losing confidence in the audit committee and the audit committee not achieving political buy-in.

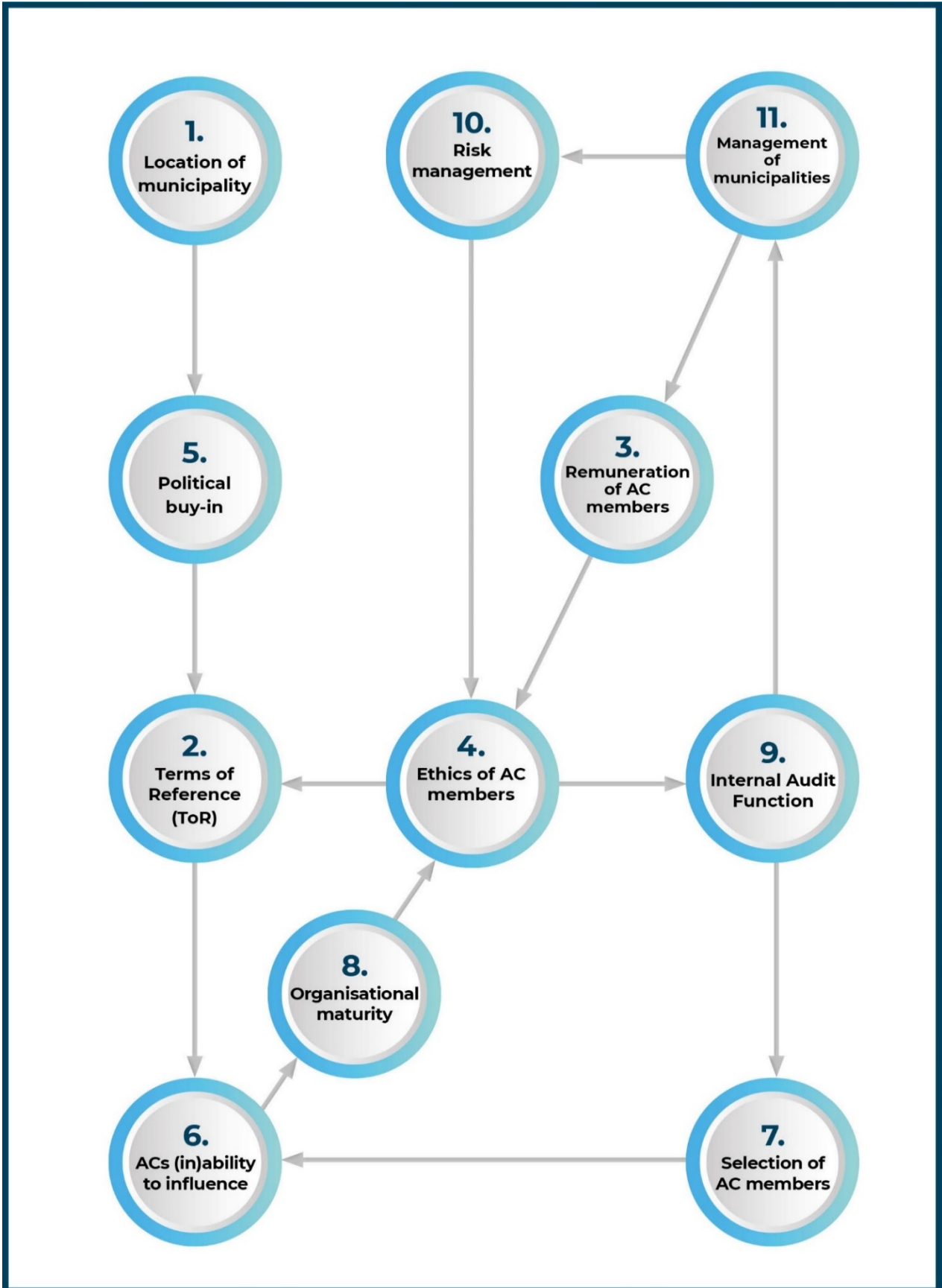


Figure 3.3: Focus group 1 uncluttered SID

(Source: Own compilation)

Lastly, the absence of political buy-in may be due to the political culture of the municipalities. Different locations have different political cultures. For example, the KwaZulu-Natal province is known to be a violent province with numerous slayings of politicians (City Press 2018; Ardé 2020). Therefore, the audit committees may find it difficult to gain political buy-in in areas that are motivated by politics of personal gain, rather than fulfilling the municipal mandate of providing service to communities.

The SID continues to display three feedback loops that illustrate how the affinities interact with each other in the system.

### **3.2.5 Feedback loop discussions**

The three feedback loops derived from the uncluttered SID are as follows:

- **Feedback loop 1:** Affinity 2 → Affinity 6 → Affinity 8 → Affinity 4 → continuous;
- **Feedback loop 2:** Affinity 6 → Affinity 8 → Affinity 4 → Affinity 9 → Affinity 7 → continuous;
- **Feedback loop 3:** Affinity 4 → Affinity 9 → Affinity 11 → Affinity 3 → continuous;

In addition to the feedback loops, the system displayed that:

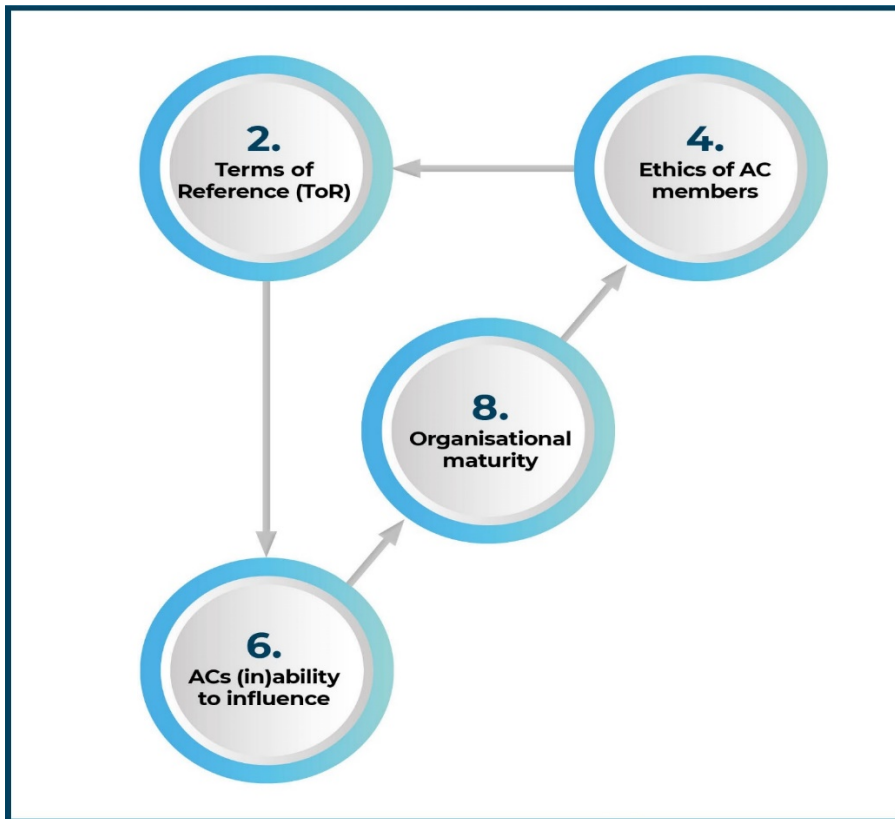
- Affinity 10 is influenced by Affinity 11; and
- Affinity 10 influences Affinity 4

The relationships are derived from the system, however, they do not form part of the feedback loops. The participants did not find a connection with other affinities. Each feedback loop is discussed in the context of this study.

#### **Feedback loop 1**

**Feedback loop 1** is labelled “**The power of audit committees to influence.**”

Affinity 2 Terms of reference → Affinity 6 Audit committees (in)ability to influence → Affinity 8 Organisational maturity → Affinity 4 Ethics of audit committee members → continuous;



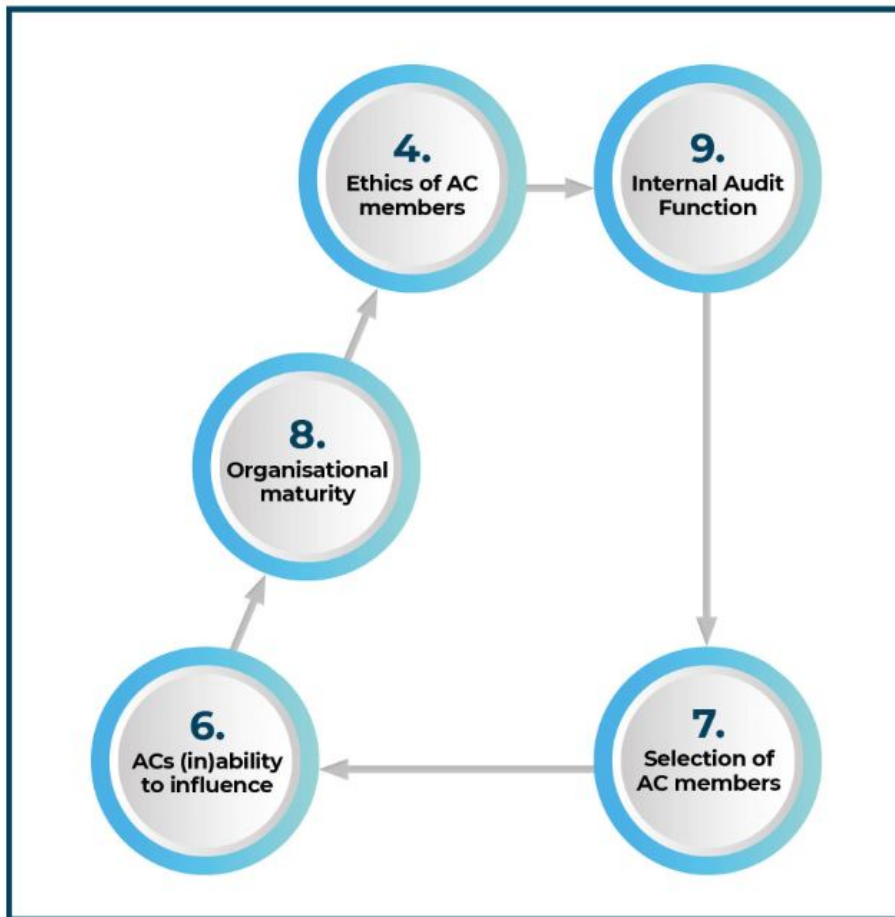
**Figure 3.4: Focus Group 1 Feedback loop 1-The power of audit committees to influence** *(Source: Own compilation)*

Feedback loop 1 commences with the ToR that detail the role and scope of audit committees. In terms of the determined affinity influence, compliance with the ToR will impact on the audit committee’s ability to influence the operations of the municipality. The ability of audit committees to influence affects the maturity of the municipality. Accepting and acting on the criticism and recommendation of the audit committees will affect the maturity of the council and municipality, as implementing the recommendations of the audit committees may improve the operations and governance of the municipality. The feedback loop also suggests that the maturity level of the municipality will determine the level of ethics displayed by the audit committee, which again will lead to comprehensive and adequate ToR. Feedback loop 1 is labelled ‘the power of audit committees to influence’ as it demonstrates the elements that the committee needs in order to be influential.

**Feedback loop 2**

**Feedback loop 2 is labelled “Recruitment and support of audit committee members by the municipality”.**

Affinity 6 Audit committee (in)ability to influence→ Affinity 8 Organisational maturity→  
 Affinity 4 Ethics of audit committee members→ Affinity 9 Internal audit function→  
 Affinity 7 Selection of audit committee members→continuous;



**Figure 3.5: Focus Group 1 Feedback loop 2- Recruitment and support of audit committee members by the municipality** *(Source: Own compilation)*

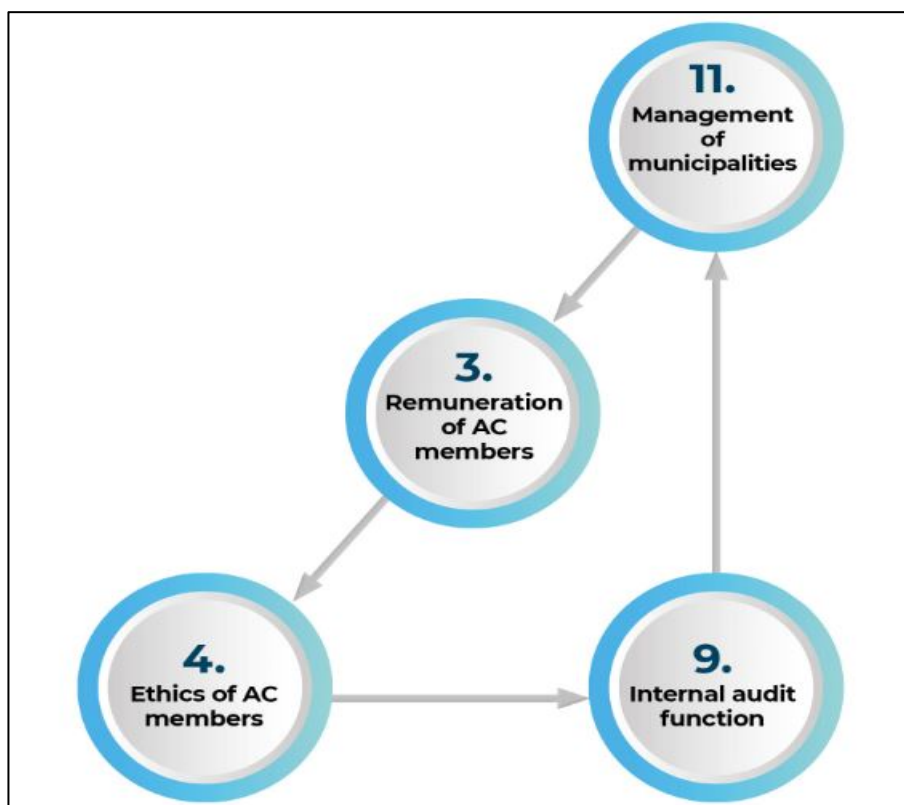
According to the feedback loop, the ability of the audit committee to influence the council depends on the calibre of audit committee members that are appointed by the municipality. The matured municipality will use effective measures to recruit, select and appoint skilled members. The feedback loop also suggests that the level of maturity of the municipality influence whether the appointed audit committee members behave ethically, or not. The extent of ethical behaviour will influence how they respond to the reports from the internal audit function. The feedback loop also suggests that the internal audit function influences the calibre of audit committee members selected. Therefore, the internal audit function may advise the council on the competencies needed in the audit committee. The feedback loop is labelled

“Recruitment and support of audit committee members by the municipality” as it indicates that audit committee members can be supported by the municipalities, by recruiting and selecting ethical members of the appropriate calibre.

### **Feedback loop 3**

**Feedback loop 3** is labelled “**Factors influencing the behaviour of the audit committee members**”.

Affinity 4 Ethics of audit committee members → Affinity 9 Internal audit function → Affinity 11 Management of municipalities → Affinity 3 Remuneration of audit committee members → continuous;



**Figure 3.6: Focus Group 1 Feedback loop 3- Factors influencing the behaviour of audit committee members** (Source: Own compilation)

The feedback loop reveals that ethical audit committee members will influence the effectiveness of the internal audit function. Therefore the internal audit function matters reported to the audit committee, will be attended to objectively and with fairness. The feedback loop also illustrates that the level of internal audit function effectiveness will influence how the municipality is managed. The management of the



municipality will influence the remuneration of audit committees. Therefore, if the municipalities are managed properly and collect sufficient revenue, they will possess enough funds to pay audit committee members market value rates for their services. The feedback loop title reflects the factors influencing the behaviour of audit committee members.

### 3.3 Focus group 2 – Audit committee members and support

#### 3.3.1 Inductive and axial coding

The nine participants - municipal audit committee chairpersons and individuals employed by government organisations that support the function of audit committees - generated the 14 affinities and 79 sub-affinities illustrated in figure 3.7.

Factors (Affinities)	1 Assurance providers	2 Independence	3 Legislative framework	4 Ethical conduct	5 Audit committee understanding of mandate	6 Municipality understanding of audit committee mandate	7 Preparation and participation of audit committee members
Sub-factors (Sub-Affinities)	1. Key Stakeholders (Internal Audit, External Audit and other assurance providers) 2. Internal audit scope of work 3. Internal audit effectiveness 4. Internal audit capacity and proficiency 5. Strength of internal audit function and support 6. External audit function competency	7. Independence (free from political interference) 8. Conflict of interest 9. Audit committee member not independent 10. Objectivity	11. Laws and regulations 12. Applying knowledge of MFMA 13. Unsuitable / Unnecessary legislation 14. Financial instruments (MFMA understanding)	15. Ethics 16. Ethical behaviour	17. Role of audit committee not clear and not documented in a charter 18. Clear focus and mandate 19. Powers of audit committee 20. Understanding the environment by audit committee 21. Focus on risk 22. Continuous training of audit committee members	23. Understanding of roles within municipality 24. Audit committee viewed as compliance exercise 25. Council vs audit committee 26. Relationship with council 27. Accountability loop 28. Mindset and behaviour of executive and management towards audit committee 29. MPAC vs audit committee	30. Preparation time 31. Time 32. Preparedness for meetings 33. Members preparation time 34. Attendance/ availability of members 35. Unprepared members not reading the packs 36. Adequate contributions during meetings 37. Meetings (Agenda items) 38. Preparation and understanding

Factors (Affinities)	8 Inter-governmental support	9 Municipality administration function	10 Political interference	11 Role of audit committee chairperson	12 Diversity of audit committee skills	13 Recruitment and appointment of audit committee members	14 Remuneration of audit committee members
Sub-factors (Sub-Affinities)	39. Support role of provincial treasuries 40. Networks (PSACF, IoDSA, SALGA) 41. Support role of CoGTA 42. Accountability loop (Reporting line)	43. Finance function effectiveness 44. Management team and CFO skills 45. Officials ability to prepare annual financial statements 46. Professional and experienced municipal staff/employees 47. Internal controls 48. Leadership stability 49. Reporting (Frameworks) 50. Quality of reports 51. Availability of information 52. Effective secretariat to audit committee	53. Politics 54. Political parties 55. Political support (Political issues) 56. Effective functioning of municipal council 57. Use of media resulting in negative publicity	58. Robustness of the audit committee chairperson 59. Chairman strength and competency 60. Planning 61. Self-evaluation of audit committee performance 62. Experience	63. Skills 64. Diversity of age and skills, skills matrix 65. Skills compositions 66. Professional competence 67. Previous audit committee experience 68. Lack of diversified skills of members (skills mix) 69. Legal advice quality	70. Appointment and recruitment 71. Shared vs dedicated 72. Resource allocation: Reputation 73. Negative media reports (publicity) 74. Rotation 75. Corruption and fraud (reputation) 76. Recruitment and appointment not always driven by council 77. Targeted (needs) recruitment	78. Remuneration not excessive/ Risk based 79. Sitting vs preparation

**Figure 3.7: List of affinities and sub-affinities for focus group 2**

*(Source: Own compilation)*

The descriptions of the affinities were derived from the input by participants. The descriptions of each of the identified affinities, are clarified below.

**Affinity 1. Assurance providers**

The focus group members emphasised that, for the audit committee to succeed, the assurance providers such as internal auditors and external auditors must be competent, effective and supportive. They also mentioned that the assurance providers must have the capacity, proficiency and strength to execute their duties. They further pointed out that the internal auditor’s scope of work should be adequate in supporting the municipality.

***“Unethical conduct by assurance providers will make their reports questionable and***

*not reliable” (P2).*

*“Assurance providers [should] operate within the parameters of legislative framework” (P2).*

*“If assurance providers are weak, then independence of assessment of issues is impacted” (P1).*

### *Affinity 2. Independence*

The focus group members highlighted that there must be a sound working relationship between the audit committee and other stakeholders of the municipalities such as the council, management and assurance providers. They stated that the audit committee should maintain their independence, keep their objectivity, avoid conflict of interest and stay free from political interference.

*“Conflict of interest on [when] appointing audit committee could impact their independence” (P3).*

### *Affinity 3. Legislative framework*

The focus group members accentuated that some of the audit committee members are not cognisant of the legislative framework governing the municipalities. They further mentioned that these members are not familiar with the laws and regulations applicable to the municipalities and are unable to apply the MFMA. It was a concern that such audit committee members are unable to identify errors and misstatements by employees of the municipalities.

*“It is important to have the audit committee which understand[s] the MFMA as a financial management framework in the municipality” (P4).*

### *Affinity 4. Ethical conduct*

The focus group members emphasised that ethical behaviour or conduct by the audit committee members directly affects their effectiveness.

*“If understanding is lacking, then unethical conduct occurs” (P1).*

### *Affinity 5. Audit committee understanding of mandate*

The focus group members noted that the role of audit committees is not always clear and documented in the charter, and may thus impact overall focus. They emphasised that the agenda and minutes of meetings are sometimes irrelevant. Furthermore, they felt that audit committee members do not understand the municipal environment. Audit committee members do not focus on risk areas and do not understand and use their powers effectively. Lastly, the focus group members recommended that audit committee members should attend continuous training to understand their role.

*“Assurance providers (particularly) internal auditors have a direct influence in [on] the audit committee’s understanding of their roles and charter” (P2).*

*“If members do not prepare, then ethical misconduct occurs in audit committee not understanding [their] roles” (P1).*

#### *Affinity 6. Municipality understanding of audit committee mandate*

The focus group members pointed out that the council and management of the municipality often do not understand the role of an audit committee. Council and management frequently view the audit committee function as a compliance exercise. Focus group members mentioned that if the relationships between the audit committee and council and management are not strengthened, it can result into an accountability loop [*sic*] (read: accountability gap), [poor performance and reporting from all parties that are not accounted for]. There is no buy-in to act on the recommendations made by the audit committee. The members also felt that the council and management do not understand the difference between the MPAC and the audit committee.

*“If municipality does not understand the audit committee mandate, it will impact on audit committee effectiveness” (P3).*

#### *Affinity 7. Preparation and participation of audit committee members*

The focus group members maintained that the preparation and participation of audit committee members directly affect the effectiveness of the audit committee. They were concerned that some of the audit committee members attend the meetings unprepared and are thus not contributing adequately to such meetings. They argued

that this could be owing to insufficient time spent in preparation and/or not receiving the agenda and meeting packs timeously to allow preparation. They further mentioned that the audit committee members who are unavailable and fail to attend meetings, affect the effectiveness of the committee.

*“Inefficient secretariat [that] may lead to poor quality of audit packs resulting in poor preparations for meetings” (P9).*

*“ If chair[person] is ineffective, then members do not prepare” (P1).*

*“Preparation by audit committee members is imperative for the effectiveness of the audit committee” (P3).*

#### *Affinity 8. Inter-governmental support*

The focus group members highlighted that audit committees do not understand municipalities' reporting lines as well as how the municipality link with other government structures, including not understanding the role of government organisations such as the National and Provincial treasuries, and the CoGTA, resulting in the accountability loop [sic] [read: accountability gap - resulting in poor performance and reporting by audit committees]. The members recommended that audit committee members should network and attend functions organised by the Public Sector Audit Committee Forum, IoDSA and SALGA, in order to gain an understanding of the public sector.

*“intergovernmental support should also be seen as [a] key tool to assist politicians to understand the role of audit committees” (P4).*

#### *Affinity 9. Municipality administration function*

The focus group members mentioned that the municipalities must consist of professional and experienced staff members led by a skilled management team [management team referring to senior management]. The necessity of stability in leadership [council and management] was also raised as an important factor in the administration of the municipality. They also expressed their view of the municipality having an effective finance function, led by a skilled CFO. The finance function has the ability to draft and implement internal controls, and also prepare the annual

financial statements according to the reporting framework, consequently, providing good quality reports and rendering relevant information available to audit committees. They also stated that the municipality must render relevant information available to the audit committee, thus providing an effective secretariat function to the audit committee.

*“...quality of team affects municipal administration” (P4).*

*“How the municipality is governed will influence [Affinities] 10-14” (P3).*

#### *Affinity 10. Political interference*

The focus group members acknowledged that politics is an integral part of the municipal environment, yet that should not influence the decisions by the audit committee. The group argued that although the council comprises of members from different political affiliations who can influence the audit committee, the council needs to support the audit committee in execution of its mandate without compromising its independence. A concern was raised that audit committees occasionally receive unfair bad publicity in the media, that results in an impaired reputation, triggered by party political factionalism in the municipalities.

*“Political interference poses a threat to the effectiveness of the audit committee. And if audit committee chairperson is robust with independent members, the audit committee can be effective” (P3).*

*“If political interference exists, the role of chair[person] is ineffective” (P1).*

#### *Affinity 11. Role of audit committee chairperson*

The focus group members emphasised that the robustness of the audit committee chairperson directly impacts the effectiveness of an audit committee. They pointed out that the chairperson must be competent, have strong leadership skills, have experience within audit committees, have skills in planning and executing meetings and be able to execute performance evaluation, including self-assessment.

*“The mandate of audit committee should also specify the competencies of chairperson” (P9).*

*“The chairperson of the audit committee should always be seen to be free from*

*political interference” (P4).*

#### *Affinity 12. Diversity of audit committee skills*

The focus group members highlighted that an audit committee must be comprised of members with diverse skills, experience, professional competence and age. They further mentioned that a skills matrix exercise should be conducted to identify the current skills and essential skills lacking that require recruitment. The group members emphasised that legal expertise is essential and that it is vital that audit committee members also have experience of working in a team.

*“Audit committees should compile [be comprised] of different skills, not only limited to financial background” (P4).*

*“A strong audit committee should [have] the right skills mix” (P3).*

*“If skills are not diverse, independence may be impacted” (P1).*

*“The more diverse the audit committee, the more likely they are to influence through interrogation the product of the assurance providers” (P2).*

#### *Affinity 13. Recruitment and appointment of audit committee members*

The focus group members were concerned that the council does not always drive the recruitment process of audit committee members. In some instances, the accounting officer does the recruitment and selection, which creates a conflict of interest. They emphasised that the following needs to be considered within recruitment: rotation of audit committee members to avoid risks associated with familiarity; recruiting a diversity of skills into the committee, taking into account the needs of the municipality; have dedicated audit committees for one municipality; and the economic environment of the municipality. The group noted that the following factors might discourage skilled individuals to become members of an audit committee: poor municipalities with low pay rates; municipalities with far and distant locations; high workload of shared audit committees responsible for more than one municipality; and negative publicity relating to fraud and corruption in the municipality.

*“If recruitment and appointment is weak, then independence is affected” (P1).*

#### Affinity 14. Remuneration of audit committee members

The focus group members pointed out that inconsistency of remuneration rates influences the flow of attracting specific skills to an audit committee. They mentioned that professionals are attracted to the municipalities that pay higher rates for meetings and preparation. The group recommended that the framework for rates be revised considering the risks within a municipality and thus applying different rates based on risk.

*“...remuneration does affect quality of audit committee team which empower internal audit” (P5).*

### **3.3.2 Theoretical Coding – Detailed Affinity Relationship Table (DART)**

The same procedure was followed as in focus group 1 (refer to sections 2.5.2.3 and 3.2.2 for a detailed discussion of the process). The relationships from the DARTs were added up applying the principle called Pareto Protocol, and the frequency of each relationship was determined.

Table 3.8 provides the voting results from the DART forms of focus group 2 participants. The table shows that a total number of 577 votes were cast (the total of the last column) for a total number of 182 possible relationships (the total of the first column). Some relationships did not receive any votes. The next step was to sort the relationships in descending order of frequency to calculate cumulative frequencies and percentages in terms of both the number of votes (577) and relationships (182).

Table 3.9 provides focus group 2 affinities in descending order of frequency with Pareto and Power analysis. The cumulative percentage (relation) is based on the total number of 182 relationships. Each relationship represents 1/182 or approximately 0,5 per cent of the total possible number, added to the previous percentage. It is worth noting that relationships numbered 171 through to 182 on the table attracted no votes at all, as the cumulative frequency did not change from relationship 171 onwards. Therefore, 12 out of 182 affinity pairs did not have a relationship. The cumulative per cent (frequency) is calculated as follows: (cumulative frequency/577votes \*100). The maximum Power of 23.93 in the 70<sup>th</sup> relationship was used as the cut-off point. It represents 62.4 per cent of the total variation in the system.







### 3.3.3 Interrelationship Diagram

The process of rationalising the system was used to create the IRD from the 70 relationships. These perceived relationships are summarised in an IRD using arrows in the table below.

**Table 3.10: Focus group 2 interrelationship diagram**

IRD																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	OUT	IN	Δ
1		←	←	←	↑	↑	↑			←	←	←			3	6	-3
2	↑		←	↑			↑		↑	←	↑		←	←	5	4	1
3	↑	↑		↑	↑	↑	↑	↑	↑	↑	↑		↑	↑	12	0	12
4	↑	←	←		←	←				←	←	←	←	←	1	9	-8
5	←		←	↑		↑	↑	↑	↑	←	←	←	←	←	5	7	-2
6	←		←	↑	←			↑	←	←	←	←	←		2	8	-6
7	←	←	←		←			←	←	←	←	←	←	←	0	11	-11
8			←		←	←	↑		↑	↑	↑		↑		5	3	2
9		←	←		←	↑	↑	←		←	↑	↑	↑	↑	6	5	1
10	↑	↑	←	↑	↑	↑	↑	←	↑		↑	←	↑		9	3	6
11	↑	←	←	↑	↑	↑	↑	←	←	←					5	5	0
12	↑			↑	↑	↑	↑		←	↑			←		6	2	4
13		↑	←	↑	↑	↑	↑	←	←	←		↑		←	6	5	1
14		↑	←	↑	↑		↑		←				↑		5	2	3
<b>Total</b>															70	70	0

↑ **arrows out** (the affinity on the vertical side influences the affinity on the horizontal side)  
 ← **arrows in** (the affinity on the vertical side is influenced by the affinity on the horizontal side)

*(Source: Own compilation)*

As indicated above, the system has 14 affinities identified by the participants, with 70 relationships amongst these 14 affinities. Each affinity's relationship - as indicated by the participants - is summarised at the right side of the table. The 14 shaded blocks refer to 14 affinities that cannot have a relationship with itself. The total 70 arrows facing to the left and also 70 arrows facing upwards refer to the 70 relationships

derived from the 14 affinities. The IRD table is then sorted in descending order of delta, table 3.11.

**Table 3.11: Focus group 2 interrelationship diagram in descending order of delta**

(Δ)

IRD – Sorted in Descending Order of Δ																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	OUT	IN	Δ
3	↑	↑		↑	↑	↑	↑	↑	↑	↑	↑		↑	↑	12	0	12
10	↑	↑	←	↑	↑	↑	↑	←	↑		↑	←	↑		9	3	6
12	↑			↑	↑	↑	↑		←	↑			←		6	2	4
14		↑	←	↑	↑		↑		←				↑		5	2	3
8			←		←	←	↑		↑	↑	↑		↑		5	3	2
2	↑		←	↑			↑		↑	←	↑		←	←	5	4	1
9		←	←		←	↑	↑	←		←	↑	↑	↑	↑	6	5	1
13		↑	←	↑	↑	↑	↑	←	←	←		↑		←	6	5	1
11	↑	←	←	↑	↑	↑	↑	←	←	←					5	5	0
5	←		←	↑		↑	↑	↑	↑	←	←	←	←	←	5	7	-2
1		←	←	←	↑	↑	↑			←	←	←			3	6	-3
6	←		←	↑	←			↑	←	←	←	←	←		2	8	-6
4	↑	←	←		←	←				←	←	←	←	←	1	9	-8
7	←	←	←		←				←	←	←	←	←	←	0	11	-11

(Source: Own compilation)

According to the IRD, the system has eight positive deltas, which are drivers in the system: affinities 3, 10, 12, 14, 8, 2, 9, and 13. There are five negative deltas which are outcomes: affinities 5, 1, 6, 4 and 7. *Affinity 11* has a zero delta, indicating that there is no relationship. The results are visually presented in the tentative SID

Assignments, table 3.12, specifies the categories of each affinity. Each affinity is classified in one of the following categories: primary driver, secondary driver, neutral, secondary outcome or primary outcome (refer to section 2.5.2.4).

Affinities		Tentative SID Assignments
3	Legislative framework	Primary Driver
10	Political interference	Secondary Driver
12	Diversity of audit committee skills	Secondary Driver
14	Remuneration of audit committee members	Secondary Driver
8	Inter-governmental support	Secondary Driver
2	Independence	Secondary Driver
9	Municipality administration function	Secondary Driver
13	Recruitment and appointment of audit committee members	Secondary Driver
11	Role of audit committee chairperson	Neutral
5	Audit committee understanding of mandate	Secondary Outcome
1	Assurance providers	Secondary Outcome
6	Municipality understanding of audit committee mandate	Secondary Outcome
4	Ethical conduct	Secondary Outcome
7	Preparation and participation of audit committee members	Primary Outcome

**Table 3.12: Focus group 2 Tentative SID Assignments**

(Source: Own compilation)

The tentative SID assignments display that the system has affinities that are drivers, neutral and outcomes (refer to section 2.5.2.4). *Affinity 3 - Legislative framework* is the primary driver, as it influences many other affinities but is not influenced by others. The affinities *10 - Political interference*, *12 - Diversity of audit committee skills*, *14 - Remuneration of audit committee members*, *8 - Inter-governmental support*, *2 - Independence*, *9 - Municipality administration function* and *13 - Recruitment and appointment of audit committee members* have a positive delta, and are, thus, secondary drivers, influencing other affinities while being influenced by a lesser number of affinities. *Affinity 11 - Role of audit committee chairperson* has a zero delta, exhibiting an equal number of affinity relationships that influences and are influenced - a neutral affinity. *Affinity 7 - Preparation and participation of audit committee members* is the *primary outcome*. It is influenced by many affinities but does not influence other affinities. Affinities *5 - Audit committee understanding of*

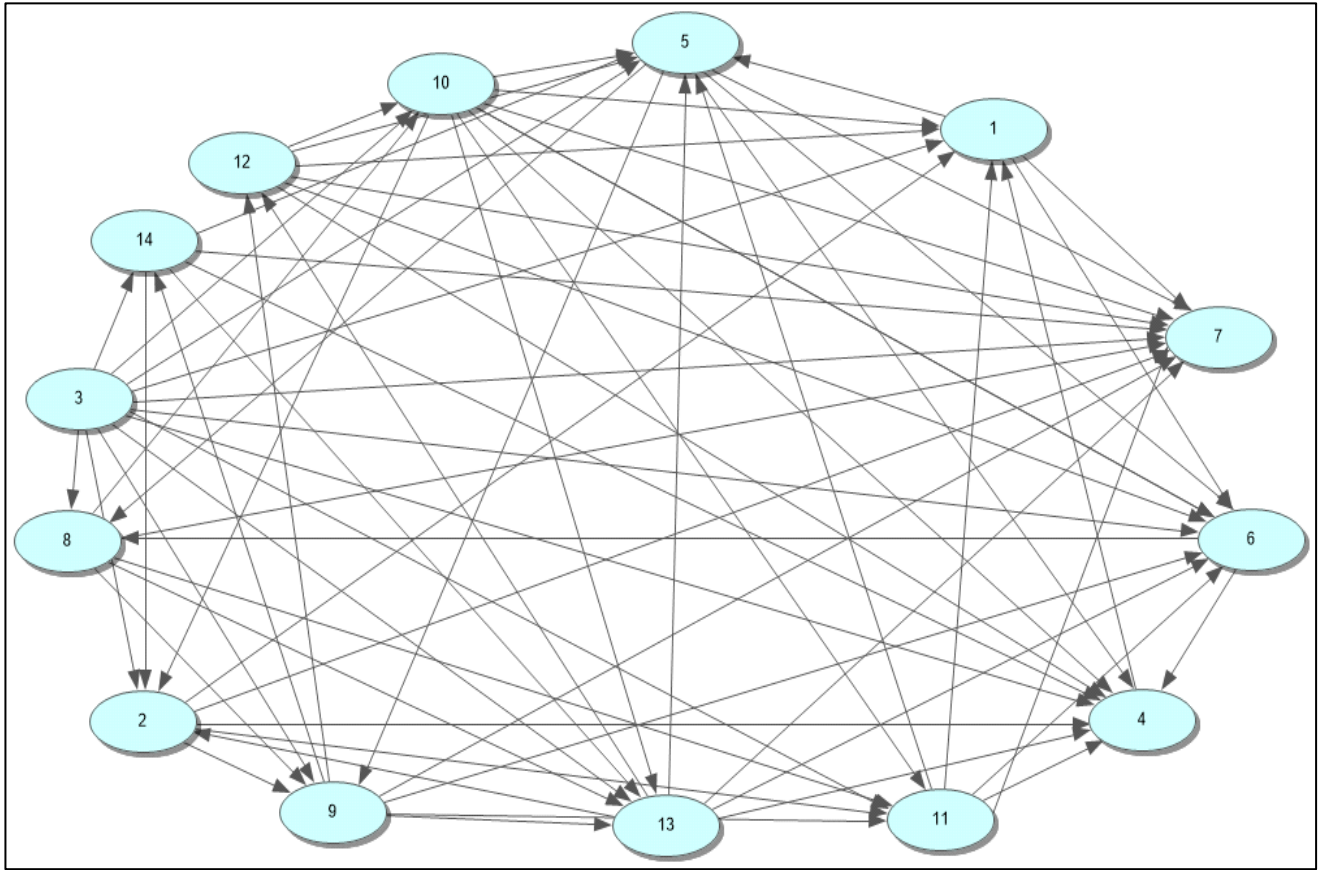
*mandate*, 1 - Assurance providers, 6 - Municipality understanding of audit committee mandate and 4 - Ethical conduct, are secondary outcomes. These affinities are influenced by other affinities, only influencing a lesser number of affinities.

It is understandable that the legislative framework influences most of the affinities and is not being influenced, as it represents the rules that govern municipalities. Government rules are not easily amended. All parties involved in the municipalities are expected to comply with the rules. Similar to focus group 1, all secondary drivers are affinities influenced by council and management of the municipality. They have the power to influence politics, administer the municipality, appoint an independent and diverse audit committee, and determine the remuneration rate of audit committee members.

These affinities affect the affinities classified as secondary outcomes. The secondary drivers such as municipality administration function, political interference and inter-governmental support can influence how well the role of the audit committee is understood within the municipality and amongst the members of the committee, and the services provided by assurance providers. Also, if diverse independent members are appointed to the committee, it might result in ethical behaviour by the members.

### **3.3.4 Systems Influence Diagrams**

As discussed in focus group 1, the positions of the categories of affinities are standard, provided by IQA methodology. The SID in figure 3.8 was developed by arranging affinities as follows: The primary *Affinity 3* on the left of the screen and the primary outcome *Affinity 7* to the right. The secondary drivers that are *Affinities 10, 12, 14, 8, 2, 9* and *13* are placed on the left-hand side of the figure, the same side as the primary driver. The secondary outcomes that are *Affinities 5, 1, 6* and *4* are placed on the right-hand side of the circle, the same side as the primary outcome. The neutral affinity is placed at the bottom. The arrows are drawn showing all connections between each affinity in the direction of the relationship, identified by participants, and as presented in the IRD. The first version of the SID with all the links showing the relationships amongst affinities is displayed in figure 3.8 of the cluttered SID.



**Figure 3.8: Focus group 2 cluttered SID**

*(Source: Own compilation)*

The uncluttered SID was created to remove redundant links from the system, to interpret the data, resulting in an unclutter SID as presented in figure 3.9.

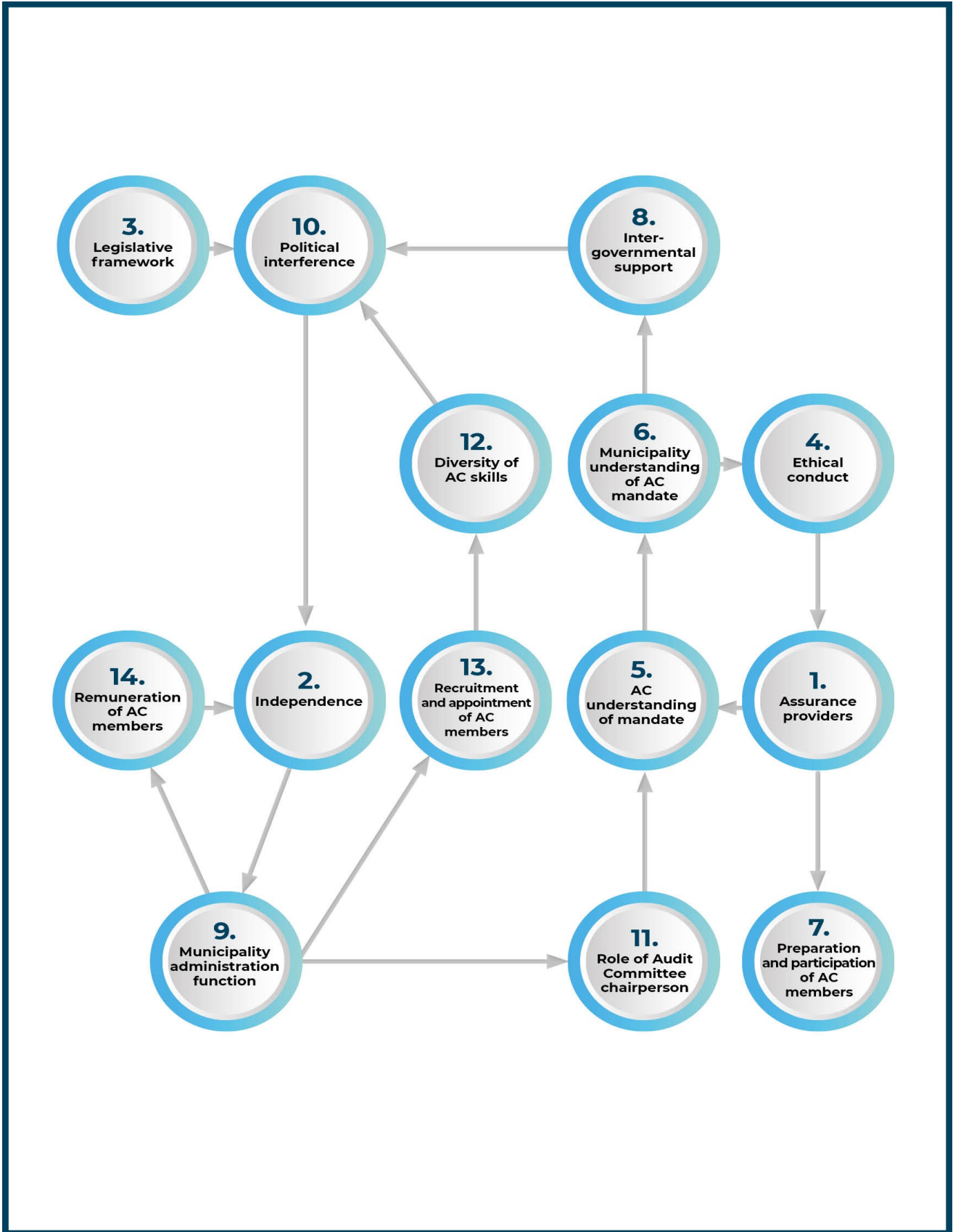


Figure 3.9: Focus group 2 uncluttered SID

(Source: Own compilation)



The uncluttered SID starts with the primary driver, *Affinity 3 - Legislative framework*. “It is important to have an audit committee that understands the MFMA as a financial management framework in the municipality” (P4). The focus group members mentioned that some audit committees are not effective because they have no knowledge of the legislation governing the municipalities. *Affinity 3 - Legislative framework* influences *Affinity 10 - Political interference*. It is a secondary driver. *Affinity 10* leads to the first feedback loop.

The key reason for the legislative framework to be the primary driver identified by the focus group, is that the existence of municipalities and audit committees are established through the legislation (refer to section 4.6.2.2). Therefore, audit committees cannot operate effectively when they lack legislative knowledge. For example, if audit committees are not familiar with MFMA (SAG 2003), they will not be cognisant of the correct financial and administrative procedures of the municipalities, and therefore, will not be able to provide adequate advice. Also, the municipality is a complex organisation where political interference exists. Therefore, audit committees may be susceptible to political interference when they do not apply legislation to support their recommendations to council. Council may take advantage of their lack of knowledge for political and personal gain. Since political interference is prominent in municipalities, Maqoko (2015:94) recommends that there should be additional regulations that will reduce such practice and enforce a code of conduct for council members. The roles of the council and committees within the municipalities must be clearly defined in the legislation and implemented, to prevent political interference (Pretorius 2017:211).

The uncluttered SID continues from the political interference affinity to the following four feedback loops:

### **3.3.5 Feedback loops discussions**

The four feedback loops are:

**Feedback loop 1:** Affinity 10→ Affinity 2→ Affinity 9→ Affinity 13→ Affinity 12→continuous

**Feedback loop 2:** Affinity 10→ Affinity 2→ Affinity 9→ Affinity 11→ Affinity 5→ Affinity 6→ Affinity 8→ continuous

**Feedback loop 3:** Affinity 2→ Affinity 9→ Affinity 14→ continuous

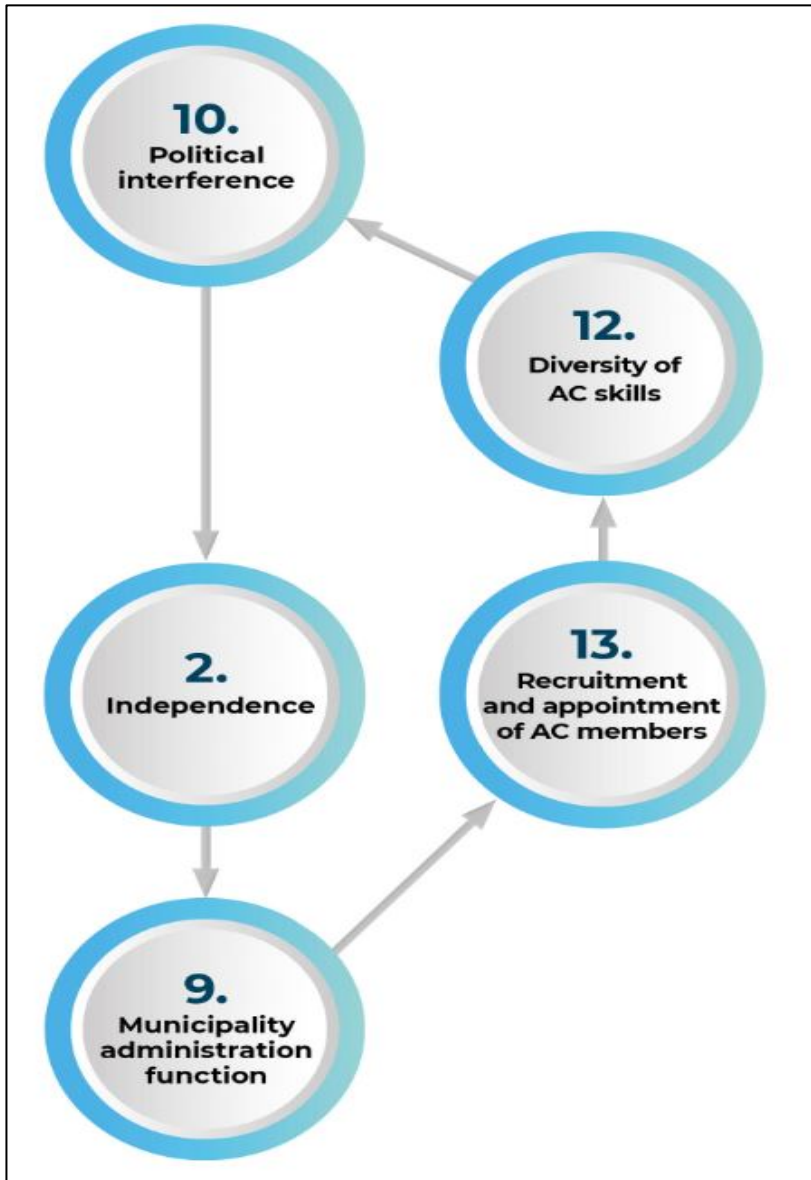
**Feedback loop 4:** Affinity 6→ Affinity 4→ Affinity 1→ Affinity 5→ continuous

In addition to the feedback loops, *Affinity 1 - Assurance providers*, the secondary outcome, influences *Affinity 7 - Preparation and participation of audit committee members*, the primary outcome. These affinities do not form part of the feedback loops as the participants did not link them with other affinities to form relationships. Each feedback loop is discussed in the context of this study.

### **Feedback loop 1**

**Feedback loop 1** is labelled “**Contributing factors to the independence of the audit committees.**”

Affinity 10: Political interference→ Affinity 2: Independence→ Affinity 9: Municipality administration→ Affinity 13: Recruitment and appointment of audit committee members→ Affinity 12: Diversity of audit committee skills→continuous.



**Figure 3.10: Focus Group 2 Feedback loop 1- Contributing factors to the independence of the audit committee** *(Source: Own compilation)*

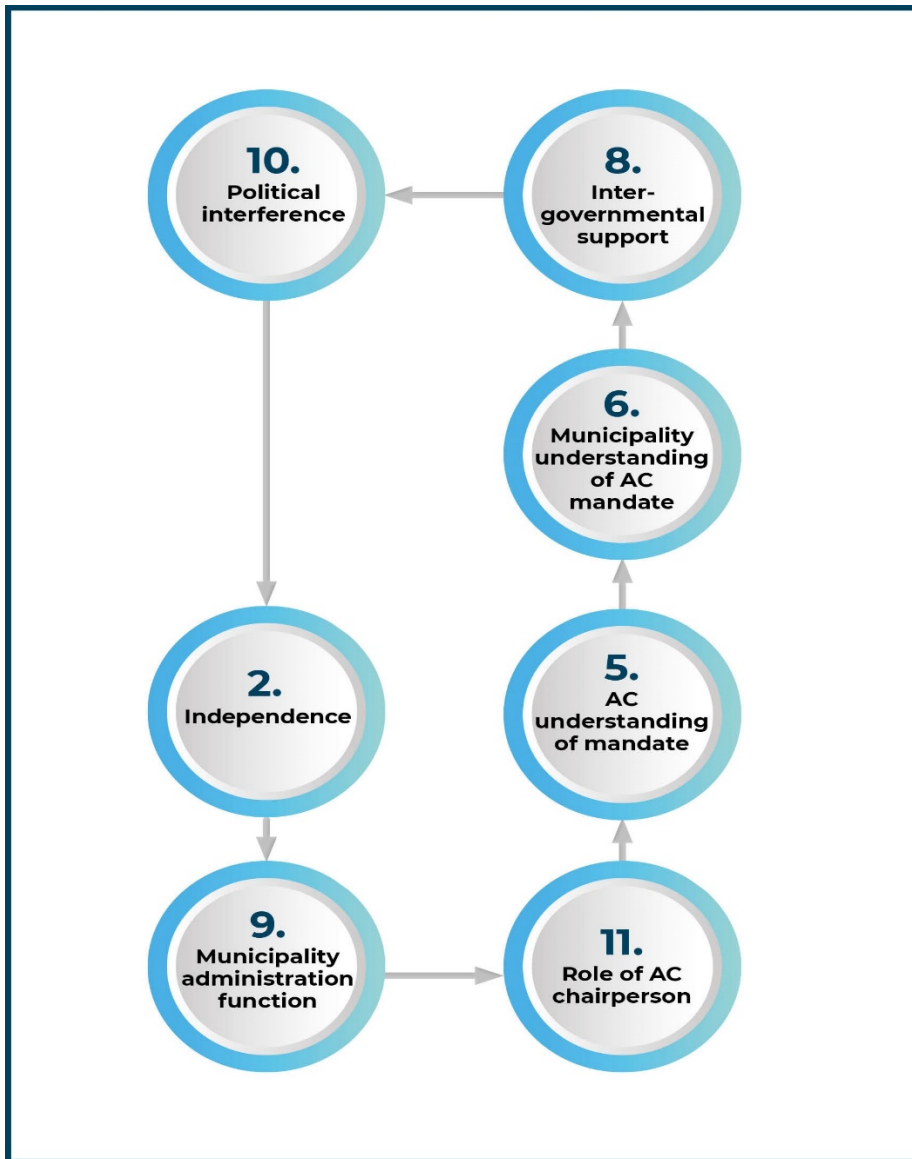
The feedback loop demonstrates that political interference affects the independence of the audit committee. It suggests that if political interference dominates the municipality, the audit committee independence may be overlooked by the council or management, intruding on the affairs of the committee. Also, the independence of the audit committee has an impact on how the municipal administration operates. It can signify that the extent of political interference determines the measure of the quality of recommendations provided by the audit committee.

The municipal administration function influences the type of audit committee members that are recruited and appointed. Henceforth the diverse skills of audit committee members should be considered when recruiting and selection occur. The diversity of skills may reveal whether the audit committee will succumb to political interference, or not. The feedback loop is titled 'Contributing factors to the independence of the audit committee', as it provides components that impact the independence of the audit committee.

### **Feedback loop 2**

**Feedback loop 2** is labelled as "**The role of the audit committee.**"

Affinity 10: Political interference → Affinity 2: Independence → Affinity 9: Municipality administration → Affinity 11: Role of audit committee chairperson → Affinity 5: Audit committee understanding of mandate → Affinity 6: Municipality understanding of audit committee mandate → Affinity 8: Inter-governmental support → continuous;



**Figure 3.11: Focus Group 2 Feedback loop 2- The role of the audit committee**

*(Source: Own compilation)*

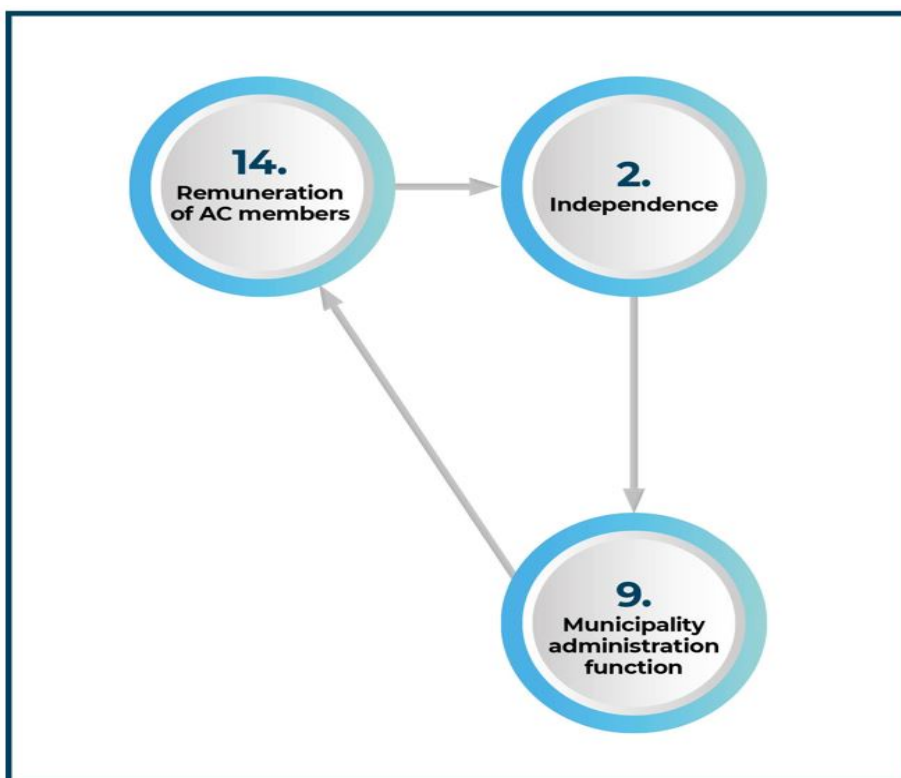
The feedback loop indicates that the role of the audit committee includes providing independent advice that is free from political interference. As mentioned before, the independence of audit committees influences the quality of their recommendations that is supposed to improve the administrative function of the municipality. Also, if the council appoints an incapable chairperson, the role of the chairperson will be centered around incompetence, affecting both the audit committee and the municipality. The role of the chairperson of the audit committee is critical in ensuring that the audit committee members and the municipality understand the purpose of the committee. If the municipality understands the role of the audit committee, its

staff members will be able to direct the audit committee to useful information from other government organisations that will support the work of audit committees, via inter-governmental support.

### **Feedback loop 3**

**Feedback loop 3** is labelled as “**Municipal ability to attract competent and independent audit committee members**”

Affinity 2: Independence → Affinity 9: Municipality administration → Affinity 14: Remuneration of audit committee members → continuous;



**Figure 3.12: Focus group 2 Feedback loop 3- Municipal ability to attract competent and independent audit committee members**

*(Source: Own compilation)*

The feedback loop suggests that remuneration determines whether audit committees will be independent or not. Consequently, independence determines the quality of recommendations provided to the municipal administrative function. The municipal administrative function is also seen as the factor that contributes to the attraction of competent and independent audit committee members, as it contributes to

establishing the remuneration rate of committee members.

**Feedback loop 4**

**Feedback loop 4** is labelled as “**Assurance providers providing insight to the municipality about the audit committee mandate.**”

Affinity 6: Municipality understanding of audit committee mandate → Affinity 4: Ethical conduct → Affinity 1: Assurance providers → Affinity 5: Audit committee understanding of mandate → continuous;



**Figure 3.13: Focus group 2 Feedback loop 4- Assurance providers providing insight into the audit committee mandate**

*(Source: Own compilation)*

The feedback loop highlights the significance of the municipality understanding the role of the audit committee, resulting in the municipality recruiting ethical audit committee members who will understand their role. The link between municipal understanding of the audit committee role and the ethical conduct of audit committee members may also imply that the conduct of audit committee members can be

tainted by the municipality, if it does not understand the role of the committee. The feedback loop also reveals that assurance providers have a role in ensuring that audit committees have an understanding of their role. It can mean that internal auditors should present recommendations to council regarding policies and procedures governing audit committees. Hence the feedback loop is titled ‘Assurance providers providing insight into the audit committee mandate’.

**3.4 Developing themes by grouping affinities**

To acquire greater insight into the affinities identified by the participants (refer to sections 3.2.1 and 3.3.1) and a detailed discussion of the methods used (refer to section 2.5.2), a comprehensive literature review is directed by the affinities, in the next chapter. However, as some of the affinities overlap, themes were developed to eliminate duplication. The affinities were compared across participants of focus groups 1 and 2 (refer to tables 3.1 and 3.7). Table 3.13 illustrates the number of affinities and sub-affinities derived from the two focus groups.

**Table 3.13: Total number of themes and sub-themes of the two focus groups**

<b>Participants</b>	<b>Number of participants</b>	<b>Factors (Affinities)</b>	<b>Sub-factors (Sub-Affinities)</b>
Focus Group 1: Stakeholders of audit committees	6	11	53
Focus Group 2: Municipal audit committee members and individuals employed by government organisations that support the function of audit committees	9	14	79
<b>Total</b>	<b>15</b>	<b>25</b>	<b>132</b>

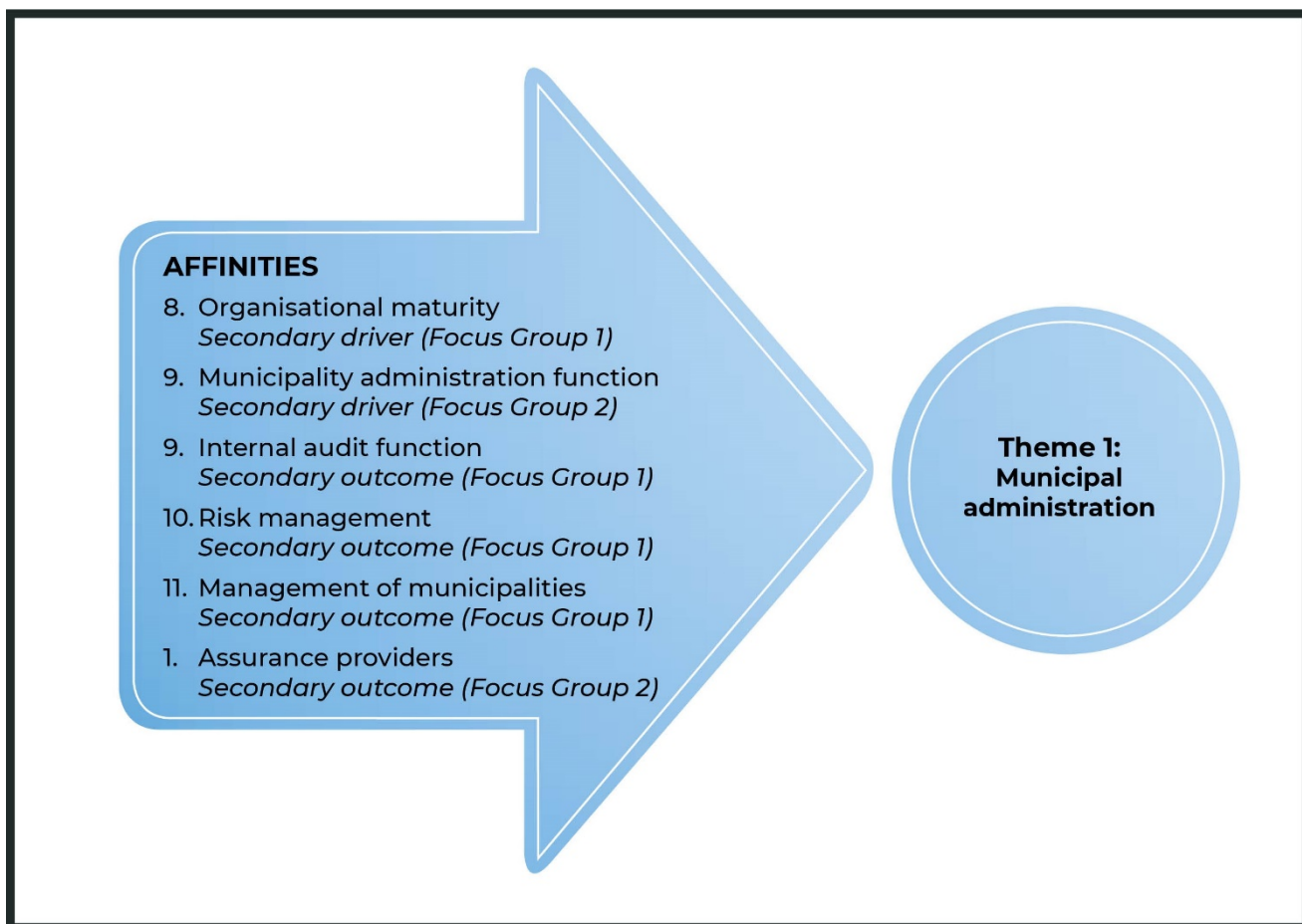
*(Source: Own compilation)*

The 25 affinities were reorganised and grouped with the aim of eliminating duplicates. Similar and related affinities from the focus groups were grouped together to form a single theme. The criteria used to group the affinities are 1) those with a similar name 2) those with different names but a similar meaning and 3) those related with a comprehensive explanation. In total, five themes were identified - each theme’s development discussed hereafter.

**3.4.1 Theme 1: Municipal administration**

The first theme, municipal administration, is illustrated in figure 3.14.





**Figure 3.14: Theme 1- Municipal administration**

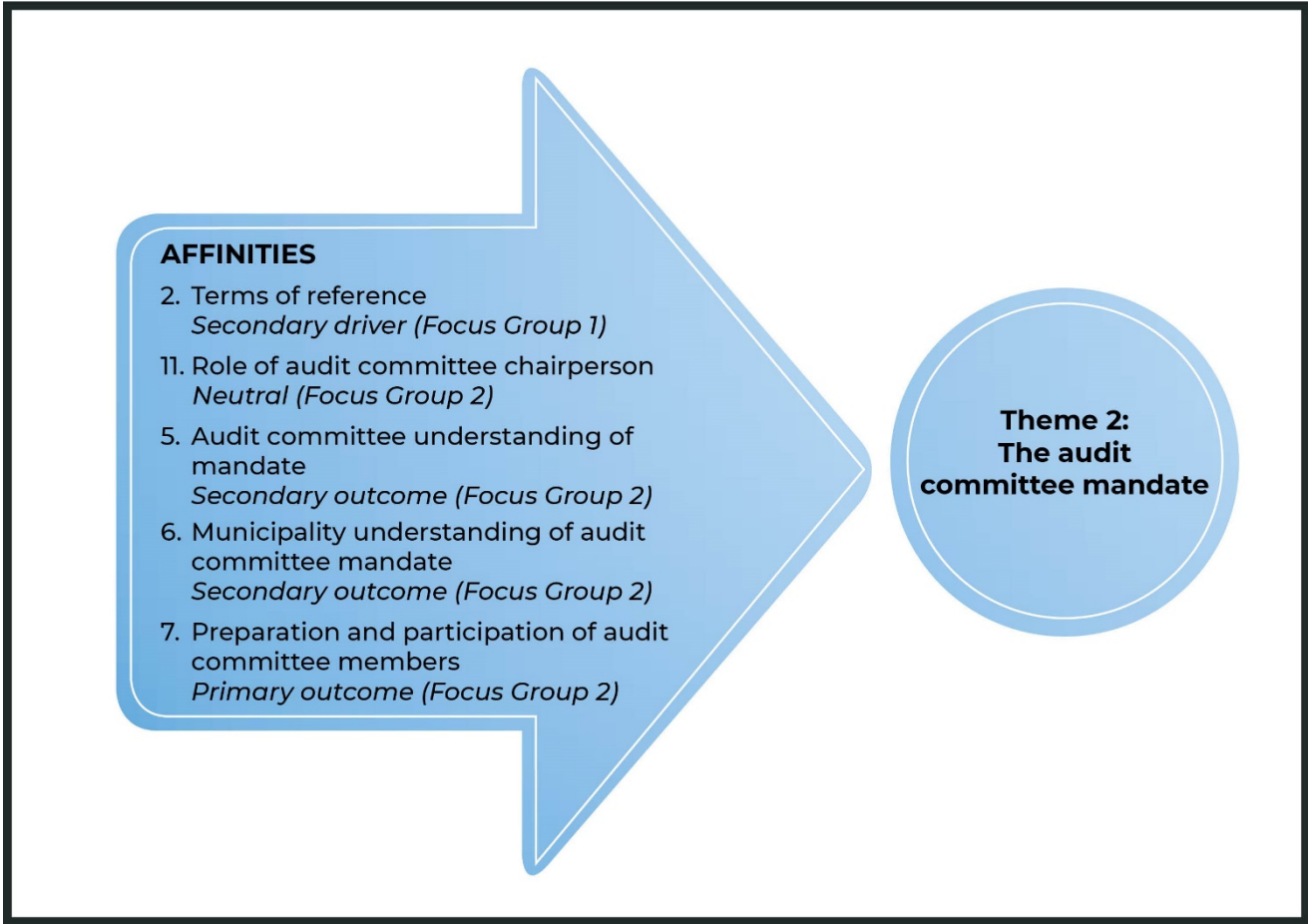
*(Source: Own compilation)*

The effectiveness of risk management, the management of the municipalities, the internal audit function and assurance providers, rely on the maturity of the municipalities and its administration, to perform their intended duties - as affinities that are drivers. The government has an administrative role in delivering services to the public (Dong 2019:37). The administration of the municipality as a government organ should consist of functions, units, mechanisms and responsibilities that are co-ordinated (SAG 2000, s. 2). The municipal administration must be mature enough to facilitate accountability and to take measures preventing corruption (SAG 2000, ss. 6(2)(b)-(c)). The top management of municipalities consisting of the accounting officers, CFOs, senior managers and senior officials, are responsible for managing the municipalities and its financial administration (SAG 2003, s. 77). They are also responsible for managing staff members, as they execute their duties of public service (SAG 2000, s. 51(d)).

Assurance must, therefore, be provided on whether the affairs of the municipalities are performed as required by legislation and policies, and whether the goals are achieved. Thus, the internal audit function is one of the units in the municipalities that renders such assurance and also advises the accounting officer (SAG 2003, s. 165(2)). The internal audit function also advises on risk and risk management (SAG 2003. s. 2(b)(iv)). Therefore, management and assurance providers are critical stakeholders, transporting the administration of the municipalities to its maturity level by managing risks adequately.

**3.4.2 Theme 2: The audit committee mandate**

The second theme, the audit committee mandate, is illustrated by figure 3.15.



**Figure 3.15: Theme 2- The audit committee mandate**

*(Source: Own compilation)*

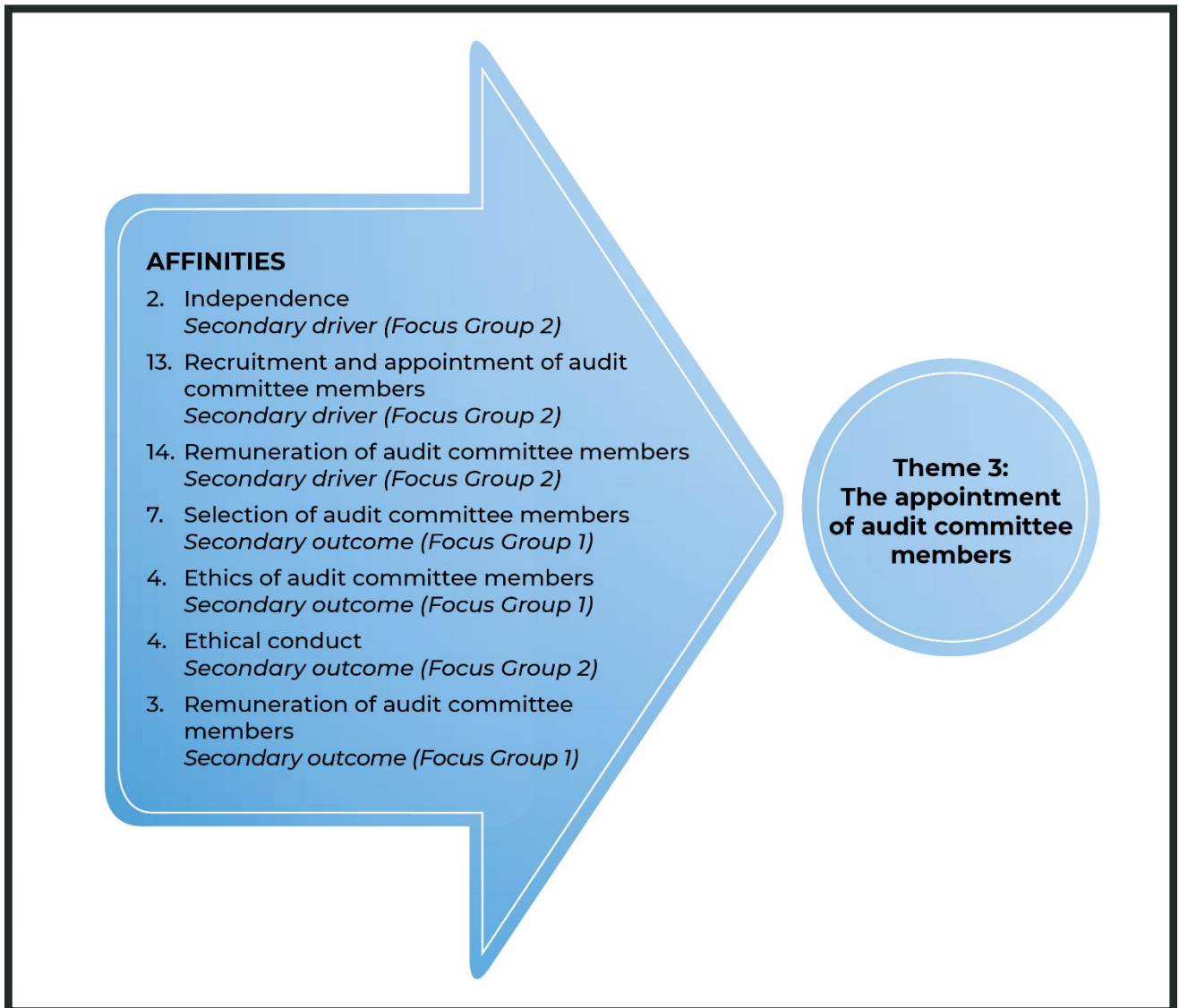
The understanding of the audit committee mandate by the audit committee, including their role in preparing and participating in meetings and the role of audit committee chairperson, should be documented in the ToR. The municipalities must understand

and support the ToR for audit committees - an affinity that is a driver. The mandate of audit committees is documented in the legislation and terms of reference (SAG 2003; Turley & Zaman 2007:770; Protiviti Knowledge Leader 2019). It is a concern that different structures, such as audit committees, are formed within organisations without assessing their functionality and power (Munir 2015:90). Similarly, some municipalities have established audit committees as a structure that exist for compliance purposes only, and not to be employed as intended - a concern raised by the focus groups.

It is therefore crucial that the role and scope of the audit committee are understood by both audit committee members and the relevant stakeholders of the municipalities. It is the responsibility of the audit committee chairperson to educate the relevant stakeholders and audit committee members in understanding the role and scope of audit committees (PWC 2018). Therefore, the municipal audit committee chairperson must impart knowledge that will assist stakeholders, including the council, to understand the role of the audit committee. Furthermore, if audit committee members understand their role and scope, they can be productive in preparing for and participating in the audit committee meetings.

### **3.4.3 Theme 3: The appointment of audit committee members**

The third theme, the appointment of audit committee members, is illustrated by figure 3.16.



**Figure 3.16: Theme 3- The appointment of audit committee members**

*(Source: Own compilation)*

Affinities of ethics from both focus groups are secondary outcomes, linked to the independence of audit committees. In contrast, the affinity named *remuneration of audit committee members* was the same for the two focus groups, but classified differently, as a driver and an outcome. Also, *recruitment and appointment of audit committee members* (secondary driver) and *selection of audit committee members* (secondary outcome) are similar affinities from the two focus groups, classified differently. The reason for the difference can be explained by the priorities of the participants. The audit committees, when compared to the stakeholders of the

municipalities, prioritise their appointment and remuneration as very important and influential.

For an organisation to achieve its plans and objectives, it must properly align its workforce, that is the people employed by the organisation (Nel, Werner, Botha, Du Plessis, Mey, Ngalo, Poisat & Van Hoek 2014:59). Therefore organisations must execute a suitable recruiting process to acquire such individuals as employees. The recruitment process should be followed by a proper selection practice, resulting in the appointment of suitable candidates (Nel et al 2014:71).

As discussed, the focus groups were concerned about the unfair recruitment and selection practices of audit committee members by the municipality and also the unethical behaviour of audit committee members. The practices, in some instances, entail nepotism. Such practices relate to hegemony. Hegemony is a practice that promotes the dominance of ideas which can be formed through physical domination or collective will, that is also known as socio-cultural unity (Ives 2005:458; Donoghue 2018:396).

In the municipal environment, as disclosed by the focus groups, the council (as a collective body) at times agrees to other unlawful parties, such as an accounting officer, recruiting and appointing the audit committee members. The method of recruiting will thus cause dominance by the accounting officer in selecting the audit committee members. The dominant role of the manager (Klepczarek 2017:251) may result in legitimising the accounting officer's improper action - suppressing the correct procedure. The appropriate procedure is for the council to fairly recruit and select audit committee members (SAG 2003).

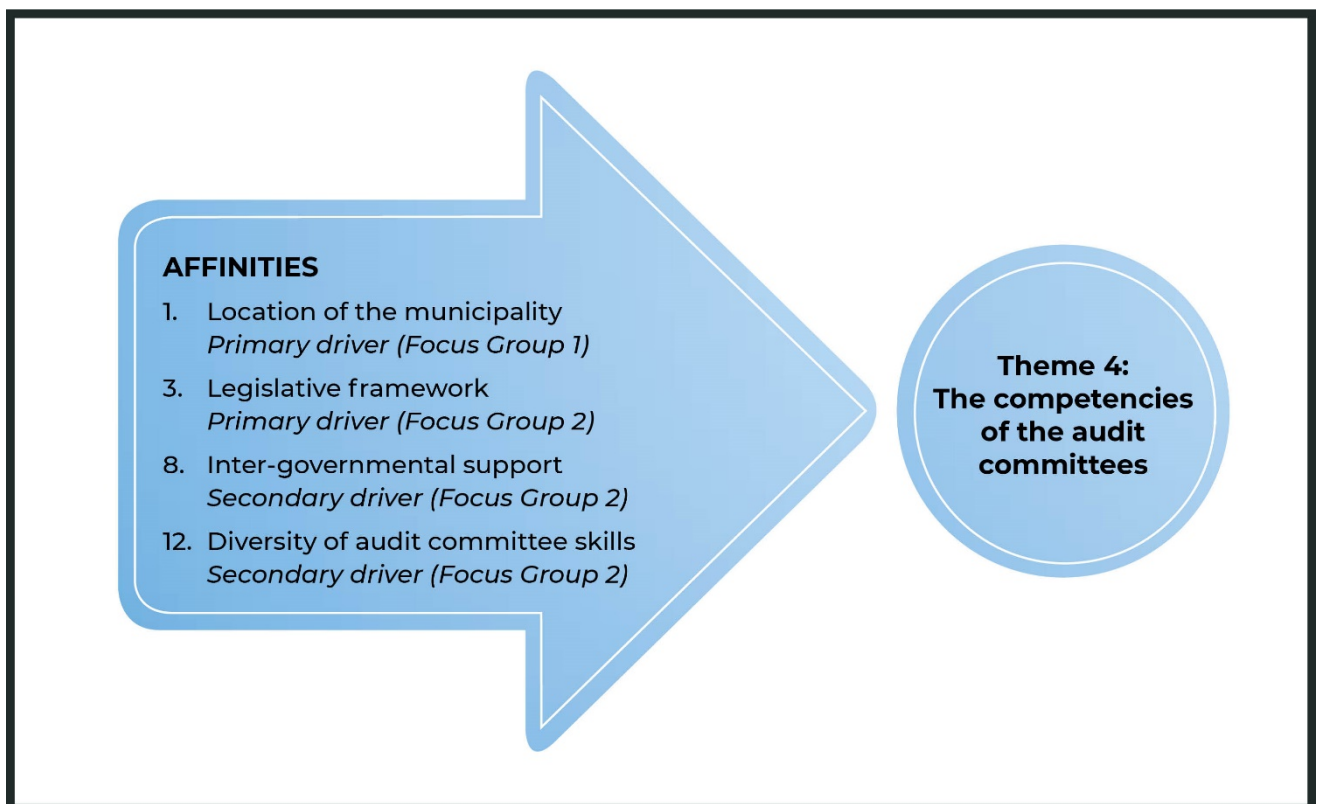
Another element that should be considered and prioritised by the council during the selection process, is the ethical conduct of the candidates. The ethical culture promoted by leadership is another element that assists the organisation to reach its goals (Nel et al 2014:17). Leadership must promote the ethical culture by selecting candidates that conduct themselves ethically. Duggan (2018:2) concurs that ethics should form part of the recruiting and selection process by emphasising the need for organisations to evaluate candidates' ethical conduct during interviews and conducting background checks, before appointing them. If hegemony was applied in the recruitment process, the likelihood of appointing unethical members can be high,

owing to the appointment of members who remain loyal to those parties that appointed them, even to the detriment of the municipality.

Therefore, the council should appoint the audit committee members and screen them for ethical conduct. Their screening must include examining the unbiased, objective and impartial manner of conduct, known as independence (ANAO 2015:27; IoDSA 2016:13; PSACF 2017:3). This practice establishes, to a certain extent, the ethical mindset and conduct of the candidates. The practice will provide a higher probability of candidates with integrity, promoting an ethical culture in the municipalities. Also, the selected individuals should be motivated by the organisation using different methods, including the reward system and pay structures (Warnich, Carrell, Norbert & Hatfield 2015:246).

#### 3.4.4 Theme 4: The competencies of the audit committees

The fourth theme, the competencies of the audit committees, is illustrated by figure 3.17.



**Figure 3.17: Theme 4- The competencies of the audit committees**

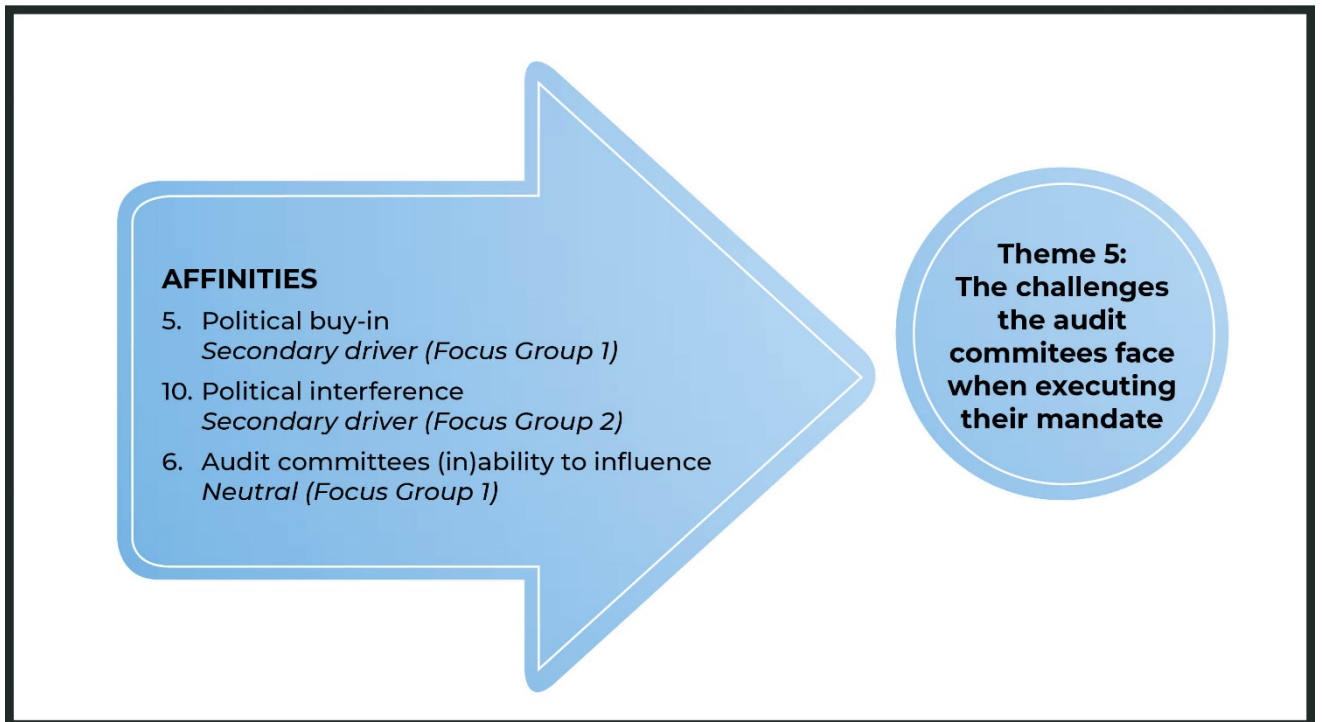
*(Source: Own compilation)*

The *location of the municipality* and the *legislative framework* are primary drivers, signifying that they have a greater impact in the optimal functioning of audit committees, since they influence almost all the affinities, while they are not influenced. The *inter-governmental support* and *diversity of audit committee skills* are secondary drivers - influencing the majority of the affinities, while they are influenced by lesser affinities.

The human resources of the organisation must have the abilities to meet the needs of its stakeholders by pursuing the triple bottom line, which is economic, social and environmental benefits (Noe, Hollenbeck, Gerhart & Wright 2015:16). Therefore organisations must identify the diverse skill areas that will meet the triple bottom line and individuals that are recruited must possess diverse competencies to fulfil the current and future goals of the organisation (Nel et al 2014:58; Noe et al 2015:10,194). Similarly, the diverse competencies required by the municipalities to fulfil its goals must be taken into account, when recruiting audit committee members. The competencies of audit committees were raised as a concern by the focus groups. There was a concern about lack of knowledge and diverse skills by audit committee members with regard to legislation, inter-governmental support, and technical skills to fulfil their role, especially in the rural and poor municipalities.

#### **3.4.5 Theme 5: Audit committee challenges when executing their mandate**

The fifth theme, audit committee challenges when executing their mandate. is illustrated by figure 3.18.



**Figure 3.18: Theme 5- Audit committee challenges when executing their mandate**

*(Source: Own compilation)*

The *political interference* and *political buy-in* affinities are drivers in determining whether the audit committee can be influential to the municipality, or not. Political interference in the municipality is established when political office bearers such as councillors and mayors interfere with the administration operations by the accounting officer, management and staff members of the municipality (Civil engineering 2019). The political office bearers not only interfere with the administration, but also with the audit committee (Purcell et al 2014:339). Political interference can corrupt individuals and incapacitate them (Pretorius 2017:32), hence, it is a challenge that requires the attention of the audit committee. Although training of councillors to curb political interference has been suggested (Surdy 2010:70; Pretorius 2017:211), it is also important that the chairperson of the audit committee possesses adequate capabilities to influence positive behaviour by political office bearers and gain the council's political buy-in, in supporting the audit committee mandate.



### **3.5 Chapter summary**

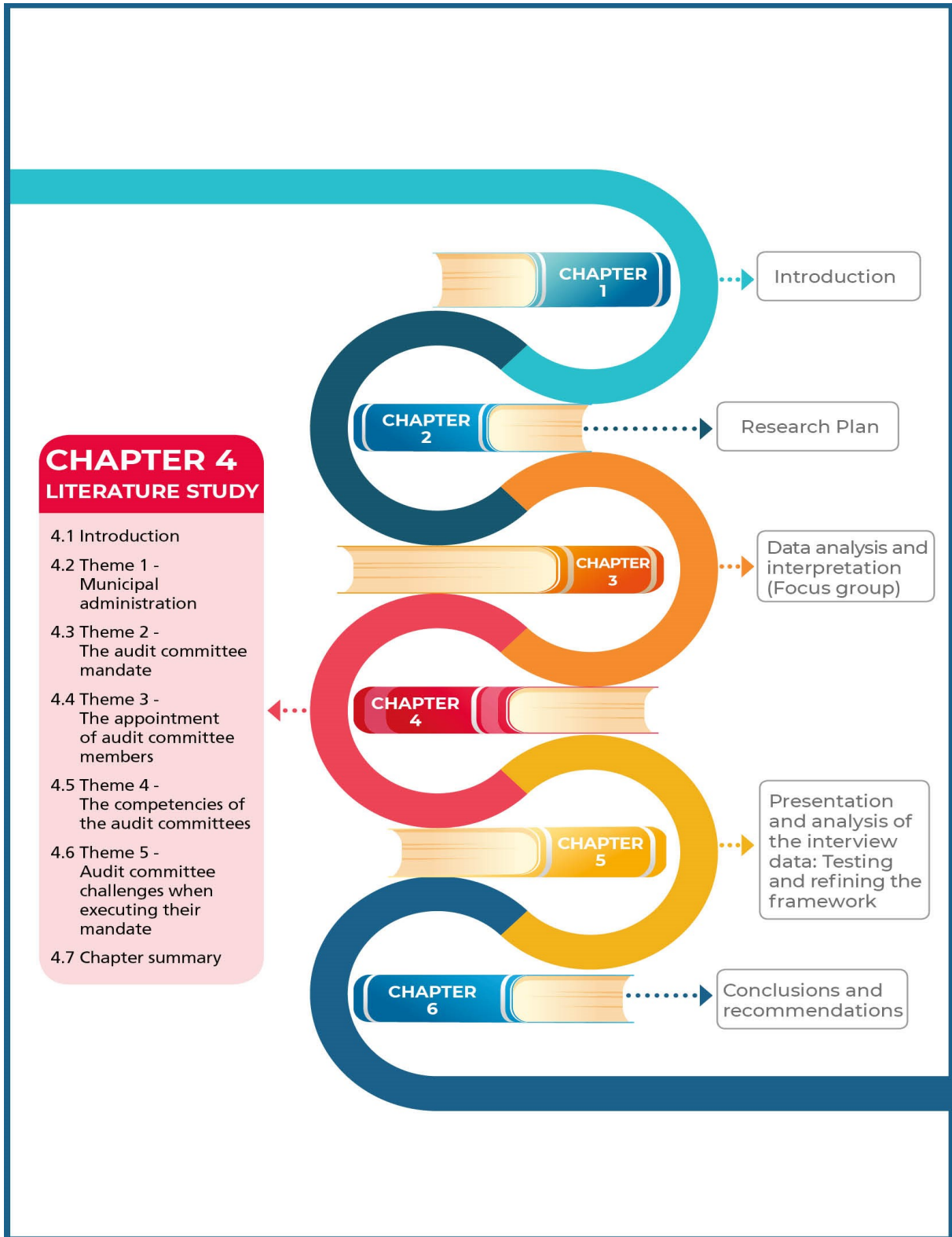
By following the IQA method, two focus groups were conducted with audit committee stakeholders and audit committee members, resulting in 25 affinities. The affinities were reorganised and consolidated to form five themes (refer to section 3.4). The five themes are: municipal administration; the audit committee mandate; audit committee challenges when executing their mandate; the appointment of audit committee members and the competencies of audit committees. The sequence of the themes is based on the rationale to present the topic in an understandable manner. The summary of the five themes and the combination of the 25 affinities, as discussed above, are presented in table 3.12 below.

**Table 3.12: Summary of grouped affinities**

<b>THEMES</b>	<b>Theme 1Municipal administration</b>	<b>Theme 2 The audit committee mandate</b>	<b>Theme 3 The challenges the audit committees face when executing their mandate</b>	<b>Theme 4 The appointment of audit committee members</b>	<b>Theme 5 The competencies of the audit committees</b>
<b>AFFINITIES</b>	<p>8. Organisational maturity <i>Secondary driver</i> <i>(Focus Group 1)</i></p> <p>9. Municipality administration function <i>Secondary driver</i> <i>(Focus Group 2)</i></p> <p>9. Internal audit function <i>Secondary outcome</i> <i>(Focus Group 1)</i></p> <p>10. Risk management <i>Secondary outcome</i> <i>(Focus Group 1)</i></p> <p>11. Management of municipalities <i>Secondary outcome</i> <i>(Focus Group 1)</i></p> <p>1. Assurance providers <i>Secondary outcome</i> <i>(Focus Group 2)</i></p>	<p>2. Terms of reference <i>Secondary driver</i> <i>(Focus Group 1)</i></p> <p>11. Role of audit committee chairperson <i>Neutral</i> <i>(Focus Group 2)</i></p> <p>5. Audit committee understanding of mandate <i>Secondary outcome</i> <i>(Focus Group 2)</i></p> <p>6. Municipality understanding of audit committee mandate <i>Secondary outcome</i> <i>(Focus Group 2)</i></p> <p>7. Preparation and participation of audit committee members <i>Primary outcome</i> <i>(Focus Group 2)</i></p>	<p>5. Political buy-in <i>Secondary driver</i> <i>(Focus Group 1)</i></p> <p>10. Political interference <i>Secondary driver</i> <i>(Focus Group 2)</i></p> <p>6. Audit committees (in)ability to influence <i>Neutral</i> <i>(Focus Group 1)</i></p>	<p>2. Independence <i>Secondary driver</i> <i>(Focus Group 2)</i></p> <p>13. Recruitment and appointment of members <i>Secondary driver</i> <i>(Focus Group 2)</i></p> <p>14. Remuneration of audit committee members <i>Secondary driver</i> <i>(Focus Group 2)</i></p> <p>7. Selection of audit committee members <i>Secondary outcome</i> <i>(Focus Group 1)</i></p> <p>4. Ethics of audit committee members <i>Secondary outcome</i> <i>(Focus Group 1)</i></p> <p>4. Ethical conduct <i>Secondary outcome</i> <i>(Focus Group 2)</i></p> <p>3. Remuneration of audit committee members <i>Secondary outcome</i> <i>(Focus Group 1)</i></p>	<p>1. Location of municipality <i>Primary driver</i> <i>(Focus Group 1)</i></p> <p>3. Legislative framework <i>Primary driver</i> <i>(Focus Group 2)</i></p> <p>8. Inter-governmental support <i>Secondary driver</i> <i>(Focus Group 2)</i></p> <p>12. Diversity of audit committee skills <i>Secondary driver</i> <i>(Focus Group 2)</i></p>

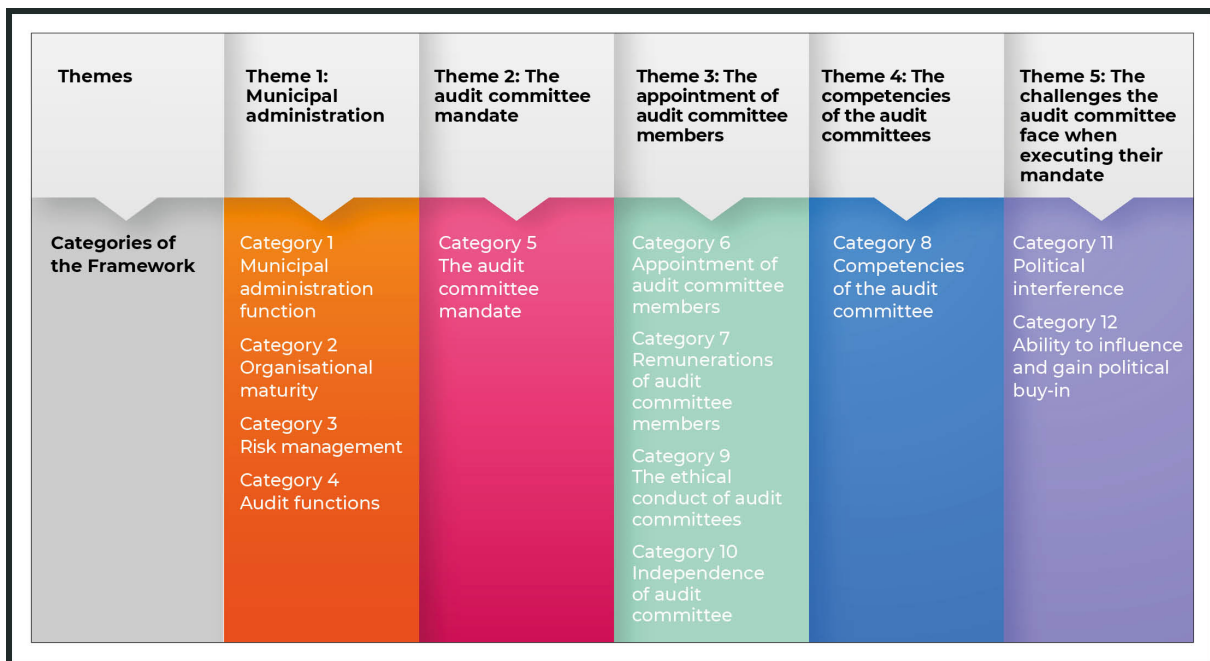
The purpose of conducting the focus groups was to discover the relevant factors, from audit committees and stakeholders, that affect the optimal functioning of audit committees in the municipalities. The objective was accomplished when 25 affinities were identified by the focus group members. The focus group members were able to provide insightful information, that is used to direct the next chapter, i.e. the literature review. As mentioned, this study did not travel the traditional path of relying on extant literature to design the literature framework, but inductively used affinities, derived from the focus groups. The themes derived from affinities are the focus of the next chapter - the literature review. The themes were further explored to understand elements that have an impact on the optimal functioning of municipal audit committees.

# CHAPTER 4 LITERATURE STUDY



## 4.1 Introduction

In chapter 3, five themes (refer to figures 3.14 - 3.18) were identified; first by obtaining insight from audit committee members and audit committee stakeholders, and secondly by refining the affinities by grouping similar and related affinities together. In this chapter, the five themes are further explored by means of a literature review, viewed through the most appropriate theoretical lens, to understand and analyse the phenomenon in a broader sense. The sequence of themes identified in chapter 3 is followed, for consistency purposes. The headings of this chapter include the themes and the numbering sequence of categories from the framework developed at the end of the chapter. The categories were created to provide logical flow of the framework. The inclusion of the categories of the framework (refer to annexures 4, 5 and 6) illuminate association of the themes with the content of the framework. The mapping of themes and categories of the framework are illustrated by figure 4.1.



**Figure 4.1: Mapping of themes and categories of the framework**

*(Source: Own compilation)*

## **4.2 Theme 1- Municipal administration (categories 1 to 4)**

This theme (refer to figure 3.14) consists of the municipality administration function (refer to section 4.2.1) and organisational maturity (refer to section 4.2.2) as secondary driver affinities, referring to affinities that primarily influence other affinities while being influenced by a lesser number of affinities. The theme also includes management of municipalities (refer to section 4.2.1), risk management (refer to section 4.2.3), the internal audit function (refer to section 4.2.4) and assurance providers (refer to section 4.2.4) affinities, all being secondary outcomes and linked to the municipal administration activities and duties. It is important, foremost, to define the theme in the context of effective audit committees. The contextualisation includes the administration challenges of municipalities, to understand the need for audit committees providing useful advice. The theme is debated, applying the resource-based view of the firm theory, resulting in the establishment of strategies that can enhance the municipality's administration and the role of audit committees, to ensure effective and efficient municipal administration.

### **4.2.1 Municipal administration function (Category 1)**

Although the overall theme is municipal administration, it also refers to the first category under the theme (refer to the above figure). In this section the municipal administration is contextualised and its challenges are presented. It also includes a discussion on how to improve the function.

#### **4.2.1.1 Municipal administration and its challenges**

Municipalities are local government organisations that execute significant political, social and economic roles in local communities (SAG 1996, s. 152(1); SAG 2000, s. 2(b)). To achieve their mandate, the Constitution requires them to “*thrive within its financial and administrative capacity*” (SAG 1996, s. 152(2)). However, to “thrive” is a concept that is difficult to grasp and understand. Therefore, to appreciate the municipal mandate and exactly how it may “thrive”, it is essential to understand what municipal administration entails and which challenges may prevent a municipality from the ability to “thrive”.

Municipal administration is defined within the context of public administration. It refers to how municipalities use their resources and capabilities to service all the people of

their communities, as explained by the Municipal Systems Act, 32 of 2000 (SAG 2000, s. 4(2)(a)). Prudent expenditure of tax-payers' money in delivering services to its people, is at the core of municipal administration. Therefore, municipalities should be economical, effective and efficient in its use of resources, providing fair, impartial, transparent and professional services meeting the needs of its communities. Such services should be performed by capable human resources who will take full accountability for their actions (SAG 1996, ss. 156(5), 160(1)(d)).

Although effective municipal administration is the masterplan presented in legislation and policies, the execution thereof appears to be a challenge for most South African municipalities, many of whom are regarded as dysfunctional (SANews 2019; Gulston 2019) and are accused of wasting tax-payers' money (Wasserman 2019). Investigations indicate that many municipalities are dysfunctional in service delivery, administration, financial management and governance (CoGTA 2016). This dysfunctionality is confirmed in a statement by the former minister of CoGTA, Mr. Zweli Mkhize, that: *"...only seven per cent of the country's municipalities are classified as well-functioning, with 31 per cent being reasonably functional, 31 per cent almost dysfunctional while the remaining 31 per cent is dysfunctional. We identified 87 distressed and dysfunctional municipalities for intervention towards recovery, working with the National Treasury."* (CoGTA 2016). These figures resulted in only 18 well-functioning municipalities out of the countries' 257, during 2018 – a serious concern for government and those on the receiving end of (supposed) service delivery. Various challenges are purportedly the cause of this dismal state of affairs.

Owing to the poor performance of municipalities, it is fair to assume that the competence of the leaders in managing the resources, is questionable. Each municipality contains various levels of managers - collectively ensuring that the strategies of government are viable and realised in the services that are delivered to the people of the country. The municipal council is the executive governing body that executes all decisions for the municipality (SAG 1996, s.160(1)(a); IoDSA 2013:2). Councils consist of counsellors elected by voters consisting of the local community members of their respective wards (SAG 1998a, s. 20(1)(a)). The council must understand the needs of the community and draft strategies that will ensure that

these needs are met. However, protests indicate that communities, especially in informal settlements and villages, are highly dissatisfied with the level of service delivery, as their needs are not met (Heese & Allan 2019), rendering it crucial that council consults with the community to ensure that it appreciates the community's needs (SAG 1996, s. 152(1)(e); SAG 1998a, s.19(2)(c); SAG 2000, ss. 3(4)(2)(c), 5(1)(a)(i)).

Furthermore, as mentioned, councillors are elected as municipal leaders by a political voting process (SAG 1998a, s. 20(1)(a)), regardless of the nominees' qualifications, oversight experience and abilities - again potentially allowing incompetent councillors (Ntsabo 2017). Incompetent councillors possess the risk of appointing managers lacking particular competence and qualifications (Daniel, 2018). Additionally, the head of municipal administration (the accounting officer) is appointed by the council, following which the so appointed head of administration appoints other senior managers (SAG 2003, ss. 60-66, 78). Management and employees may be appointed on the basis of patronage, favouring the ruling party's loyal members, who may be unqualified for the positions they occupy (Franks 2015:238) - an appointment practice that is unlawful, since municipal management is required by legislation to possess the relevant skills and expertise to perform their duties (SAG 2000, s.56(b)). The total of the managers and their portfolios may differ, for example, a larger metro may have specific divisions in respect of separate duties, whereas a smaller district municipality may combine portfolios to save cost (SAG 2003, s. 21(2)(d)(i)).

As alluded to in chapter 1, the plans to develop the municipal constituency and service delivery to the community, should be outlined in a planning document drafted in consultation with the community - the IDP - as required by the Municipal Systems Act, 32 of 2000 (SAG 2000, ss. 3(d), 16(1), 20(2), 57(5), 77, 81(c)). The objectives of the IDPs are not always achieved, owing to poor execution of the performance management system and the dearth of oversight skills by the councillors and mayors (AGSA 2018:3), resulting in poor service delivery to the community and inadequate infrastructure. The AGSA (2018:3) has indicated that the main reasons for infrastructure neglect are inferior project management skills, low-grade quality workmanship and deficient monitoring by the leadership – all owing to a competency issue, as discussed in the previous paragraph.



Apart from possessing the competency to adequately perform their duties, leaders must be accountable for their actions and decision-making – whether they address the needs of the community or not (Thebe 2017:130). This includes social, political, financial, legal, moral and professional accountability (Olum 2014:605). A lack of accountability could lead to unethical behaviour by the employees of the municipality, negatively impacting ratepayers and local residents (Koranteng 2015:9), resulting in the misuse of funds, loss of municipal resources and depriving the communities of essential services, to name but a few. Compliance by municipalities with legislation and internal controls that prevent or detect unethical behaviour, regressed in the audit outcomes of the year 2016/17, when compared to the previous period (AGSA 2018). This alarming result persists, even after the AGSA engaged with the mayors and councillors to highlight the shortcomings in municipalities and how remedies may be implemented (AGSA 2018:2).

The municipal leadership stands accused of not reacting to the repeated recommendations and warnings of risks, issued by the AGSA (2018:3). The root cause for this failure to act has been identified as the absence of consequences for those that do not comply with legislation and disregard internal controls. The repeated non-implementation of AGSA recommendations to improve operations in the municipalities (AGSA 2018:2, 3), results in disrepute for the municipalities, the continued wastage of municipal funds (Business Tech 2016), no improvement in internal controls, no safeguarding of assets and no reduction of irregular and fruitless expenditure (Aikins 2012:196). Evidently, leaders do not comply with Section 59(3)(a) and (b) of the Municipal Systems Act, 32 of 2000, requiring that municipal leaders should review the decisions taken by political office bearers, councillors and employees (SAG 2000, s. 59(3)(a)).

And so, the appointed municipal management must be competent and able to appreciate and execute their roles, in meeting the objectives of the municipality and fulfilling the needs of the community. Incompetent councillors, management and employees that are not being held accountable for their actions and decisions - including unethical behaviour and not acting on audit recommendations - are the most serious concerns in municipal administration- malfunction, as resource management, and more specifically, competent leadership and staff, taking

responsibility for their actions and being held accountable, are key to successful municipal administration (AGSA, 2017:2 & 86; AGSA 2019:8). The lens of the resource-based view of the firm theory, will ensure that competence and accountability are measured against a tested theory, assuring that municipalities consider and implement relevant aspects and audit committees measure municipal administration against a 'best practice' list, enhancing audit committee effectiveness.

#### **4.2.1.2 Improving municipal administration**

Based on the challenges identified, it is evident that municipalities must acquire resources that will improve their performance, starting with leadership. The King IV report recommends that municipalities have independent councillors possessing the necessary skills and competencies to execute their oversight role (IoDSA 2016:83). It is the councillors' responsibility as leaders to appoint, assess and develop management with relevant skills and experience (SAG 2000, ss. 56(b), 68(1), 78(1)(a)(ii)). The Municipal Systems Act, 32 of 2000 encourages developing human resource capacity by training employees (SAG 2000, s. 68(2), 72(1)(v)), even providing for such skills development of small, rural municipalities, as these municipalities can receive funding from the Sector Education and Training Authority (SETA) for local government (SAG 2000, s. 68(3)). The training should empower the council and employees to perform their functions successfully, in a responsible and accountable manner.

As mentioned before, all the employees and councillors need to be accountable for their performance (AGSA 2018:2). They must be trained to implement those audit recommendations that are credible, relevant and add value to the municipality (Dain & Rahmat 2017:2), improving compliance with internal controls and legislation. Leadership should develop a culture of training, implementation of recommendations and accountability, and construct adequate policies and systems to promote these practices. Monthly scorecards can be implemented to monitor performance and assess whether objectives are met (Carter, Ulrich & Goldsmith 2005:53). These monthly performance scores should be linked to year-end performance reviews. Such reviews would result in recognition of and rewards to employees who perform well, fulfilling or exceeding objectives (Carter et al 2005:55). Additional training should be provided to non-performing individuals. A culture of accountability can also

be accelerated by the media (Justesen & Skaerbaek 2010:340) - when the media publicly exposes the useful audit committee advice rejected by the council, those municipalities may be under pressure to implement that advice.

In addition, a six-phase system of leadership and organisational change developed by Carter et al (2005:182-190) can be implemented by leadership, to ensure proper administration and accountability by municipalities. In phase one, the leaders must diagnose the municipality, by coming to an appreciation of the challenges faced by the municipality and the actions required to overcome it. Phase two comprises of the assessment of employees' perceptions and how they make decisions, by using behavioural analysis tools such as the Myers-Briggs Type Indicator or 360-degree assessments. During phase three adequate programmes - including aspects such as coaching, training, and an adequate recruiting and selection process - must be designed, considering the results of the assessment. Phase four is the implementation of the identified programmes. Phase five is on-the-job support, when employees are supported even after programme implementation and training, for the programmes to succeed. Phase six is an evaluation, where the leadership of the municipality must enforce performance management as an evaluation tool (SAG 2000, s. 67(1)(d)). The adoption of the six-phase system by Carter et al. can promote a fair, effective, efficient and adequate municipal administration system, as required by law (SAG 2000, s. 4(2)).

The resource-based view of the firm theory (Wernerfelt 1984; Barney 1991), can also be used to identify possible solutions to the challenges faced by municipalities (refer to figure 4.2).

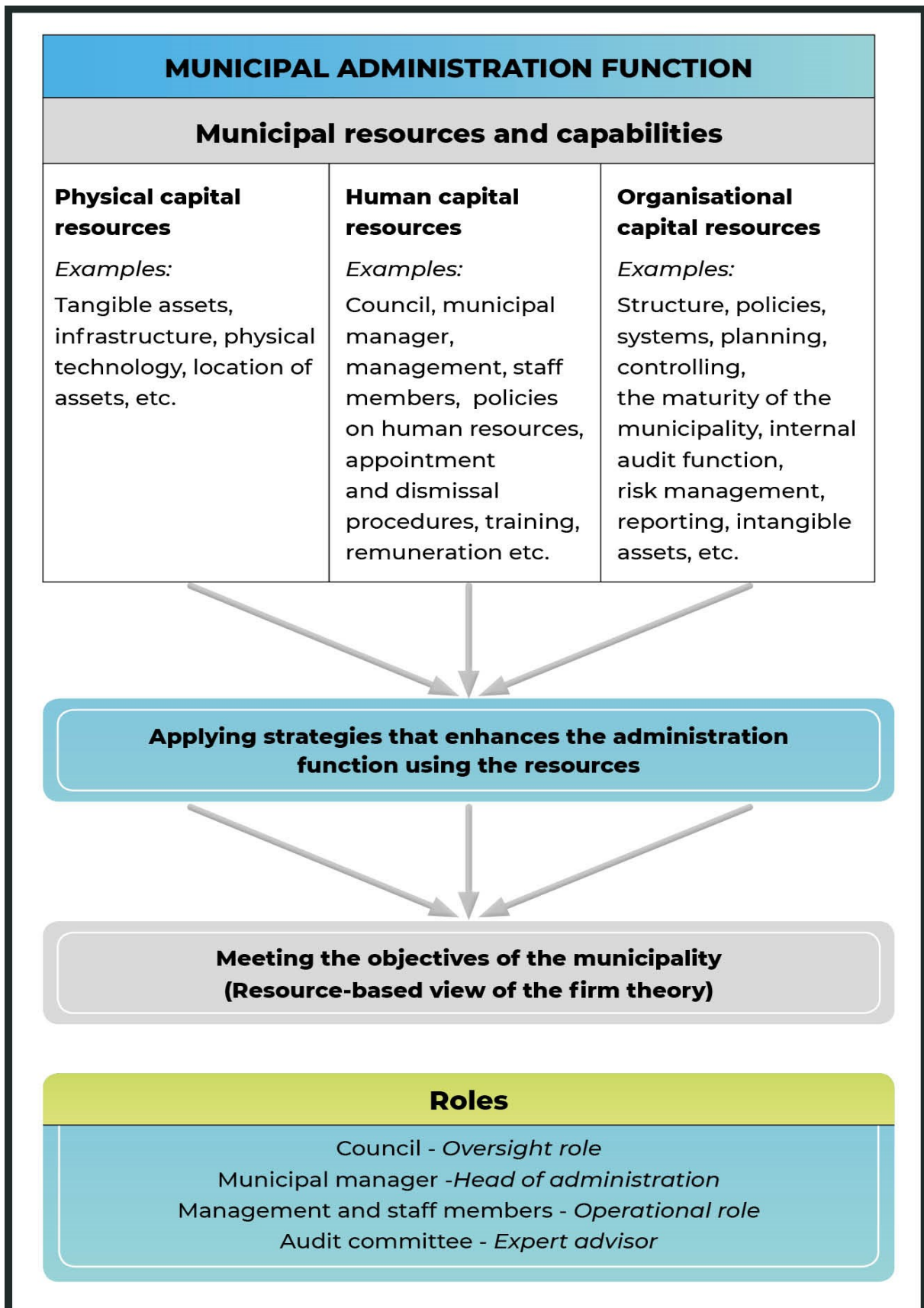


Figure 4.2: Municipal administration function

(Source: Own compilation)

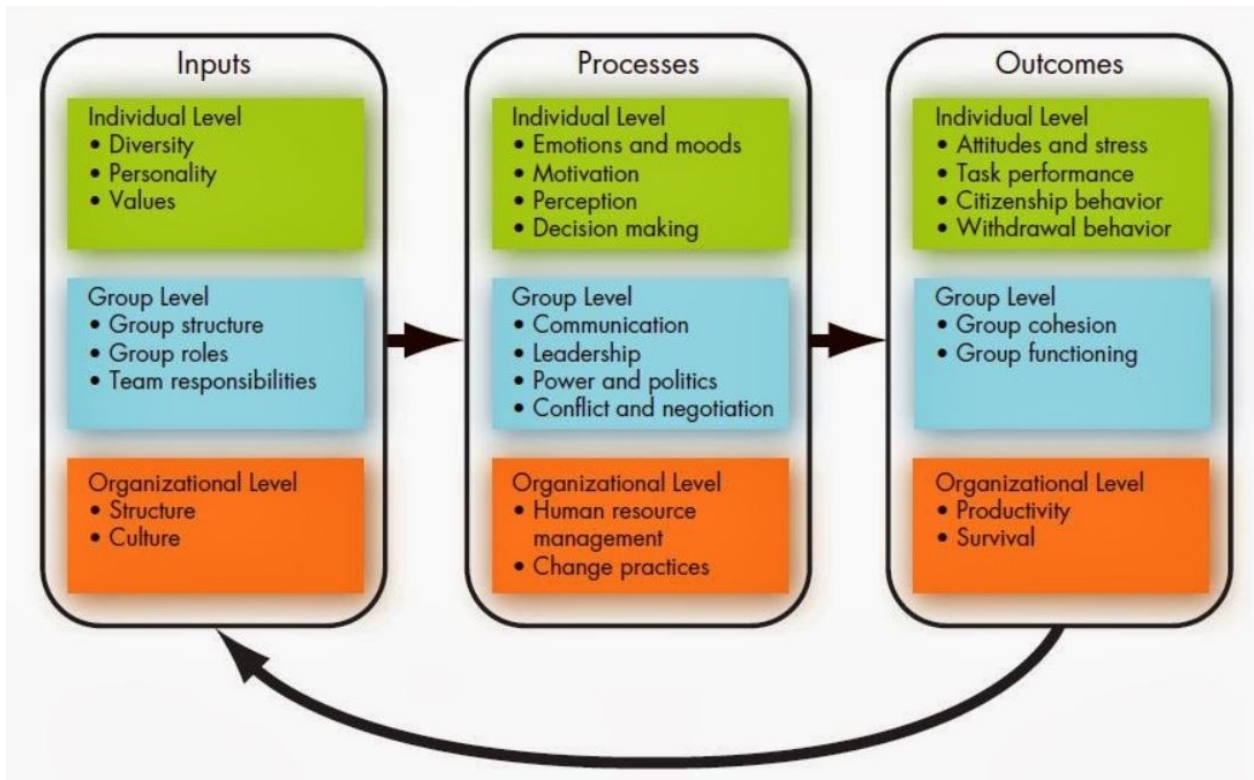
The figure illustrates the resources and capabilities that are derived from the resource-based view of the firm theory. The resources and capabilities can be used to develop strategies, that can improve the administration of the municipalities in order to fulfil its objectives. The separation of roles in terms of the municipal administration function, is also demonstrated: council as the overseer, accounting officer as the head of administration, management and staff as administrators, and audit committee as an expert advisor (SAG 1996, s. 151(2); SAG 2003, s. 77, 78, 161(2)).

#### **4.2.2 Organisational maturity (Category 2)**

Focus group 1 described immature municipalities as those that do not keep accurate records, do not comply with legislation and policies, recruit unskilled labour due to *inter alia* budget constraints and have vacant positions of key senior personnel. In other words, municipalities' resources and behaviour mainly determine the measurement of whether the organisation is mature, or not. Of the aspects mentioned by the focus group, namely unskilled labour, vacant key positions, non-compliance and lack of record-keeping, all four can be linked to staff competence (also refer to section 4.2.1), implicating that staff is incompetent or unable to perform their duties. Mello (2018:5) voices the same concerns as the focus group in a study that reveals that councillors and management lack monitoring- and evaluation skills, hence the poor performances by the municipalities. Pooe, Worku and Van Rooyen (2016:24) expressed the need for customised skills-based training programmes in the municipalities, to improve employee performance. Although training has been identified as one of the solutions to incompetent human resources, lack of financial resources in the municipalities tends to prevent training and development (Luthuli, Nyawo & Mashau 2019:127). Therefore, not only are incompetent human capital resources the cause of poor performance, but also a lack of financial resources.

The path towards improving the municipality to its maturity level can be invoked through the resource-based view of the firm theory, referring to the organisation obtaining and managing the necessary human resources to fulfil its purpose – on the individual level, in respect of groups, as well as the organisation as a whole (Werner, Bagraim, Cunningham, Potgieter & Viedge, 2016:5). When referring to the individual-, group- and organisational levels of resources, Robbins and Judge (2017:64) have

identified the elements that each of these three levels brings to the maturity levels of competent staff, ensuring that human resources are used optimally, as schematically presented by figure 4.3.



**Figure 4.3: A basic organisational behaviour model**

*(Source: Robbins & Judge 2017:64)*

#### 4.2.2.1 Individual level

According to the basic organisational behaviour model of Robbins and Judge (2017:64-68), the individuals enter the organisation with their diversity, personality and values (input). Their inputs lead to actions such as emotions and moods, motivation, perception and decision making (process). The outcomes from these actions (processes) are attitudes, stress, task performance, citizenship behaviour and withdrawal behaviour (output). Therefore, the municipality should adequately manage the input of individuals to get the desired processes and outcomes that will enhance the municipal administration.

In addition to managing the input of human resources, municipalities who wish to mature should manage the elements found in the process amongst individuals, to gain positive outcomes. The basic organisational behaviour model suggests that individuals' emotional reactions, motivation, perception and decision-making form

part of the process that influences their behaviour, job performance and satisfaction (outcomes) (Matta, Erol-Korkmaz, Johnson & Bicaksiz 2014:921, 923; Robbins & Judge 2017:64). Therefore, training individuals in, for example, emotional intelligence, can be one of the solutions that will promote capable human capital resources. Emotional intelligence is the capability to understand and self-restraint own emotions, i.e. being emotionally stable (Vasefia, Dehghanib & Mirzaaghapoor 2018:26). The basic organisational behaviour model thus suggests that appropriate input by the individuals (to the municipality) will result in less tension, irrational emotions and moods of individuals. Instead, individuals will have the correct perspective (of the municipality) and take suitable decisions leading to positive outcomes.

Accordingly, it is essential that audit committees provide useful advice to municipalities regarding the input of individuals recruited by the municipality. The question, therefore, is whether the audit committee has a role to play in managing the human capital resources of municipalities – from the appointment of staff, training of staff, and other elements? This will be investigated in the empirical section of the study (refer to section 5.2.2).

#### **4.2.2.2 Group level**

In the workplace, a working group is two or more individuals working together to achieve a particular objective (Robbins & Judge 2017:351). Individuals can develop identities and self-esteem by associating with a group (Fujita, Harrigan & Soutar 2018:55&57). Hence, the organisation must create opportunities for groups to develop positive identifications from the groups within the organisation. In most organisations, the group structure, roles and team responsibilities are created before groups are formed (input) (Robbins & Judge 2017:64-69), therefore, if the information is clear, the group can understand the expectations. Similarly, the municipalities must create units with clear roles, allowing team members in a group to identify positively with the unit and confidently with the team.

According to the basic organisational behaviour model, the activities that occur in the group level are communication, leadership, power, politics, conflict and management (processes). The ultimate goal for these undertakings is to achieve a functioning group with cohesion (output). Communication, as one of the activities from the

model, is defined as transferring information or understanding of the meaning, between two or more parties (Brink & Costigan 2015:206; Robbins & Judge 2017:383). Although research on groups is not specifically addressed in studies on municipalities, communication within the public sector is much broader than in the private sector, as it may involve the public and society. It may also affect the way in which groups communicate within municipalities, but even broader: how municipalities communicate with all their stakeholders (organisation-level); between organisations and outside the organisation (Canel & Luoma-aho 2019:33). In fact, Rasila and Musitha (2017:2) define effective communication in the public sector as communication that involves public participation.

Moreover, communication can serve as a function of management, forming part of leadership, feedback, emotional sharing, persuasion and information sharing within a group (Wijn & Van den Bos 2010:162; Robbins & Judge 2017:383). Consequently, effective communication will enrich the human capital resources of the municipality, in reference to the resource from the resource-based view of the firm theory. Leadership is another element within the group level (Robbins & Judge 2017:64). The model suggests that groups in organisations should have the leadership capabilities to achieve the outcomes of group functioning and cohesion. Leadership is a significant component in municipalities (refer to sections 4.2.1 and 4.2.2 regarding the challenges and issues that affect leadership in municipalities). Therefore, the municipality must attract the style of leadership that will fulfil its objectives. Different styles of leadership can be combined in an organisation, depending on its complexity and needs. Parry (2011:54-56) identifies various styles of leadership for different levels, but for the group level, transformational leadership is probably the most important - that is leadership that inspires to enhance the performance of the followers using the collective goals and values. The other elements i.e. power, politics and conflict, as activities in the group level processes, are discussed in section 4.4.

In conclusion, the municipalities have a coalition of individuals (groups) that form part of human capital resources and is vital to the administration of the municipality. According to the basic organisational behaviour model, the structure, roles and responsibilities of the groups (input) are key to influence communication, leadership, power, politics, conflict and negotiation (processes) to achieve group functioning and



cohesion (outcomes). Again, the question should be asked whether audit committees have a role to play within a group structure, -roles and -responsibilities. This aspect is covered by the empirical study (refer to section 5.2.2).

#### **4.2.2.3 Organisational level**

The basic organisational behaviour model suggests that the productivity and survival (outcomes) of the organisation are determined by its structure and culture (input), that influence the human resources management and change practices (processes) (Robbins & Judge 2017:531). It can, therefore, be assumed that for the municipal administration to reach its required maturity level, the municipal goals must include a functioning structure, optimal human resources management and practices, and a culture that promote excellent service to the public. The structure, culture and practices form part of the organisational capital resources category and human resources management is a human capital resource according to the resource-based view of the firm theory (Barney1991:101), suggesting that these categories of resources are essential in the organisational level to enhance the maturity of the municipal administration. Studies within the public sector confirm that some municipalities have an unethical organisational culture that leads to complications of poor service delivery (Ajayi & de Vries 2019:25; Ndenze 2019). Therefore, municipalities need a proper diagnosis that can assist municipal decision-makers in analysing and comparing the possible, relevant solutions and to be considerate of stakeholders' opinions when arriving at decisions (Salisbury, Brouckaert, Still & Buckley 2018:449). Hence, the municipal administration should focus on acquiring the necessary resources and apply the necessary inputs that will yield the desired processes and outcomes. Again, the question should be posed, whether audit committees have a role to play within an organisational structure, -roles and -responsibilities? This is addressed by the empirical study (refer to section 5.2.2 for empirical evidence).

#### **4.2.3 Risk management (Category 3)**

The focus group-concerns that municipalities lack credible risk management plans and competent staff to implement risk management (refer to section 3.2.1), signify a deficiency of organisational capital resources and human capital resources, in terms of the resource-based view of the firm theory. The concept of 'risk management' can

be understood by first defining risks. Risks are defined as potential events that have a likelihood of occurring and have the potential of causing uncertainty in achieving the objectives (ISO 2009:1-2), which may *inter alia* lead to losses (Ruxandra 2018:495). Risks can be found in, but are not limited to, the organisation's strategy, operations, finance, compliance and reporting (Bungkilo 2017:19). In other words, organisational capital resources and other resources have the likelihood of incurring losses or not achieving the organisational goals.

Accordingly, some organisations do not reach their goals owing to risks that materialise and for that reason, the risk must be managed. Risk management is a process where resources and activities are used to mitigate the risk (ISO 2009:1-2) by identifying, assessing and managing risks (COSO 2017:5) and fostering the culture, capabilities and practices that may lead to the mitigation of the risks (COSO 2017:3). Therefore, a risk management plan is the approach and a resource employed to manage risks (ISO 2009:2). The advantages of using risk management plans and programs in an organisation are those of increasing stakeholder confidence, cost-effectiveness, operational reliability and demonstrating the value of new technologies (Deloitte 2017a:5). Ruxandra (2018:496) maintains that risk management is vital to public organisations, to strengthen organisational strategy, organisational structure, personnel, processes and infrastructure, signifying that risk management is essential to all categories of resources in terms of the resource-based view of the firm theory. Although risk management has been identified as a beneficial tool for public organisations, it appears to have been neglected (Keban 2017:7). This is also supported by the fact that public administration legislation fails to adequately integrate risk management and -controls within the municipalities (Riso & Castellini 2019:156).

Organisations are expected to annually analyse, manage and review risk, assessing current and future risks, and to document the results in the risk register together with the associated internal controls (Deloitte 2017a:6-7). The accounting officer is responsible for risk management in the municipality (SAG 2003, s. 62(1)(c)(i)). Numerous studies over the last decade (Beasley, Branson & Hancock 2008; Hull 2009; Aebi, Sabato & Schmid 2012; Coetzee & Lubbe 2013; Mofokeng 2015) contend that risk management is not mature. The reasons for immature risk

management in the public sector are identified as: lack of available resources to mitigate risk; lack of established risk management culture and leadership; lack of risk management and internal control expertise and overall understanding; limited implementation of appropriate systems and processes; and lack of explicit legislative requirement (Coetzee & Lubbe 2017a:5; South Australian Local Government Financial Management Group 2015:17).

These results justify the second concern raised by the focus group, namely, that municipalities lack competent people to identify and manage risks. The South African situation is not unique, as poor municipalities in other countries also cannot afford to implement risk management (Oulasvirta & Anttiroiko 2017:465, 468). The study by Oulasvirta and Anttiroiko (2017) further reveals that management and politicians in municipalities are not motivated to implement risk management, since there are no incentives for them. Also, the “silo”-mentality of management, where they do not share the information amongst each other, slows down the achievement of matured risk management, exposing the selfish motives of some leaders in the municipalities. It is concerning that a study of 36 public sector organisations in South Africa confirms that none of the organisations exhibited a mature risk management system (Coetzee & Lubbe 2017b:45).

Due to these challenges, it is vital for audit committees to be involved in risk management in respect of monitoring and providing advice with regard to remedial plans and municipal actions to manage risk. Audit committees are one of the key players in risk management (Cohen, Krishnamoorthy & Wright 2017:1204; Coetzee & Lubbe 2017a:4). According to KPMG, the primary challenges faced by audit committees with regard to risk management, include the ineffectiveness of risk management programs, legal- or regulatory non-compliance, inappropriate cybersecurity risk management and non-maintenance of the control environment - an element that forms the basis for a strong risk mitigating plan (KPMG 2017:4), with Coetzee and Lubbe, (2017a:12) adding inadequate communication between risk management and internal audit bodies - specifically the audit committee and the risk committee – as another primary challenge. It was found that audit committee members not only have insufficient knowledge of the risks associated with the organisations they serve, but also lack the understanding of those businesses - the

audit committee members who participated in the KPMG survey acknowledged that they need a better understanding of the business and its risks, as well as expertise in cybersecurity and technology (KPMG 2017:12). It is therefore not possible for audit committee members to adequately assess, monitor and advise on risk management plans and systems, if they do not understand the specific business and its particular risks.

Accordingly, it is vital that the council appoints to the audit committee individuals with expertise and experience in risk management, cybersecurity and technology, who are able to advise on establishing an economical and effective risk management culture and practices in the municipality. Bungkilo (2017:297) proposes aspects that will improve the effectiveness of audit committees in risk management, suggesting that audit committees should possess diverse competencies in order to understand the risks, or hire a specialist in areas where they lack specialised knowledge. The audit committee must be capable of monitoring whether risk management is integrated into all activities of the organisation (Zilwa 2015:146-151). Audit committees should thus have in-depth knowledge of the business and its risks, enabling it to evaluate the municipal decisions taken in respect of the identification and analyses of risks and risk management, and to provide suitable advice.

It is important to confirm whether challenges faced by the municipal administration can be resolved by an audit committee competent in risk management, cybersecurity and technology, and by the employment of a customised municipal risk management plan. Empirical testing will be employed to establish confirmation (refer to sections 5.2.3 & 5.3.3 for empirical evidence).

#### **4.2.4 Internal audit function (Category 4)**

According to the categories of resources in the resource-based view of the firm theory, an internal audit function forms part of the organisational capital resources, as it's a reporting structure that reports to the audit committee (Barney,1991:101; SAG 2003, s. 165(2)(b); SAG 2012:15). The focus group raised the concern that established internal audit functions in the municipalities do not serve their purpose, owing to incompetent staff. The role of internal auditing as an independent body is that of providing assurance and consulting services to the organisation (IIA 2017:21-22). These services should relate to risk management, internal controls and

governance activities within the organisation (IIA 1999; IIA 2017:10; Anderson, Head, Ramamoorti, Riddle, Salamasick & Sobel 2017:1-5). In essence, for the internal audit function to be effective in municipalities, it should conduct independent audits and provide advisory services that will improve the operations of the municipalities. These services should provide assurance that legislation, policies and internal controls are complied with and risk is managed. Assurance services denote the provision of opinions and recommendations concerning the organisation's activities (IIA 2017:26). In other words, the internal audit function monitors whether the organisation is compliant and manage risk effectively, and reports the results to the audit committee – acting as a monitoring agent for the public in the municipal environment, in accordance with agency theory. Consulting services allow the internal audit function to supply advice, facilitation and training services as agreed with the client, with the intention of adding value (IIA 2017:22). It is, therefore, an added advantage for municipalities to have internal audit functions as agents, as it can improve matters relating to municipal administration, amongst other aspects.

For the internal audit function to succeed as a monitoring and advisory agent, it is the responsibility of the CAE to effectively manage the function (IIA 2017:10). Prior to performing the assurance and consulting services, the CAE should ascertain that it complies with the approved internal audit charter, and draft a risk-based internal audit plan, resource plan and internal audit budget, to name but a few of the key elements for a successful internal audit function (IIA 2017:4). The internal audit charter is a written document stipulating the purpose, authority, and responsibility of the internal audit function, approved by the audit committee (IIA 2017:3; National Treasury 2012b:16). The internal audit function is successfully managed when it achieves its purpose and responsibility in accordance with the charter, including conformance to the professional standards and code of ethics for internal auditors (IIA 2017:10). Adherence to the professional standards of the IIA is viewed as one of the strongest features of an effective internal audit function (Erasmus & Coetzee 2017:96).

However, in practice, it can be difficult for the internal audit function in the public sector to add value and to comply with the IIA Standards, owing to lack of cooperation by and support of other public sector staff including management, complexity in the organisation, lack of business knowledge, budget strain, a vast

scope that exceeds the internal audit size, work overload and incompetent internal audit staff (Motubatse, Barac & Odendaal 2015:406; Plant & Padotan 2017:44; Jóhannesdóttir, Kristiansson, Sipiläinen & Koivunen 2018:38-39). Alqudah, Amran and Hassan (2019:76) agree that the tasks that need to be performed by internal audit functions in the public sector can be complex for the staff members, especially if they are incompetent, leading to the neglect of high-risk areas (IIA 2018:11). Therefore, municipalities must establish realistic goals in terms of the budget- and resource allocation for the internal audit function, in order to recruit competent auditors.

From the above discussion, it would appear that the competence of the internal audit function's leadership and staff significantly impacts the audit committee's effectiveness. The IIA Standards require the human capital resources to possess the right mix of skills and knowledge, with an adequate quantity to accomplish the audit plan (IIA 2017:11). This emphasises the significance of the resource-based view of the firm theory in respect of the internal audit function. The resources and capabilities (Barney 1991:101) of the internal audit function can, thus, contribute to implementing a strategy for the effective municipal administration. However, studies in the public sector confirm the focus groups' assertions that internal audit human capital resources are inadequate and incompetent. Mbewu and Barac (2017:26) studied four municipalities in South Africa's Vhembe district and found that all the municipalities were lacking the required competencies and no one working in the internal audit function was a qualified internal auditor.

In contrast, the South African study in the public sector by Erasmus and Coetzee (2017:96) reveals that competency of the CAE and the staff within the internal audit function, contributed the least to the effectiveness of the internal audit function, when compared to other public sector organisations. Diyana (2019:76-79) defines professional competence as possessing knowledge, skills and work experience, and proposes an internal auditor-training and -development plan along with provision of customised e-training courses for a variety of target groups within the function, as solutions to an incompetent public sector internal audit function. Therefore, customised training of the internal audit function's staff and e-training, can assist internal auditors in the municipalities to be competent and effective. Moreover, Plant and Padotan (2017:44) recommend that, in addition to technical skills training

provided to new internal auditors participating in learnership programmes, formal assessments of competence should be performed, as well as development of a formal mentoring system. Evidence of a competent internal audit function, through formal assessment, will bring about stakeholder confidence that the internal audit function is in actuality rendering its service in a professional and skilled manner (Erasmus & Coetzee 2018:109).

Another aspect that is highlighted by the discussion above, is that the effectiveness of the internal audit function may be measured by the extent to which it accomplishes its purpose as stipulated by the internal audit charter. Although numerous studies have been conducted on this aspect [see Coetzee and Erasmus (2017:239) for a summary of the last decade's studies], Anderson et al (2017:2-15) identify the three pillars of effective internal audit services directed by the IIA Standards as 1) independence, 2) objectivity, and 3) proficiency and due professional care. The IIA Standard 1100 requires the internal audit function to be independent, objective when performing its task and having unrestricted access to senior management and the board (IIA 2017:3). Independence is enhanced when the CAE reports administratively to senior management, and functionally to the board (IIA 2017:4). Similarly, in the municipalities, the CAE reports administratively to the accounting officer and functionally to the audit committee (National Treasury 2012b:16).

The second pillar of objectivity is explained by Standard 1120, with an ethical undertone, as the impartial, unbiased mental attitude of the internal auditors and CAE when performing their tasks, without conflict of interest (IIA 2017:5). Ma'ayan and Carmeli's (2016:359) study reveals that ethical conduct by the internal audit function has a positive impact on its relationship with the organisation. Ghani, Respati, Darsono and Yusoff (2019:164) furthermore claim that the conduct of internal auditors is influenced by the ethical culture of the organisation.

The third pillar underscores the importance of internal auditors' and the CAE possessing the competencies necessary to perform their work with proficiency and due professional care (IIA 2017:6). Competency is one of the key principles found in the code of ethics for internal auditors (IIA 2018:1). The IIA, as the overseer of the profession, recognises the importance of the competence of its members and attempts to provide guidance by efforts such as the Global Internal Audit

Competency Framework (IIA 2013) - a list of the core competencies that are required by the internal audit function – and the Internal Audit Competency Process (IIA 2015) – an aid to assessing current competencies and acquiring the desired competencies. These and other guidance documents should be utilised by the municipality to ensure that the competencies of the leadership and staff of the internal audit function complement the requirements of the function, stipulated by the charter.

The IIA has also developed a capability model specifically for the public sector, that *inter alia* establishes the maturity of competent staff levels (IIARF 2009). However, the ability to effectively implement the model in the South African public sector is questionable, due to the lack of capabilities in the internal audit function (Janse van Rensburg & Coetzee 2016:190). The question of whether the audit committee should monitor and give advice on competencies and the competency framework structure of the internal audit function, is tested during the empirical phase (refer to empirical section 5.2.4).

The existence of the combination of an effective internal audit function and an effective audit committee in an organisation, is seen as a basis for good corporate governance (Alzeban & Sawan 2015:61). Therefore, frequent communication and interaction between the CAE and the audit committee chairperson are vital in building a constructive relationship (Bromilow, Berlin & Anderson 2005:54; Khelil, Hussainey & Noubbigh 2016:422). The CAE should report to the audit committee concerning: the audit charter; independence of the internal audit activity; the audit plan and progress towards execution of the plan; resource requirements; results of audit activities; conformance with the IIA's code of ethics and the IIA Standards; action plans to address any significant conformance issues; and management's response to the risk that - in the CAE's judgment - may be unacceptable to the organisation (IIA 2017:12). In other words, the internal audit function reports to the audit committee regarding its approach to its duties, and the utilisation and management of municipal resources. Studies emphasise the importance of the internal audit function taking responsibility and accountability for its assignments. Roussy and Rodrigue (2018:868) express the need for CAE to have an annual written accountability report that summarises its work and also describe the processes employed to perform its engagements. Several studies have demonstrated that the internal audit function is important and impacts the audit committee operations, given that the audit committee



relies extensively on internal audit function reports (Tusek 2015:248; Trotman & Duncan 2018:251).

Regarding the interaction between the audit committee and the internal audit function, the CAE need not wait for the formal face-to-face meeting with the audit committee when reporting, but can pursue ongoing communication via the telephone and emails should there be information worth escalating (Bromilow et al 2005:54; Baker 2011:34; Chambers 2016; PWC 2018). Unrestricted communication and interaction allow the CAE to be independent and objective and to report with courage when discussing sensitive and confidential issues (Bromilow et al 2016:422; Lindstrom & Johnson 2018:65). Consequently, the audit committee will be up to date concerning risk- and business issues as escalated by the CAE using good judgement (Bromilow et al 2005:54-55; Baker 2011:34) and the audit committee is afforded the opportunity to appreciate the CAE's viewpoint regarding the escalated issues, and to respond timely and appropriately.

Consultation between the CAE and the audit committee chairperson to prepare for the audit committee meeting and prioritise the agenda items, is regarded as important (Lindstrom & Johnson 2018:65). In the municipalities, the internal audit function is responsible for the secretarial duties in preparation for the audit committee meetings, unless stated otherwise by the accounting officer (National Treasury 2012b:14). It prepares the information that will be discussed at the meetings, sends invites and agendas to members, attends to all logistics relating to the meeting and takes minutes of meetings (National Treasury 2012b:14). Therefore, lending administrative support to meetings of the audit committee is another legislated role of the internal audit function in municipalities. The importance of this role was expressed by focus group 1. The audit committee meetings are further discussed in the next theme (refer to section 4.3.2). The CAE can further support the audit committee by identifying the key areas where it lacks understanding of the organisation and develop suitable training programmes (Bromilow et al 2005:55), and participate in the orientation of new audit committee members. The chairperson can also review internal audit reports to gain better understanding of the business and risks. These actions may lead to an appreciation of each other's roles and the building of a trusting relationship.

In conclusion, the ideal municipal administration must possess all the necessary resources, including an internal audit function that is successfully managed by the CAE. For internal audit functions in the public sector to be effective and to meet the organisational needs, it needs resources and support (Alqudah et al 2019:69-70). The internal audit function must, therefore, have sufficient and adequate resources (IIA 2017:11) and competent staff members that will successfully execute the audit plan, by monitoring municipal activities and providing useful advice and consulting services. Therefore, the audit committee role, in this case, should be to proffer appropriate support and advice based on the issues reported by the CAE. The interaction and relationship of the audit committee and the internal audit activity is empirically tested (refer to sections 5.2.4 and 5.3.4 for empirical evidence). The next section discusses the role of the audit committees in the municipalities.

### **4.3 Theme 2- The audit committee mandate (Category 5)**

This theme (refer to figure 3.15) consists of one category with five affinities, namely: 1) Terms of reference (refer to section 4.3.2.1) as a secondary driver; 2) Audit committee's understanding of its mandate (refer to section 4.3.2.2) and 3) Municipality's understanding of audit committee mandate (refer to section 4.3.2.2), as secondary outcomes; 4) Preparation and participation of audit committee members (refer to section 4.3.2.3) as a primary outcome; and 5) The role of the audit committee chairperson (refer to sections 4.3.2.2 and 4.3.2.3), as a neutral affinity. The logic of grouping the various affinities to develop this theme, is explained in section 3.4.2. The approach to discussing the affinities in this theme, is as follows: 1) Defining the mandate of the audit committee and its effectiveness using neo-institutional theory; and 2) Examining the mandate of the audit committee through the lens of practice theory.

#### **4.3.1 Defining the mandate of the audit committee**

To define the effective audit committee mandate, the neo-institutional theory is applied. Neo-institutional theory emphasises the need for organisations to have formal structures and valuable practices that will enhance the organisational effectiveness (Meyer & Rowan 1977:349). An audit committee is a formal governance structure (Brennan & Kirwan 2015:471). The components of the formal structure are widely accepted and necessary to serve the needs of the organisation

(Tolbert & Zucker 1983:25). Neo-institutional theory expresses that an organisation may be pressured to perform its tasks in a particular way that is widely accepted by its peers in the external environment (DiMaggio & Powell 1983:150) to improve its chances of survival (Zucker 1987:443). Similarly, surviving the legitimacy test requires the audit committee to conform to its legislated role, and mandate as defined by law and widely accepted best practices. Studies to evaluate the legitimacy of the audit committee role using neo-institutional theory have been conducted (Judge, Douglas & Kutan 2008; Christopher, Sarens & Leung 2009; Hegazy & Stafford 2016) and the theory was found to be applicable.

In South Africa, King IV is the best practice that defines the audit committee mandate as oversight of the integrity of financial statements and the effectiveness of assurance services, such as external and internal auditors (IoDSA 2016:55). It refers to the responsibility of the monitoring function that will lead to credible financial statements, prepared by the finance function and assurance services. The Australian practice guide by the Australian National Audit Office takes a similar view, defining the mandate of audit committees as that of reviewing financial reporting, performance, risk management and internal controls (Australian National Audit Office 2015:5). Another best practice guide, The Government Finance Officers Association of the USA and Canada, dictates a similar mandate for audit committees, defining the mandate as oversight of government financial reporting, internal controls and independent auditors (Government Finance Officers Association of the United States and Canada 2008:1).

It appears that the primary mandate of audit committees, is that of oversight. This may also be true for some municipalities in specific countries, for example, the USA and the UK (Cadbury 1992:22, s. 4.33; USAG 2002, s. 301(2); Zhang & Rich 2016:439). The legislative roles and the roles recommended by best practice, can be conflicting, for instance, according to King IV Principle 8, Recommended Practise 51, the role of audit committees is that of oversight (IoDSA 2016:55), and not advisory. However, some countries' legislated municipal audit committees are established to serve as advisory bodies, for example, South Africa and the State of Victoria in Australia (SAG 2003, s. 166(2); Local Government Victoria 2014:30). It is, therefore, essential to investigate the literature on *advisory* bodies and compare such to those concerning the well-known *oversight* function of audit committees.

Brennan and Kirwan (2015:476) are in favour of the advisory and support role of the audit committee. The mandate of any advisory committee is to supplement the work of the organisation by providing strategies and suggestions that will guide the organisation in the right direction (Hornberger & Forster 2019:23). Evidently, the establishment of the advisory audit committee must follow its unique ideology of providing strategies and advice that will add value to the organisation. Hence, the role of the audit committee with an advisory role in the local government include assisting council and management with their stewardship, compliance with regulations, service delivery and internal controls (Purcell et al 2014:362). This advisory role is significantly different from the oversight role, as the audit committee is not only monitoring after events and transactions have happened but is actively involved in providing strategies in decision-making - even before events and transactions happen.

The establishment of advisory committees is based on the principles of salience, credibility and representativeness (Veit, Hustedt & Bach 2017:87). These principles were developed for the policy advisory committee, referring to a committee that renders advice to an organisation regarding organisational policies. Audit committees are also an advisory body to the municipality, in respect of all aspects relating to the municipality (SAG 2003, s. 166(2)) and are not only limited to policy advice. Hence, the principles regarding the policy advisory committee, those of salience, credibility and representativeness, were found to be relevant and applicable to all the aspects of the audit committee's advisory role. Hereafter, these principles are adopted in defining the mandate of the audit committee for the purposes of this study.

Veit et al (2017:87) define these three principles as: 1) The principle of salience, referring to the relevance and timeliness of the advisory knowledge provided to policymakers. For this reason, audit committees need to possess knowledge that will be beneficial to the municipalities and they must provide relevant and timeless advice to the municipality (SAG 2003, s. 166(2)); 2) The principle of credibility, signifying that the advice must be credible and produced from sound, robust knowledge. Studies in both the private sector and public sector express the need for audit committee members to be knowledgeable. Members are expected to be well-informed with regard to various financial and non-financial matters, to benefit the organisation (ANAO 2015:26; Krick 2015:489; Zilwa 2015:61-63; Schiffino & Krieger 2018:5;

Hornberger & Forster 2019:23), including the requirement that the advice provided by the audit committees should be from reliable sources (an in-depth discussion on the competencies of audit committees is found in section 4.6); 3) The principle of representativeness relates to advice from the advisory committee that must be fair and unbiased to all relevant parties. Accordingly, the audit committee should represent all relevant stakeholders of the municipality in a fair and unbiased manner, conducting itself ethically (a comprehensive discussion of the ethical conduct of an audit committee follows in section 4.4.2).

### **4.3.2 Audit committee mandate viewed through practice theory**

The mandate or the role of audit committees is further examined using the lens of practice theory. The theory was developed by a French social scientist, Pierre Bourdieu, to understand human behaviour or practice in the cultural environment (Bourdieu 1977; Schatzki 1997; Reckwitz 2002) - to understand why people act the way they do. The theory claims that there are universal binary (two-fold) oppositions in human behaviour (Maggio 2017:10), for example, good and bad behaviour. The theory further claims that human beings have the freedom to act outside the prescribed rules and structures (Maggio 2017:11), and that human beings' actions are based on past events (re-enact) that are produced and reproduced (routine) and are internalised by using some level of freedom (Bourdieu 1984; Moraes, Carrigan, Bosangit, Ferreira & McGrath 2015:525, 530; Maggio 2017:11). The issue with the level of freedom is that human beings may not act as expected. It thus suggests that audit committees are capable of acting outside their mandate, even though they are aware of and familiar with their routine duties, i.e. audit committee members who - as part of their routine work - are supposed to prepare for their meetings and participate, however, some audit committee members in the public sector do not prepare for the meetings and do not participate as expected (PSACF 2014; Deloitte 2017b:3).

This study presents the mandate of the audit committee by applying the practice theory elements developed by Warde (2005) and supported by Welch (2017) from the perspective of the three elements, namely, (1) *procedures*, (2) *understandings and* (3) *engagements*. These elements show the coordination between possessing the theoretical knowledge and how to practically apply that knowledge. The practice

of *procedures* refers to the “rules, principles and instructions”, the second element of *understandings* concerns having the knowledge to execute a task in practice, and the last element of *engagements* refers to the possible ways of achieving the desired outcomes (Warde 2005:135; Welch 2017:244). These elements will be discussed as follows: the procedures that should be adopted in executing the audit committee mandate (*procedures*), being the underpinning foundation of the mandate; secondly, the understanding of the role of audit committees, by audit committees themselves (*understandings*), and lastly, the means of accomplishment of the actual outcome (*engagements*).

#### **4.3.2.1 Practices of procedures**

The discussion regarding practices of procedures dwells mainly on the charter (National Treasury 2012b:3), which is the ToR for audit committees. The *practices of procedures* for the audit committee can be found in legislation, best practices, policies and their ToR. The legislation, best practices and policies regarding audit committees were previously discussed in section 4.3 along with discussion of its mandate, except for the ToR. The ToR of the audit committee is the list of its duties and responsibilities, composed in a written document (Turley & Zaman 2007:770; Protiviti KnowledgeLeader 2019). The ideal charter should not only contain the duties and responsibilities of the audit committee, but also its purpose, authority and composition (IIA 2013:3), describing the structure, processes and membership requirements of the audit committee (GFOA 2008:1).

Therefore, a comprehensive list of the duties (*practices of procedures*) of the municipal audit committees should be listed in the charter and approved by the council (National Treasury 2012a:3). These duties should be aligned to the audit committee’s main legislative duty of providing independent advice to the municipal council, political office-bearers, accounting officers and the management of the municipality, on matters relating to: internal control; internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation; performance evaluation and any other issues referred to it by the municipality; reviewing the annual financial statements to provide the council with an authoritative

and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance to legislation; responding to the council on any issues raised by the AGSA in the audit report; and carrying out investigations into the financial affairs of the municipality (SAG 2003, s. 166(2)(d)). An ideal audit committee charter-template, composed by different organisations such as the IIA, is readily available for adoption or utilisation by municipalities to compare with its own charter for purposes of establishing its completeness (IIA 2013).

Amongst other elements found in the charter, are procedures for meetings of the audit committee, such as a clear expression of the required number of annual meetings (IIA 2013:6), that the relevant materials including the agenda should be circulated to members well in advance of a meeting, and that the minutes of every session of the meetings must be recorded and stored in a safe place (National Treasury 2012a:14). A comprehensive and complete charter is essential, as it ought to be used as the basis for: preparing the audit committee's annual work plan; setting the agenda for meetings; requesting skills and expertise; making recommendations to the accounting officer and municipal council; assessing the audit committee's performance by its members, municipal council, management, AGSA and internal auditors; and contributions to and participation in meetings (National Association of Corporate Directors' Directorship 2010:29; National Treasury 2012b:3).

The charter is designed as a procedure manual for audit committees that is expected to perform its role accordingly. It is undoubtedly a useful document for the audit committee members, since it provides the execution procedures to direct them how to perform their engagement - *the practices of procedures*. Thus, an all-encompassing charter containing appropriate information should be compiled, assessed and approved by the council for all the municipalities. Consequently, the charter will provide a mutual understanding of the role, responsibilities and procedures of the audit committee to audit committee members, council, management and other relevant parties. To enforce compliance to the charter, it can be beneficial for the charter to include procedures of assessment of the performance of the audit committee members, as well as the procedures to dismiss incapable members.

Although the charter is the compass for audit committees, some charters do not provide complete and clear information regarding the mandate of audit committees (Martinov-Bennie, Soh & Tweedie 2015:732; Price & Lankton 2018:110). Moreover, several charters prescribe roles that the audit committee members cannot perform as they are not qualified (Marx 2009:42). Hence the need for the audit committee and all relevant stakeholders to understand the mandate of audit committees included in the charter. The South African municipal audit committee charters, such as that of Elias Motsoaledi Local Municipality (2018:8-12); Ngaka Modiri Molema District Municipality (2018:8-17); Emadlangeni Local Municipality (2017:12-19); and Amajuba District Municipality (2017:7-10), do explain the mandate of the audit committee. Although municipal charters possess the required scope, Böhm, Bollen and Hassink (2016:128) found that the scope in the charter can differ significantly from the actual activities of the audit committee, rendering it crucial for the council to ensure that individuals are appointed who are able to fulfil the complete mandate of the audit committee as prescribed by the charter and legislation.

#### **4.3.2.2 Practices of understanding**

The practice of understanding includes two aspects of the discussion, namely, the importance of the audit committee to understand their mandate, and the importance of the municipality to understand and support the audit committee-mandate.

- **The audit committee's understanding of its mandate**

As established, the mandate for audit committees is documented in the legislation, best practices, policies and the charter (*practices of procedures*). Therefore, every audit committee in the municipalities can access the documents and are expected to follow the procedures. However, these documents with its purpose, rules, practices, standards, procedures and authority, will not serve its intention if the audit committee has no clear understanding of its structure and function. It should have an understanding (*practices of understanding*) of how to execute its documented mandate (*practices of procedures*). Lack of understanding can lead to non-execution or wrongful action by the audit committee that can be detrimental to the municipality, resulting in the principal of the municipality - the public - paying for the agency cost of a structure that is dysfunctional and incapable of monitoring the agents - those parties that render decisions on behalf of the municipality.



Brennan and Kirwan (2015:470) provide a practice-theory analytical framework to audit committees. The framework lists the governance activities to be applied in practice (praxis) by audit committees that members and stakeholders need to understand. The praxis have been previously discussed in section 4.3.1 and 4.3.2.1. In addition to understanding their role, it is also important that the audit committee understands the purpose of the municipality and the actors within the municipality. Members can obtain information by attending management meetings and relevant workshops that will enhance and update the relevant knowledge they require concerning the organisation (ANAO 2015:29). The municipality's new audit committee members can obtain the information from the induction conducted by the Provincial- or National Treasury and from attending meetings with the accounting officer, CFO, CAE and other relevant parties (National Treasury 2012b:7). Additional information can be obtained from the audit committee charter and annual work plan, as discussed in section 4.3.2.1. Ultimately the audit committees must be empowered and possess information related to municipal governance and operational structures, as well as how it should operate within those structures, utilising relevant policies, recent audit committee minutes, audit management letters, the audit opinion including details of outstanding issues, council resolutions and recommendations presented to the municipal council, relevant legislation, the latest municipalities' and organisations' annual report, annual financial statements, integrated development plans, budgets, service delivery and budget implementation plans, in-year reports, the code of conduct, performance agreements, risk register and risk management plans, and information from management and the internal auditor regarding the risk profile, status of internal controls and system of delegation (SAG 2005a:1-4; National Treasury 2012b:7).

It is, therefore, vital that audit committees perform its significant role with an understanding of how the municipality should function with its agents. However, it is concerning that studies reveal that some audit committee members have no understanding of their roles and the organisation they operate in, leading to their inability to meet the demands of their roles, as listed in the charter (Böhm et al 2016:128; KPMG 2017:2, 12). Furthermore, the Municipal System Act, 2000 (Act No. 32 of 2000) requires all municipalities to establish a performance management system (SAG 2000, s. 11(3)(k), (38)(a)), in respect of which audit committees are

expected to perform oversight and render advice (PSACF 2019:3). If audit committees are incapable of providing suitable advice relating to the performance system, the municipal key performance indicators and targets may be rendered irrelevant, inappropriate and immeasurable. Consequently, the worth of the audit committee is questionable, if it does not understand the municipality, its supporting structures and best practices.

- **The municipality's understanding of the audit committee mandate**

It is crucial that actors within the structures of the municipalities understand and support the mandate of the audit committee. This view was expressed by both the focus groups, and is supported by Thomas and Purcell (2019:419) who found that some municipalities appoint audit committees for compliance- and cosmetic purposes, and the audit committees are thus not fully utilised. It can be difficult for audit committees to perform its role if the council, accounting officer and management do not understand (*practices of understanding*) its purpose. Lack of understanding may lead to a lack of support for the audit committee by the municipal stakeholders. Therefore, the council should have unrestricted access to the audit committee (IoDSA 2013:2) to gain an understanding of the operations of the audit committee, that may result in council appreciating the role of the audit committee - supporting and utilising it to the benefit of the municipality.

Furthermore, with council's understanding of the duties of an audit committee, it will be able to recruit suitable individuals that are capable of executing their legislated duties as audit committee members (SAG 2003, s. 166(2)), resulting in the right mix of skills and experience of all committee members, but especially the chairperson of the audit committee. One of the most important competencies of the chairperson of the audit committee is that of strong communication skills, to bring about an understanding of the committee's mandate to relevant stakeholders (PWC 2018), i.e. the municipal council, the Municipal Public Accounts Committee; finance committee, accounting officer, management, staff, internal auditors, external auditors, Provincial Treasury, and National Treasury (National Treasury 2012b:14).

Moreover, the chairperson must be proactive in reaching out to municipal stakeholders with the purpose of building relationships (Chambers 2016) and

ensuring their understanding of the audit committee mandate. Private meetings and periodic telephone calls by the audit committee chairperson, can enhance relationships (Chambers 2016; PWC 2018) with the accounting officer, the CAE, the CFO, the external auditor, Provincial Treasury, National Treasury and any other person the chairperson of the audit committee deems appropriate to invite or engage (National Treasury 2012b:14). In addition to attending meetings by the agents, reporting fulfils a vital role in bringing an understanding of the audit committee mandate to the proxy and agents.

All the reporting items must emanate from the audit committee agenda that corresponds to the charter (*practices of procedures*) (Böhm et al 2016:128). Reporting items that will enable stakeholders to understand the mandate of the audit committee should include: key risks and how to address them; the effectiveness of internal controls; significant external audit findings, recommendations and updated status thereof; significant internal audit findings, recommendations and updated status thereof; recommendation of draft financial statements for council's approval; the audit committee's view on the financial position of the municipality; any areas of non-compliance with the MFMA and any other applicable legislation; performance management; audit committee's findings and recommendations in line with integrated development plans, service delivery and the budget implementation plan; results of any audit committee evaluations; details of meetings and the number of meetings attended by each member of the audit committee; and progress in respect of any specific investigations delegated to the audit committee, and their outcomes (SAG 2003, s. 166(2); SAG 2005a:1-4; IoDSA 2013:5). Consequently, if reporting is understood and add value to the municipality, the audit committee can be influential and gain political buy-in from the municipal stakeholders. The persuasion competencies of the audit committee to be influential and to gain political buy-in, are discussed in section 4.6.2.

#### **4.3.2.3 Practices of engagements**

The discussion of practices of engagement emphasises the role of the audit committee chairperson and the need for the audit committee to be committed to performing its role.

- **The role of the audit committee chairperson**

Members of the audit committee may have an understanding (*practices of understanding*) and information on how to execute their mandate (*practices of procedures*), but it is futile, if their actions show no commitment to the mandate. When the audit committee engages on behalf of the organisation and executes its engagements, it must display a commitment to the process of achieving the desired outcomes (*practices of engagements*). Motubatse (2016:151) points out that individual members of the audit committee must commit their time and effort, to enhance the effective functioning of the audit committee. Studies have confirmed that the commitment of audit committee members and their effectiveness are associated with their attendance of frequent audit committee meetings (Ika & Ghazali 2012:408; Motubatse, Ngwakwe & Sebola 2018:25). It is thus essential that the chairperson of the audit committee, as the leader, encourages audit committee members to attend all meetings. The chairperson should not only encourage attendance but also meaningful participation, motivating members to prepare for their meetings in order to contribute useful advice. The participation must be fair and the chairperson must be capable of managing dominating parties during the meetings (Hornberger & Forster 2019:25). It is, therefore, essential that the chairperson is outstandingly skilled in facilitating meetings and motivating audit committee members. The chairperson and audit committee members must ask the right questions during audit committee meetings (Spira 1999:249-250 & Gendron, Bédard & Gosselin 2004: 168))

In addition to commitment in attending the meetings and contributing meaningfully during engagement of the audit committee, it is vital that the chairperson follows an agenda that is relevant and corresponds to the charter (Böhm et al 2016:128), promoting objectivity and completeness of items on the agenda. To avoid information overload, the audit committee should be supplied with executive summaries for each topic on the agenda, together with reports highlighting significant issues raised by management (PWC 2018:10). It is also imperative that the invitation, agenda and information relating to the meetings, are circulated to members in a timely manner and in a user-friendly format (Chambers 2016). In fact, the legislation relating to municipalities requires the agenda and the relevant information to reach members at least seven days prior to commencement of the meeting (National Treasury 2012a:14). When the audit committee members receive the information late, members are inadequately prepared for the meetings, due to time constraints

(Hornberger & Forster 2019:24), defeating the purpose of the audit committee in providing valuable input to the organisation.

During the practices of engagement, the audit committee chairperson should not only interact with the audit committee members, but also with the relevant stakeholders of the organisation (Abernathy, Beyer, Masli & Stefaniak 2014:284). In municipalities, it will be beneficial for the chairperson to interact with parties such as the CFO, CAE, external auditors and other relevant parties, as these interactions can influence the governance outcome positively (Zaman & Sarens 2013:509-510). Furthermore, the chairperson must be committed to the process of developing an annual work plan, identifying the skills gaps in the audit committee, requiring the necessary skills and expertise from the council, timely reporting to the council and the MPAC, and effective communication with the municipality (National Treasury 2012b:3, 8). All these practices of engagement will lead to the desired outcome (Warde 2005:135; Welch 2017:244), especially when the chairperson of the audit committee in the municipality is independent (SAG 2003, s. 166(5); National Treasury 2012a:6).

Studies indicate annual self-assessment and the balanced scorecard framework can be used to assess the effectiveness of practices of engagement by the chairperson and the audit committee members (Morgan 2010:111; Martinov-Bennie et al 2015:747; Protiviti KnowledgeLeader 2019). Both tools are necessary, as the balanced scorecard framework measures specific individual key performance indicators, while the self-assessment questionnaires allow a variety of matters to be raised. The criteria to assess the audit committee effectiveness should be incorporated in the charter (National Treasury 2012b:9). The findings of the self-assessment should be presented to the council and improvements should be implemented by the chairperson, and, if reasonable, non-performing members with unjustified cause should be dismissed (National Treasury 2012b:9-10). Therefore, the chairperson and the audit committee members must be committed to their practices of engagement-mandate in the municipalities. Their practice must be beneficial to the municipality and those that are not committed to performing as expected, must be dismissed.

The following figure 4.4 illustrates the mandate of the audit committee, using the three elements of practice theory that were discussed.

<b>PRACTICE THEORY</b>
<b>Practices of procedures</b>
The mandate of the audit committee must be documented in legislation, best practices, policies, terms of reference etc.
<b>Practices of understanding</b>
The following parties should <i>know</i> and <i>support</i> the role of the audit committee in the municipality: a) Audit committee members; b) Council, Municipal Public Accounts Committee (MPAC), accounting officer; internal audit function, management, staff, external auditors, national & provincial Treasury; and c) Other relevant stakeholders of the municipality.
<b>Practices of engagements</b>
<b>1. Commitment</b>
The audit committee chair and all members must be committed in executing their mandate as prescribed.
<b>2. Chair of the audit committee</b>
A robust, competent and experienced chair of the audit committee must execute his or her role effectively and independently.
<b>The role of the municipal audit committee</b>
The audit committee must provide expert advice that is: <ul style="list-style-type: none"> <li>▪ Relevant;</li> <li>▪ Timely;</li> <li>▪ Credible; and</li> <li>▪ Represent all relevant parties fairly and in an unbiased manner.</li> </ul>

**Figure 4.4: The mandate of the audit committee** (Source: Own compilation)

The figure illustrates that the audit committee should derive knowledge of its role from legislation, best practices, policies and terms of reference. Also, the audit committee chairperson must ensure that the relevant municipal parties understand the role of the audit committee, including that of the members of the audit committee. All members of the audit committee should be committed to executing their role effectively. The audit committee role in the municipality should be to provide relevant, timely, credible, fair and unbiased advice. The mandate of the audit committee as discussed in this section, is empirically tested (refer to sections 5.2.5 and 5.3.5 for empirical evidence).

#### **4.4 Theme 3- The appointment of audit committee members (categories 6, 7, 9 and 10)**

The theme (refer to figure 3.16) consists of the recruitment and appointment of audit committee members (refer to section 4.4.1), each members' independence (refer to section 4.4.3) and their remuneration (refer to section 4.4.4) as secondary driver-affinities. It also consists of the selection of audit committee members (refer to section 4.4.1), ethics of committee members (refer to section 4.4.2), ethical conduct (refer to section 4.4.2) and remuneration of audit committee members (refer to section 4.4.4) as secondary outcome-affinities. Due to both focus groups mentioning the affinity '*remuneration of audit committee members*', the duplication occurred. However, the focus groups classified it differently: Focus group 1 classified it as a secondary outcome and focus group 2, as a secondary driver. The logic of grouping the various affinities to develop this theme is explained in section 3.4.3.

The discussion of these affinities in this section consists, firstly, of the recruitment, selection and appointment of audit committee members (category 6), that include: 1) Explaining the challenges in the appointment process of audit committee members, applying social representation theory; 2) Defining the independence of the audit committee (category 10) and exploring practices that enhance the independence of the audit committee; and 3) Establishing strategies that can be applied in the appointment process of the audit committees, using the resource-based view of the firm theory. Secondly, the discussion is followed by examining the ethical conduct of audit committees (category 9), by defining ethics and ethical conduct and applying

ethical conduct practices to the audit committee, using the resource-based view of the firm theory. The last discussion in this theme is based on the remuneration of audit committee members (category 7), through the lens of the expectancy theory of motivation.

#### **4.4.1 Recruitment, selection and appointment (Category 6)**

The discussion of recruitment, selection and appointment consists of challenges (refer to section 4.4.1.1), strategies in the appointment process of audit committee members (refer to section 4.4.1.2) and their independence (refer to section 4.4.3).

##### **4.4.1.1 Challenges in the appointment process of audit committee members**

The governing body is responsible for the appointment of the audit committee members in local government (SAG 2003, s. 166(5); GFOA 2008:1; IoDSA 2016:55; Local Government England 2017). A concern was raised by focus group 2 that, in some cases, the appointment of audit committee members is not performed by the council as governing body, but rather by other parties, such as the accounting officer, resulting in unethical behaviour and a conflict of interest. Local government-studies have revealed additional shortcomings in the process of selecting and appointing audit committee members, i.e.: 1) Appointing individuals that have close professional or personal relations with management or councillors; 2) Appointing former or current auditors of local government; 3) Appointing retired executives from the local government; and 4) Appointing 'politically correct' individuals lacking the relevant experience and the appointment of inexperienced audit committee members incapable of providing advice that would ensure high-quality financial reporting and auditing (Thomas & Purcell 2019:419; Sultana, Singh & Rahman 2019:25; Toxopeüs 2019). Another flaw is the establishment of audit committees as a mere compliance exercise and not utilising the committee for its intended legislative purpose (Martinov-Bennie et al 2015:729; Thomas & Purcell 2019:421). Considering the abovementioned shortcomings, it appears that local government organisations are susceptible to unethical conduct in the appointment process that may lead to a conflict of interest and a lack of independence by the audit committee. Such actions should be avoided by the municipalities. Instead, the municipalities should be committed to an ethical process of recruiting and appointing competent and qualified individuals, employing the legislated process to optimally fulfil its role.



Another challenge in the appointment process of municipal audit committee members is explained via the social representation theory. The social representation theory claims that familiarisation influences the construction of social thinking (Wagner, Duveen, Farr, Jovchelovitch, Lorenzi-Cioldi, Markova & Rose 1999:96; Emiliani & Passini 2016:87). The theory describes social thinking as thoughts and feelings - therefore, audit committee members may also be vulnerable to a familiarity risk, through their thoughts and feelings. Their social thinking may be influenced to think of and feel obligated to safeguard the interest of those individuals that appointed them. Consequently, these members may become socially constructed to be subjective and dependent on those that appointed them, regrettably resulting in a biased audit committee that does not represent the interest of the municipality but that of self and others, undermining independence. Also, the audit committee's role of investigating the financial affairs of the municipality (SAG 2003, s. 166(2)(d)) may be negatively impacted when those that appointed the audit committee members are implicated, resulting in subjective and biased accountability. This kind of practice can be to the detriment of the audit committee performing its role optimally in the municipalities.

#### **4.4.1.2 Strategies for the appointment process of audit committees**

The strategies for the appointment process of the audit committee are derived from the 1) Human capital resources and VRIO (value, rareness, imitability and organisation) framework for the 2) Appointment requirements of audit committees through the resource-based view of the firm theory, and also the 3) Appointment and selection process.

- **Human capital resources**

As mentioned before, according to the resource-based view of the firm theory, human capital resources is one of the three categories of resources (explained in section 1.5.2), that contribute to improved performance of the organisation (Barney 1991:101). It is defined as individuals and their characteristics, the relationships amongst the individuals, and their commitment, policies, knowledge, practices, programs, skills and experience (Barney 1991:101; Barney & Wright 1998:32). Moreover, knowledge, skills, capabilities and other necessary characteristics, are part of human capital resources (explained in section 4.4.2) that contribute to the

performance and competitive advantage of the organisation (Ployhart 2015:342). Mansour's (2015: 501, 512) study confirms that the human resources practices derived from human capital resources such as "*planning, recruitment, training, participation, performance appraisal and compensation*" and policies, have an impact on the performance of the organisation and can lead to sustainable competitive advantage. These human resources practices are daily functional activities in an organisation (Rozika, Dharma & Sitorus 2018:122) that relate to the affinities in this theme. Hence, the human capital resources from the resource-based view of the firm theory were found to be appropriate to this theme and the discussions in this theme consider the dimensions of human capital resources (explained in section 4.4.1.2).

Nyberg Moliterno, Hale and Lepak (2014:316) developed the perspective of human capital resources by reviewing the scholarship of 156 articles '*that invokes resource-based theorizing*'. They examined literature based on the three dimensions namely *type, context* and *antecedents* (Nyberg et al 2014:318, 321). The dimensions were applied in this study to propose improved ways of human capital resources in strengthening the effectiveness of audit committees. The first dimension of *type* focuses on the knowledge and capabilities of individuals and is used to examine this theme. The *type* dimension is defined as the collection of individual psychological *knowledge, skills, abilities* and *other characteristics* found in the unit-level of human capital resources (Nyberg et al 2014:321; Ployhart 2015:342). Nyberg et al (2014:321) define knowledge, skills, abilities and other characteristics as follows: 'Knowledge' is factual or procedural information, essential to execute a task, and also serves as a basis to cultivate skills and abilities; 'Skills' are proficiency and capabilities to execute a task; 'Abilities' refer to an enduring cognitive fitness to endure the task; and 'Other characteristics' are attributes and other personality traits that affect individuals when executing their tasks. The *type* dimension reveals the importance of knowledge and capabilities that audit committee members should possess, concerning ethical conduct.

The *antecedents* dimension of human capital resources is applied in the discussion of the appointment and remuneration of audit committee members, as the antecedents dimension deals with the policies and practices of human resources management (Nyberg et al 2014:324), expressing the need for municipalities to have

policies that govern human resource management practices relating to audit committees' appointment, ethical conduct and remuneration. Furthermore, the *type* dimension is found to be relevant and applicable to the discussion of the ethical conduct of audit committees.

- **The appointment requirements of audit committees**

The audit committee appointment process is examined using the VRIO framework from the resource-based view of the firm theory - a tool that the organisation can apply to reach sustainable competitive advantage using their resources (Barney 1995:50; Barney & Wright 1998:32). The elements within the VRIO framework represent *value, rareness, imitability* and *organisation*. *Value* signifies that resources must create opportunities, neutralise threats, increase net revenues or decrease net costs (Barney 1995:50; Barney & Wright 1998:32, 37; Barney & Mackey 2016:371). Audit committee can create value by preparing and attending meetings to effectively perform their oversight and advisory functions over internal controls, financial reporting, risk management, governance and auditing processes (Brennan & Kirwan 2015:466; Oussii, Klibi & Ouertani 2019:689). In municipalities, on the one hand, the audit committee can be of value if they provide adequate advice to management, auditors and political office bearers on how to improve their internal control, risk management, financial reporting and governance. On the other hand, the audit committee needs support from the governing body and should have adequate authority and expertise (Oussii et al 2019:689) to successfully create opportunities that will benefit organisations, reduce risk and cost, and increase net revenue. Thus, council must seek to appoint members with the necessary expertise that they will be willing to support and provide authority to perform their role. If council appoints members that deliver below the expected (normal) performance, it is a competitive disadvantage (Barney & Mackey 2016:372) for the municipality.

Secondly, VRIO requires that the resources must be rare. Rareness means the resources are not common - they cannot be found in competing organisations (Barney 1995:52; Barney & Wright 1998:34, 37; Barney & Mackey 2016:371). As mentioned before (refer to section 1.6.2), public sector entities do not compete against each other but complement each other. The human capital resource in the municipalities are therefore not rare. However, it does not eliminate the fact that

council should appoint audit committee members that possess the ideal mix of competencies that are relevant to the specific municipality. The audit committees should have a diversity of skills including financial skills (Alzeban & Sawan 2015:68; Gacheru et al 2019:61). When the resources are valuable but not rare, they are referred to as sources of competitive parity, that generate economic value with normal performance (Barney 1995:52; Barney & Wright 1998:36-37; Barney & Mackey 2016:372), implying that the combination of the competencies in the audit committee is common and can be copied, however, the audit committee does bring value to the municipality..

Thirdly, VRIO requires resources to be inimitable. Inimitability means other organisations will not be able to imitate the human resource capital strategy by duplication or substitution (Barney 1995:53; Barney & Wright 1998:34, 37; Barney & Mackey 2016:372). It signifies that the appointed audit committee members should possess unique knowledge, capabilities and characteristics that are useful to the municipality and cannot be imitated by other organisations. However, municipalities must complement each other and therefore it will not be possible to have inimitable human capital resources. The municipalities can learn from each other by, *inter alia*, copying strategy.

Lastly, the *organisation* that strives to gain sustainable competitive advantage must be organised in terms of structure, systems, practices, reporting structure and policies, when utilising its resources and capabilities (Barney 1995:56; Barney & Wright 1998:35, 37). For the audit committee to be effective, they need to understand the industry and business (Khemakhem & Fontaine, 2019:467; Oussii et al 2019:690). Therefore, the council must appoint audit committee members who have a good understanding of the municipal environment (structure, systems, policies, and practices). The audit committee possessing comprehensive understanding will be able to raise relevant questions, adequately review the information received, and proactively render independent advice to the council, accounting officer and other relevant municipal parties (National Treasury 2012b:4-5; IoDSA 2013:6).

In summary, only the element of *value* and *organisation* can be applied in municipalities from the VRIO framework. The two elements provide rich information to be considered by council when appointing audit committee members. The

appointed members should form an audit committee that is heterogeneous (variety of competencies and training). Immobile does not apply because unique strategies cannot be created for no entry barriers since municipalities are not competing against each other..

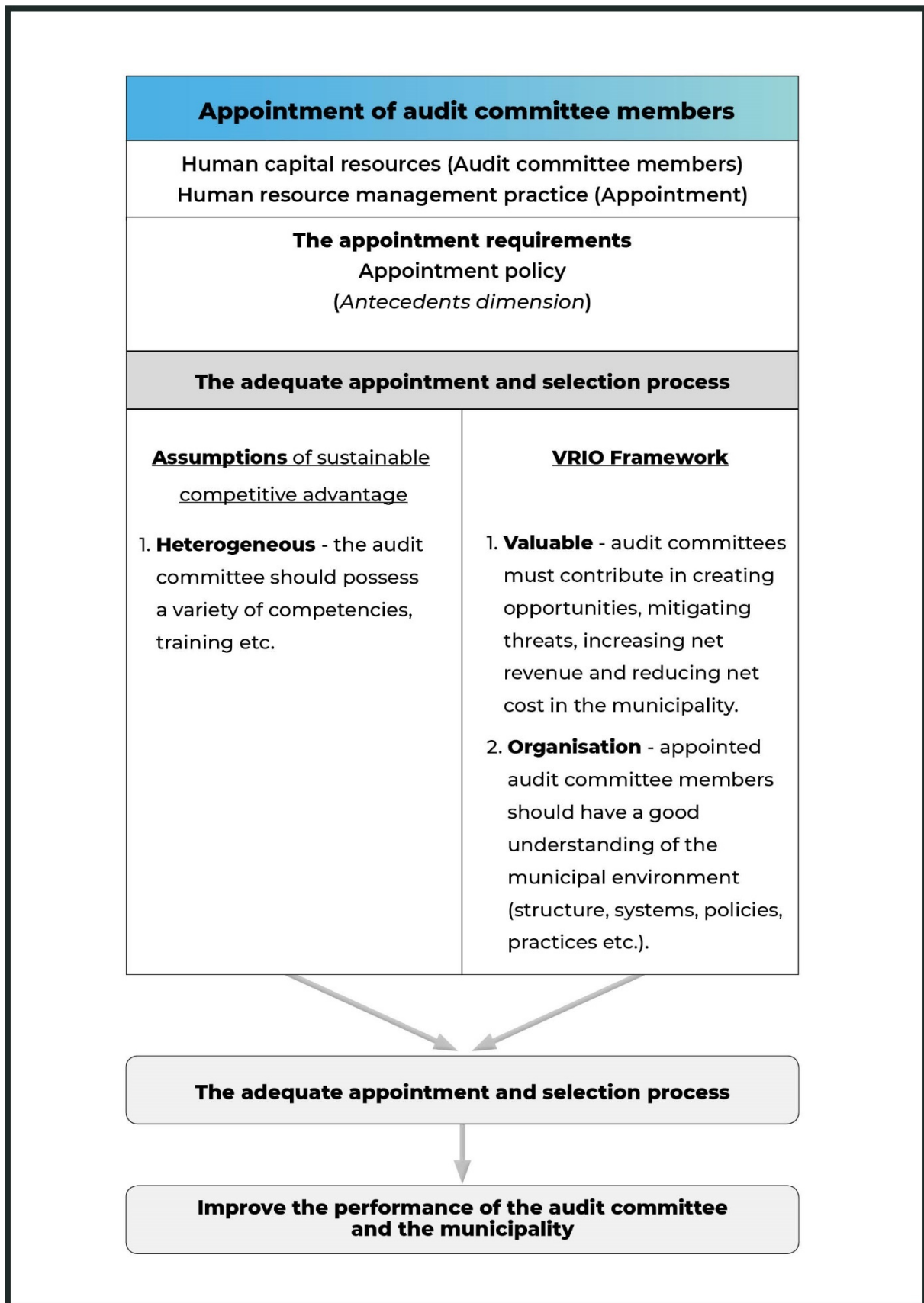
- **The appointment and selection process**

In consideration of the above-mentioned requirements, it is important that the audit committee members reveal their capabilities to the council prior to their appointment, to ensure that they meet the minimum requirements and are competent. This can be accomplished through the recruitment and selection process, starting with background checks such as employment references, educational credentials, criminal record, credit history, and former employment (Heathfield 2018). Additional background checks must include the number of audit committees or boards the applicant is serving, as the increased responsibilities and risks that audit committees face impacts negatively on the performance of those members serving on multiple committees (National Treasury 2012b:5-6; Sharma & Iselin 2012:172). However, Tanyi and Smith (2015:86) do not agree that the audit committee members should be limited to the number of audit committees they serve on, as they find no significant association between the busyness of the general audit committee members and the quality of financial reporting – the only significant association being in relation to the audit committee chairperson and the audit committee member who is the committee's financial expert.

In addition to background checks, reference checks must be performed to verify the accuracy of the information supplied by the applicant and to form a greater appreciation of the candidate (Esterhuizen 2019:31), determining whether the applicant possesses the necessary skills and experience to serve as an audit committee member and to assess whether the applicant is independent, reliable, trustworthy, competent and committed (Nor, Nawawi & Salin 2018:1438). The screening in respect of the minimum requirements should occur before the interviews (Eriksson, Johansson & Langenskiöld 2017:807; Esterhuizen 2019:31). An interview is a tool in the recruiting process to identify whether an applicant possesses high self-efficacy and believes in his/her capabilities to successfully perform the job (Fish 2017). Therefore, the interviews of audit committee members must be performed to

test if the candidate's personality and capabilities align with the requirements of a competent and ethical audit committee, addressing the needs of the council. A result of these processes is the increased likelihood of appointing eligible candidates.

Although council is cognisant of the appropriate recruitment process as legislated, and prescribed by municipal policy, council is not necessarily compliant (as explained in section 4.5.1), therefore, there must be a system to enforce compliance. Barnett (2017:12) is adamant that everyone should be obliged to comply with the law and should not be given freedom of choice. Hence, the need for the application of *paternalism* in the recruiting process of audit committee members. Dworkin (1972:65) defines paternalism as "*the interference with a person's liberty of action justified by reasons referring exclusively to the welfare, good, happiness, needs, interests or values of the person being coerced*" alluding to a system that allows the righteous law to supersede the freedom of people to choose. Paternalism is praised for promoting the proper running of society (Amatrudo 2009:137). Thus, it can be concluded that if paternalism is applied in the recruitment process of audit committee members, it will prevent unlawful and unfair practices.



**Figure 4.5: The appointment of audit committee members**

*(Source: Own compilation)*

Figure 4.5 illustrates that the audit committees are human capital resources of the municipalities and its appointment is the human resource management practice that should be prescribed by municipal policy. The council should apply the two elements of VRIO framework-valuable and organisation, as appointment requirements. The appointment requirements and the selection process strategies are tested empirically (refer to sections 5.2.6 and 5.3.6 for empirical evidence).

#### **4.4.2 The ethical conduct of the audit committees (Category 9)**

According to Thomas and Purcell (2019:419), human beings do not always act rationally. Therefore, individual members of the audit committee are capable of irrational behaviour and may deviate from acceptable practices. They can also be biased and exhibit poor judgment, resulting in ineffective decision-making, hence the need for ethics to guide the conduct of audit committees. Ethics are defined by Rossouw and Van Vuuren (2010:4) as “*what is good or right in human interaction*”. A distinction is sometimes made between good and right. What is “good” is defined as “*what has value*” and what is “right” as “*what we are obligated to do*” (Plaisted 2017:323). However, Rossouw and Van Vuuren do not make the distinction between good and right, further defining ethical behaviour or ethical conduct as “*when one does not merely consider what is good for oneself, but also considers what is good for others*” (Rossouw & Van Vuuren 2010:4). Berlin (2002:217) and Overeem and Verhoef (2014:991) argue that it amounts to moral and political immaturity to deny the existence of diversity and conflicting conduct. As a result, such diversity can lead to conflict in defining the ethical behaviour of audit committee members. The conflicts may result in irreconcilable differences amongst audit committee members and other stakeholders in the municipality. It is, therefore, necessary for audit committees to know how to identify ‘good’ conduct.

Good conduct can be identified through laws and acceptable standards (Jennings 2006:3, 6; Rossouw & Van Vuuren 2010:71; Purcell et al 2014:339). The justification of using legislation as a means to establish good practice is provided in the *value pluralism* idea, a concept emphasising the need to have ethical standards derived from different ideas by human beings (Spicer 2015:25). Also, good behaviour can be measured using ethical values which are actions that are suitable to be converted to universal laws and cause no harm, known as normative standards (Jennings 2006:3,



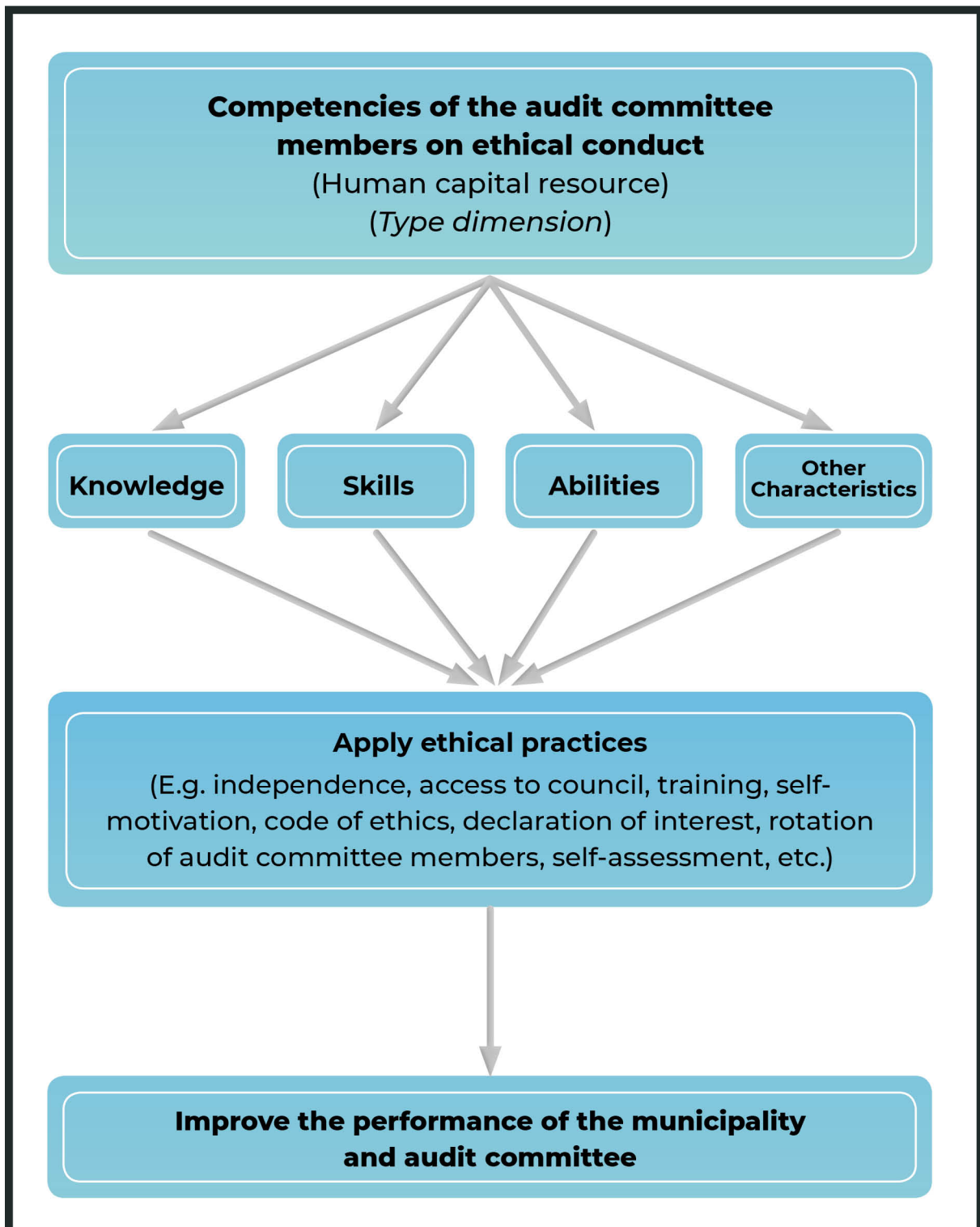
6; Rossouw & Van Vuuren 2010:71). Therefore, to evaluate whether the behaviour of audit committee members is good or bad, their actions must be evaluated in terms of whether it can generally be accepted by society and converted into a universal law that will cause no harm. Acceptable actions should be of moral character that is fair, truthful, respectful, just, patient, sympathetic, compassionate, caring, generous and other related desirable virtues (Beauchamp & Bowie 2004:32). Purcell et al (2014:339) confirm that in addition to prescribed laws, practice guides are necessary - to reinforce effective ethical practices by the audit committee. Therefore, the council should appoint individuals to the audit committee who are cognisant of the relevant laws, acceptable standards and policies on the ethical behaviour of audit committees, and the skill to apply the knowledge in practice, and behave ethically. Both knowledge and skill are type-dimension (explained in section 4.4.1.2).

In addition to knowledge and compliance to law and standards, the audit committee members must possess the desire and be motivated to act ethically when conducting the business of municipalities, regardless of the ethically challenged environment of modern organisations (Hannah, Avolio & Walumbwa 2011:555). The audit committee must not be swayed by unethical temptations and must have the courage to promote ethical actions. Municipalities can be a challenging environment in terms of promoting ethical actions, as it operates in a political environment that can often be dysfunctional (Chabane 2009; Mkhize 2018). Despite outrageous challenges and opposition, the audit committee members must be persistent in their ethical conduct. The audit committee must also possess the ability and other characteristics which are type-dimension (explained in section 4.4.2), with reference to the mental ability, and personal character and mannerism to support ethical behaviour.

Another way to enhance moral courage is through access to the reporting structure. Khelil et al (2016:422) study found that private access by the CAE to the reporting structure and the audit committee, and audit committee-involvement in hiring and firing the CAE, enhance moral courage. Similarly, unlimited private access by the audit committee chairperson to the council, can promote moral courage, as well as the council that is involved in the hiring and termination of audit committee members. Also, moral courage can be displayed by individuals with moral and intellectual virtues acquired through habit and teaching (Slote & Besser-Jones 2015:22), signifying that audit committee members cannot excuse their unethical behaviour by

claiming that they were not born with virtues, as they can acquire such through practice and training. Beauchamp and Bowie (2004:32) assert that, although acquiring ethics is admirable, people should be self-motivated and not be under any obligation to develop virtues. This assertion can be opposed in reality, as having an option to act ethically can promote conflicting diverse behaviours amongst audit committee members - an audit committee member who has the option not to comply with the law or standards, may choose to perform actions that do not enhance good behaviour. Hence, many professions have a code of ethics or conduct that members or employees must comply with.

A code of ethics, similarly to a code of conduct, is a written document outlining a list of behaviours for professionals or employees (Svara 2014:562). It is recommended that all members of the audit committee are informed of the code of ethics designed by the organisation, that they are required to comply with (Deloitte 2017b:60). Schedule 1 and 2 of the Municipal Systems Act, Act 32 of 2000, emphasise that council should oversee that the code of conduct is observed by the municipality (SAG 2000, Schedules 1 & 2). In addition to the organisational code of conduct, the audit committee members who belong to professional bodies such as the IIA globally and SAICA are obliged to also comply with the code of ethics of their professional bodies (IIA 2019; SAICA 2018). It is believed that the code of ethics promotes a culture of accountability and honesty, and it reduces the likelihood of fraud in the financial statements (Persons 2009:285). Although the code of conduct is often criticised as being too theoretical and not always applicable to practice (Svara 2014:562), its adoption can enhance ethical behaviour by audit committees. Independence of the audit committee is a key virtue (SAG 2003, s. 166(4)(a), 166(5); National Treasury 2012b:7) that is often found in the code of ethics, discussed hereafter. Figure 4.6 illustrates the ethical competencies and practices that enhance audit committee effectiveness.



**Figure 4.6: Enhancing ethical conduct of audit committees**

*(Source: Own compilation)*

The figure illustrates that type-dimension and ethical practices can enhance the ethical conduct of the audit committee, demonstrating that audit committee members must possess the knowledge, skills, abilities and other necessary characteristics of

ethical conduct. They must also apply ethical practices that will contribute positively to the performance of the municipality. The ethical competencies and practices as mentioned in this section are empirically tested (refer to sections 5.2.9 and 5.3.9 for empirical evidence).

#### **4.4.3 Independence of audit committee members (Category 10)**

The municipality council is expected to adhere to legislation and best practice processes (i.e. governance guidelines, such as King Report) when appointing audit committee members, with the independence of individual members being a crucial element, as the audit committee should be independent of management and employees of the organisation (Shbeilat 2014:543). However, this is not always the case and in some instances, the appointment process is conducted by municipal management or employees, and individuals such as the accounting officer, the executive mayor or the member of the mayoral committee for finance, who are not the governing body (IoDSA 2013:6), resulting in the appointment of individuals who are not independent, do not possess adequate skills and experience, and whose interests are conflicted, owing to favouritism and nepotism. Focus group 2 voiced the same concern as these appointment practices undermine the legislation stipulating that audit committee members must be appointed by the council as the governing body (SAG 2003, s. 166(5)) and may lead to a risk of familiarisation with those who appointed the audit committee members. However, even if the council do appoint the audit committee members, the risk of familiarisation with the council is still possible. The audit committee members may feel inclined to please the council at the expense of the municipality, as the council appointed them. Although the audit committee is lawfully accountable to the council as the governing body (SAG 2003, s.166(2)), it must be mindful to avoid the familiarity risk and to take decisions independently.

An independent audit committee is defined as the committee that functions free from management operations, does not have a conflict of interest, is unbiased with no external influence, and act in an objective and impartial manner (ANAO 2015:27; IoDSA 2016:13; PSACF 2017:3). King IV recommends that all members of the audit committee be non-executive, meaning, external from the organisation (IoDSA 2016:56). However, South African and UK legislation together with Australian best practices allow employees to be members of the audit committee (SAG 2003, s.

166(5); ANAO 2015:27; Local Government England 2017, s.14(3)). Even when the audit committee is allowed employees of the organisation as members, the entire committee should be separated and not influenced by management responsibilities (Krishnamoorthy, Wright, & Cohen 2002:56; SAG 2003, s.166(2); ANAO 2015:27). Independence is viewed as a vital attribute of an effective audit committee, promoting transparency, accountability and responsibility of the audit committee members (Bedard & Gendron 2009:174, Thomas & Purcell 2019:424). To further enhance independence, the chairperson and the majority of the members should be external, and the council should not be part of the committee but be responsible to appoint the committee members (SAG 2003, s. 166(5)). Furthermore, audit committee members should declare any private and business interest during every audit committee meeting (ANAO 2015:43; IoDSA 2013:7) as such declaration enhances independence, with any conflict of interest being exposed. Although, in order to bolster the practice, the declaration of interest should be a standing item on the audit committee agenda for all meetings with the council reviewing the declarations, it is impossible to enforce this matter.

Furthermore, independence is strengthened when the members of the audit committee are rotated, and the practice is supported by the organisation's policies (ANAO 2015:27). In addition, it is recommended that members not serve for more than two consecutive terms or in excess of six consecutive years (PSACF 2017:3; National Treasury 2012b:56). However, Sharma and Iselin (2012:172) and Gacheru, Nasieku and Oluoch (2019:52) found that members with a short tenure can be ineffective, as they lack specific knowledge and experience of the organisation. Fourie (2004:25) and Magrane and Malthus (2010:436) suggest as a solution, to maintain the skills and knowledge of the audit committee, to apply staggered terms for members, with committee members not all being replaced at one time.

The annual self-assessment of the independence of audit committee members by completing a questionnaire and reporting the results to the governing body, also promote independence and ethical behaviour (Deloitte 2014:3). The self-assessment should not be limited to individuals, but include assessment of the committee as a whole (ANAO 2015:47). An ongoing independent self-assessment of the audit committee, reviewed by the council, is thus recommended for the municipalities, to promote ethical conduct. The literature reveals that there are benefits for an

organisation with an independent audit committee. Persons (2005:142, 2009:295) maintains that fraud is unlikely to occur when an independent audit committee exists, as financial misstatements or inappropriate business transactions are likely to be discovered by independent audit committees. Deloitte (2014:2) further asserts that organisations with independent audit committees are reportedly capable of identifying and managing financial risk.

However, Beasley, Carcello, Hermanson and Lapedes (2000:453) argue that the same appears to be true for organisations with less independent audit committees that are also susceptible to financial statement fraud. Zhoua, Owusu-Ansahb and Magginac (2018:34) find absolutely no connection between the independence of the audit committee and the performance of the organisation. Also, studies conducted by Rich and Zhang (2014:59) and Zhang and Rich (2016:457) show that an independent audit committee does not imply improvement in the weaknesses of the internal control, even supporting the assertion that the committee with an insider who has knowledge of internal controls and financial expertise, supplies more useful information than the committee comprising only external committee members.

The audit committee for South African municipalities is classified as an advisory body allowing internal members, with the majority being external (SAG 2003, s. 166(4)). Also, the internal audit committee member cannot be a council member (SAG 2003, s. 166(5)), the CFO, CEO, Chief Operating Officer (COO), Corporate Head, Chief Information Officer (CIO) or CAE (ANAO 2015:27). It is recommended that internal members be senior public servants who can work independently of the governing body, and also with external members (Halligan 1995:141; Tellmann 2017:314). Therefore, municipalities must select senior employees who are capable of resisting the influence of council, politicians, their colleagues and other municipal stakeholders. They must also be treated as equal to their fellow external audit committee members, to promote free deliberations and collective decisions during audit committee meetings (Molander, Grimen & Eriksen 2012:225). However, it has been argued that external members often have greater authority as they apply the professional values and standards from their discipline, dominating the internal members (Tellmann 2017:326).

In conclusion, various scholars recommend that the audit committee with an oversight role is comprised of non-executive (external) members, while a combination of external and internal members is normal practice for audit committees with an advisory role, such as South African municipalities (SAG 2003, s. 166(4)(a), 166(5); IoDSA 2016:56). Even though audit committees with an oversight role seem to prefer only external members, internal members, such as the CEO, may be invited to attend the audit committee meetings. Johnston and Nowland (2017:117) declare that information sharing by the CEO with the audit committee, improves the quality of financial reporting. Irrespective of the role and composition of the audit committees, all committees should be independent in their deliberations and decision-making. Empirical evidence was obtained to test the practices that enhance the independence of audit committees (refer to sections 5.2.10 and 5.3.10 for empirical evidence).

#### **4.4.4 Remuneration of audit committee members (Category 7)**

Remuneration, also known as compensation, is a human resource practice (Nyberg et al 2014:324). Remuneration is defined as a payment to the employees by the employer for the services they rendered (Bussin & Fermin 2017:8). It is also known to be a reward to enhance productivity and the performance of employees (Brown 2019:1). Remuneration can take the form of money, incentives and allowances, amongst others (Martono, Khoiruddin & Wulansari 2018:537). The audit committee remuneration is, therefore, payment in the form of money that is awarded to the members for rendering services to the organisation. It is vital that members of the audit committee do not cease to be independent owing to the remuneration they receive for their service (UK Government 2017:14(6)). Independent audit committees are assumed to be effectively performing their mandate (Brennan & Kirwan 2015:471). In addition to the remuneration of audit committee members, funds might be needed by the audit committee to acquire the necessary experts such as finance- and legal experts, if such are not available in the committee (GFOA 2008:2). For the purposes of this discussion, only the remuneration of audit committee members is deliberated further, using the lens of the expectancy theory of motivation.

Victor Vroom coined the expectancy theory by revealing a link between the performance, reward and motivation of the worker (Vroom 1964). His theory is

founded on three variables: *expectancy*, *instrumentality* and *valence*, known as the VIE model. He claims that the lack of any of these variables results in a lack of motivation (Vroom 1964; Baciú 2017:147). *Expectancy* is defined as the belief that workers' efforts (actions) lead to performance (outcome) (Baciú 2017:147). Similarly, audit committee members are expected to put effort into their work that will lead to an outcome. Nimri, Bdair and Bitar (2015:71) support Vroom's claims by concluding that the performance of the workers is highly motivated when they have assessed themselves to possess the skills, experience and capabilities to meet the goals. In contrast, the focus groups pointed out that some of the skilled and experienced members over-commit their services, taking on more audit committee work for different organisations, resulting in poor performance. The focus groups stated that this unsatisfactory performance is caused by a lack of preparation time for the meetings, and also absenteeism owing to the double booking of meetings. The focus group opined that audit committee performance is linked to the reward (remuneration), not the skills and experience. They accuse audit committee members of being concerned with earning high remuneration from multiple organisations, instead of delivering high-quality performance. This notion is supported by Tanyi and Smith (2015:86) who found that the audit committee role of monitoring and oversight weakens when the audit committee chairperson is excessively busy. Herranz, Iturriaga, and Reguera-Alvarado (2018:30) hold the same view that the quality of the role in the organisation of audit committee members with multiple mandates, is negatively affected. It can, therefore, be concluded that skills and experience do not guarantee satisfactory performance. Thus, it is imperative that the legislation and policies should provide a limit to the number of committees that the audit committee members may serve (National Treasury 2012b:5-6).

The second variable is *instrumentality*, in terms of which the performance of the workers should be rewarded. Similarly, audit committee members are rewarded with remuneration for the time spent in preparation and attendance of the audit committee meetings (National Treasury 2012b:8). There is evidence that rewards, such as remuneration, affect the performance of the organisation (Bussin & Fermin 2017:2; Martono et al 2018:543). Low remuneration of the audit committee members was found to be one of the factors negatively impacting their effectiveness in fulfilling their roles (Oussii et al 2019:690). The evidence supports the focus groups' claims that



audit committee members are motivated by remuneration. Nimri et al (2015:71) maintain that elements of trust and control, and policies, are necessary for the remuneration practice – i.e. that workers must trust that they will be rewarded fairly by the decision-makers. The fairness of audit committee remuneration was also raised as a concern by the focus groups, because of the inconsistency of rates. When the organisation has written policies, it will support a fair reward (Bussin & Fermin 2017:6). It is thus important that the council applies its mind when determining remuneration rates, to mirror the expected effort of audit committee members. The remuneration rate should be approved by the council and documented in the audit committee charter (National Treasury 2012b:8). The written policies supporting a fair remuneration for audit committees must not only exist, it must also be implemented by the organisation.

The third variable, *valence*, is defined as the workers' degree of significance (value) associated with the reward (Baciu 2017:148). It presents the opinion that the workers are motivated to do a task if the reward is attractive enough (Lloyd & Mertens 2018:25). In addition, better pay for the employees results in efficiency, in the human resources system (Brown 2019:1). These studies suggest that if the reward is less than desired, workers will not be motivated to perform the task and the human resources system will be inefficient. According to the focus groups, the disparity of remuneration rates influences how the audit committee members will select their preferred municipalities - the high paying municipalities receiving preference. The *valence* variable is therefore applicable, since audit committee members associate value in terms of work with the reward offered.

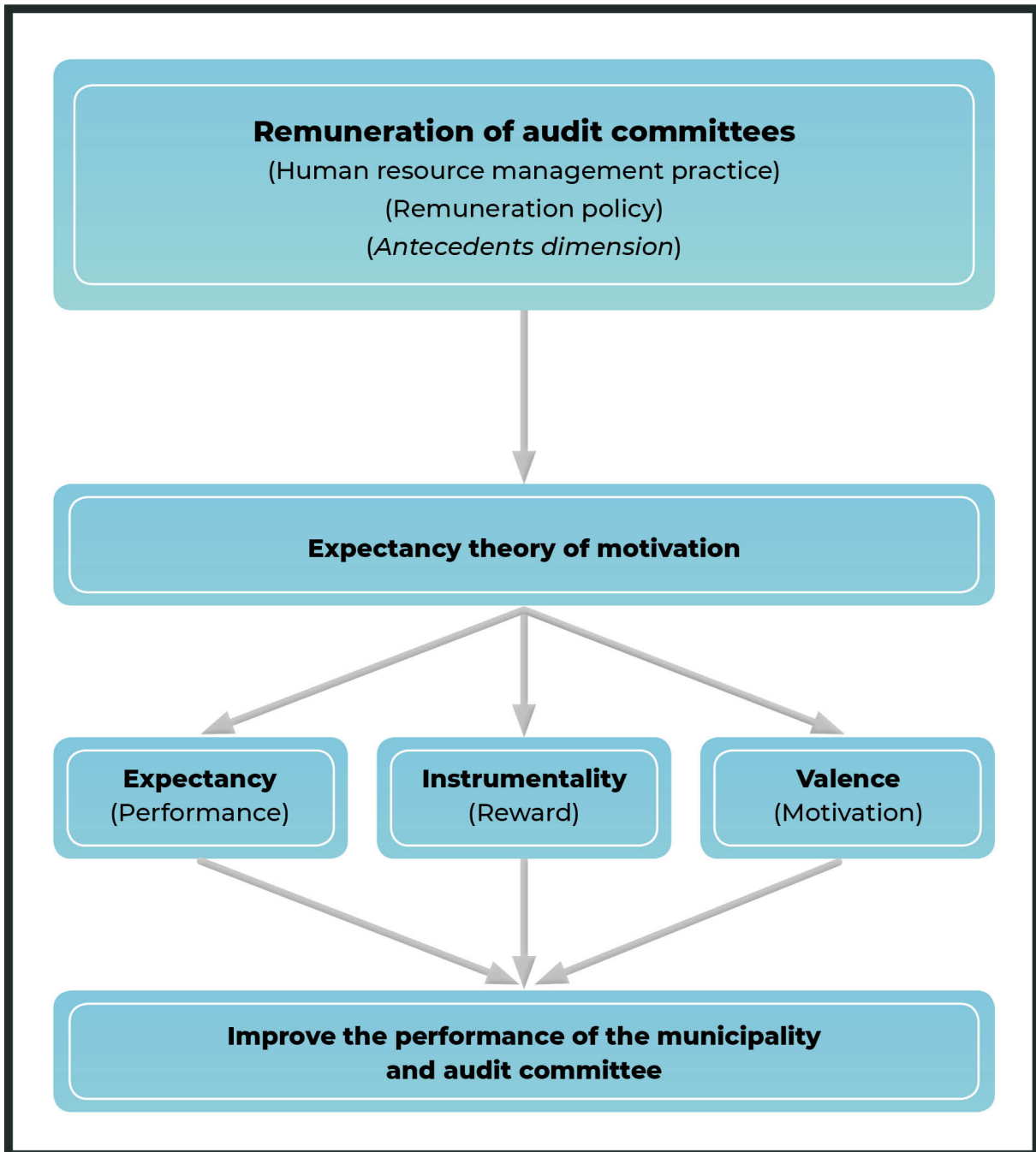
Although the three variables can be linked to the remuneration of audit committee members, Lloyd and Mertens (2018) argue that Vroom's variables are not sufficient. They propose the inclusion of a new variable - *social context* (Lloyd & Mertens 2018:31). They reason that the social interaction amongst co-workers and with other individuals has a motivational impact on workers and recommend that employers should consider the diverse social interaction of the workers when designing jobs and incentive structures that will motivate workers (Lloyd & Mertens 2018:33). The audit committees are part of the governance structures that are influenced by "*societal, regulatory and organisational forces*" (Brennan & Kirwan 2015:469). The social context variable applies to the remuneration of the audit committees since audit

committee members are social beings who interact with other people, including fellow audit committee members. During these interactions, the members may discuss remuneration and since some of the members are motivated by the reward, they can compare remuneration rates. Motivation may occur if they are paid higher rates than their counterpart, or discouragement may occur if the opposite is true. Discouragement may result in the municipal audit committee members seeking opportunities with higher paying organisations. The social interactions may thus positively motivate or negatively influence the audit committee members.

In conclusion, assessment of the behaviour of the audit committees in municipalities should not be limited to consideration of the variables proposed by Vroom, as well as Lloyd and Mertens. National Treasury, as the government body responsible for public sector finances, must consider additional variables, such as risks, geographic location, logistics (travelling, accommodation and meeting venue) and financial viability – unique to each municipality - taking into account the complexities and risks associated with the municipalities, to determine reasonable and suitable remuneration rates for each municipality. Hence the need for a customised fair remuneration rate for each municipality or categories of municipalities.

If the National Treasury insists on using one fixed rate for all municipalities (National Treasury 2019), it should then consider adding incentives to the remuneration, that will entice skilled and experienced individuals to occupy audit committee positions in the poor and remote municipalities. Furthermore, the National or Provincial treasuries should also contemplate subsidising the poor municipalities that cannot afford the remuneration rate or those incentives. It can be assumed that if the rates are adjusted, or incentives are introduced to the remote, deprived municipalities, then independent, skilled and experienced audit committee members may be willing to serve.

Figure 4.7 demonstrates the three variables of the expectancy theory of motivation.



**Figure 4.7: Remuneration of audit committee members**

*(Source: Own compilation)*

The above illustrates that remuneration is one of the human resources management practices that should follow a policy of fair remuneration. The audit committee members are expected to perform to their best ability to improve the performance of the municipality, and their services must be rewarded with remuneration, to motivate them. The practices regarding remuneration that will enhance the effectiveness of

audit committees as discussed in this section are empirically tested (refer to sections 5.2.7 and 5.3.7 for empirical evidence).

#### **4.5 Theme 4- The competencies of the audit committees (Category 8)**

The theme (refer to figure 3.17) involves only one category consisting of the location of the municipality (refer to section 4.5.3.2), and legislative framework (refer to section 4.5.2.2) as primary driver affinities. It also comprises of a diversity of audit committee skills (refer to sections 4.5.1 and 4.5.2) and inter-governmental support (refer to section 4.5.3.1) as secondary drivers' affinities. The logic of grouping the various affinities to develop this theme, is explained in section 3.4.4. In this section, the affinities are analysed using the following approach: 1) Debating audit committee competencies, which encompass skills, using the type dimension of human capital resources from the resource-based view of the firm theory; 2) Highlighting competencies required on financial matters and legislation, as these two matters represent financial and non-financial competencies needed by the audit committee; and 3) Discussing the municipal environment that needs the diverse audit committee competencies with specific reference to inter-governmental support and the location of municipalities in rural areas.

##### **4.5.1 Audit committee competencies**

The concept of competencies is widely researched within every field and discipline, but this study has adopted the definition of competencies from the resource-based view of the firm theory, defining competence as knowledge, skills, ability and other characteristics (Nyberg et al 2014:321; Ployhart 2015:342). The four elements are the type dimension of human capital resources from the resource-based view of the firm theory (explained in section 4.4.1.2). Studies of audit committees define their competencies as an understanding of the roles and responsibilities and possession of skills to perform audit committee duties (Hegazy & Stafford 2016:864; PSACF 2017:4). Numerous studies have been conducted on either the comprehensive term 'the right mix of competencies' (Gacheru et al 2019:61) or certain aspects within the term, such as characteristics of the audit committee (Ellwood & Garcia-Lacalle 2016:1158; Zhou et al 2018:), and members' qualifications, experience and skills (Malet 2013:2; Masegare & Ngoepe 2018:585; Rummell et al 2019:26). However, the comprehensive understanding of audit committee competencies can be expanded by

applying the type-dimension of the human capital resources from the resource-based view of the firm theory. Therefore, the definition of competencies of audit committee members can be refined as: 1) The factual information and procedures regarding the roles and responsibility of the audit committee (knowledge); 2) Knowing how to apply the knowledge in practice (skills); 3) Possessing the mental ability to perform the duties of the audit committee (ability); and 4) Having the required character and qualities to perform the duties of the audit committee (other characteristics, commonly known as attitude).

Collectively the audit committee is expected to have a variety of competencies to perform its fiduciary role, including an understanding of the business and industry it operates in, as well as to be up to date with the current trends (Zilwa 2015:35). The diversity of the competencies required for the audit committee as a whole may include literacy in finance, financial management, project management, tax, legal, administration, governance, audit, risk management, human resources, strategy, performance management, information technology, and any other relevant competency needed for a specific organisation, such as engineering, that will result in the audit committee providing assurance of the organisation's financial reporting quality and useful advice to senior management (Krishnan, Wen & Zhao 2011:2126; National Treasury 2012b:5; Zilwa 2015:60). In recent years, information technology expertise became a necessity to address risks associated with automated processes from the emerging technologies that impact financial reporting (Center for Audit Quality 2018:1). Applying the resource-based view of the firm theory's definition of competencies, it is concluded that audit committees must possess information, know how to apply the information in practice, possess mental abilities and the right attitude to use both the financial and non-financial information in its role.

Although audit committees are expected to have diverse competencies, those audit committees that have an oversight role are not required to be experts in subject areas, but instead, to have a working knowledge (ANAO 2015:26; Zilwa 2015:61-63). In contrast, the audit committee with an advisory role, such as those in South African municipalities, should comprise of experts in various academic, scientific and technical fields (Schiffino & Krieger 2018:5; Hornberger & Forster 2019:23). For the public sector, and more specifically to this study, for municipalities, a combination of experts is necessary to address the complex governmental issues (Krick 2015:489)

and improve the competency (IoDSA 2013:6; Gacheru, Nasieku & Oluoch 2019:61). Thus, the municipal audit committee, consisting of members holding a variety of expertise, will be able to provide accurate advice to the municipality towards meeting the goals of the IDP and Service Delivery Budget Implementation Plan (SDBIP) (SAG 2000, s.3(d), 16(1), 20(2), 57(5), 77, 81(c); PSACF 2018:2). While all the above-mentioned competencies are crucial for the audit committee to succeed in its role, the diverse expertise required renders the role of the audit committee complex and almost unrealistic to achieve, especially by municipalities that are impoverished and cannot afford to pay for such expertise.

Furthermore, the diversity of audit committees should not be limited only to competencies linked to qualifications, skills and experience of members, but extend to age, gender, ethnicity, geography and culture (Deloitte 2018:5). The public sector implements policies that promote such diversity, for example, policies on affirmative action and equality (Ashikali & Groeneveld 2015:147). The South African Constitution endorses such policies as it promotes fairness and equality for all citizens (SAG 1996, s. 1(a)). Studies support the notion that diverse audit committees can be innovative, produce robust discussions, promote ethical conduct and exhibit effective decision-making capabilities (Deloitte 2018:5; Velte 2018:2; Zalata, Tauringana & Tingbani 2018:180). Therefore, all genders and ages are necessary, and audit committee members from different geographies and cultures can assist each other in understanding the culture of the people and systems in the location of the municipality - this is especially true for South Africa, that consists of a culturally diverse society. The next section discusses the specific competencies required for the audit committee.

## **4.5.2 Specific related competencies**

This section highlights specific financial and legislative competencies needed by the audit committee in performing their role.

### **4.5.2.1 Financial matters**

Financial literacy refers to an understanding of accounting and auditing practices (Malet 2013:7-8). Studies prove that audit committees possessing financial literacy, specifically accounting and auditing skills, are capable of reviewing, advising, overseeing and improving internal controls in the organisation (Malik 2014:85,

Alzeban & Sawan 2015:68; Salehi & Sharazi 2016:1640). King IV and the Australian National Audit Office support this view, stipulating that audit committees must have diverse skills and experience, including financial literacy as a whole (i.e. at least one member of the committee must be financial literate) (ANAO 2015:26; IoDSA 2016:56). The Government Finance Officers' Association of the USA and Canada reflected that this phenomenon is yet another way of requiring all members, not just one committee member, to have a basic understanding of governmental financial reporting and auditing (GFOA 2008:1), requiring that the committee must comprise of at least one financial expert that will take responsibility for financial matters, even allowing the financial expert to be from an outside party should the committee not possess such expertise. Therefore, this best practice indicates the significance and advantages of financial knowledge in the audit committee. Municipalities must seek to acquire the benefits of having a financially literate audit committee and consider appointing at least one member with financial expertise.

More studies have showed that financial competencies are presumed to not only enhance the internal controls, but also improve the internal audit function and the quality of financial reporting, and lower audit fees (Goodwin 2003:274, Zain, Subramaniam & Stewart 2006:5; Alzeban & Sawan 2015:60; Wilson 2019:53). Accordingly, the organisation that lacks accounting and financial expertise in the audit committee is more likely to have weak internal controls (Abbott & Parker 2000:49). Moreover, the audit committee should not only possess financial literacy, but should be independent (Zain et al 2006:14), i.e. it should separate its operations and decision-making and not be influenced by parties of the organisation. Even so, Rich and Zhang (2014:74) found no evidence that an independent audit committee possessing financial expertise is more effective. Their study found that the municipal audit committees with a financial expert on the committee who is internal – i.e. employed by the municipality - are less likely to have internal control weaknesses. Supporting this notion, Felo, Krishnamurthy and Solieri (2003:4) concluded that organisations with an external financial expert can collapse, for example, Enron was under the watch of an audit committee with an accounting professor as a member, yet the organisation collapsed. Therefore, it seems that if an audit committee employs an independent external or external expert on financial matters, the collapse of the organisation may not be prevented, but is perhaps less likely.

It thus remains vital that audit committees in the municipalities possess financial literacy, yet the majority of South African municipalities possess insufficient financial skills with consistent weaknesses in the internal controls, resulting in unfavourable audit opinions (AGSA 2017:3, 23). Hence, the municipalities cannot rely on internal financial expertise only, they need audit committee advice on financial matters. Therefore, the council should ensure that the audit committee of the municipality holds an expert in financial and auditing skills, when they recruit members for the committee. In addition, it is important that the audit committee in the local government understands the public sector legislation, structures, governance, reforms and operations (National Treasury 2012b:5; IoDSA 2013:7). Their understanding of the public sector will enable them to provide credible advice to the municipality, not only on financial matters but also in terms of compliance, functionality and the reliability of performance management (PSACF 2019:5-6). Public sector legislation is discussed in the next section, as a necessary competency.

#### **4.5.2.2 Public sector legislation**

The Constitution authorises the governing body of a municipality to govern with its own initiative, however, it should govern within the parameters of the legislation (SAG 1996, s. 151(3)). Universal legislation is necessary as the legal nature of the municipality comprises of diverse political-, administrative- and the local community-structures (SAG 2000, s. 2(b)). Implementation of legislation by an organisation results in acceptable and suitably legal decision-making, promoting good governance and eliminating individual self-interest (Masegare & Ngoepe 2018:583). Compliance with legislation is not only associated with good governance but also with legal accountability (Ellwood & Garcia-Lacalle 2016:1144, 1156). Hence the need for the audit committees to hold competencies in the legislation that governs the municipality, enabling it to consider such information to provide the appropriate advice regarding good governance and accountability to the municipality.

Even when universal legislation is a necessity, uncontrolled bureaucratic rule should be avoided (Weber 1994:222) - citizens must be respected and never be treated as a means to an end (Beauchamp & Bowie 2004:22). Some councillors and employees of the municipalities have been found to be corrupt - disregarding legislation and not delivering services to communities (Department of CoGTA 2016:4-5; Van Niekerk &



Dalton-Brits 2016:125). Therefore, knowledge of legislation and its applicability to the municipality is one of the competencies that the municipal audit committees should possess to promote lawful decision-making (National Treasury 2012b:5; IoDSA 2013:7). The most important legislation and policies governing the municipalities that audit committees must be cognisant of, are listed as follows:

#### **Local Government Transition Act, 1993 (Act 209 of 1993)**

The Act was promulgated during the restructuring of the local government, prior to the democratic government's rule. It was interim legislation that was in place until the restructuring of the democratic local government was completed.

#### **1994 White paper on Reconstruction and Development (RDP)**

The RDP was the policy established by the new democratic government to direct the progress of the strategies that promote sustainable transformation and nation-building. The policy is people-driven and intended to facilitate peace and security and to meet the essential needs of citizens, including building infrastructure.

#### **Constitution of the Republic South Africa, 1996 (Act 108 of 1996)**

The Constitution is the supreme law that provides the legal foundation for South African citizens and organisations. The mandate to establish different categories of municipalities is found in chapter 7. The municipalities are conferred the mandate within the legislation to govern local municipalities freely. Their duties are to establish a sustainable social, economic, harmless and healthy environment for the local residents. The objectives, powers and functions of the municipalities are recorded in and explained by the Constitution, as are the requirements to qualify as the municipal council, and its powers, conduct and terms of office.

#### **White paper on Transforming Public Service Delivery, 1997**

This white paper provides a policy framework of eight principles intended to improve public service delivery by putting citizens first, as they are the customers of the government organisations.

#### **Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998)**

The Act was established to determine municipal boundaries via a set of criteria and procedures by an independent authority.

**Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)**

The Act provides the criteria for the different categories of municipalities. It also defines the functions of and bestows powers to the different types of municipalities, stipulating the composition, membership, operation and dissolution of the municipal council, as well as regulations with regard to the internal structures, systems, and office-bearers.

**White Paper on Local Government, 1998**

The policies of the white paper were developed to address the entire sphere of local government. A brief history of local government is provided and the vision of the developmental local government is presented with sustainable methods to meet the needs of the community, such as the IDP, budgeting and performance management. The role of the national and provincial government is explained in the context of cooperative governance, as are the municipal organisations and administrative systems.

**Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)**

**Local Government: Municipal Systems Amendment Act, 2003 (Act 44 of 2003)**

**Local Government: Municipal Systems Amendment Act, 2011 (Act 7 of 2011)**

The Act provides for the legal nature, rights and duties of the municipalities, prescribing municipal functions and powers. The processes of planning and implementing the IDP, budgeting and performance management, are stipulated, as are the mechanism processes and procedures for community participation.

**Local Government: Municipal Electoral Act, 2000 (Act 27 of 2000)**

The legislation governs the elections in the local government.

- **Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)**
- **MFMA Circular No. 65, 2012**

The legislation governs the financial management of the municipalities.

**Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004)**

**Local Government: Municipal Property Rates Amendment Act, 2014 (Act 29 of 2014)**

The Act authorises municipalities to impose property rates on local residents.

**The white paper on Municipal Service Partnerships, 2004**

This proposed legislation details the policies administering partnerships between the municipalities and other organisations in the public sector, non-governmental organisations, the private sector and community.

**MFMA Circular No. 13 Municipal Finance Management (Act No. 56 of 2003): Service Delivery and Budget Implementation Plan**

The circular is an office instruction to municipalities in respect of preparation of their SDBIP, as required by the MFMA, assisting alignment of the municipal goals from the IDP to the budget.

**The Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)**

The Act prescribes the principles of conduct between the three spheres of government (national, provincial and local).

**Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007)**

This Act prescribes matters concerning the fiscal powers and functions of municipalities to enforce payment of taxes, levies and duties, authorised by Section 229(1)(a) of the Constitution.

**Local Government Turnaround Strategy, 2009**

The purpose of the document is to present strategies to address weaknesses in local government, i.e. in areas of politics, governance, leadership, administration, service delivery and lack of compliance with legislation and policies.

**National Development Plan - vision for 2030, 2011**

The document contains the government's vision and goals to reach by 2030, such as the reduction of poverty and improving the social- and economic aspects of local communities.

### **Rural Development Framework, 2013**

This document reveals the detailed programme intending the transformation of the economy of rural areas, reducing poverty, improving the infrastructure and supplying the basic needs of the citizens.

### **National Treasury - Division of Revenue Act, 2016 (Act 3 of 2016)**

Section 214(1) of the Constitution stipulates that the revenue collected nationally should be equitably divided between the three spheres of government - the national, provincial and local spheres. This Act provides for the conditions and principles in terms of which revenue is allocated to the three spheres.

Whether audit committee members have the knowledge or, at minimum, a basic understanding of these Acts, are questionable and should be further analysed (refer to sections 5.2.8 and 5.3.8 for empirical evidence). Furthermore, whether the council is in a position to attract the right mix of skills for the audit committee, is also questionable. One aspect that comes to the fore is the municipalities within rural South Africa that are seemingly struggling to attract the right mix of members. This and other municipal environment factors affecting audit committees are discussed in the next section.

#### **4.5.3 Municipal environment affecting competencies**

This section deliberates the municipal environment in terms of inter-governmental support and the location of the municipality in the rural areas, considering the importance of audit committees possessing the relevant and diverse competencies suitable to such environments.

##### **4.5.3.1 Inter-governmental support**

Intergovernmental relations refer to the relationships between governments or between the organs of state, when conducting their affairs with the purpose of coordinating and implementing matters of national interest (SAG 2005b, s. 11) with an aim to collaboration between the government organs to adequately address these

issues of national interest. Hence, it is vital for all spheres of government to be a cohesive unit and for the national-, provincial- and local government to function together and support one another (SAG 1996, ss. 40, 41), towards fulfilling their purpose to benefit of the public (national interest). Issues of national interest include improved infrastructure, service delivery, poverty alleviation, economic growth and capacity building, amongst others (SAG 2011:10-27; Tshishonga 2016:193). The audit committee must, therefore, be sufficiently knowledgeable of intergovernmental relations and support, to provide useful advice that will prevent unnecessary duplication of work resulting in the loss and waste of resources by the municipality. Appropriate coordinating of the government spheres results in the prevention of conflicts, wasteful duplication and competition (SAG 1998b, ss. c(1.1)-(1.2)).

In order to support intergovernmental relations and uphold the legislation, the following organisations were established by the South African government: CoGTA and SALGA (SAG 1996, s. 41(2)(a)). These organisations promote and facilitate intergovernmental relations. In addition, the premiers of provinces are tasked to ensure the operation of structures and organisations facilitating intergovernmental relations, in their respective provinces (SAG 2005b, s. 22(1)). On the municipal level, the 1998 White Paper on Local Government provides guidance on how national and provincial government can support the local government (SAG 1998b, ss. c(1.3.1), (1.3.2)), listing national government departments and stipulating how they can support local government (SAG 1998b, s. c(2.1)). Furthermore, the national- and provincial government are expected to assist local government with capacity building and support its efforts to resolve financial difficulties (SAG 2003, ss. 34(1), (2)). Moreover, the municipalities are authorised to form district intergovernmental forums (SAG 2005b, s. 24) - a consultative forum consisting of mayors or administrators sharing knowledge and best practices concerning strategy, plans, goals and solutions to municipal problems (SAG 2005b, ss. 25, 26). Should audit committee chairpersons be allowed to attend such forum meetings, they would be empowered with knowledge and insight concerning the workings of the municipalities.

Studies on inter-governmental, although supportive and acknowledging its good intentions, point out the challenges of realising it practically, i.e. creating synergy planning in the operating process of the three spheres of government; mapping the budget, programs and projects; the complexity of the local government; poor

management and monitoring mechanisms; insufficient support to the municipalities by the provincial and national government; and the human factor where the diversity of people are involved (Mello & Maserumule 2010:293; Malan 2012:118-120; Mamabolo 2016:31). Hence, it is crucial that the audit committees educate themselves in respect of the legislation governing municipalities, and intergovernmental relations and support, towards knowledge and understanding of the structures, powers and functions of all the organisations associated with the municipalities. Subsequently, audit committees will be able to provide reliable advice on addressing inter-governmental challenges that will ultimately improve municipal service delivery.

#### **4.5.3.2 Location of municipalities**

It is essential that the municipal council considers all the competencies when appointing audit committee members. However, in some small and medium municipalities, especially those located outside the cities, the council find it difficult to attract members possessing the necessary competencies (IoDSA 2013:6). Some of these municipalities are in financial distress owing to high debts and poor cash inflow (Omarjee 2018b), and may thus be challenged in affording to pay marketable rates to attract competent audit committee members. Hence, focus group 1 declared the location of the municipality to be an important factor that determines whether an audit committee succeed or fail in their role. It is therefore important for this study to consider the reasons for the lack of competent audit committee members in the rural municipalities, in comparison to urban areas.

The disparities between urban and rural areas can be fully grasped when considered in the context of South Africa's political history as politics may have played a role in the creation of homelands and townships, and the lack of resources in rural areas. A separation between cities, towns and townships developed due to the political policies of the 1913 Native Land Act, based on racial segregation (Department of Rural Development and Land Reform 2013:4) in terms of which only towns and cities were significantly improved (Ndabeni 2013:7; Manyaka 2014:134), and homelands, townships and rural areas designated for specific racial groups, were neglected. The majority of the residents of the aforementioned locations are poor (Msutwana, Nyawo & Mashau 2019:157), consequently, municipalities located in those areas are

adversely affected by the inherited poverty and lack of resources, struggling to implement and provide the necessary and expected services. Inequality and poverty in the rural areas are not unique to South Africa but are found in other countries as well, such as the United States of America (Goetz, Partridge & Stephens 2018:108).

Although the African Union's Commission for Economic Affairs and the Organisation for Economic Co-operation and Development (OECD) Development Centre - organisations that analyse the development of the continent of Africa - reported a decrease in poverty from 43.8 per cent in 1990 to 35.6 per cent in 2013 in the African countries of the Southern hemisphere, these countries remain the poorest in the world with income inequality and vast disparities between rural and urban areas (African Union's Commission for Economic Affairs /OECD 2018:89). Unemployment is another element that elevates poverty in South Africa (Central Statistical Services 2016:56). Although the development of rural areas are receiving attention through various programmes, poverty still prevails and have, in some countries, increased, except for the rural areas that have large natural resources, such as minerals and oil (Muhyiddin & Miskiyah 2017:268; Goetz et al 2018:105). Nonetheless, most residents of rural areas are still poor, lacking economic privileges and essentials such as infrastructure, shelter, electricity, food, water, and sanitation (Department of Rural Development and Land Reform 2013:5; Muloiwa, Zvinowanda & Dinka 2017:32). These residents complain about municipal services in terms of unreliable water supply, poor sanitation, sewage and toilet services, and the high cost of electricity (Central Statistical Services 2016:56-57). These municipal services need to be improved and it is, therefore, necessary to have competent audit committees who provide advice that can improve municipal service delivery.

Studies have revealed the causes of a lack of reliable service delivery in rural municipalities to be financial constraints, poor infrastructure or lack of it, and human resources problems (Van der Mescht & Van Jaarsveld 2013:17). For example, an above inflation-increase in the electricity tariff causes consumer unaffordability, resulting in non-payment of municipal accounts and illegal electricity connections (Kumar 2017:14). Eskom is the organisation that supplies electricity to South African municipalities, to distribute to households and businesses (Eskom 2018) and is known for disconnecting the electricity supply to municipalities defaulting owing to

non-payment by its residents (News24Wire 2015a; Phakathi 2019). The disconnection of electricity to municipalities result in an interruption of power supply to the municipal households and subsequent accusations of poor service delivery directed at the municipalities, despite the fact that the interruptions are caused by residents' non-payment. Municipalities have attempted to prevent Eskom from disconnecting its electricity supply by taking legal action, but the court ruled in Eskom's favour, instructing municipalities to take responsibility for its payment failures (Fin24 2017). Such challenges call for municipalities to acquire strategies that will assist the collection of debts from the residents and audit committees should thus be sufficiently knowledgeable to provide sound advice in that regard. Although the Minister of Finance took action to encourage payment of municipal debts to Eskom - by withholding the share payment to municipalities - the intervention was unsuccessful as the municipalities remain in default of payment to Eskom (News24Wire 2015b). Forty-eight municipalities were reported, by the Minister of CoGTA, to owe Eskom billions of Rand (Herman 2017). The seriousness of the municipalities' electricity debt has been escalated to be addressed by the parliament committees, SALGA, the National Treasury and Department of CoGTA (Omarjee, 2018a). The provinces with the highest debt are those housing a significant number of rural municipalities (Omarjee 2018a). It is therefore essential that audit committees are sufficiently competent to render useful advice on improving the municipalities' pitiable state of income caused by residential non-payment.

Other causes of rural areas' ineffective service delivery and failure to attract investments are unreliable, deficient or lack of infrastructure, and the low level of education (Zulu & Mubangizi 2014:435; Goetz et al 2018:105). It is a concern that, in rural areas, only 20-40 per cent of the infrastructure is operational and that municipalities lack the technical water- and sanitation-skills, resulting in poor implementation (Infrastructure Dialogues 2015:1). Studies indicate that lack of funds and inadequate budgets for the maintenance of infrastructure contribute to the problem of the non-operational infrastructure (Van der Mescht & Van Jaarsveld 2013:18) i.e. the breakdown of filters and old water pumps, leaving the community without water (Ngwenya 2014). It is therefore evident that the poor or lack of infrastructure negatively influences not only service delivery, but also revenue collection.



There are numerous reasons for the depressed collection of revenue by rural municipalities. Studies show that during 2015/16, 70 per cent of municipalities' primary revenue was self-generated, however, some municipalities collected less than 40 per cent of the revenue, especially the rural areas surviving on government grants (Van der Mescht & Van Jaarsveld 2013:20; Infrastructure Dialogues 2015:3; Moffat, Bikam & Anyumba 2017:14) where a majority of the households are exempted from paying municipal services as they are poor, resulting in low revenue base (Manyaka 2014:134-135). These households' income depends on government social grants and low wages from farming and informal trading (Zulu & Mubangizi 2014:428). The land is not fully utilised, commercially, and there are high levels of uneducated and unemployed residents (Moffat et al 2017:23). Moreover, property rates are not fully collected in rural areas as properties are not being valued frequently and timeously (Lewis & Alton 2015:3), resulting in the lower amount of property tax collected in rural areas than that of urban areas (Manyaka 2014:131; Moffat et al 2017:22). Other contributing factors are the low value of the properties and unaffordability by poverty-stricken residents, as well as inappropriate billing systems and lack of water meter usage monitoring (Infrastructure Dialogues 2015:3). Based on all these factors, rural municipalities are financially disadvantaged when compared to urban municipalities and are not economically able to deliver services, improve the infrastructure and improve the local economy.

These municipalities' poor economic status may suggest that they might not be able to afford to pay remuneration rates that will attract competent audit committee members. Van der Mescht and Van Jaarsveld (2013:18) echo the same concerns regarding the difficulty of recruiting skilled and experienced people to rural areas. Ultimately, those who possess excellent competencies to become audit committee members may not be attracted to work in rural areas, owing to low remuneration rates and poor infrastructure that may include a deficient sewage system, lack of electricity and a lack of water supply. In addition, these deficiencies may lead to the disruption of or adjourned audit committee meetings. It is therefore evident that there is an imbalance caused by the rural-urban developmental dichotomy and strategies should be implemented to improve rural areas. Moffat et al (2017:25) suggest the following strategies to improve the revenue of the rural municipalities by enhancing

its economy: Implementation of functional infrastructure plans from existing resources; Municipal campaigns to educate and influence residents to pay rates and taxes; Incentives from national government; Exploration of other opportunities to increase the revenue base; Enforcing disconnection to those households not paying for electricity; and Implementation of a debt collection policy. Kumar (2017:15) also supports the strategy of efficient debt management that includes an effective metering and billing system and installing prepaid- and smart metering.

Another challenge faced by rural municipalities is a shortage of engineers where, out of 257 municipalities, only 55 have engineers leading the technical divisions (Department of CoGTA 2018). Therefore, an audit committee with engineering- and project management competencies may be an added advantage for the rural municipalities. Municipal leaders have been accused of appointing unqualified people to critical posts such as engineering positions, through nepotism and political deployment (Gqaji, Proches & Green 2016:400). Audit committees should thus discourage unqualified appointments and encourage disciplinary measures against poor performing individuals. Accountability and disciplinary action should not be limited to municipal employees only, but be applicable to any individual or group that prevent progression in the municipalities, as such outcomes impact negatively on service delivery and anything that prevents the healthy growth of the municipalities should be avoided.

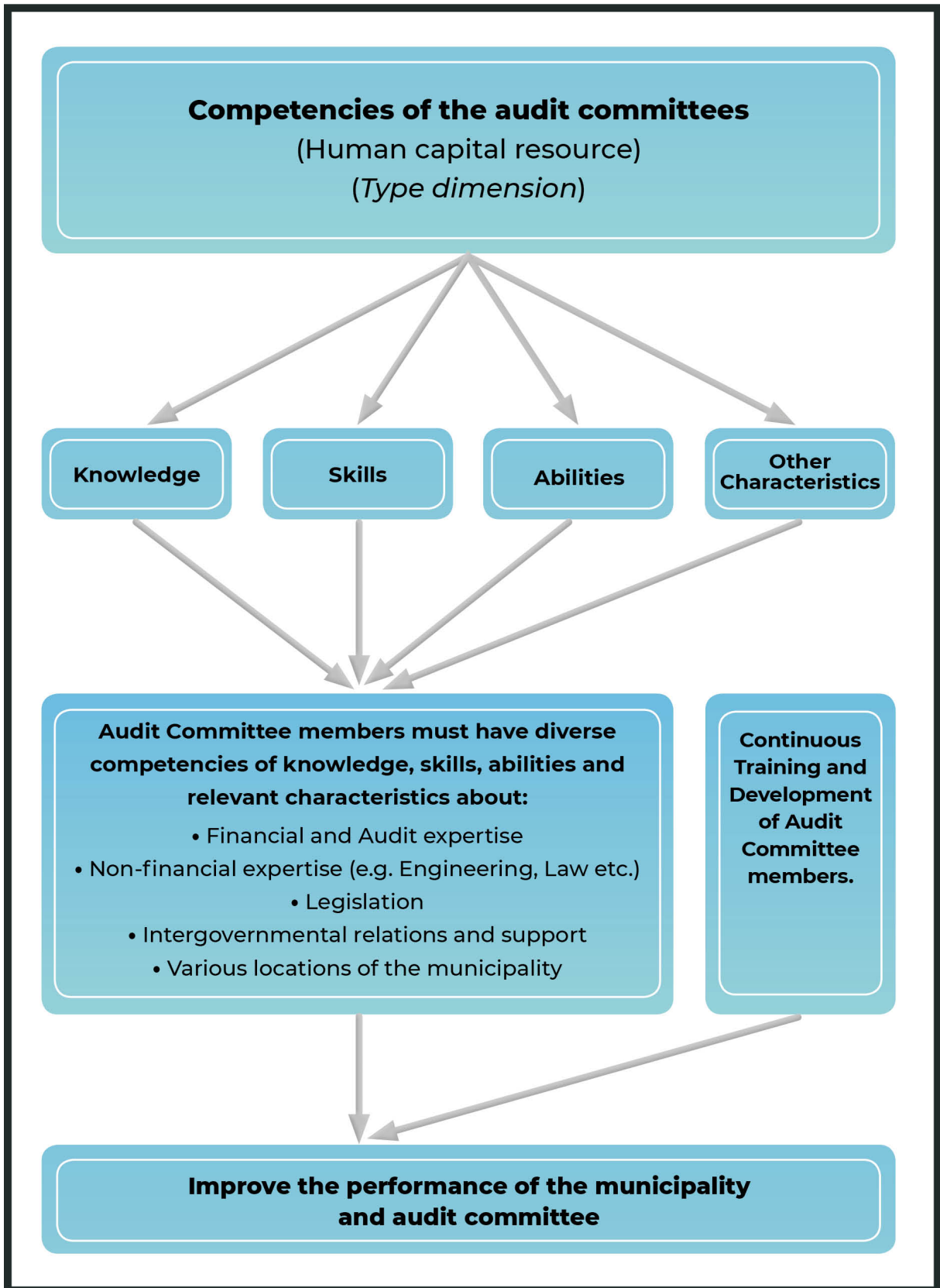
One of the global resolutions to negate the discord between rural and urban areas, is that of rural-urban linkages, by which there is a constant flow of people, goods and money from one area to the other to enhance the economic, social, cultural and political welfare of both areas (Muhyiddin & Miskiyah 2017:265). For example, rural areas can improve their economy by selling their agricultural produce to the urban areas for consumption, reducing poverty. Urban-rural linkage and interdependency can advance the economic state, if the rural areas have good road infrastructure (Mamabolo 2016:34). As a result, urban skilled labour such as competent audit committee members may be willing to commute from urban areas to rural areas.

Another strategy by the South African government for the advancement of the rural areas is the Rural Development Framework and the National Development Plan 2030 (SAG 2011; DRDLR 2013), to enhance economic, social and political

opportunities and fulfil basic human needs, and develop rural enterprise and financing facilities (SAG 2011:16; DRDLR 2013:12-13). Furthermore, rural areas can reduce poverty through the development of intermediary cities and enhancement of the existing small towns (AUC/OECD 2018:226). Also, improvement in education, skills and employability are necessary elements that strengthen the local economy (Niyimbanira & Madzivhandila 2019:60).

Since the South African rural residents and municipalities are affected by the abovementioned challenges, it is crucial to appoint competent audit committee members who understand the location of the municipality and its challenges, enabling constructive advice that will result in improvements. An understanding of the location of the municipality may bring about tolerance of a deficient infrastructure and low residential education levels. While the poor rural municipalities are in the process of growing financially, government must derive a strategy to support the recruitment of skilled audit committee members to the various rural locations.

Figure 4.8 illustrates the importance of audit committee members to possess relevant diverse competencies, including an understanding of the location of the municipality.



**Figure 4.8: Competencies of the audit committees**

*(Source: Own compilation)*

The audit committee must possess competencies in finance, audit, financial management, project management, law, engineering, legislation, intergovernmental matters and other relevant non-financial matters. They must be experts in their fields and be capable of providing expert advice utilising their knowledge, skills, abilities and other characteristics. Training and development of audit committee members can assist them to acquire the necessary competencies (IoDSA 2013:6). The variety of competencies discussed in the section was empirically tested for validity (refer to sections 5.2.8 and 5.3.8).

#### **4.6 Theme 5- Audit committee challenges when executing their mandate (Categories 11 and 12)**

This theme (refer to figure 3.18) consists of political interference (refer to section 4.6.1) and political buy-in (refer to section 4.6.2) as secondary driver affinities. It also consists of the audit committee's (in)ability to influence (refer to section 4.6.2) as a neutral affinity. The logic of grouping the various affinities to develop this theme is explained by section 3.4.5. The discussion of this theme provides insight to the affinities by: 1) Defining political interference and providing strategies to curb political interference; and 2) Describing competencies that the audit committees should possess to be influential and to gain political buy-in, invoking the resource-based view of the firm theory.

##### **4.6.1 The political interference (Category 11)**

Political interference is a phenomenon where those with political power enforce their agenda in processes where they do not have the right to do so (Pretorius 2017:31). Batalla, Torneo, & Magno (2018:268-269) define political interference as '*non-legitimate interventions*' that influence government officials to act against law, policies and procedures of government. Such actions cause instability and uncertainty in an organisation (Cambini & Rondi 2017:300). In the municipal environment, councillors are often accused of interfering with the administration of the municipality (De Visser 2009:18), that is the sole domain of the accounting officer (SAG 2003, s. 62(1)). It has been revealed that council mostly interferes in supply chain matters, especially tender allocations, as well as the appointment of staff members (De Visser 2009:18). Apart from corruption regarding tenders, political interference lead to the appointment of countless ill-qualified individuals, who are not capable of delivering services to the

local community, to key administrative positions. This interference leaves the municipalities wide open for capture by politically connected interest groups and leaves it vulnerable to corruption. Thus, when the appointment of the accounting officer and others are politically driven, they are protected from any attempt to hold them accountable, thereby adversely affecting consequence management and weakening the impact of the audit committee (AGSA 2018:3). Consequently, if the council is involved in corrupt activities such as meddling with tenders, there is a high possibility that the council will oppose and reject any advice from the audit committee that eradicates or addresses corruption. Hence municipalities must have MPAC that is '*adequately capacitated with the necessary knowledge*' to perform their oversight role (Botlhoko 2017:309).

Other disturbing claims are that members of the council are micromanaged by their individual political parties, influencing councillors to inappropriately interfere in the affairs of the municipalities (Ntliziywana 2011:16; Civil engineering 2019:61). The politicians and political parties are accused of occasionally prioritising winning political battles by any means (Spicer 2015:36), even if it means manipulating municipal councillors. The council's conflicting interests, including those of their political parties (Nzo 2016:99), may cause political and administrative tensions (Mafunisa 2007:258-269; Reddy 2014). Thus, the interest of the electorate is undermined when the councillors take decisions that are only in the interest of their respective political parties.

Councils are further blamed for dominating audit committees by manipulating the audit committee agenda as well as withholding information from the audit committee (Purcell et al 2014:339). The participants of the focus groups mentioned that political battles are fought in the media and occasionally create a poor reflection of municipalities' reputation. As a result, the functioning of the audit committee becomes ineffective. Also, political interference leads to poor performance of the organisation and forfeit investments (Correa, Melo, Mueller & Pereira 2019:541). All the inappropriate actions and meddling by the council should be discouraged as it may cause strife and discord within the municipality. Therefore, all stakeholders involved in public sector institutions must comply with their legislative mandate as an accountability tool to reduce political interference (Liechti & Finger 2019:530). Also, regarding political interference, the participants of focus group 2 advocate for the

independence of audit committees from the council, in their decision-making. It is key that the council should allow audit committees and the municipal administration to work independently, without its unwarranted intrusion. Segregation of duties between council and administration is necessary for the intended adequate functioning of the municipality (Pretorius 2017:32). Similarly, the role of the audit committee should be kept separate from the role of council and the administration (SAG 1996, s. 151(2); SAG 1998a, ss. 19(2), (3); SAG 2003, ss. 62, 166(2)). Even though these functions should be kept separate, they should still work as a harmonised unit.

Strategies such as policies, sanctions and reporting to higher authorities, are encouraged to promote segregation of duties and to curb political interference of council in the audit committee's activities. It is vital that organisations must have constraints in their policies that curb political interference (Cambini & Rondi 2017:301) and sanctions against those committing political interference can be helpful to discourage the practice (Groza 2018:506). Since legislation authorises the accounting officer to report any political interference to the speaker – who is the chairperson of the council (SAG 2003, s. 103), similarly the audit committee chairperson should be lawfully authorised to report political interference to a higher authority, such as the MEC and Minister. Furthermore, the audit committee competencies to overcome the political influence and obtaining political buy-in, as well as to be an influencer within the municipality, may be viewed as another important strategy. This strategy of how political interference can be prevented and how audit committees can be influential and gain political buy-in, is discussed in the next section.

#### **4.6.2 Audit committee competencies to be influential and to gain political buy-in (Category 12)**

As discussed, councillors can obstruct the affairs of the municipality by improperly interfering in the municipal administration and its audit committee activities. In addition to a strained relationship between the council, management and the audit committee caused by political interference, a breakdown in the relationship between councillors (political driven) and the local community (electorate) can also be experienced - leading to underperformance by the municipalities as perceived by the community (Rapoo & Richard 2010:8-10). Hence, the great need for the audit

committee to have capabilities that will prevent political interference, influence the council and gain its political buy-in (refer to section 4.6 for a further discussion of audit committee competencies).

The *type* dimension (explained in section 4.4.1.2) in the context of this theme, signify that the audit committees must have factual information and procedures (knowledge) to curb political interference, to influence the council to adopt their advice and to gain political buy-in. The audit committee must also know how to make use of the knowledge in practice to curb political interference (*skills*). Furthermore, the audit committee must possess the mental capability to suppress political interference (*ability*). Lastly, they must have the necessary character and qualities to prevent political interference (*other characteristics*), which is also known as “attitudes”.

The knowledge, skills, abilities and other characteristics can be applied to promote the elements that prevent political interference, i.e. political will, mentalising and participatory governance, that will be discussed hereafter.

#### **4.6.2.1 Political will**

Political will is defined as the intention of the political actors to accomplish the desired goals leading to government success (Brinkerhoff 2000:242; Stapenhurst, Johnston & Pellizo 2006:41; Ankamah & Khoda 2017:11). As mentioned, the councillors of the municipalities are political actors that the audit committee needs to influence in order to accept the audit committee’s advice, leading to the success of the municipality. To be influential, the audit committees must understand the three elements that influence political will. The political *want* (willingness to act), the political *can* (capacity available) and the political *must* (obligated to act) (Malena 2009:22). These elements signify that the audit committee must pursue the council to a point that the council is willing to adopt the advice (recommendations) of the audit committee. Audit committees may find the political *will* of councillors to accept their advice to be the most challenging element to achieve out of the three, as there is often scepticism, resistance and lack of political will from councillors, fearing a loss of power (Malena 2009:6). The second element means that the audit committee must be cognisant of the capacity available at the municipality for the council to implement audit committee advice. The third element signifies that the audit committee chairperson must use the support of the available legislation and policies to compel the council and



management to adopt the committee's advice. Additional aspects, i.e. mentalising and participatory governance, also play a crucial role.

- **Mentalise**

In addition to political will, for the audit committee to be successful in persuading and influencing council and other political office bearers, it must have the ability to mentalise (Baek & Falk 2018:54). Mentalising is the ability to read and interpret the mental states of other people such as their emotions, needs and purposes (Asen & Fonagy 2017:23). Thus to be an effective persuader, the person should assess how the receiver's feelings and then react appropriately, adapting to different stages of the receiver's decision-making process (Weitz 1978:502; Franke & Park 2006:293; Limbu, Jayachandran, Babin & Peterson 2016:663). It is therefore important for the audit committee to cultivate a close relationship with the council and other parties that they wish to influence, in order to understand the council's perceptions and its different rational decision-making stages.

Also, audit committees should have the judgement skill of understanding how the receiver make the decisions to accept or reject the advice. The social judgement theory explains factors that play a role in the decision-making process of the receiver (Sherif, Sherif & Nebergall 1965). The decision of whether to accept the message or not, can be based on the receivers' anchor point or ego involvement (Sherif et al 1965). The anchor point is the underpinning foundation of the receivers' attitude and ego that controls whether the message is accepted, rejected, or received neutrally without commitment by the receiver (Sherif et al 1965; Salazar 2017:20). Therefore, for audit committee members to be persuasive they must know the receiver (i.e. council members, management and other relevant parties) very well. They need to understand how these receivers make their decisions, and what anchor their attitude and egos, enabling the audit committee to construct persuasive arguments that can change the judgement of the receiver, to be more accepting. Hence the need for concrete content (message or argument) and an appealing presentation to the receiver by the audit committee. Also, the receiver can be persuaded to commit when a good reason is provided (Scott Armstrong 2010:64). For example, a good reason that the audit committee can present is to provide evidence that its advice has yielded positive results in the past.

Furthermore, effective persuaders consider social factors (Dietvorst, Verbeke, Bagozzi, Yoon, Smits & Van der Lugt 2009:255; Falk, Morelli, Welborn, Dambacher & Lieberman 2013:1240) and adjust their behaviour to match the social context (Twomey & O'Reilly 2018:482). Therefore, the audit committees must be aware of social factors within the municipalities and adapt accordingly, without compromising their moral character and independence. Effective persuaders are also highly self-monitoring - observing and monitoring their own actions (Kilduff & Day 1994:1048; Twomey & O'Reilly 2018:482). Similarly, the audit committee members must evaluate their own behaviour regularly and assess whether they are still relevant in the social context of the municipality and its stakeholders.

- **Participatory governance**

Another strategy that can be used to reduce political interference and influence councillors to gain political will that is favourable to the municipality and local communities, is the practice of participatory governance. Participatory governance is a system that enhances democracy and transparency, where stakeholders of the government include the community and engage with public bureaucrats in decision-making, especially the budget allocation (Geddes 2006; Cornwall & Shankland 2008; Michels & Graaf 2010; Basurto 2013), suggesting that the participation of the community in decision-making will restrain inappropriate interference by the council, management and any other party. However, there is some resistance to the notion of community participation, as public bureaucrats and, more specifically, middle management, believe that their knowledge is sufficient to execute suitable programs (Waheduzzaman & Van Gramberg 2018:322). Nevertheless, the public bureaucrats and councillors should consider the benefits of improved governance and a better relationship with the local community a greater priority than their own fears of power-sharing, and self-interest.

South Africa has taken steps to involve the local community in municipal affairs. Participatory governance is mentioned in the Municipal Systems Act, No. 32 of 2000 (SAG 2000, s. 16(1)). The municipalities are tasked to develop structures, mechanisms, processes and procedures that will promote the participation of the local community (SAG 2000, s. 17(1)). The local community can partake in participatory governance practices such as planning, policymaking, the budget,

selection of committees, projects, social contracts, and municipal information (SAG 2000a, s. 20(2); Malena 2009:4). These practices allow the local community to have access to all the necessary information and to management. The local community is also permitted, together with the media, to attend council meetings (SAG 2000, s. 20(1)). Traditional leaders of the community are also allowed to attend and participate in council meetings (SAG 1998, ss. 81(1), 81(2)). Public participation is likewise permitted in the Ward Committee, a statutory body led by a chairperson who is a councillor, to address issues relating to the specific ward or community (SAG 1998, s. 72(b)).

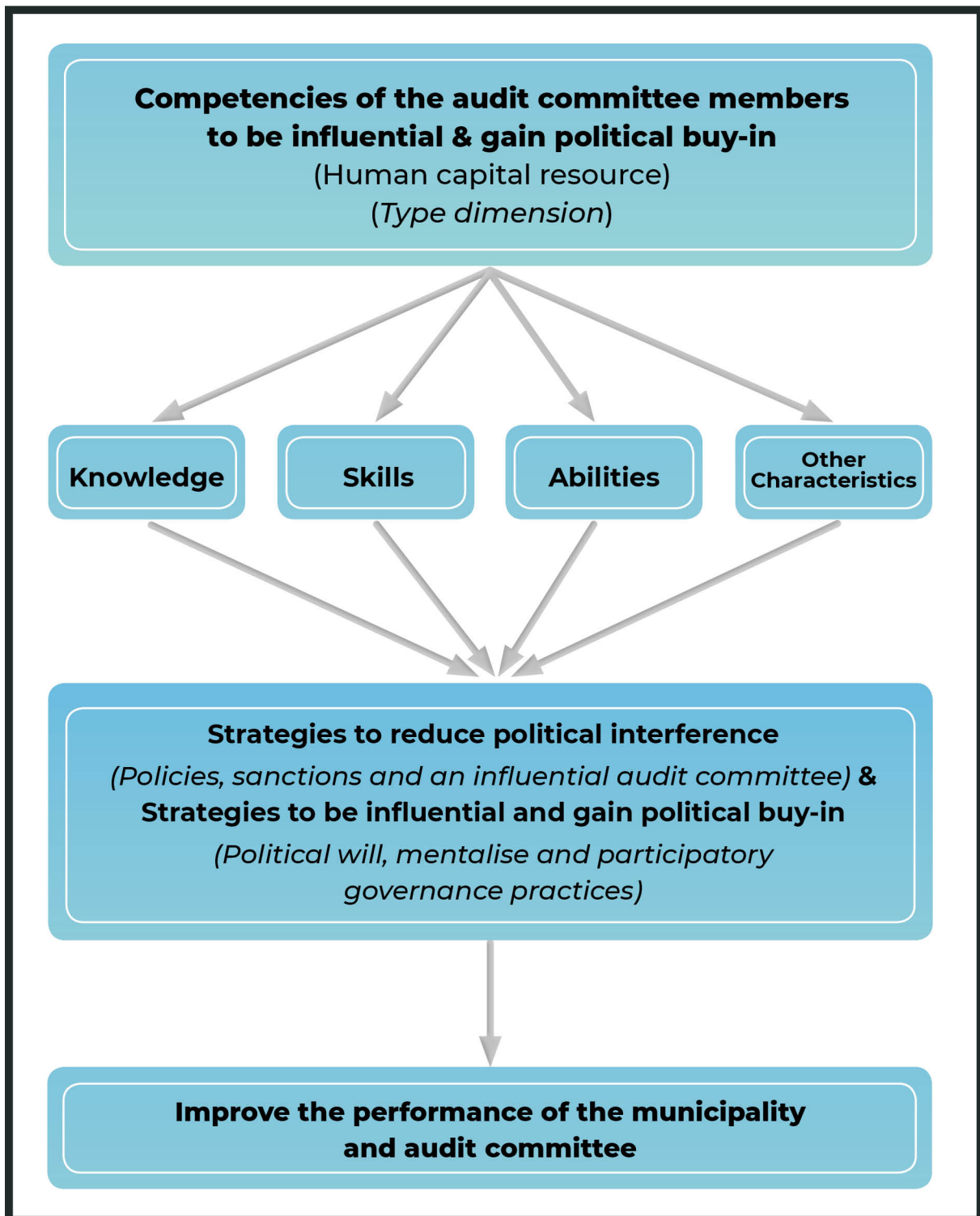
However, there are limitations to this participatory governance-promoting legislation. Although the local community, including traditional leaders, can participate in council and ward meetings, they have no voting rights. They are an advisory body without powers (Piper & Deacon 2009:418). The lack of voting rights to influence the decisions may lead to an unhealthy relationship and further division between the community and councillors (Mathenjwa & Makama 2016:213), in that tensions may rise when councillors do not vote in accordance with the community's opinion and advice. Perhaps the first mature step to enhance transparency, service delivery, accountability and participatory governance practices in municipalities should be to elevate the community position from that of an advisor, without voting rights, to an advisory role with voting rights, with a fair fraction of the voting rights during council and ward meetings. It may be beneficial to educate the councillors, management (Waheduzzaman & Van Gramberg 2018:325) and the community about the importance of participatory governance, with the focus on improving the municipality and the community. The purpose of training councillors and management should be to gain political will from them, and to prioritise the local residents and allow them to partake in governance practices.

As part of the participatory governance practices, the local community should have prompt access to the quarterly audit committee reports, presented by the chairperson of the audit committee to the council. The community must be allowed to deliberate with the council regarding the advice provided by the audit committee, and to contribute to a joint decision as to whether to adopt and implement such advice. The audit committee that is struggling to gain political buy-in from councillors, may be boosted by the participation of a community that has a voting right when a joint

decision is made, whether to adopt or reject the audit committee advice. The empirical evidence (refer to sections 5.3.11 & 5.4.11) shows if changes in legislation to grant the local community voting rights in council- and ward meetings can reduce political interference and can assist the audit committee to gain political buy-in.

Furthermore, empirical evidence (refer to sections 5.3.11 & 5.4.11) indicate whether consequence management for the lack of implementation of participatory governance by the council and public servants, will reduce political interference. Malena (2009:18) and Ankamah and Khoda (2017:5) propose that credible sanctions should be imposed to those individuals who do not have the political will to reach the desired objectives of the municipality, including compliance with participatory governance practices.

In conclusion, figure 4.9 illustrates the strategies to reduce political interference and how an audit committee can be influential and gain political buy-in.



**Figure 4.9: Strategies to curb political interference and be influential to gain political buy-in** *(Source: Own compilation)*

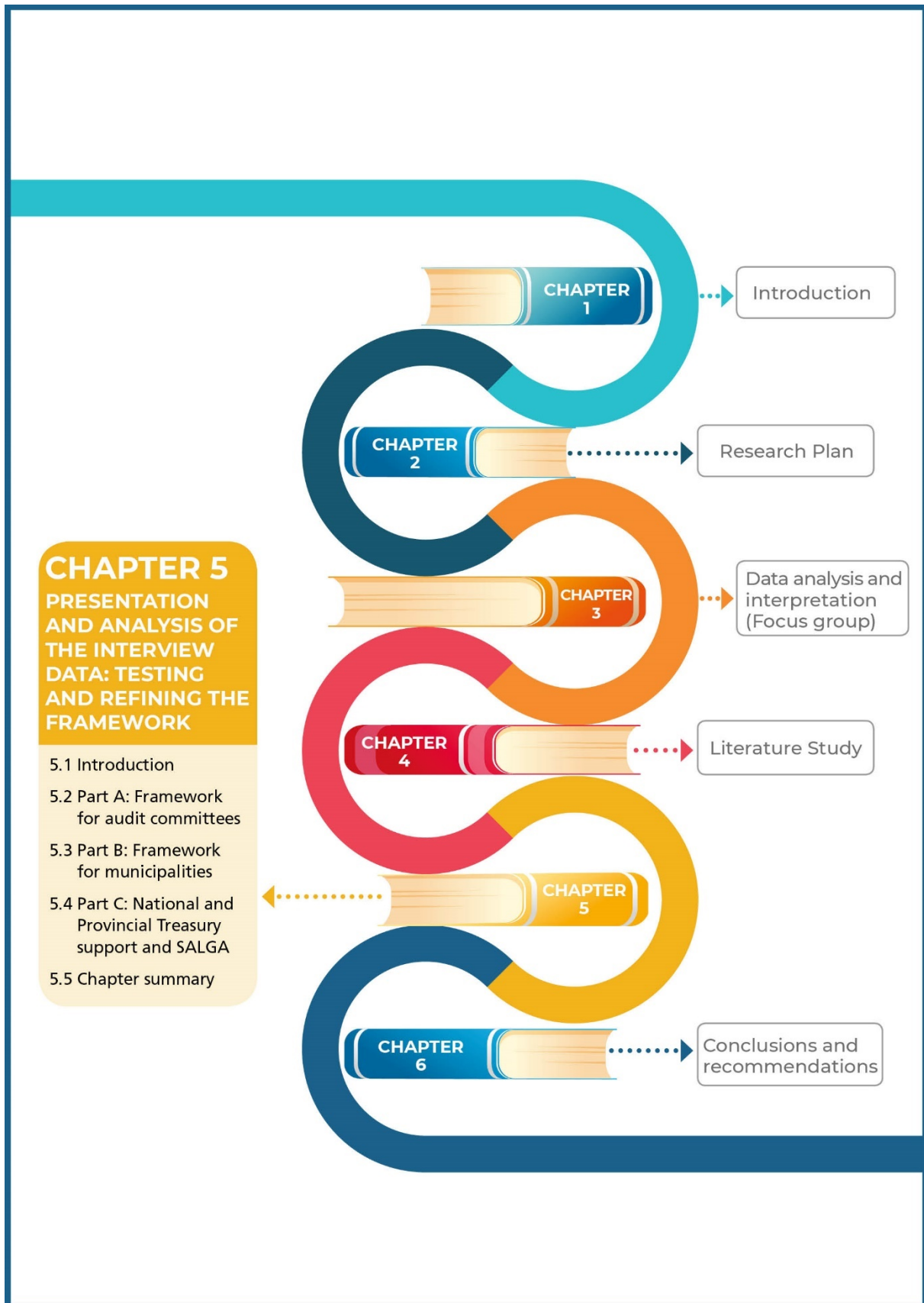
The audit committees must apply knowledge, skills, abilities and other characteristics - the type dimension (explained in section 4.4.1.2) - to be influential and to gain political buy-in. They must use their knowledge, skills, mental abilities and

characteristics to gain the political will of council and other relevant parties. They also need to provide appropriate advice on improving participatory governance practices in the municipality that will reduce political interference. The audit committee can also advise the municipalities regarding policies and sanctions to be enforced to individuals who interfere inappropriately in the affairs of the municipality. The participation of the audit committee to curb political interference and gain political will may result in improved performance by the municipality. The strategies to curb political interference in audit committee activities and to gain influence and buy-in for the audit committee as mentioned in this theme, is empirically tested (refer to sections 5.2.11, 5.3.11, 5.2.12 and 5.3.12 for empirical evidence).

#### **4.7 Chapter summary**

The literature study was directed by the themes acquired from the focus groups. The focus group themes were further explored in this chapter. A framework to enhance the effectiveness of the audit committee in South African municipalities was derived from the focus group discussions and the literature review. The collected evidence provided actions that could be taken by audit committees and municipalities to enhance the effectiveness of audit committees. The framework initially consisted of two guides, however, information derived from the empirical research resulted in the development of a third Framework. Hence, the framework consists of three Frameworks, an “Framework for audit committees” (refer to annexure 4), an “Framework for municipalities” (refer to annexure 5) and an “Framework for National Treasury, provincial treasuries and SALGA” (refer to annexure 6). The accuracy of the draft Frameworks is tested through interviews, in the next chapter (refer to sections 5.2, 5.3 and 5.4).

## CHAPTER 5 PRESENTATION AND ANALYSIS OF THE INTERVIEW DATA: TESTING AND REFINING THE FRAMEWORK



## 5.1 Introduction

The purpose of chapter 5 is to validate and refine the draft framework by analysing and interpreting the data collected from the interview participants. In chapter 4, the draft framework was created consisting of the draft Frameworks for audit committees and the draft Framework for municipalities (refer to annexures 4 and 5). These Frameworks are the outcome of the IQA focus groups (chapter 3) and the literature study (chapter 4). The framework was validated and refined through interviews of 14 participants with an open-ended question (refer to sections 5.2, 5.3 and 5.4). The interviews were analysed and interpreted *via* the following phases: data preparation, data exploration, data reduction and reporting (refer to section 2.5.4.2). The empirical evidence derived from the interviews, resulted in an additional Framework for National Treasury, Provisional treasuries and SALGA.

This chapter presents the reporting of data in three parts, part A (analysis and interpretation of the interview data contributing to the audit committee Framework), part B (analysis and interpretation of the interview data contributing to the municipal Framework) and part C (actions for National Treasury, Provincial treasuries and SALGA suggested by interview participants). The data preparation, data exploration and data reduction phases are briefly discussed to understand the process that leads to the reporting phase. More exhaustive details of the above-mentioned phases are reported in section 2.5.4.2.

The transcripts consist of participant-responses to the following question, that refers to the listed actions from the two draft Frameworks (refer to annexures 4 and 5): *'Do you agree with, contest or wish to add anything to the proposed actions?'*. The pseudonyms of the 14 participants were 1A to 1C for current and former audit committee members, 2A to 2E for current and former municipal workers, 3A to 3C for regulators and 4A to 4C for stakeholders of municipalities. For details on the demographic overview of the interview participants, refer to annexure 9. The next section further explains how the reporting was executed in part A, B and C.

As mentioned, part A and B respectively report on the Frameworks for audit committees and the municipalities (framework). Part C consists of matters that were



raised by several participants relating to the National and Provincial treasuries, and also SALGA. The matters were separated from part A and B as the participant-suggested actions should be implemented by either the National- or Provincial treasuries, or SALGA. The numbering system of the categories used for part A, B and C, is similar to the numbering system of the categories from the draft Frameworks (refer to annexures 4 and 5).

Parts A and B are presented in a specific 'write-up' format throughout the chapter. The format first provides the Atlas.ti networks (Saldaña 2015:34) for each category of the Frameworks. The Atlas.ti networks (refer to figures 5.1 to 5.24) reflect the concepts or views provided by the participants, per the category of the draft Frameworks. The networks are then explained, as narratives. The different colours of networks were only employed to differentiate the networks, per the category of the Frameworks. Thereafter, grey text boxes, that consist of the numbered draft (proposed) actions per category from the draft Frameworks (refer to annexures 4 and 5), are displayed for reference purposes.

Furthermore, the participant responses to the question: '*Do you agree with, contest or wish to add anything to the proposed actions?*' were quantified, given that they were only "Yes" or "No" or "partially agree" or "no comment" counts (refer to annexures 10 and 11). The confirmatory evidence provided by the enumerated data and participant-quotations from the Atlas.ti code reports are then discussed, however, due to the comprehensiveness of the reports these are not attached as annexures.

It is worth noting that some of the participant-quotations contain stylistic or grammar errors. The [sic] convention was not used in respect of all errors in the original quotations, as *verbatim* quotes were retained, respecting the participants' voices. Those errors, however, that impeded the essential meaning, were signalled through the [sic] convention. In addition, words were added using inside square brackets [-] to elucidate the meaning of the sentence, where necessary.

Based on the credible viewpoints of the experts, namely, the purposive participants, the actions from the draft framework were amended or removed (annexures 4 and 5). Also, a new Framework for National Treasury, Provincial treasuries and SALGA was developed (refer to annexure 6). In some instances, the proposed actions from the

draft framework (in the grey text boxes), were not mentioned further in the discussions, signifying that the participants agreed to the proposed actions and no further comments were made. These actions were adopted in the final framework, without changes.

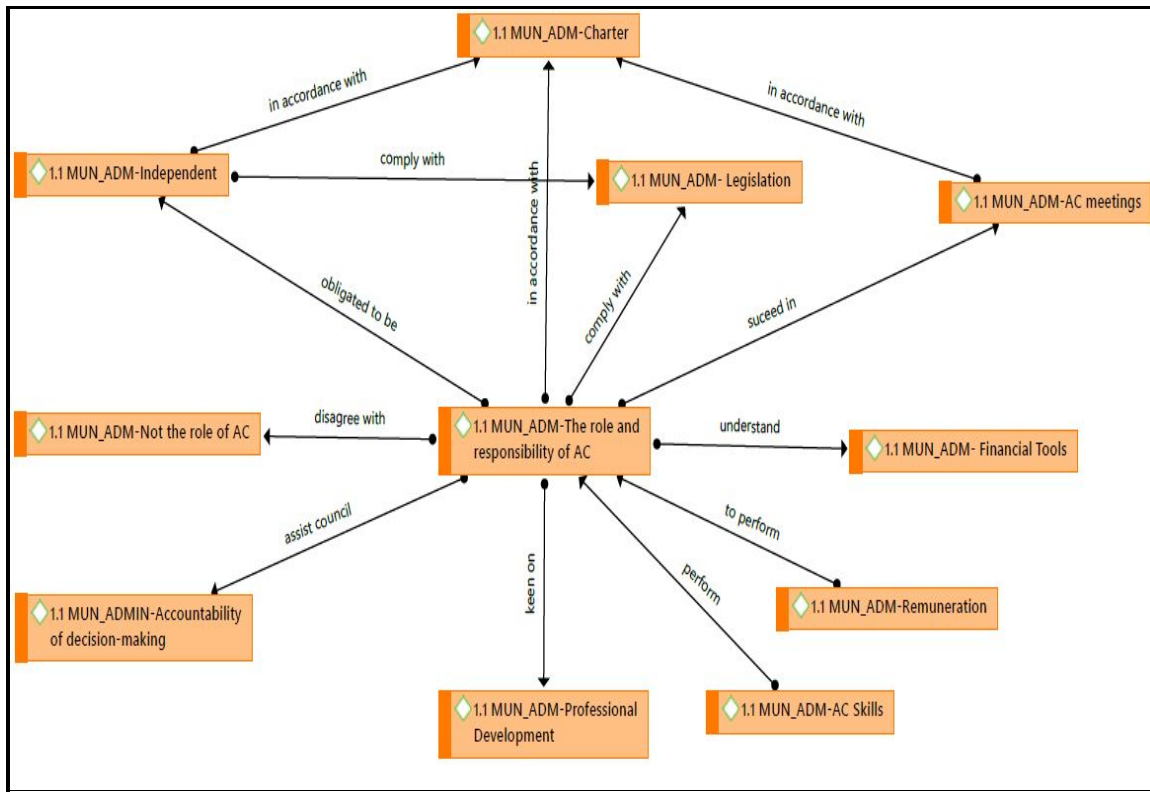
Furthermore, there were emerging concepts, raised participant-opinions (quotations from the Atlas.ti code reports). The heading: “Emerging concepts” thus captures new ideas, based on the data or actions that are relevant to the framework, but that were not part of the original categories of the draft Frameworks. The actions (as data) that add value to the framework were thus added to the refined final framework or reporting in part C. In categories that did not contain emerging concepts, the heading does not appear.

## **5.2 Part A: Framework for audit committees**

The categories of the Framework for audit committees in this section were addressed in section 4.1. They are derived from the focus group themes discussed in section 3.4.

### **5.2.1 Category 1 Municipal administration**

Figure 5.1 is an Atlas.ti Network reflecting all the concepts obtained from the participants pertaining to municipal administration, a category of the Framework that required validation (refer to sections 3.4.1 and 4.2, and annexure 4).



**Figure 5.1: Atlas.ti Network output: Municipal administration-AUDIT COMMITTEE FRAMEWORK** (Source: Own compilation from Atlas.ti)

The audit committees are obligated to be independent so as to comply with legislation and the audit committee charter when performing their role. For them to be seen to be more successful in their role, they must conduct their meetings in accordance with the audit committee charter. They must perform using the necessary skills and be keen to maintain their professional development when performing their role, because they are remunerated for such. The role of the audit committee is crucial in assisting the council with their responsibility and accountability for decision-making on behalf of the municipality. The audit committee must understand the financial tools used by the municipality. They must disagree with any activities that do not enhance their role, such as providing operational services.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committees must be familiar with and understand the administrative tools of the municipality, such as the annual budget, the

Integrated Development Plan (IDP), the Service Delivery Budget Implementation Plan (SDBIP), and Performance Management System and be able to render expert advice.

All (100%) participants agreed with the proposed action in the textbox, i.e. that it is crucial for the audit committee to understand the municipal administrative tools listed (refer to annexure 10). However, participant 1A mentioned that it would be best to replace the word 'administrative' [tools] with 'financial' [tools] because "*when we speak about the issues of service delivery budgets and the likes, very few people call that administrative tools, we will call that financial tools*" (participant 1A). The word was altered in the framework (refer to section 1 of the final framework - annexure 4).

Furthermore, participant 3A expressed the importance of the audit committee to also know '*new legislation*'. Thus, the word 'up-to-date' was added to express that the audit committee must have current knowledge of the mentioned elements. Also, accountability by the council was added to the framework (refer to section 1 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

## 2. The audit committees must provide advice on administrative matters.

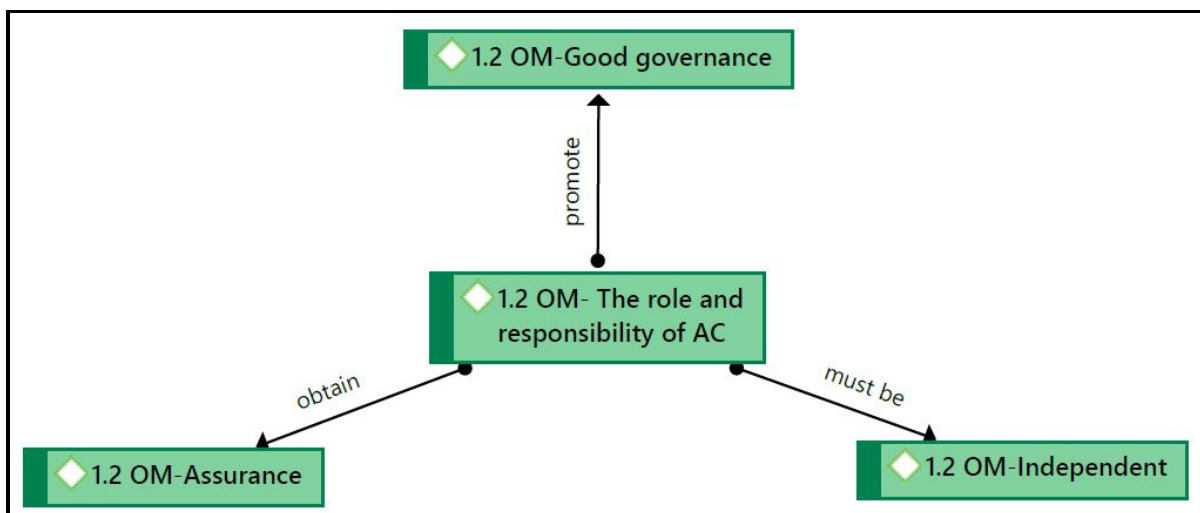
Twelve (93%) participants agreed with the proposed action in the textbox, except for one (7%) participant (refer to annexure 10). Participant 3A mentioned that providing advice on administrative matters is the responsibility of accounting officers. She was concerned that if audit committees were to be involved, their independence of management would be compromised. Furthermore, even though participant 1B agreed with the action, he cautioned about the issue of time management when the audit committee deals with administrative matters because "*audit committee meetings have limited time on dealing with operational matters*". The framework was improved by taking into account the independence of audit committees and explicitly stating that the audit committees should not be involved in operational matters, however, they can still give advice to the accounting officer and management who deal with administrative matters as stated in the MFMA (SAG 2003, s. 166(2)(a)) (refer to section 1 of the final framework - annexure 4). Furthermore, emerging concepts arose.

## Emerging concepts

The new concepts in this category were legislation, charter, the role and responsibility of audit committees, audit committee skills, audit committee meetings, risk management, remuneration and independence. However, the concepts exist in the Framework. Therefore, the views of the participants were addressed in the relevant categories of the Frameworks in this chapter. A new concept that does not exist in the Frameworks is *professional development*. “They need to make sure that they are maintaining their CPD [Continuous Professional Development] in that respect because they are being paid for the knowledge and experience that they have” (participant 3A). It was added to the appropriate category of ‘competencies of the audit committee’ (refer to section 8 of the final framework - annexure 4).

### **5.2.2 Category 2 Organisational maturity**

Figure 5.2 was designed in Atlas.ti Network. It reflects all the codes as concepts obtained from the participants regarding the organisational maturity category, a category of the Framework requiring validation (refer to sections 3.4.1 and 4.2.3, and annexure 4).



**Figure 5.2: Atlas.ti Network output-Organisational maturity-AUDIT COMMITTEE FRAMEWORK**  
(Source: Own compilation from Atlas.ti)

For the municipalities to attain organisational maturity, audit committees must be independent and must promote good governance. Also, it is important that audit

committees obtain assurance from assurance providers that legislation and policies are complied with.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committees can improve municipal administration by monitoring and providing expert advice on:
  - a) Organisational structure and culture - (Organisational level).

Nine (64%) participants agreed with the proposed action in the textbox, three (21%) partially agreed and two (14%) disagreed (refer to annexure 10). The main reason for the participants to partially agree or disagree was that the action was regarded as operational and not as the responsibility of the audit committee. Also, *“the issues that have to do with organisational structures and human resources are mainly dealt with by SALGA through their processes. Most of the time the audit committee does have the opportunity to assess and provide their advice and recommendation”* (participant 3C). There are further actions from the draft Framework for this category.

- 1) The audit committees can improve municipal administration by monitoring and providing expert advice on:
  - b) Managing the human capital resources of municipalities (from the appointment of staff, training of staff, and other elements) – (Individual level).

Half (50%) of the participants agreed with the proposed action in the textbox, while one (7%) partially agreed and six (43%) disagreed (refer to annexure 10). The reason to partially agree and disagree with the audit committee advising on human capital resources of municipalities was that *“this is the role of management and internal administrative structures like the Executive Management Team”* (participant 2A). It was also mentioned that sufficient oversight structures already exist to monitor the human capital resources of municipalities. *“There are other specialised oversight structures in place to provide expert advice on the matters listed to council”* (participant 2E).

The participant also raised a concern that *“we should be careful of overreaching the mandate of the audit committee in terms of being too involved in the operational matters of the municipality”* (participant 2E). Participant 3C revealed a concerning issue that [audit committees’] *“recommendations are always ignored because issues that have to do with human resource and organisational structure, are very sensitive issues for local government”*. Participant 4A concur with the reasons provided. He said that *“Human Resource Committee that actually plays the same role as the audit committee within council, so you will have Human Resource committee which is responsible to look at the organisational structure and managing the human capital within and resources within the municipalities and how the appointments should be done, so”*.

There was sufficient evidence from the participants that it was not necessary for audit committees to advise on human capital resources in municipalities, since there are structures in place for the role and it would entail duplication of the work. However, issues of human resources involving performance management, risk management and effective governance, are areas that the audit committee have a mandate to advise on. Therefore, it is necessary that the audit committee is aware of human resource matters discussed by the Human Resources Committee and give their advice.

There are further actions from the draft Framework for this category.

- 1) The audit committees can improve municipal administration by monitoring and providing expert advice on:
  - c) The structure, roles and responsibilities of the departments within the municipality – (Group level).

Nine (64%) participants agreed with the proposed action in the textbox, while two (14%) partially agree and three (21%) disagreed (refer to annexure 10). The same reasons that were given by participants 2A, 2E, 3A, 3C and 4A in action 1b, also apply to this proposed action. Moreover, participant 2E emphasised that *“There are other specialised oversight structures in place to provide expert advice on the matters listed to council.”*

Due to the reasons provided by the participants, the three proposed actions 1(a), (b) and (c) of the audit committee to advise on matters proposed in the organisational maturity category, was removed from the framework (refer to section 5 of the final framework - annexure 4). Furthermore, emerging concepts came to light.

### Emerging concepts

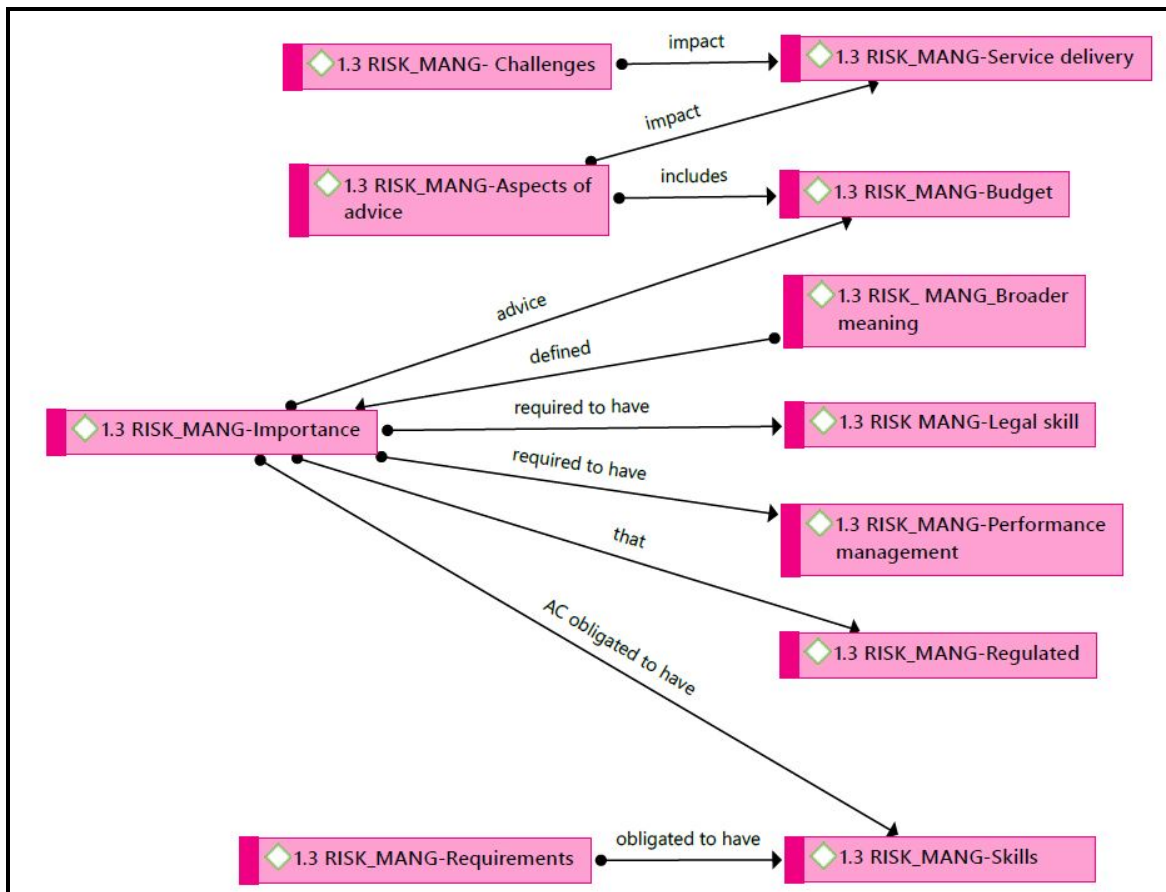
A new concept of good governance was added to the category of organisational maturity, by participant 4A. He mentioned that the audit committees “*are promoters of good governance*”. Another new concept that was raised, was assurance. participant 3A mentioned that the maturity level of the municipalities will be reached when “*the audit committees obtain assurance about compliance with legislation and obtain assurance about these matters as opposed to providing advice*”. She emphasised that audit committees “*are meant to be making sure that the assurance is provided by internal audit, external audit and other service providers like health and safety for example*”.

The participant implied that the role of audit committees is obtaining assurance from the assurance providers regarding compliance with municipal legislation and policies, with regard to organisational maturity. A new action regarding assurance was included in the framework (refer to section 5 of the final framework - annexure 4).

### **5.2.3 Category 3 Risk management**

Figure 5.3 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the risk management category, a category of the Framework that was requiring validation (refer to sections 3.4.1 and 4.2.4, and annexure 4).





**Figure 5.3: Atlas.ti Network output-Risk management-AUDIT COMMITTEE FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.3 summarises the participant-views for this category as follows: Municipalities face risk management challenges that impact service delivery. The data also shows that the audit committee must be sufficiently competent to advise on budget matters that, hopefully, will have a cascading effect, improving financial management and service delivery. The broader meaning for risk management was defined for the framework, instead of listing a few specific items - as in the proposed draft guide. It is important that risk management is regulated to improve the performance of municipalities. The audit committee must be obligated to possess or obtain skills in respect of legal- and performance management that will enable them to provide appropriate advice on risk management.

The draft framework actions verified by the interview participants, are indicated by the grey text boxes.

The audit committee must possess the knowledge and provide expert advice on:

1. The business of the municipality;
2. Risk management system; and
3. Information Technology, Cybersecurity.

All (100%) of the participants agreed with all three proposed actions in the textbox, i.e. that audit committees should have knowledge of risk management and must provide advice (refer to annexure 10). *“Risk management is a key component of the audit committee and the municipal management”* (participant 1C). However, a concern was raised regarding the lack of or insufficient risk management systems within the municipalities. *“The municipalities we evaluate, it’s either there is no one [appointed for risk management responsibility] or there is someone [unexperienced]”* (participant 3B). It was declared that risk management in some municipalities does not have dedicated, experienced human resources. In some instances, the role is allocated to non-expert, existing staff members, such as the CAE.

Participant 4B agreed with the proposed actions, in that risk management knowledge for audit committees must be a requirement. *“At a minimum, the audit committee should have the knowledge and provide advice on risk management”* (participant 4B). The word ‘up-to-date’ was added to the action in the framework to reflect that the audit committees must have current knowledge on risk management (refer to 1.1, actions in 1, for more details).

Participant 1A suggested changes to the draft framework action 3. He stated that *“Number three refers to information technology since then that term has been replaced by ICT and not only IT.”* While participant 4B suggested that *“one should consider leaving the narrative at risk management only because if one specifies something like IT, then one should start specifying other areas as well, for example, fraud risk.”* The suggestion of participant 4B was taken into account, as the broad term of risk management applies to all areas listed in the framework and those that are not listed, but are applicable. Action 3 was rephrased and moved to category 4, ‘Competencies of the audit committee’ - a more appropriate and relevant category dealing with the skills that the audit committee should possess in order to advise the municipality.

Furthermore, participant 2C pointed out that audit committees should be familiar with the risk strategies of the municipality. This idea was taken into account and the action in the framework was rephrased to include risk management strategies (refer to section 3 of the final framework - annexure 4).

### Emerging concepts

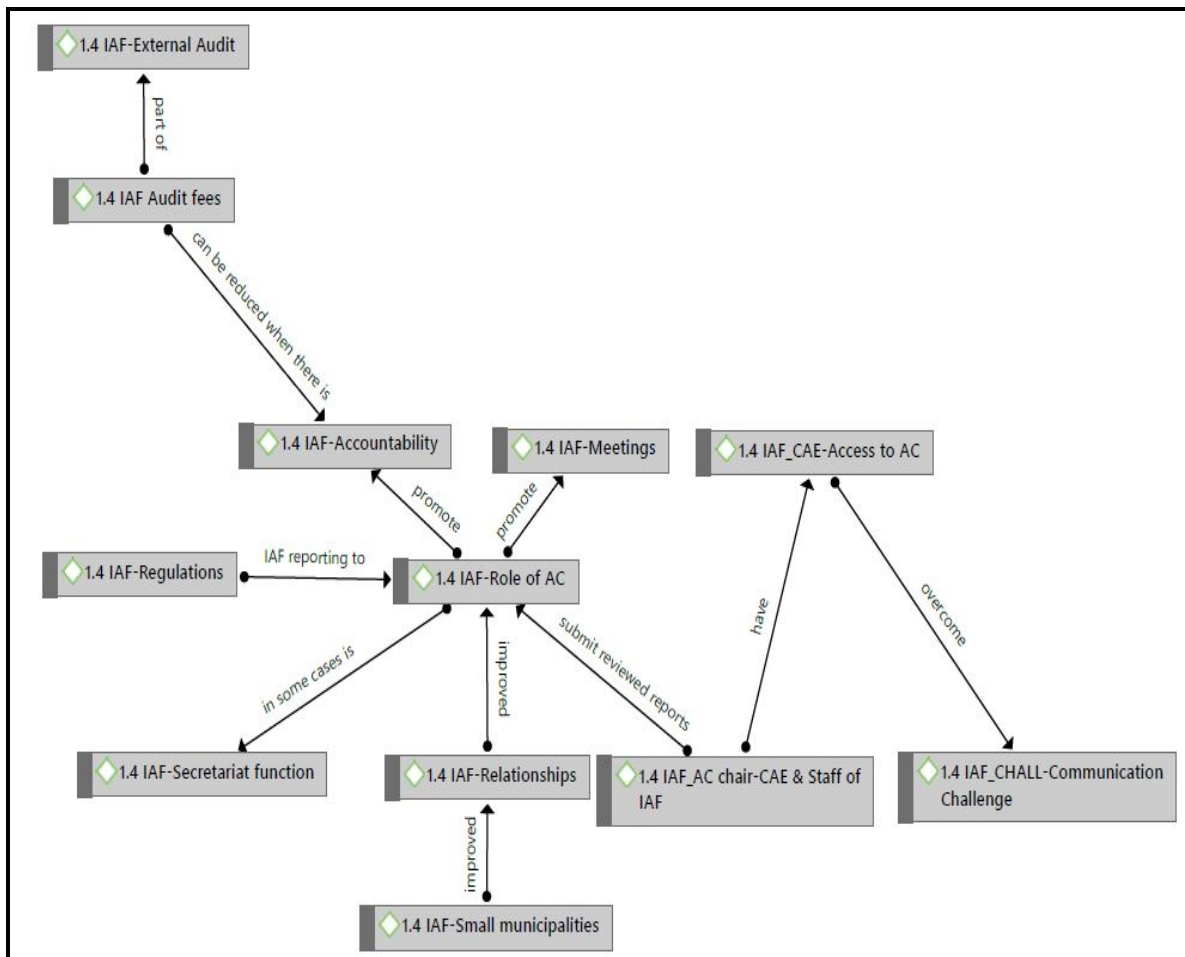
Participant 3B advocated for the regulation of risk management within municipalities. *“In terms of National Treasury, I just feel they need to regulate risk management because there is a lot of room for improvement”* (participant 3B). The framework action was therefore added to refer audit committees to both legislation and best practices for risk management advice (refer to section 1.3 of the final framework-annexure 4).

Other new concepts introduced in this category were challenges faced by municipalities that include service delivery and budget. *“Risk of service delivery”* and *“municipalities losing their finances to deal with the damage that has actually been caused by the service delivery protests”* (participant 4A). The solution to this challenge is for the audit committee to take the role of *“oversight on the financial management, then we can see a minimal risk of service delivery protest”* (participant 4A). A new action was added to the framework to address the risk of poor service delivery (refer to section 1.3 of the final framework- annexure 4).

The concepts of skills, performance management, and advice, from this category, are discussed in category 4, ‘Competencies of the audit committee’, as it is deemed more appropriate.

### **5.2.4 Category 4 Audit functions**

Figure 5.4 was designed in Atlas.ti Network and reflects all the concepts obtained from the participants about the internal audit function, a category of the Framework that required validation (refer to sections 3.4.1 and 4.2.5, and annexure 4).



**Figure 5.4: Atlas.ti Network output-Internal audit function-AUDIT COMMITTEE FRAMEWORK**  
 (Source: Own compilation from Atlas.ti)

Figure 5.4 summarises the participant-views of this category as follows: The external audit fees are part of the external audit. Audit fees can be reduced when there is accountability by the municipalities. Audit committees must promote accountability which can be achieved when the work of the auditors is reliable and staff members of the municipalities are held accountable for not implementing the audit recommendations. The audit committee chairpersons must also promote continuous meetings with the CAE and his/her staff members. All the staff members of the internal audit function must have access to the audit committee. Access to the audit committee by all the staff members of the internal audit function will overcome the challenge of lack of communication or miscommunication between the two parties. The relationship between the audit committee and the CAE should be improved, especially in small municipalities.

Furthermore, it is a regulation that the internal audit function reports to audit committees. The reporting is crucial because it assists the audit committee to give suitable advice. Also, in some municipalities, the role of the internal audit function includes performing secretarial duties for the audit committee. However, some municipalities have dedicated personnel for secretarial duties. The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committee must monitor and provide expert advice on:
  - a) Competencies of internal auditors and competency framework structure of the internal audit function;
  - b) The structure, purpose, authority, responsibilities, competencies, independence, charter, audit plan and resource requirements of the internal audit function.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 10). No further comments were made thus the actions remained unchanged in the final framework. There are further actions from the draft Framework for this category.

2. The audit committee must review internal audit reports to understand the business and risks and also provide the necessary advice.

Thirteen participants agreed (93%) with the proposed action in the textbox, while one participant disagreed (7%) (refer to annexure 10). Participant 2A's reason for disagreement was *"the role of internal audit management and the Chief Audit Executive, is to review the reports of internal audit."* And thereafter *"should report the outcomes of those reports to audit committee to reflect the effectiveness of internal control environment in the organisation. This will form the basis for the audit committee to advise the leadership of the municipality of governance matters"*. Participant 2A was basically stating what the proposed action infers. The action was revised to avoid confusion (refer to section 8 of the final framework - annexure 4).

Also, the action included both internal and external audit (refer to section 1.4 of the final framework- annexure 4). There are further actions from the draft Framework for this category.

3. The audit committee must be up to date with the risk and business issues escalated by the CAE and use good judgement to evaluate and render advice.

All (100%) of the participants agreed with the proposed actions in the textbox. No further comments were made (refer to annexure 10). The action remained unchanged in the final framework. There are further actions from the draft Framework for this category.

4. The CAE should have unrestricted access to the chairperson of the audit committee.

Twelve (86%) interview participants agreed with the proposed action, while two (14%) participants partially agreed (refer to annexure 10). Participant 1A mentioned that the entire team of internal audit function should [have access] *“to the audit committee, not only to the Chair”*. Participant 2C concurred with this view, expressing that the audit committee chairperson *“must also have continuous meetings with the staff, the internal audit staff in the presence of the CAE so that the internal audit staff are able to raise certain things that maybe they are unable to raise with the CAE.”* The divergence of this statement, though, is the intention that meeting with staff members, to raise issues that could not be raised with the CAEs, should happen in the presence of the CAEs - it can be awkward for staff members to raise conflicting issues in the presence of CAEs. Municipalities are organisations with lines of authority, it will not be proper for a subordinate to discuss an issue with the audit committee, without the CAE’s knowledge. Therefore, it is necessary for the CAE to be present in all meetings, as the head of the internal audit function and also to avoid confusion.

The framework action was revised to include all audit committee members and all the staff members of the internal audit function, but did not specify that the meetings must be in the presence of the CAEs. There are further actions from the draft Framework for this category.

5. The audit committee chairperson must meet frequently with the CAE, in

preparation for the audit committee meeting and prioritising the agenda.

All (100%) of the participants agree with the action in the textbox (refer to annexure 10), however, participant 4B raised a valid point to “*separate the audit committee secretariat function with [from] the internal audit unit because at some municipalities the Audit Committee Secretariat is done by council secretariat or even a dedicated Audit Committee Secretariat but at others, it is done by the Internal Audit Unit.*” The action was revised to remove the CAEs as secretariat and rather use the general term of ‘audit committee secretariat’. The action was moved from this category and added to the relevant category 2. ‘The audit committee mandate’, as it was no longer linked to the internal audit function (refer to section 5 of the final framework - annexure 4). Furthermore, emerging concepts were debated.

### Emerging concepts

Participant 4B suggested that the framework must include an external audit. The suggestion was taken into account and actions regarding external audit were added to the framework. The category heading ‘internal audit function’ was changed to ‘audit functions’ to accommodate external audit function (refer to section 8 of the final framework for both Frameworks - annexures 4, 5 and 6)

Participant 3C encouraged accountability practice i.e. [audit committees] “*hold management accountable for not implementing all the recommendations so that internal audit can be seen to be effective.*” The legislation does not explicitly authorise audit committees to hold management liable for not implementing audit recommendations. However, the audit committee can report the matter to the council. Council has the ultimate power to hold management liable. Implementation of audit recommendations is “*one of the key issues for reducing audit costs*” (participant 3C) referring to external audit fees. A new action was added to the framework to reflect this matter (refer to section 8 of the final framework - annexure 4).

Another concept of regulations relates to “*Section 165 of the Municipal Finance Management Act that actually requires the internal audit to advise the accounting officer and also to report to audit committee*” (participant 4A). The information was proffered by the participant to support the role of the audit committee in directing the

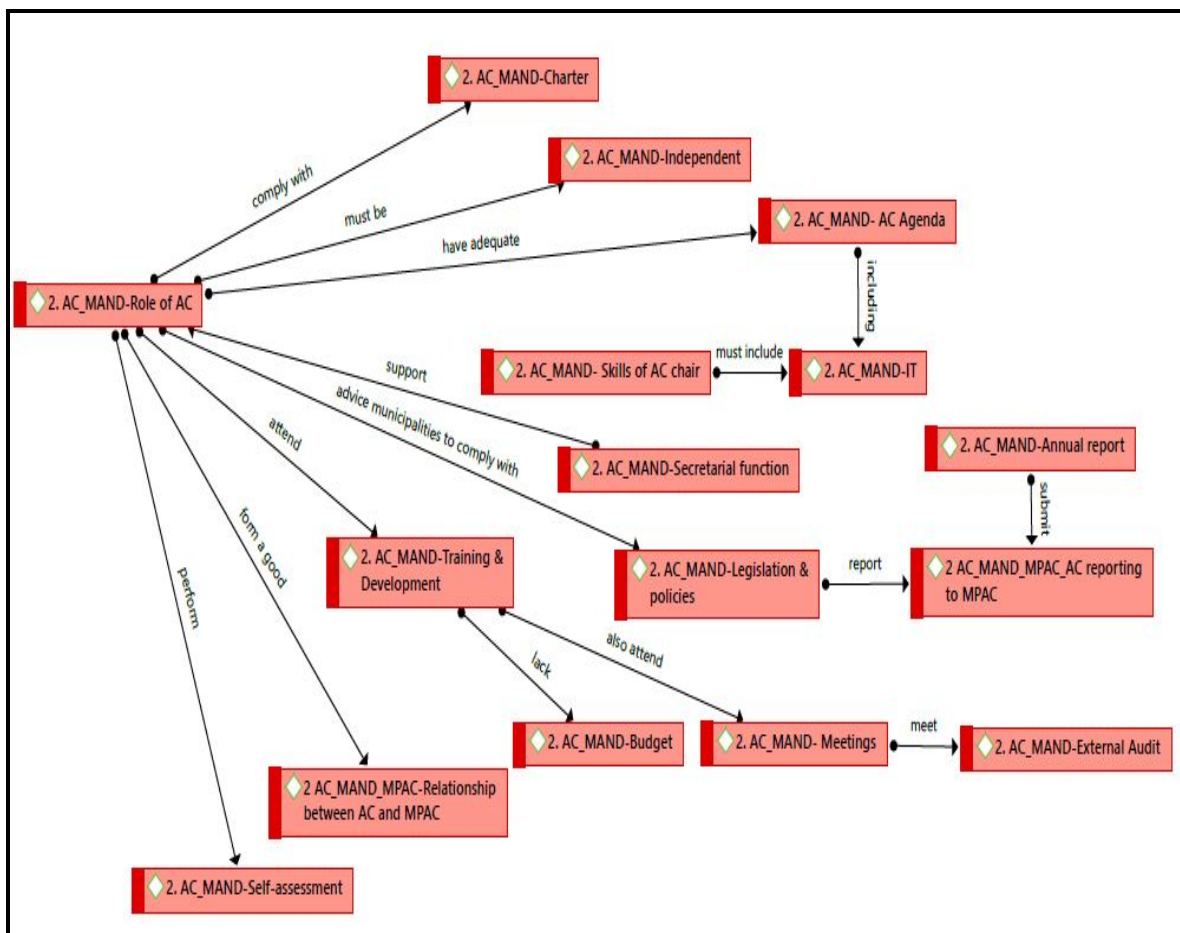
internal audit function. No action was added to the framework as the role of the audit committee concerning internal audit function had already been included in the framework.

Furthermore, the concepts of communication challenges, relationships, meetings and small municipalities reveal a concern that *“the relationship with the audit committee and the CAE’s, some of the smaller ones is not up to standard, so there is room for improvement on that side”* (participant 3B). To improve the relationship between audit committees and the internal audit function, all staff members of the internal audit function’s access to audit committees is encouraged. It is believed that it will reduce the risk of communication failure caused by *“restriction between personalities”* (participant 1A), between the CAEs and audit committee members. The aspects of these concepts were added to category 4. ‘Competencies of the audit committees’ (refer to section 8 of the final framework - annexure 4).

#### **5.2.5 Category 5 The audit committee mandate**

Figure 5.5 designed in Atlas.ti Network, reflects all the concepts contributed by the participants about the audit committee mandate, a category of the Framework that required validation (refer to sections 3.4.2 and 4.3, and annexure 4).





**Figure 5.5: Atlas.ti Network output- The audit committee mandate-AUDIT COMMITTEE FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.5 summarises the views of the participants for this category as follows: The role of the audit committee must be independent and comply with the charter. The audit committee agenda must be adequate and include matters such as information technology. It is vital that the skills of the audit committee chairperson include information technology skills. Also, the audit committee chairperson must not be unduly influenced when setting the agenda - the chairperson must be independent.

Furthermore, municipalities should have a secretariat function that supports the role of audit committees. The role of the audit committee is to advise municipalities to comply with legislation and policies. It is also legislated that the audit committee's annual report is submitted by the chairperson, to form part of the integrated report from MPAC. The audit committee members must attend the relevant meetings and workshops that will empower them. However, in most cases, municipalities lack the budget for training and developing audit committee members to perform their roles

optimally. The chairperson of the audit committee must arrange and attend meetings with the external auditor to discuss the challenges that external auditors experience in the municipalities. There must be a good relationship between the audit committee and the MPAC. Lastly, it is the role of the audit committee to perform self-assessment.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committee must:

- a) Offer relevant, timely, credible, fair and unbiased advice that will enhance the work of the municipality; and
- b) Comply with terms of reference from legislation and the audit committee charter.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 10). No further comments were made, thus the actions remained unchanged in the final framework. There are further actions from the draft Framework for this category.

2. The audit committee's charter must stipulate that:

- a) The audit committee's work plan should be aligned to the charter's provisions;
- b) Agendas for the audit committee's meetings should be composed in accordance with the provisions of the charter;
- c) Records for the meeting minutes should be kept in a safe place; and
- d) The audit committee must conduct annual self-assessment.

All (100%) of the fourteen participants agreed with the proposed actions in the textbox (refer to annexure 10). Participant 3B mentioned that there is also a need for "*alignment between the internal audit and the audit charter*", with reference to the audit committee charter. This view was added to the framework, including alignment with the external audit function, as well. Furthermore, participant 2E suggested that "*the charter should also refer to the competencies of the audit members*". This view

was also added to the framework (refer to section 5 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

3. The chairperson of the audit committee should:
  - a) Possess strong communication skills to bring an understanding of the committees' mandate to relevant municipal stakeholders;
  - b) Attend to private meetings and periodic calls with the relevant municipal stakeholders to gain an understanding of municipal undertakings; and
  - c) Execute reporting that will assist the council to understand the role and usefulness of the audit committee.

All (100%) of the fourteen participants agreed with the proposed actions in the textbox (refer to annexure 10). Participant 2C support the idea of meetings. He suggested that the audit committee chairperson should “*have engagement with the AG [Auditor General] so that they at least can also discuss about challenges that are faced by the AG as they engage with the municipality*”. This concept was added to the category titled ‘Audit functions’ (refer to section 8 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

4. The new audit committee members must:
  - a) Attend programmes (induction, training etc.) that will enhance their knowledge;
  - b) Attend scheduled meetings and workshops with the municipal stakeholders to acquire relevant information;
  - c) Read recent minutes of audit committee meetings to gain understanding of the matters discussed in the audit committee; and
  - d) Understand the material (information pack) provided and contribute to the meetings; and
  - e) Maintain good relations with the key stakeholders of the municipality.

All (100%) of the fourteen participants agreed with the proposed actions in the textbox (refer to annexure 10). Although the participants agreed that training is necessary, “*municipalities don't have enough budget for training and development. They don't cater for training needs of audit committee members*” (participant 3C).

Therefore, the audit committee must employ alternative methods to learn about the municipal environment. The framework has already suggested relevant meetings and workshops with municipal stakeholders. Participant 2C proposed that the audit committee members or the chairperson must attend the municipalities' "*strategic planning*" meetings. However, it has already been decided in discussion of the category '1.2 Organisational maturity' that there is no need for the committee to attend such meetings, as members can simply obtain assurance about the organisational strategy and structure from the assurance providers, such as the internal auditors. There are further actions from the draft Framework for this category.

- 5) The audit committee chairperson must be highly experienced; professional; sceptical; confident with high integrity; organised and proactive; have strong communication and interpersonal skills; and be willing to devote the time and energy necessary.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 10). No further comments were made, and the action remained unchanged in the final framework. There are further actions from the draft Framework for this category.

- 6) The audit committee chairperson must possess:
  - a) Vast experience in leadership and knowledge of financial management, accounting, audit, governance, risk, industry, organisational culture and management behaviour;
  - b) Communication-, presentation-, writing- and reporting skills;
  - c) The ability to:
    - i. Facilitate meetings
    - ii. Lead discussions; and
    - iii. Encourage other members to attend meetings and participate meaningfully in meetings;
  - d) Competencies to build relationships with council, management, other stakeholders of the municipality and fellow audit committee

members;

- e) Persuasion skills to convince council and management to adopt audit committee advice;
- f) Competencies to develop and execute an annual work plan; and
- g) Capabilities to identify skills gaps in the audit committee and request council to appoint necessary experts.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 10). In addition to the skills required for the chairperson, participant 2C mentioned that “*the Chair of the audit committee must also have IT skills*”. The chairperson needs these skills to facilitate online meetings. Participant 4B supported this view. He suggests that the researcher “*define what constitutes a meeting. It should be more than the physical coming together at a premises to meet. It can also include virtual meetings like a video conference*”. This view was considered and included in the framework (refer to section 5 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

- 7) The audit committee chairperson must be independent and objective when influencing the agenda of the meeting and facilitating the meetings.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10). Participant 4B mentioned that “*the audit committee chairperson sets the agenda, he doesn't influence, he has the final say over it*”. The word ‘influencing’ was thus replaced with ‘setting’, in the framework. Furthermore, participant 3B raised a concern about the completeness of the agenda. He mentioned that “*sometimes the IT is not always even on the agenda.*” An action was added to endorse that the agendas must address all the necessary and crucial items (refer to section 5 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

- 8) The audit committee chairperson must deliver quality reports to council and the MPAC.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10). Participant 1A raised an important detail, that “*the audit committee can*

*provide input into the oversight board and by way of doing that, they can submit an annual report.*” According to the participant, the textbox-sentence was confusing, as it includes the MPAC. The sentence was revised (refer to section 5 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

9) The audit committee chairperson must promote the audit committees’ annual self-assessment.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10). Participant 3B raised a concern that the audit committees “*don’t do self-assessments through the work plan*”. The proposed action was thus rephrased. It was further suggested that the following stakeholders must assess the audit committees: “*council should assess the audit committee, the municipal manager maybe, external audit and internal audit*” (participant 4B). For this view to be relevant to audit committees, the action was amended to state that the council and other relevant parties within the municipalities, should assess the performance of the audit committee. This view was added to the ‘municipal Framework’, ‘2. The audit committee mandate’-category (refer to section 5 of the final framework - annexure 4). In addition, emerging concepts were discussed.

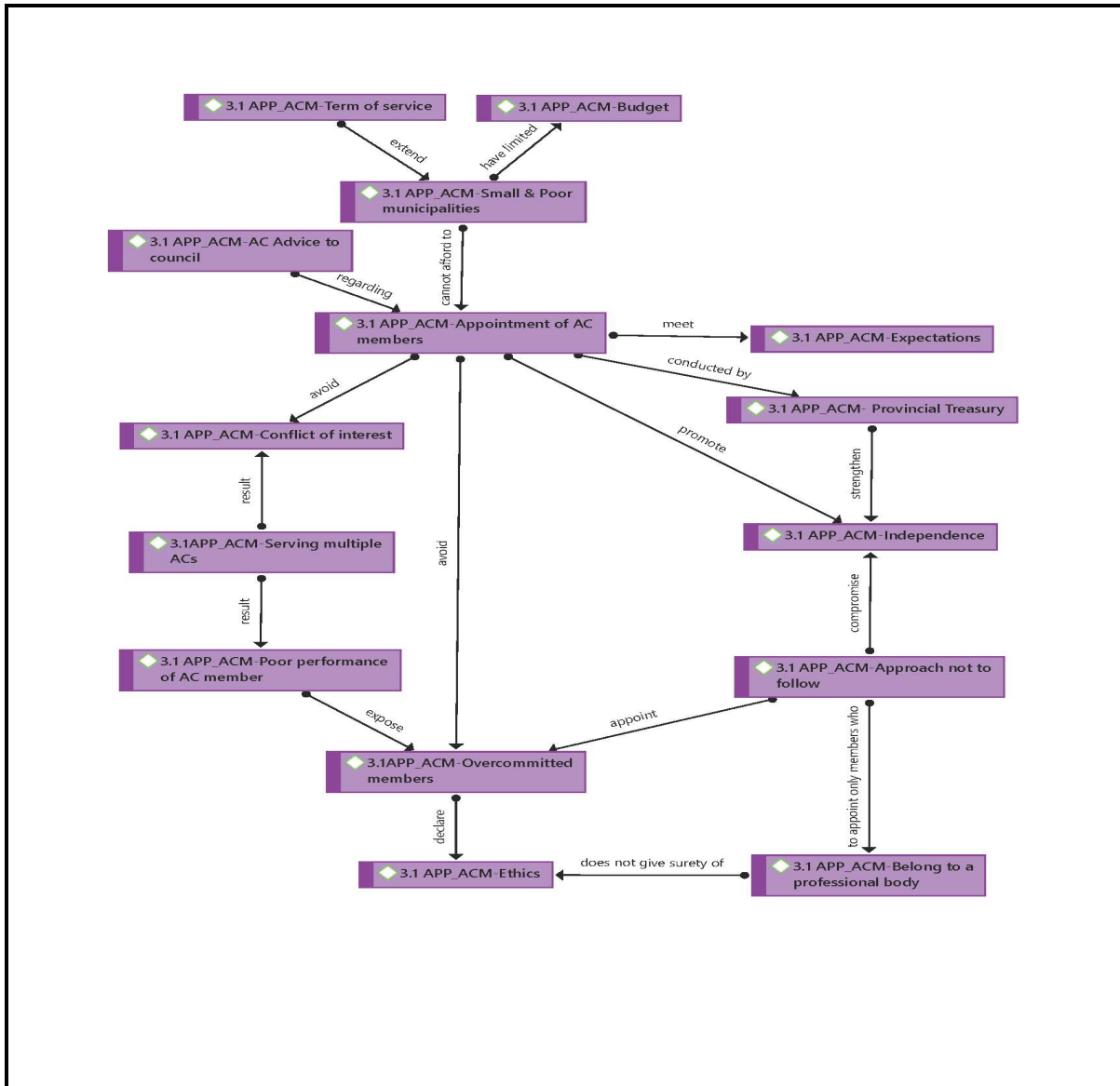
### Emerging concepts

Participant 3C mentioned that the “*audit committee should also ensure that the municipality complies with all applicable legislation and policies*”. However, it is not the role of the audit committee. Their role is “*to advise the municipality and council on legislative issues*” (participant 1C). Therefore, the view of participant 3C was not considered.

Furthermore, participant 1A encouraged a relationship between the audit committee and the MPAC chairperson. He proposed that the relationship could be fostered “*through an invitation of the MPAC Chair to your audit committee*”. The view was added to the framework (refer to section 5 of the final framework - annexure 4).

## 5.2.6 Category 6 Appointment of audit committee members

Figure 5.6 designed in Atlas.ti Network reflects all the concepts obtained from the participants about the appointment of audit committee members, a category of the Framework that required validation (refer to sections 3.4.3 and 4.4, and annexure 4).



**Figure 5.6: Atlas.ti Network output- Appointment of audit committee members- AUDIT COMMITTEE FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.6 summarises the views of the participants for this category as follows: The small and poverty-stricken municipalities have a limited budget and cannot afford to appoint skilled audit committee members. It was suggested that the term of service for audit committee members in small and poor municipalities be extended.

Furthermore, independence is compromised when the appointment of audit committee members is executed by the accounting officers, and not the council. If the appointment of audit committee members can be accomplished by Provincial Treasury, their independence will be strengthened. The existing audit committee members should advise the council regarding the expertise needed when they appoint new members. The appointed members must avoid being overcommitted and disrupted by other services, however, they must meet the expectations.

When audit committee members are appointed, a conflict of interest should be avoided. Conflict of interest can happen when a member is serving the municipalities, and organisations that are stakeholders of the municipalities, simultaneously. Serving on multiple committees may result in poor performance, compromise independence, and cause a conflict of interest. Conflict of interest may arise when members simultaneously serve municipalities and its stakeholders, such as its suppliers. The council should not appoint overcommitted audit committee members and also limit appointment to only those members affiliated to a professional body. However, association with a professional body does not guarantee ethical behaviour - the audit committee members must possess sufficient integrity to declare that they are overcommitted, even though their poor performance will expose them if they are overcommitted. An opposing opinion was that, if the number of committees serviced is limited, the municipalities can be deprived of the opportunity to be served by experienced and knowledgeable members.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

- 1) The audit committee members should not safeguard the interest of those who appointed them, at the expense of the municipality and its stakeholders.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10). Participant 1C claimed that “*there is always conflict of interest*”. Also, according to participant 2C, in some municipalities, “*the accounting officer also is playing a part in the appointment of the audit committee so the independence of the audit committee can be compromised*”. It is therefore vital that the appointment is



done by the correct structure, to avoid impaired independence. A new concept was introduced by participant 2C, to reduce the risk of conflict of interest, suggesting changing the responsibility of “*the appointment of the audit committee to Provincial Treasury just to strengthen their independence*”. His suggestion makes sense, as councillors and other illicit parties that appoint audit committees will then not have the opportunity to appoint members that serve their personal interest. The proposed action was augmented to include the view of participant 2C (refer to section 6 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

2) The audit committee members should not serve on multiple audit committees as that can impact their performance negatively.

Thirteen (93%) of the participants agreed with the proposed action in the textbox and only one (7%) member disagreed (refer to annexure 10). Participant 1C disagreed with the proposed action, arguing that it is incorrect to assume that members serving on multiple committees are not committed. He said the measure of service “*is dependent on [his] performance at the day*”. He argued that some members are retired from daily jobs and possess vast experience - all they do is to serve on multiple committees. Therefore, their performance is not impacted negatively because they do have the time to prepare. He mentioned that it is sufficient that “*they must provide a declaration*” that they serve on multiple committees and they will be able to perform a quality service. He expressed that if the chairperson notices that the individual is overcommitted, the member must then be released from the committee.

His view about retired members, and in some cases otherwise unemployed members, having capacity, is valid. However, deriving most of their income from audit committees may impair such members’ independence as they might want to please those that appointed them. Therefore, audit committee members should be gainfully employed elsewhere, with limited seats on different audit committees. The limitations on the number of audit committees serviced at one time, should thus be the same for all. The participant view was not inserted to the final framework. There are further actions from the draft Framework for this category.

3) The audit committee members must be affiliated to a professional body.

Eleven (79%) of the participants agreed with the proposed action in the textbox, while three (21%) disagreed (refer to annexure 10). A fair point was made, that “*not all people that is [sic] knowledgeable belong to a professional body*” (participant 1A). Also, some members are not even professionals, so they will not have the professional body to subscribe to. Therefore, the action can only be possible if “*we are going to have a professional body specifically for audit committees.*” Participant 1A presented a valid argument, that “*the mere fact that you belong to a body will not increase your ethics.*” Although these participants’ views are valid, it is an added advantage that those audit committee members who are professionally qualified are allied to a professional body. The professional bodies boast codes of conduct and disciplinary measures for members who fail to comply with the codes and affiliation thus enhances the ethical behaviour of the member (refer to section 6 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

4) The audit committee must render expert advice to the council regarding the expertise needed.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10). Participant 4C expressed that it was important that the council receive advice from the audit committee regarding the expertise needed. It assists the council to make the “*right decision when appointing and approving audit committee members*” (participant 4C). No amendments were made to the action and emerging concepts were discussed.

#### Emerging concepts

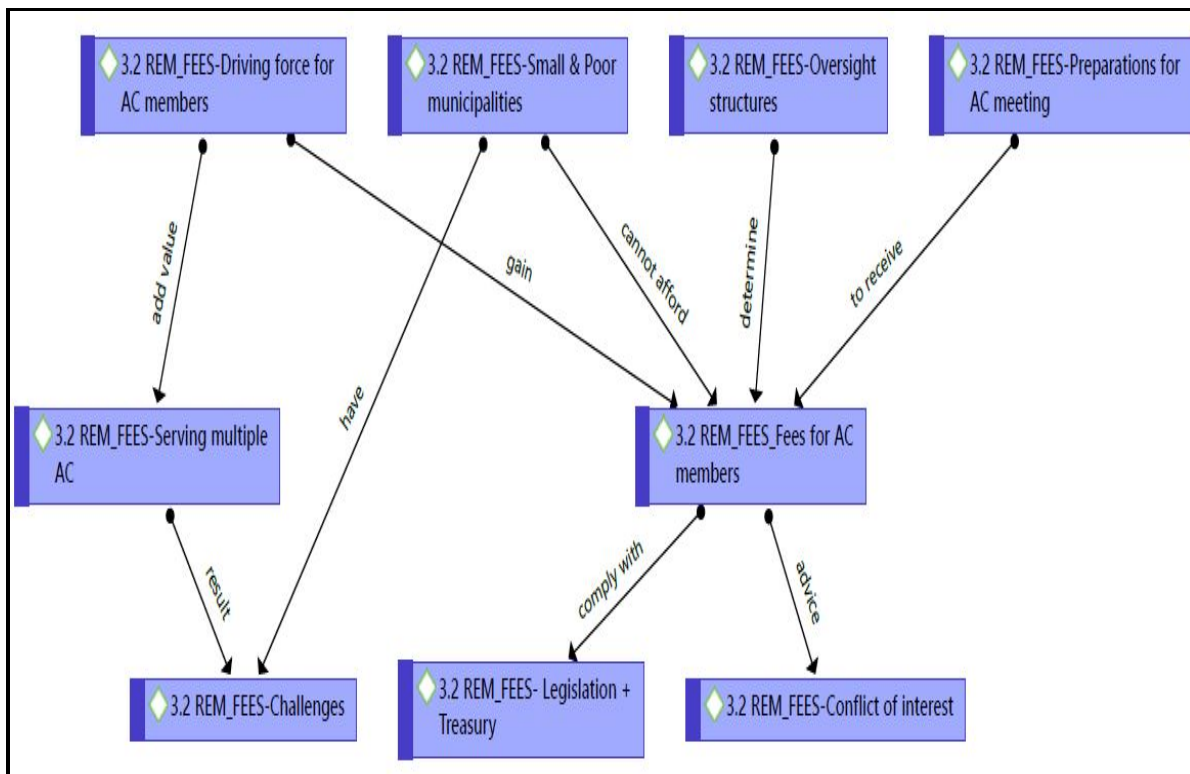
Some municipalities are struggling to acquire skilled audit committee members owing to the location of the municipality and its limited budget. Participant 3C recommended an extension of the period of service for audit committees serving in these areas. “*Instead of saying two terms, maybe make it three terms to allow municipalities to retain skilled members*” (participant 3C). The recommendation was not considered for the framework as it promotes a high risk of familiarity and lack of independence of

the audit committee, based on the posited longer-term relationship. Instead, participant 3B raised an interesting idea of online meetings for such municipalities. He suggested that “*because we are in the technology era, maybe the use of Zoom, would maybe assist them getting better ones [audit committee members] if they are willing to move towards that*” (participant 3B). This view was regarded as cogent and was added to the Framework (framework) of the municipality (refer to section 6 of the final framework - annexure 4) instead of the audit committee’s guide, as the action of appointing such members is executed by the municipal council.

Furthermore, participant 4B thought it necessary that the framework should “*mention the ideal size of an audit committee*”. His view was included in the framework of the municipality and not that of the audit committee, as the charge must be implemented by the council and council should appoint a sufficient number of members to the committee.

### **5.2.7 Category 7 Remuneration of audit committee members**

Figure 5.7 was designed in Atlas.ti Network and reflects all the concepts obtained from the participants about the remuneration of audit committee members, a category of the Framework that required validation (refer to sections 3.4.3 and 4.4.4, and annexure 4).



**Figure 5.7: Atlas.ti Network output- Remuneration of audit committee members- AUDIT COMMITTEE FRAMEWORK**

*(Source: Own compilation from Atlas.ti)*

Figure 5.7 summarises the participant-views of this category as follows: Serving on multiple audit committees may result in various challenges. There were two contradicting views raised as a driving force for audit committee members to serve on multiple committees. The views were first to add value and secondly to benefit from the fees. It is fair to and expected of members to receive remuneration when preparing for meetings. The oversight structures of the government must determine fair audit committee fees, in compliance with regulations of National Treasury. There is no need for the audit committee to advise about its own fees, as this would present a conflict of interest. Furthermore, small and poverty-stricken municipalities are encountering a challenge of not being able to afford to pay the audit committee fees.

The draft framework actions that verified by the interview participants are indicated by the grey text boxes.

1. The audit committee member should not over-commit to serving on different committees in order to receive high remuneration.

Thirteen (93%) of the participants agreed with the proposed action in the textbox, while one (7%) participant disagreed (refer to annexure 10). Participant 1A argued that, [although] *“the circular states no more than three committees but you [we] must be realistic in South Africa we have professional audit committee members and that is all that they do.”* He is convinced that *“they want to add value”* more than desiring to receive high remuneration. Another cause of multiple committee seats is that it can be *“difficult to limit people because especially in the rural municipality where skills are not available, then you tend to have a member sitting in more than five audit committees”* (participant 1C).

The quality of service is a concern when audit committee members serve on multiple committees. They need to spend sufficient time in preparation for the meetings, in order to provide adequate advice to the municipality. Also, meetings of the *“committees [can] happen on the same days that members tend to fail to attend both meetings”* (participant 1C). They must, therefore, avoid serving on multiple committees that will prohibit them from being effective in their work. The action remained unchanged, as it is clear that there are challenges in serving on multiple committees, especially if the primary motive is to receive high remuneration instead of adding value and the majority of the participants agreed to the action. There are further actions from the draft Framework for this category.

2. The audit committee can render expert advice regarding the remuneration policy and rates for audit committee members.

Seven (50%) of the participants agreed with the proposed action in the textbox, while one (7%) partially agreed and six (43%) disagreed (refer to annexure 10). The participant that partially agreed with the action mentioned that *“the audit committee must rather refer to best practises than prescribing what should be their remuneration”* (participant 1B). The recommendation of benchmarking was found to be relevant to National Treasury, as it determines the fees.

The participants that disagreed with the action, raised the concern of conflict of interest. *“I say no they will have a conflict of interests in this regard”* (participant 2A). *“You can’t determine your [own] fees”* (participant 1C). *“There is a possibility that they might not be really objective about the remuneration because you know if something favours you”* (participant 2B). Furthermore, participants 1A, 1B, 2E and 3A believe that National Treasury is a sufficient oversight structure that determines the fees for the audit committee and that there was no need for a greater oversight structure. Therefore, based on the valid concerns of the participants who disagreed, the action was removed from the framework. Furthermore, emerging concepts were discussed.

### Emerging concepts

Although the National Treasury is the oversight structure responsible for regulating the remuneration rate, there was a concern that the remuneration is not adequate. *“MFA circular provides a rate and that rate is not commensurate an hourly rate. It’s a flat rate and it is [sic] not suffice to keep professionals in audit committees”* (participant 1A). Participant 3B supports the view that audit committees *“are underpaid, especially the professionals.”* Participant 3C agrees and adds that: *“these sometimes create problems in attracting the right individuals and leading to high turnover making the audit committee ineffective”*. Although these views are regarded as valid, the solution could be considered and provided by National Treasury. Hence, this discussion did not form part of the final framework for audit committees, as it falls within another sphere of government’s mandate.

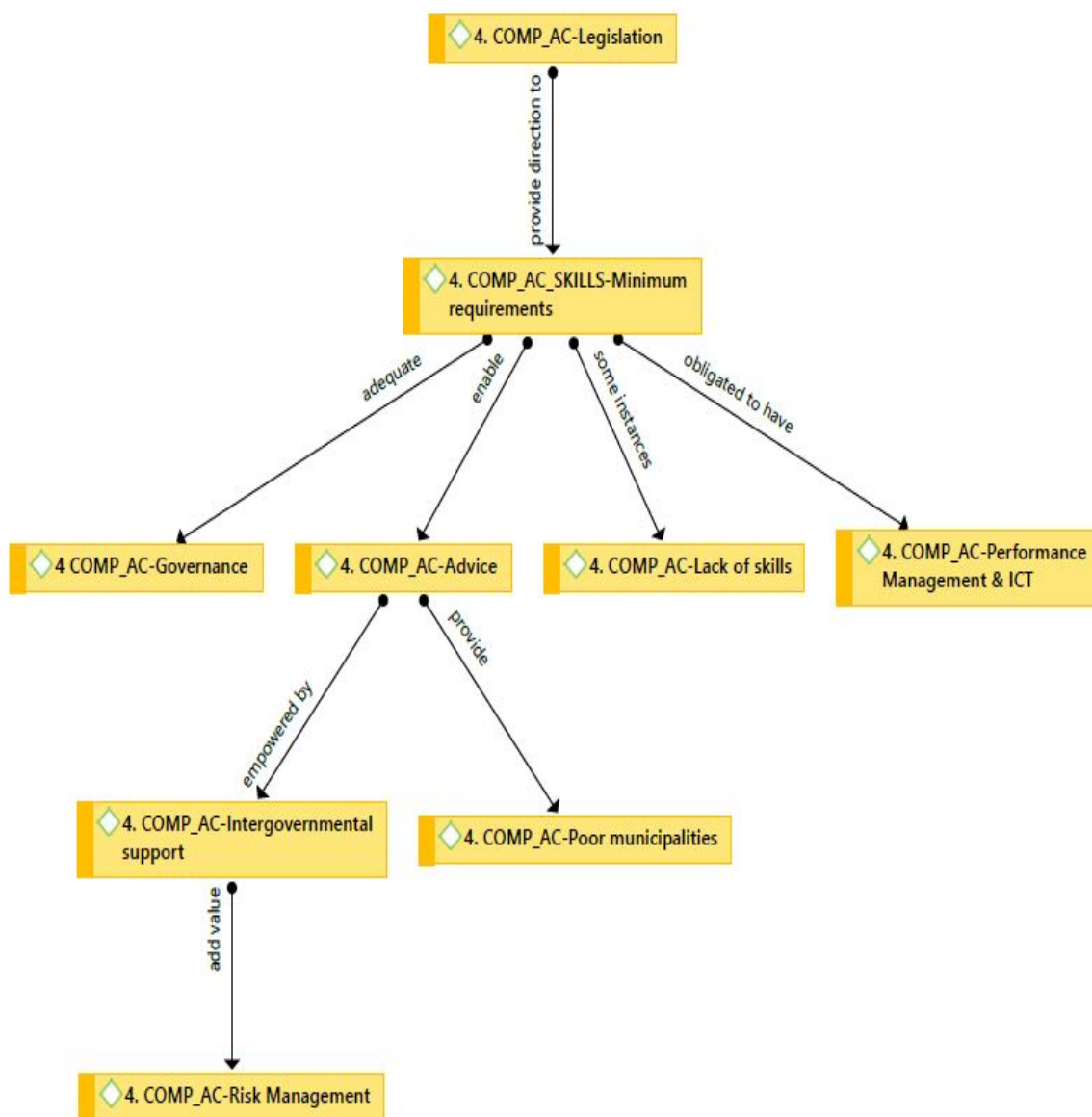
Also, the concern that *“MFMA circulars prohibit municipalities remunerating audit committee members in the employ of the State”* (participant 3C), is relevant to National Treasury’s authority and is thus not addressed in the framework.

Furthermore, it was a concern that *“the smaller ones [municipalities] can’t really pay the rates as per the audit committee Charter rates. That is a problem”* (participant 3B). Participant 1B recommended that the treasuries bear the responsibility of ensuring that municipalities in remote areas attract audit committee members with the necessary skills. This is, perhaps, more of an ideal than a reality, thus the option of virtual audit committees (connectivity permitting) might be of greater assistance than in the pre-virtual times. When treasuries address the quandary, situations

where audit committee members serve on multiple committees of more than five at a time - as mentioned by participant 1C - will be eliminated. Again, the matter concerns the treasuries and is not included in the framework for audit committees or municipalities.

### 5.2.8 Category 8 Competencies of the audit committees

Figure 5.8 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants regarding the competencies of audit committees, a category of the Framework requiring validation (refer to sections 3.4.4 and 4.5, and annexure 4).



**Figure 5.8: Atlas.ti Network output- Competencies of the audit committees- AUDIT COMMITTEE FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.8 summarises the views of the participants for this category, as follows: It is important that legislation provides direction on what should be considered as best practice, for the minimum skills required for audit committees. The audit committees, as part of the governance structure, must possess the minimum diverse skills or competencies required to enable them to provide adequate advice to the municipalities. In some instances, municipalities lack the minimum required skills, i.e. in remote or smaller municipalities. Audit committees must be obligated to possess the skill of performance management, as well as information- and communication technology (ICT). The advice of the audit committees must be supported by the intergovernmental structures. The impact of the intergovernmental support must add value in managing the risk of the municipalities. The audit committees must provide advice on how to attract the necessary skills, especially in poor municipalities.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committee members should understand their roles and responsibilities, and possess knowledge, skills, abilities and the suitable attitude to perform their duties.

All (100%) of the participants agreed to the proposed action in the textbox (refer to annexure 10). No further comments were made, and the action remained unchanged in the final framework. There are further actions from the draft Framework for this category.

2. The audit committee must be comprised of the appropriate blend of competencies, both financial and non-financial.

All (100%) of the participants agreed to the proposed action in the textbox (refer to annexure 10). Participant 2E stated: “*performance management, audit and ICT as [are] prerequisites in terms of competency*”. Participants 3C and 2E supported this view in the Risk management category. They mentioned: “*legal, finance, internal audit and performance management*” as crucial competencies. However, their opinion is limited to internal audit and the competencies should also include an external audit. Participant 1C supported the necessity for legal competencies as well



and added economic- and environmental competencies. The economic competencies should form part of the finance expertise in proposed action 3. The environmental competencies require scientists and engineers, who are experts in environmental matters.

Furthermore, participant 1C mentioned another core skill, as “engineering”. *“You need engineers on the audit committee because there are technical issues that committees need to advise council on”* (participant 1C). Participants 3B and 4A supported this view, that audit committees should comprise engineers. However, there was a concern that *“there isn’t necessarily enough engineers”* (participant 3B). This implies that the core skill is lacking in audit committees. All the competencies suggested by the participants were considered in the framework (refer to section 8 of the final framework - annexure 4).

Participant 2E declared, in the Risk management category, the importance of audit committees to have competencies in risk management and be able to provide expert advice on *“the risk management portfolio such as the combined assurance model as well as business continuity management and anti-fraud and corruption.”* This view was included in the framework (refer to section 8 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

### 3. The audit committee must include a financial expert.

All (100%) of the participants agreed to the proposed action in the textbox (refer to annexure 10). No further comments - the action remained the same in the final framework. There are further actions from the draft Framework for this category.

- ### 4. The audit committee must possess knowledge and understanding of the:
- a) Municipal environment, risks and legislation; and
  - b) Structures, powers and functions of all the institutions associated with the municipalities.

All (100%) of the participants agreed to the proposed actions in the textbox (refer to annexure 10). The word ‘up-to-date’ was added to reflect that the audit committee must possess current knowledge (refer to section 1 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

5. The audit committee must hold sufficient knowledge concerning intergovernmental relations and support, in order to provide useful advice to the municipality.

All (100%) of the participants agreed to the proposed action in the textbox (Refer to annexure 10). No further comments were added, and the action remained unchanged in the final framework. There are further actions from the draft Framework for this category.

6. The audit committee chairperson is to attend intergovernmental forums consisting of mayors or administrators that share knowledge and best practices concerning strategy, plans, goals, and solutions to municipal problems, to gain an understanding of the municipality and intergovernmental support.

Thirteen (93%) of the participants agreed to the proposed action in the textbox and one (7%) disagreed (refer to annexure 10). Participant 2A disagree with the proposed action as the forum discusses operational matters that do not involve the audit committee. She suggested that the *“audit committee Chair can attend seminars where all stakeholders attend to discuss and share information of specific issues of common interest relating to governance.”* The action was rephrased, by not being specific and limited to intergovernmental forums. The revised action included all possible gatherings that relate to governance (refer to section 8 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

7. The audit committee should hold sufficient knowledge to render useful advice regarding:

- a) Services provided by the municipalities;
- b) Collecting revenue, and debt recovery from the municipal debtors (the residents);
- c) Municipal infrastructure and its maintenance; and
- d) Disciplinary measures regarding inappropriate appointments and

poor performing municipal staff members.

All (100%) of the participants agreed to the proposed actions in the textbox (refer to annexure 10). Regarding 7(b)'s action, participant 4B observed that "*municipal debtors can include other people as well*", not only residents. The word 'residents' in reference to the debtors was thus removed from the final framework, to avoid the restriction (refer to section 8 of the final framework - annexure 4). He raised another valid point for action 7(d) that "*there are many other areas there that can also trigger disciplinaries*". Therefore, the framework should not be limited to 'unqualified appointments' and 'poor performance'. This view was considered and the specified causes of disciplinary measures were removed, to accommodate a wider scope (refer to section 8 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

8. In addition to (7 above), the audit committee of the poor rural municipalities must hold sufficient knowledge to render advice on:
  - a) How to increase income for the municipality;
  - b) How to attract competent human resources, including audit committee members.

All (100%) of the fourteen participants agreed to the proposed actions in the textbox (refer to annexure 10). Participant 4B argued that the action should not only address audit committees of poor, rural municipalities but "*audit committees of any type of municipality should be able to do that specific advice and actually do it*". The action was amended to include audit committees from all the municipalities. Furthermore, action 8(b) was removed as the action is already addressed by the category '1.2, Organisational maturity'. The participants stated that audit committees should not be involved with municipal human resource-issues, as the oversight structures that are responsible for such already exist. Also, the action of audit committees advising on the expertise needed in the committee, is addressed in the category '3.1 Appointment of audit committee members' (refer to section 6 of the final framework - annexure 4). Furthermore, emerging concepts were discussed.

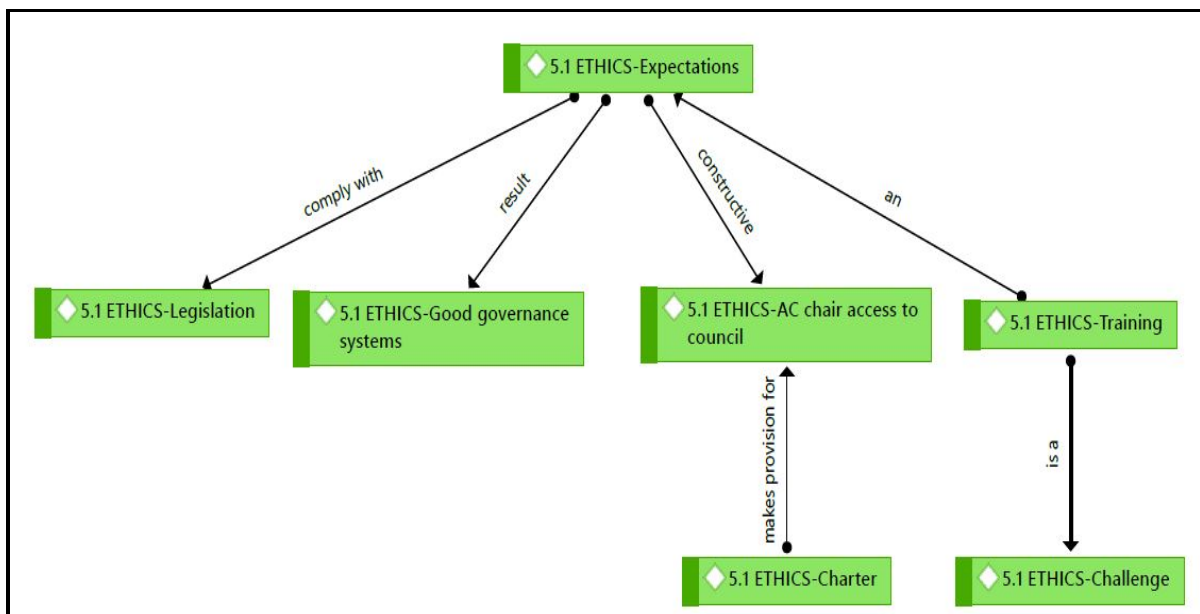
Emerging concepts

The concept of legislation was remarked on by participant 1C, who was concerned that “the MFMA circular only speak about an audit committee must have appropriate experience but experience is not defined”. However, MFMA Circular No 65 list the skills and experience required for audit committees, thus no further amendment was made to the framework.

Participant 3A mentioned that audit committees “need to be aware of all legislation and they need to make sure that they are maintaining their CPD in that respect because they are being paid for the knowledge and experience that they have.” A new concept of continuous professional development was added to the actions in this category (refer to section 8 of the final framework - annexure 4).

### 5.2.9 Category 9 The ethical conduct of the audit committee members

Figure 5.9 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the ethical conduct of the audit committee members, a category of the Framework requiring validation (refer to sections 3.4.3 and 4.4.2, and annexure 4).



**Figure 5.9: Atlas.ti Network output-The ethical conduct of the audit committee members-AUDIT COMMITTEE FRAMEWORK**

(Source: Own compilation from Atlas.ti)

Figure 5.9 summarises the participant-views of this category as follows: Audit committee members are expected to comply with legislation that promotes ethical conduct. It is expected that ethical behaviour will result in good governance systems within the municipalities. Also, the charter must make provision for audit committee chairpersons to have unlimited access to the council. It is expected that access to the council be facilitated in a structured manner and that such unrestricted communication be constructive engagements. Another expectation is ethics training for audit committee members, however, this presents a challenge owing to municipal budget constraints.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1) The audit committee member must be self-motivated to behave ethically.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 10). Participant 4A emphasised that “*ethics whether it is documented or not documented,*” must be upheld. Also, “*every member of an audit committee should be an all-rounder with basic ethical elements*” (participant 4A). Participant 1C further states that “*when they agree to serve on a committee, they are expected to conduct themselves professionally and without conflict of interest.*” The existing action was supported and remained unchanged. There are further actions from the draft Framework for this category.

2) The audit committee member must comply with legislation, relevant best practices, policies and code of ethics.

All (100%) participants agreed with the proposed action in a textbox (Refer to annexure 10). The action was supported, and it remained the same. There are further actions from the draft Framework for this category.

3) The audit committee member must attend training that promotes ethical behaviour.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10) but a concern was raised that “*the issue of training and it remains a*

*challenge for capacitating audit committee members, particularly now that everything has changed and most of the training is offered by external service providers which requires a budget and municipalities don't make allocations for training for committee members because they are not employees of the municipality*" (participant 3C). Participant 3B agreed that *"there is room for improvement, whether it is workshops or programs."* The action remained unchanged. There are further actions from the draft Framework for this category.

- 4) The audit committee chairperson must have unlimited access to the council, to promote ethical conduct.

Thirteen (93%) of the participants agreed with the proposed action in the textbox while one (7%) participant disagreed (refer to annexure 10). Participant 4B disagreed with the action as *"it sounds like the audit committee is doing the work of the Ethics Officer of the municipality and that extends beyond the mandate of the audit committee's oversight."* The concern was taken into account and the action was rephrased (refer to section 9 of the final framework - annexure 4).

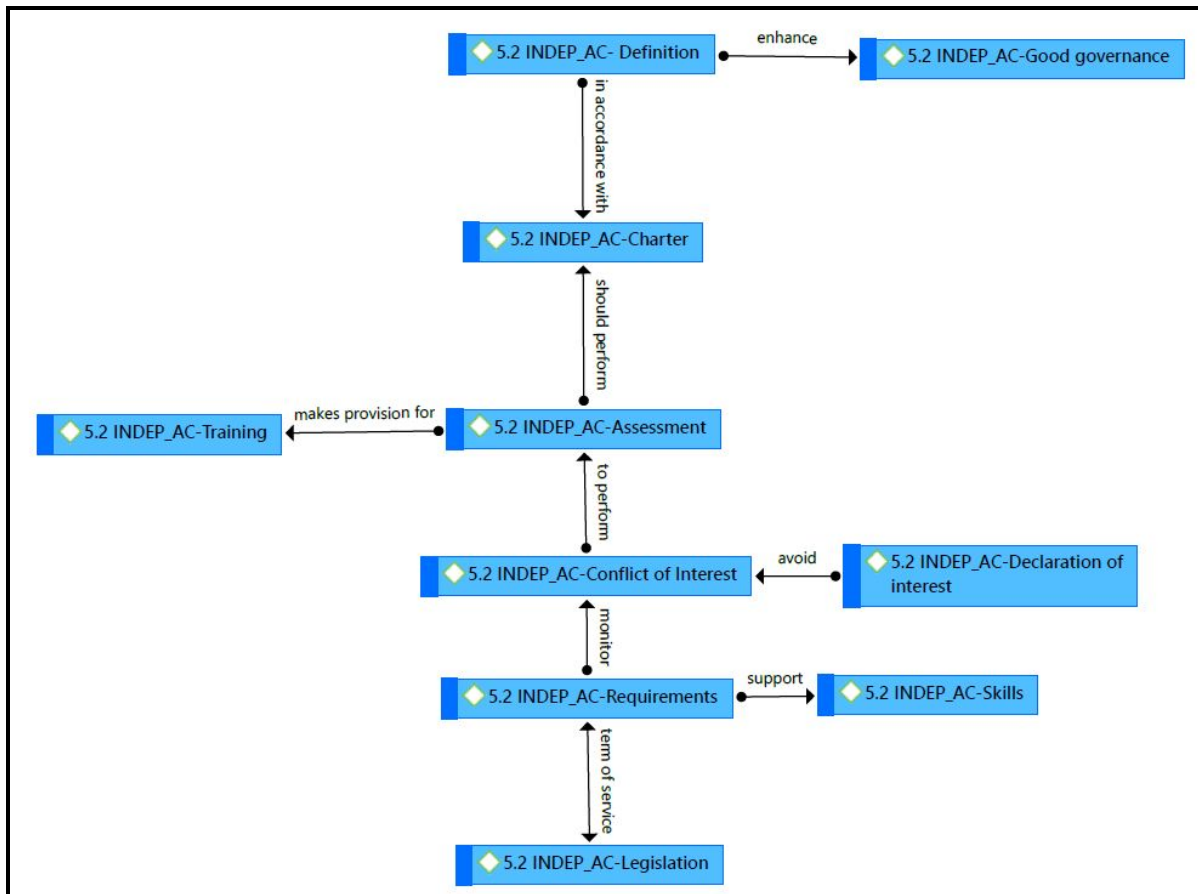
Participant 4C recommended that access to the council *"must just happen in a structured manner"* and *"It must be constructive and it must also be when there is really that need for it and it serves a purpose and not just because of potential let's say ulterior motives or whatever."* She further recommended that the charter should make provision for such access. The action was rephrased after considering the valid comments of the participants (refer to section 9 of the final framework - annexure 4). Furthermore, emerging concepts were discussed.

#### Emerging concepts

The 'audit committee charter' is a new concept that is discussed in this category of the Framework. Another new concept is 'good governance'. Participant 4A expressed that ethical conduct of audit committees will promote good governance. In the final framework, the action regarding good governance was added to the next category of 'Independence' (refer to section 10 of the final framework - annexure 4), there was thus no need for duplication in this category.

### 5.2.10 Category 10 Independence of audit committee members

Figure 5.10 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the independence of audit committee members, a category of the Framework requiring validation (refer to sections 3.4.3 and 4.4.3, and annexure 4).



**Figure 5.10: Atlas.ti Network output- Independence of audit committee members- AUDIT COMMITTEE FRAMEWORK**

*(Source: Own compilation from Atlas.ti)*

Figure 5.10 summarises the views of the participants for this category as follows: The definition of the ‘independence of audit committee members’ should concur with the charter and assessment of compliance to requirements of independence and the necessary skills, must also be a requirement. The areas of improvement identified during their assessment should be improved upon, providing for the necessary training. Furthermore, it should be an obligation to monitor any conflict of interests of audit committee members and members must declare their interests at every

meeting. Furthermore, to enhance independence, the audit committee members should uphold legislation and not serve more than two consecutive terms of service (six years) as legislated, on the same committee. Ultimately, the independent audit committee should enhance good governance within the municipality.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committee should:
  - a) Be independent;
  - b) Not hold a conflict of interest, be unbiased with no external influence, and act in an objective and impartial manner;
  - c) Declare any private and business interest in every audit committee meeting - it should be a standing item on the agenda; and
  - d) Rotate members that serve at the municipality, to promote independence.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 10). The word 'members' was added to action 1 to read 'audit committee members', instead of 'audit committee'. Regarding action 1(c), Participant 1B suggested that annual declarations must also be enforced "*because the meeting declarations are limited to the agenda of the meeting, not the issues that happen in between the meetings.*" This view was added to the framework. Participant 1C further stated that "*members not only do declarations but actually monitor the conduct of members in terms of how they behave, how they perform and how they conduct themselves ethically.*" The ethical behaviour of audit committee members was addressed in the previous category of '5.1 The ethical conduct of audit committee members' (Refer to section 9 of the final framework - annexure 4).

Action 1(d) was rephrased as the word 'rotate' was regarded as confusing by participant 4B. It was replaced by the action stating that the audit committee members should resign after serving their legislated full term. In addition, Participant 2C commented on the issue of skills: "*we need to safeguard so that there is no loss of skills. That means this [resignation] is supposed to be done in a staggered way.*" His view was taken into consideration in the revised framework (refer to section 10 of



the final framework - annexure 4). There are further actions from the draft Framework for this category.

2. The mandatory annual assessment to examine their independence should be conducted by all audit committee members and the results reported to the council.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 10). The action was perplexing to participant 4B. It was rephrased into two parts, as follows:

- The mandatory annual assessment should be conducted for the audit committee and also for all its members.
- The results of the assessment of audit committee members must be evaluated by the council and the necessary actions taken (refer to section 10 of the final framework - annexure 4).

Furthermore, emerging concepts were discussed.

#### Emerging concepts

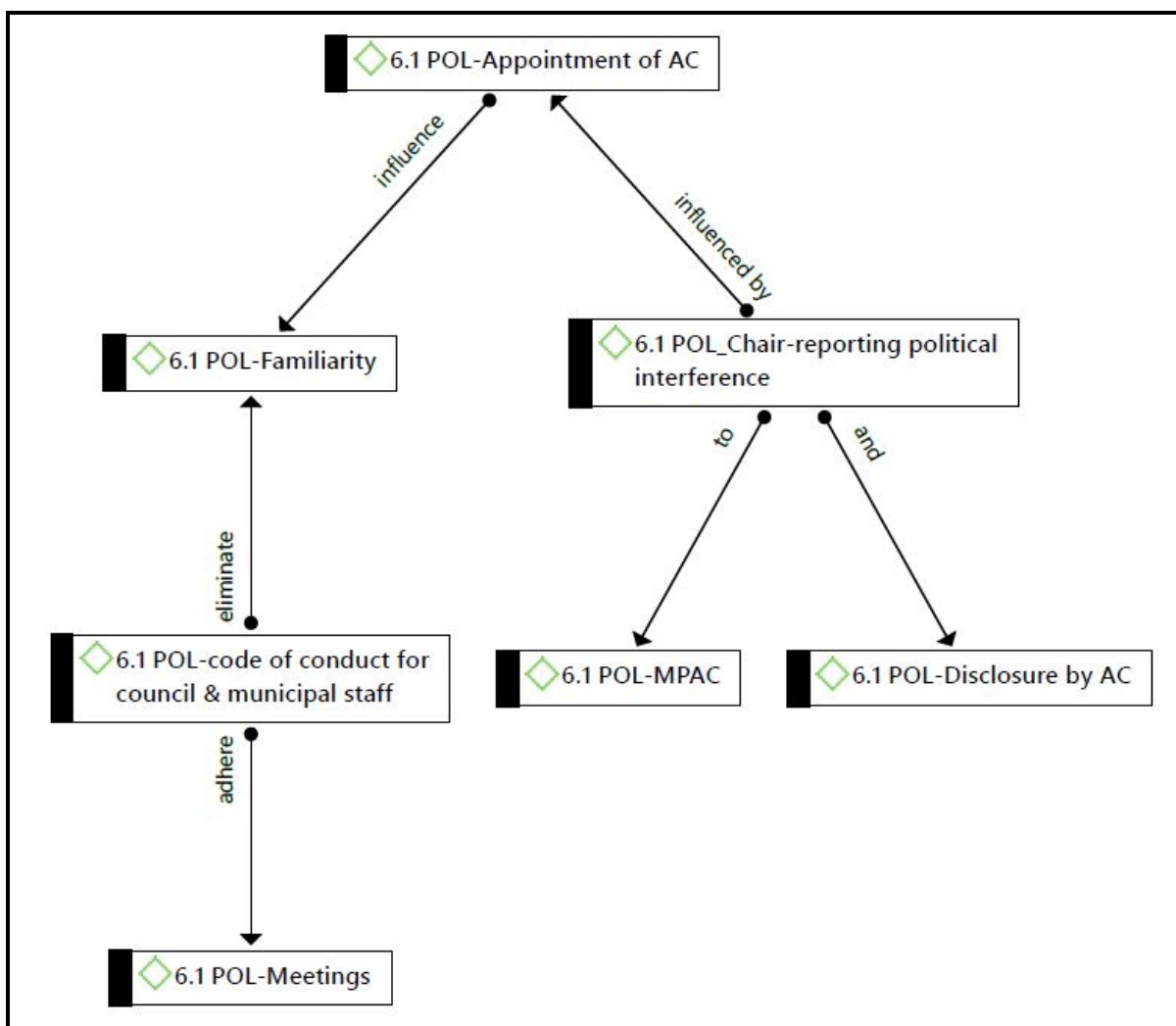
According to participant 4C, the charter must be explicit in promoting the independence of audit committee members. Participant 2E is also of the same view. He commented: *“requirement of not serving on more than two, three-year terms. It is also included in the charter. Just to enhance the importance of not serving too long on a committee”*. Participant 3C further emphasises the importance of independence by expressing that *“an audit committee member cannot do any work or consulting work for that municipality until their term has expired. This must be in writing.”* Additional action was added to the framework, stating that the charter must be explicit regarding actions that the audit committee members should or should not perform to promote their independence (refer to section 10 of the final framework - annexure 4).

Also, training was recommended by participant 4C, to enhance the independence of audit committee members. She mentioned that *“the performance assessments you know it will be written into your [audit committee] charter and of course it will be done also and from that will flow areas where improvements have been identified and also actions in terms of how they can improve on those areas with meeker ratings like*

*training interventions etc.*” The view regarding training was added to the framework. Another new action that was added to the framework was the view of participant 4A, that audit committee members must “*contribute positively to the achievement of good governance*”. Also ‘skills’ was a new concept in this category. It was taken into account (refer to section 10 of the final framework - annexure 4).

### 5.2.11 Category 11 Political interference

Figure 5.11, designed in Atlas.ti Network, reflects all the concepts obtained from the participants on political interference, a category of the Framework requiring validation (refer to sections 3.4.5 and 4.6.1, and annexure 4).



**Figure 5.11: Atlas.ti Network output- Political interference-AUDIT COMMITTEE FRAMEWORK**  
(Source: Own compilation from Atlas.ti)

Figure 5.11 summarises the views of the participants for this category as follows: The inappropriate appointment of audit committee members may increase the familiarity risk. The decision to report undue political interference is influenced by the parties that appointed the members of the audit committee. The unwarranted political interference of the council should be escalated to higher powers such as the speaker and MPAC. If the speaker is compromised, then reporting should be done to higher powers such as the MEC and the minister. When members of the council and the municipal staff adhere to the code of conduct during meetings, the risk of undue influence to audit committee meetings, will be eliminated.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committee chairperson should not allow council and municipal management to manipulate its meeting agenda.

Thirteen (93%) of the participants agreed with the proposed action in the textbox and one (7%) participant chose not to comment, due to her limited knowledge of the subject (refer to annexure 10). The views of the participants that agreed were similar to that of participant 1C, that *“the audit committee Chair should not allow council management or the municipality to participate to influence their meeting agenda”*. The action remained unchanged in the final framework. There are further actions from the draft Framework for this category.

2. The audit committee should be independent in its deliberations and decision-making.

Thirteen (93%) of the participants agreed with the proposed action in the textbox and one (7%) participant chose not to comment due to her limited knowledge of the subject (refer to annexure 10). The action remained the same in the final framework. Participants 1C and 3C believe that interference primarily occurs in the beginning, during the appointment process. Participant 1C stated that audit committees are *“appointed by council with a different mandate.”* Also: *“audit committees are appointed by municipal managers. And therefore, it becomes very easy for audit committee members to be threatened with dismissal or terminating their contract”*

(participant 3C). Their comments suggest that it will be difficult for audit committees to be independent when they were appointed for the wrong reasons, including appointment by parties that have the authority to dismiss them if not in agreement with their decisions.

Participant 3B holds a different view as to the cause of the audit committee's compromised independence. He declares that when "*the audit committee members [term] is too long, they become familiar with the politicians and management.*" He emphasised the need for the termination of the service of the members that have served their maximum legislated period, to reduce the risk of familiarity. This concept was included in the category titled 'Independence of audit committee members' (refer to section 10 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

3. The audit committee chairperson should have the authority to report an interfering council, the management or any stakeholder, to a structure that holds authority over the perpetrators.

Thirteen participants (93%) agreed with the proposed action in the textbox and one (7%) participant chose not to comment due to her limited knowledge of the subject (refer to annexure 10). The notion of the audit committee chairperson reporting unwarranted interference to higher authority, was supported by the participants. "*Oversight of political interference is important, that it is pitched at a higher level, and even just at municipal structures*" (participant 1B). Participants recommended such reporting of interference to the speaker, MPAC, MEC or even the minister. The sentence was improved but the meaning remained the same (refer to section 11 of the final framework - annexure 4). Furthermore, emerging concepts were discussed.

#### Emerging concepts

An interesting concept was raised by participant 3C. He proposed that "*code of conduct must always be brought up and read before the audit committee meeting starts to prevent any political or administrative interference with work of the audit committee.*" He was referring to the code of conduct for councillors and municipal staff members from Schedule 1 and 2 of the Municipal Systems Act, Act 32 of 2000 (SAG 2000). The intention of reading the code of conduct before audit committee

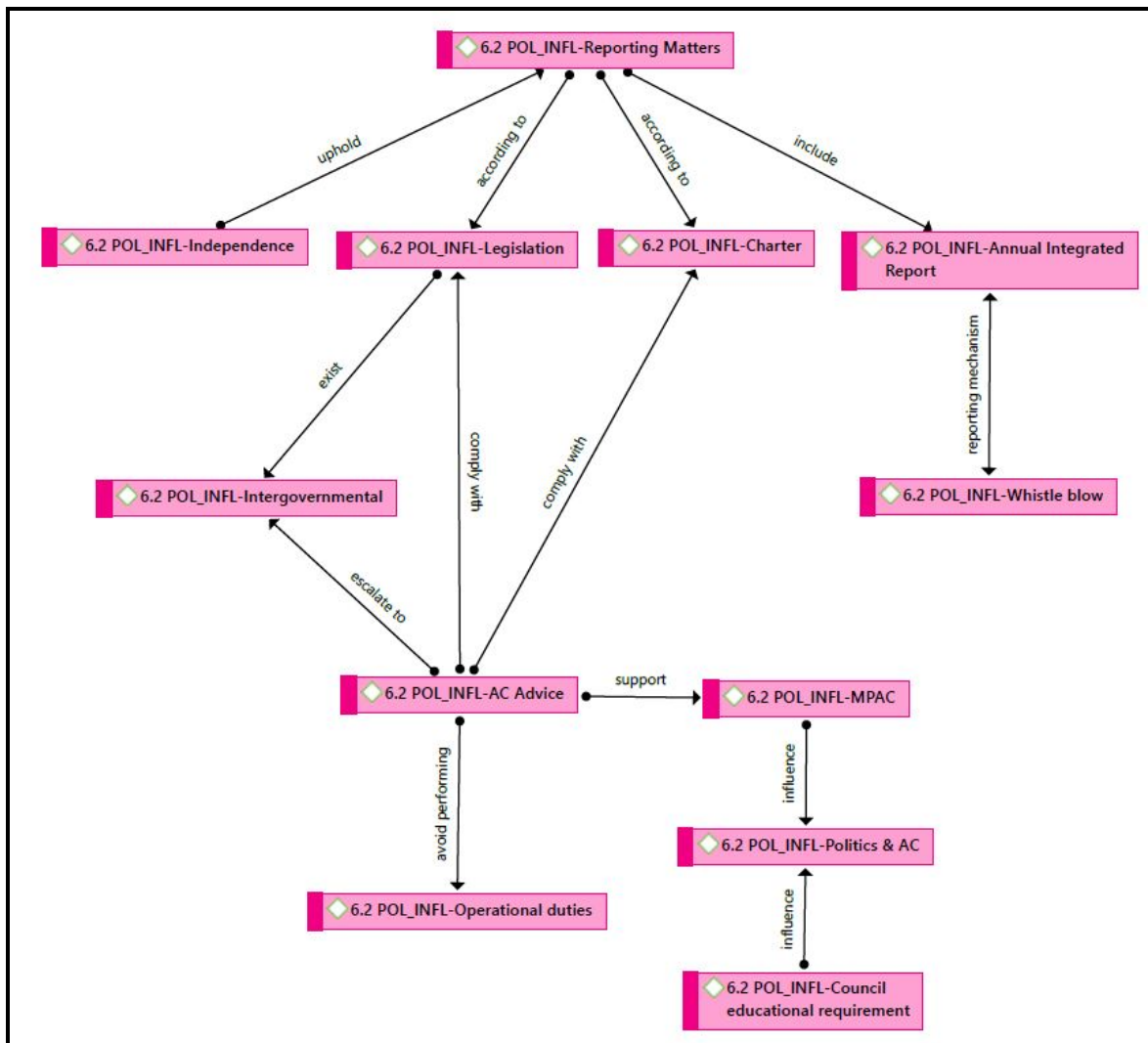
meetings is *“that officials or councillors are always reminded of the importance of allowing audit committee to be independent”* (participant 3C). This new concept was added to the framework (refer to section 10 of the final framework - annexure 4), however, it is suggested that the audit committee chairperson limit the reading to only those segments of the code that will promote non-interference.

Furthermore, participant 2C encouraged audit committees to *“disclose the recommendations that were not implemented, you must also disclose the reasons for non-implementation, what was the reason. You should be able to disclose that as well.”* The audit committee chairperson can use the annual report for such disclosure. The issues regarding reporting were addressed in the category 2 ‘The audit committee mandate’ (refer to section 5 of the final framework - annexure 4).

Another new concept contributed by participant 3A was that *“audit committees need to meet with the executive authorities at least once per annum.”* The participant was referring to the MECs as executive authorities of the provinces. This concept was accommodated in the proposed action, as it refers to reporting of the perpetrators to higher authorities, including the MEC if the perpetrators are the councillors. Similarly, the recommendation by participant 4A of reporting to MPAC is accommodated in the existing actions (refer to section 11 of the final framework - annexure 4).

#### **5.2.12 Category 12 Ability to influence and gain political buy-in**

Figure 5.12 was designed in Atlas.ti Network and reflects all the concepts obtained from the participants on the ability to influence and gain political buy-in - a category of the Framework requiring validation (refer to sections 3.4.5 and 4.6.2, and annexure 4).



**Figure 5.12: Atlas.ti Network output- Ability to influence and gain political buy-in- AUDIT COMMITTEE FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.12 summarises the views of the participants for this category as follows: The audit committee must uphold independence in their reporting. The audit committee report must be executed in accordance with existing legislation and the charter. The municipal annual integrated report includes reporting matters from the annual audit committee report. The chairperson can employ the annual audit committee report as a reporting mechanism for whistleblowing - to report the useful and significant advice that was rejected by the municipality. Reporting mechanisms that deal with the council's unwarranted rejection of audit committee advice already exist in the legislation, for example, matters can be escalated by the audit committee chairperson to intergovernmental structures that support the municipalities. The audit

committee can give advice that complies with legislation and the charter and that will assist it to gain influence and reduce unwarranted interference. However, it should avoid performing operational duties, such as policy adoption. MPAC is a structure that can be used by the audit committee to gain support and influence to gain political buy-in. If serving on the council could entail a minimum educational requirement, some of the problems associated with politics and audit committee undue interference, could be reduced.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The audit committee must render expert advice on policies and sanctions that oppose political interference.

Thirteen (93%) participants agreed with the proposed action in the textbox while participant 4C (7%) declined to comment on this category, due to her limited knowledge of the subject (refer to annexure 10). The participants agree that political interference exists in the municipalities. *“We need to be aware of the environment local government operates in. It is one sphere of government that is heavily politicised. So it’s difficult to prevent councillors from interfering in the administration of the municipality because sometimes they just disguise their actions as oversight”* (participant 3C).

Participant 2A cautioned against audit committees becoming functionally operational, when the proposed action to curb political interference is implemented. *“Policy adoption is an operational process. Audit committee should advise on adequacy and effectiveness of policy but they shouldn’t really get involved in the implementation or in the recommendation of adoption of any form of policy. That is an operational matter. They must have oversight”* (participant 2A).

Participant 2E expressed that audit committees must advise on policies and sanctions *“if it’s within their legislative responsibility and their charter”*. The proposed action was revised to take into account the views of the participants (refer to section 12 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

2. The audit committee must:

- a) Possess information and procedures (knowledge) to curb political interference, to influence the council to adopt its advice, and to gain political buy-in;
- b) Know how to make use of the information in practice, to curb political interference and be influential in gaining political buy-in (skills);
- c) Possess the mental capability to suppress political interference and be influential in gaining political buy-in (ability); and
- d) Possess the necessary character and qualities to prevent political interference and be influential in gaining political buy-in (other characteristics/attitude).

Twelve (79%) participants agreed with the proposed action in the textbox while two (14%) participants disagreed and participant 4C (7%) declined to comment on this category due to her limited knowledge of the subject (refer to annexure 10). Participant 1C argued that audit committees should pursue the *“ability to make council comply with regulations instead of political influence or gain political buy-in”*. Participant 1A holds the same view that an audit committee member is *“there to advise, I am not there to lobby issues. I am not there to get political buy-in. If they discard my advice, so be it”*. Although it is true that audit committees cannot force the council to adopt its advice, it is necessary that the committees possess skills of persuasion. When audit committees are able to convince the council to adopt their useful and significant advice, it will contribute to the effectiveness of their role. If the audit committee is not influential, its existence may be unnecessary, especially in circumstances where the municipality does not heed its advice. The majority of the participants agreed with the proposed actions. Due to the reasons provided, the proposed actions remain unchanged. There are further actions from the draft Framework for this category.

3. The chairperson of the audit committee must:

- a) Be legislatively authorised to report political interference to a higher authority, such as the MEC and Minister;
- b) Hold strategy and competencies to be persuasive especially when the committee’s advice, that will benefit the municipality, is ignored or



- rejected by the council, management or other stakeholders;
- c) Employ available legislation and policies to compel the council and management to adopt the audit committee’s advice;
- d) Possess the skill to mentalise (the ability to read and interpret human mental states such as emotions, needs and purposes);
- e) Own the judgement skills to understand how the receiver make decisions;
- f) Have the ability to construct persuasive arguments;
- g) Conduct presentations appealing to the receiver; and
- h) Possess the ability to adjust his/her behaviour to coordinate with the social context, without compromising moral character and independence.

The following are the results of the participant-responses:

**Table 5.1: Interview responses for actions 3(a) to 3(h) in category 12 of the draft audit committee Framework**

Action	Agree	Partially Agree	Disagree	No Comment
3(a)	79%	0%	14%	7%
3(b)	93%	0%	0%	7%
3(c)	86%	0%	7%	7%
3(d)	93%	0%	0%	7%
3(e)	93%	0%	0%	7%
3(f)	93%	0%	0%	7%
3(g)	93%	0%	0%	7%
3(h)	93%	0%	0%	7%

(Source: Own compilation)

Participant 4C (7%) did not comment on this category due to her limited knowledge of the subject. The majority of the participants agreed with the proposed actions in (a) (refer to annexure 10). Participant 1C and 2A (14%) disagreed with the proposed action 3(a) in the textbox (refer to annexure 10). Also, participant 2A (7%) disagreed with the proposed action 3(c) in the textbox (refer to annexure 10).

Action 3(a) proposed that the audit committee be ascribed legislative power to report unwarranted political interference. Participant 2A disagrees: “*they shouldn’t be given*

*legislative powers. However, there can be that intergovernmental relationship where they can escalate matters*". Also, participant 1C mentioned that legislation such as MFMA and Generally Recognised Accounting Practice (GRAP) already accommodate such reporting, authorising audit committees to report to external auditors and the police service. The views expressed by participant 1C and 2A were regarded as valid, therefore, the proposed action 3(a) was removed from the final framework.

The proposed action 3(c) was rejected by participant 2A because "*audit committee cannot compel council to adopt their advice*". The reason is valid, therefore the proposed action was removed from the framework. The rest of the proposed actions in 3 were accepted without further input. There are further actions from the draft Framework for this category.

4. The audit committee must provide expert advice on policies of participatory governance practices and its implementation.

Twelve (86%) participants agreed with the proposed action in the textbox while one (7%) disagreed and participant 4C (7%) did not comment on this category due to her limited knowledge of the subject (refer to annexure 10). The reason for participant 2A to disagree with the proposed action is the same as for proposed action 1 in this category. She maintains that the audit committees should not become operational by getting involved in the implementation of the policy. The action was revised to remove the implementation of the policy, as it is operational by nature (refer to section 12 of the final framework - annexure 4). There are further actions from the draft Framework for this category.

5. The audit committee must use their disclosure power in the annual reports to expose maladministration in the municipalities.
6. The audit committee's recommendations [advice], not implemented by the municipality, should be disclosed to the public, to enforce accountability.

Thirteen (93%) participants agreed with the proposed action 5 and 6 in the textbox while participant 4C (7%) did not comment on this category due to her limited knowledge of the subject (refer to annexure 10). As mentioned before, the audit

committee cannot force the council to adopt their advice, however, they can use their reports to enforce accountability. *“Audit committee has an opportunity to report to council concerns. If that is not addressed, the audit committee report forms part of the annual integrated report. The chairperson can include any governance concerns in that report which would be published to the public. So that is a mechanism for them to whistle blow should there be concerns in the annual integrated report and if for instance whatever they’ve written in that report is not included as they have indicated, then they can take that matter to the MEC of inter-government relations and also the Auditor General from a government perspective”* (participant 2A). The proposed actions 5 and 6 were combined (refer to section 12 of the final framework - annexure 4) and new actions were added - to promote the independence of the audit committee and to address the unwarranted interference in the annual audit committee report (refer to section 12 of the final framework - annexure 4). Furthermore, emerging concepts were discussed.

#### Emerging concepts

An interesting concept, regarding the minimum educational requirement for the council, was raised. *“I’m proposing SALGA should look into the issue of education requirements for politicians. In other words, government should introduce educational requirements as one of the key aspects to be become a councillor”* (participant 3C). Although the concept can be helpful, it does not guarantee the restriction of political interference. The concept was not added to the framework, as it exceeds the authority and scope of audit committees and municipalities.

Another new notion was the use of MPAC to gain political buy-in. *“MPAC is a key structure to facilitate the activities of the audit committee to the council”* (participant 4A). The concept was added to the framework (refer to section 12 of the final framework - annexure 4). Lastly, independence as a concept is addressed extensively in its own, separate category ‘5.2. Independence of audit committee members’.

#### **5.2.13 Part A: Conclusion**

Part A presents and discusses the analysis, based on the coding undertaken per category of the Framework for audit committees. Each category is discussed in

detail, displaying the clustered codes and their significance to the framework. To conclude, a summative view of the codes across categories are provided, with an attendant summative discussion.

Table 5.2 shows the highest code frequencies or groundedness, per framework category. The groundedness illustrates the number of quotations that were coded from the transcripts, per assigned code. The groundedness serves as confirmatory evidence that each category of the framework is essential. Groundedness is based on the participant-viewpoints, and therefore provides evidence that strengthens the relevance and significance of the study, given that purposive experts were sampled.

**Table 5.2: Atlas.ti code groundedness- AUDIT COMMITTEE FRAMEWORK**

<b>Code</b>	<b>Grounded</b>
Category 1 Municipal administration	8
Category 2 Organisational maturity	13
Category 3 Risk Management	6
Category 4 Internal Audit Function	3
Category 5 The audit committee mandate	5
Category 6 Appointment of audit committee members	13
Category 7 Remuneration of audit committee members	22
Category 8 Competencies of the audit committee	7
Category 9 The ethical conduct of the audit committee members	4
Category 10 Independence of audit committee members	6
Category 11 Political interference	6
Category 12 Ability to influence and gain political buy-in	7
<b><i>The highest number of quotations per category</i></b>	

(Source: Own compilation)

The framework category that received the highest quotations is category 7, Remuneration of audit committee members. The fees of audit committee members were highly debated. Some members thought that audit committee members are not well remunerated, hence it is difficult to attract those with skills. Other participants were of the opinion that the members should not be concerned with high remuneration, as serving on audit committees should be concerned with adding

value to the governance of municipalities. Also, the participants expressed that the audit committees should not be involved in determining their remuneration. It is not surprising that the interview participants regarded the remuneration of audit committee members as significant. The remuneration of audit committee members was an affinity that was raised by the two focus groups in theme 3 (refer to 3.4.3).

In addition, two categories received the second-highest quotations. Category 6, the Appointment of audit committee members, concerned the action that required audit committee members to belong to a professional body. It was clear from the participants' views that it was impractical to implement such action. Hence the action was not considered in the final framework. Again, the groundedness of this category emphasises the importance of theme 4 (refer to 3.4.3). This category belongs to theme 3.

Also, the category that exhibits the same number of quotations and is the second highest is category 2, Organisational maturity, concerning the role and responsibility of the audit committee. It was interesting to note that this category was intertwined with the Mandate of the audit committees that occupied a separate category. The interview participants' main concern in this category was that the audit committee should not execute an operational role when conducting their role in assisting the municipalities to reach maturity levels. This reinforces the separation of powers and attendant good governance. This category addressed theme 1 - Municipal administration (refer to 3.4.1) and theme 2 - The audit committee mandate (refer to 3.4.2).

Furthermore, in the categories of 1, Municipal administration and 12, Ability to influence and gain political buy-in, the legislation was a code that received the highest groundedness. This is confirmatory evidence that legislation is significant. Legislative framework was also significant for focus group 2. It is their primary driver (refer to 3.4.4 - theme 4 - The competencies of the audit committees).

MPAC was a new controversial concept that received some attention in category 5, the audit committee mandate and category 11, political interference. It was suggested that the legislation be amended so that the audit committee report to MPAC, and not to the council, in order to curb political interference. It was argued that MPAC as an overseeing party consists of a variety of role players and parties

(not just council members) who understand the role of the audit committee and will seek to support it, unlike council - who seek to fulfil its own political agendas. These categories are relevant to theme 5 - The challenges the audit committee face when executing their mandate (refer to 3.4.5) and theme 2 -The audit committee mandate (refer to 3.4.2).

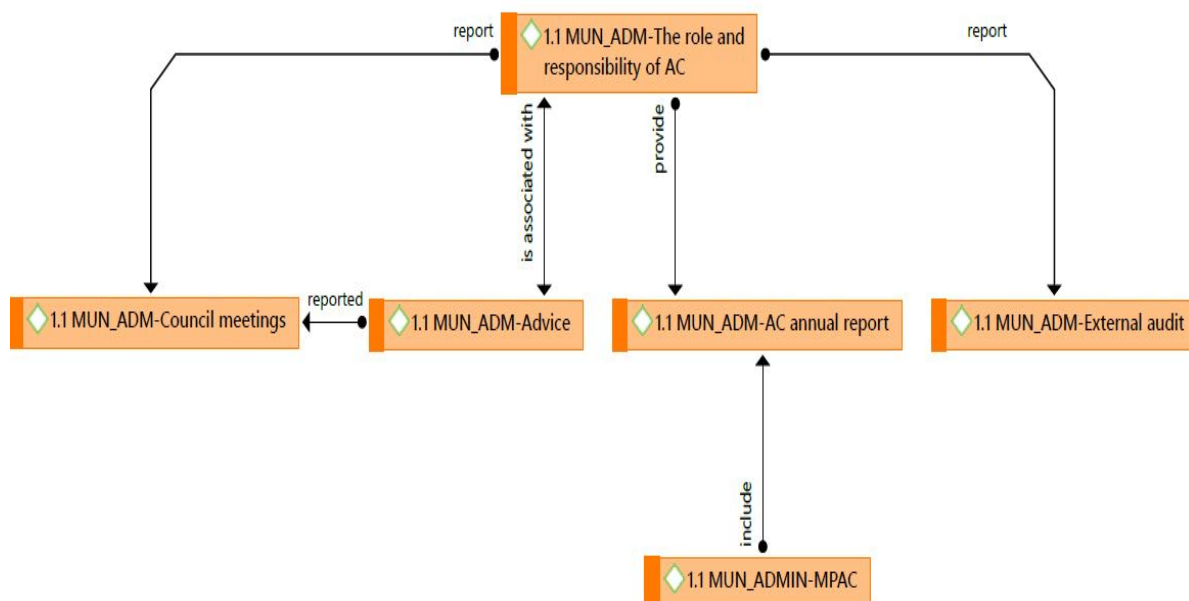
Part A thus confirms that all five themes (refer to 3.4) of the study and the categories of the framework were proven to be significant by the groundedness illustrated by table 5.1. Part B is the analysis of interview data, to refine the Framework for the municipalities.

### 5.3 Part B: Framework for municipalities

The categories of the Framework for municipalities in this section were addressed in section 4.1 and annexure 5. They were derived from the focus group themes discussed in section 3.4.

#### 5.3.1 Category 1 Municipal administration

Figure 5.13 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on municipal administration, a category of the Framework requiring validation (refer to sections 3.4.1 and 4.2, and annexure 5).



**Figure 5.13: Atlas.ti Network output: Municipal administration - MUNICIPAL FRAMEWORK**  
(Source: Own compilation from Atlas.ti)

Figure 5.13 summarises the views of the participants for this category as follows: It is the audit committee's role and responsibility to report to the council and provide reports that include its advice. It is also their responsibility to report to the council about the external audit outcomes. In addition, MPAC as an oversight body of the municipality, must include the annual audit committee report as part of the municipal annual integrated report. The integrated report must consist of the list of audit committee recommendations.

The draft framework actions verified against the interview participant-responses are indicated by the grey text boxes.

1. The function of the audit committee must be supported by the municipal council, management, staff and other relevant stakeholders.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 11). Participant 3C supports the action by advocating that "*the municipality has the responsibility to ensure that it understands the role and responsibilities of the audit committee beyond just compliance issue so that when councillors take resolutions they must have considered the sound advice that they have received from the audit committee*". The proposed action remains the same for the final framework. There are further actions from the draft Framework for this category and these are shown in the grey text boxes below.

2. There must be a standing agenda item in the council ordinary meetings, where the chairperson of the audit committee reports in terms of its engagements.

Ten (71%) participants agreed with the proposed action in the textbox while four (29%) disagreed (refer to annexure 11). The audit committee chairperson should meet council "*quarterly as leading practice*" (participant 2A). Therefore, the quarterly audit committee report cannot be a standing agenda item for the council, since the council often meets monthly. Therefore, the timing of the proposed action of the standing agenda item of the quarterly audit committee reporting in the monthly council meeting, is not proper to implement. It was therefore removed from the final framework. There are further actions from the draft Framework for this category.

3. Councillors must have the ability to interrogate the information supplied by the audit committee chairperson and select the appropriate advice to adopt in the municipality.

All (100%) of the participants agreed with the proposed action in the textbox (refer to annexure 11). Participant 4A supports the proposed action by commenting that *“it does not necessarily mean that it [the audit committee advice] has to be implemented, because then they [council] need to look at advice if it is helpful.”* No further comments were made. The action remained the same in the final framework. There are further actions from the draft Framework for this category.

4. Councillors are to report to the public concerning the advice by the audit committee, internal auditors and external auditors rejected by council and furnish the reasons for such rejection. The practice will promote accountability.

Eleven (79%) participants agreed with the proposed action in the textbox, two (14%) partially agreed and one (7%) disagreed (refer to annexure 11). Participant 4B suggested that the reporting of the council *“should include other committees for example the risk committee or the performance committee or MPAC.”* Participant 2A further explained how the proposed action is executed practically. The integrated report of the municipality will contain a list of the recommendations from the audit committee and reasons by the council for those recommendations that were not implemented: *“if for instance the matters are not addressed adequately in the MPAC report, then they can use their annual report which is going to be part of the integrated report, to raise whatever concerns that they might have which are outstanding in the annual integrated report”* (participant 2A). The proposed action was therefore amended in the final framework to reflect how it is performed practically (refer to section 1 of the final framework - annexure 5). Furthermore, emerging concepts were discussed.

#### Emerging concepts

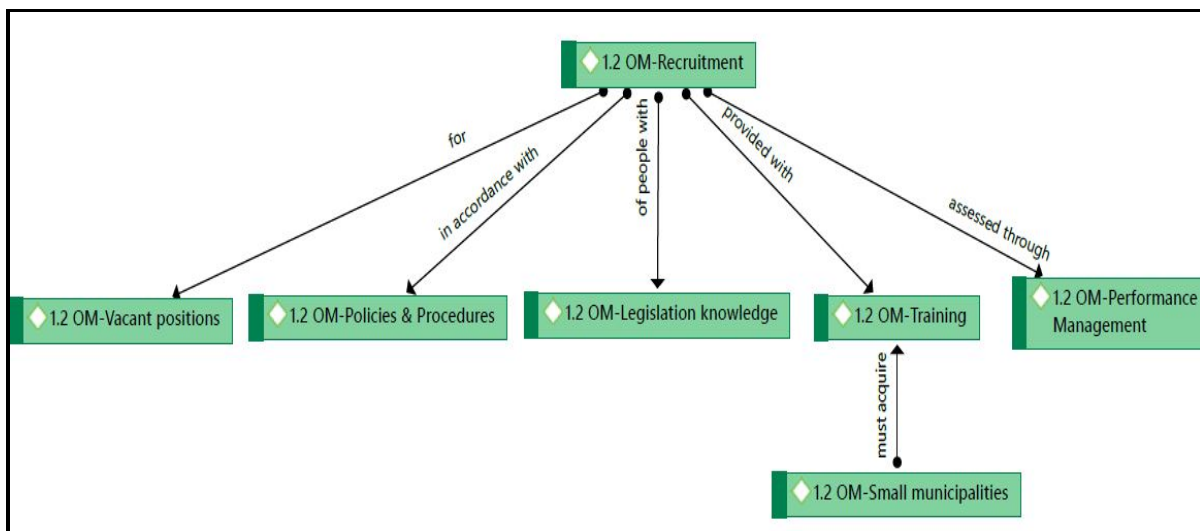
Since the proposed actions in the textbox emphasised the need for public knowledge about the affairs of the municipalities, participant 4A voiced an interesting opinion, that *“everything that is reported by the Auditor General or the external auditors, [it]*



*catches a lot of interest to the public*". The public takes a keen interest in the external audit reports from AGSA and studies the reports to assess the performance by municipalities. Therefore, participant 4A was sharing information regarding another way in which the public acquires evidence concerning the affairs of the municipalities. The action is valid but it is not for the municipalities to implement, therefore, it was not included in the final framework.

### 5.3.2 Category 2 Organisational maturity

Figure 5.14 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on organisational maturity, a category of the Framework requiring validation (refer to sections 3.4.1 and 4.2.3, and annexure 5).



**Figure 5.14: Atlas.ti Network output-Organisational maturity-MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.14 summarises the views of the participants for this category as follows: Recruitment for vacant positions must happen in the municipalities, taking budget and efficiency into consideration. The recruitment of municipal employees must transpire in accordance with policies and procedures. The municipality must recruit those with legislative knowledge and employees must receive the necessary training. Also, small municipalities must receive training, especially in areas where there is a shortage of skills. The municipalities and its recruited employees must be assessed through the performance management system.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The municipal council and staff members must possess institutional knowledge in respect of the municipality and other relevant institutions.
2. The municipality must keep proper records and comply with legislation, policies and procedures.
3. The municipality must fill its vacant positions.
4. The municipality should be adequately managed on an individual, group and organisational level.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 11). Participant 3A suggested that council and staff members must also have knowledge about legislation “*because then that will make it much easier for them to comply*”. The recommendation was added to the final framework (refer to section 5 of the final framework - annexure 5).

Furthermore, a concern was raised that municipalities “*have a lot of vacant positions but they are not essential for the service delivery*”, therefore “*re-assessment of the efficiency*” of vacant positions is necessary (participant 1A). The recruitment for vacant positions must be done in accordance with “*policies and procedures as well as your [sic] IDP in terms of the need of the organisation*” (participant 4C). Also, “*it should be done in terms of the available budget and the financial considerations in terms of the sustainability of the municipality*” (participant 2E). The issues raised by the participants were valid and taken into account in the final framework (refer to section 5 of the final framework - annexure 5). There are further actions from the draft Framework for this category.

#### Individual level

5. The municipality should execute recruitment of employees with the appropriate diversity of skills, age, sex, race, etc., and personalities and values that complement the organisational goals.
6. The municipality must facilitate training, such as emotional intelligence training, for all employees.

All (100%) of the participants agreed with the proposed action 5 in the textbox (refer to annexure 11). Thirteen (93%) agreed with the proposed action 6, while one (7%), participant 4A, partially agreed (refer to annexure 11). Participant 4A mentioned that the training should not be limited to emotional intelligence, but rather “*soft skills for all employees*”, hence he partly agreed with the proposed action 6. Participant 1C supported the need for training especially “*in remote municipalities [where] skills are a problem*”. Furthermore, participant 4C emphasised the need for councillors to receive training on “*legislation or whatever [sic] or changes in the policies in their specific area*”. Action 6 was amended accordingly in the final framework to include training on legislation and policies, and technical and soft skills for councillors and municipal employees. Due to municipal budget constraints, participant 3B recommended online training, where possible. There are further actions from the draft Framework for this category.

#### Group level

7. The municipality should exercise proper control and monitoring of communication, leadership, power, politics, conflicts and management, amongst its groups or teams.
8. The municipal leadership must possess the ability to establish group cohesion.

#### Organisational level

9. The municipality must develop organisational structure and a culture that enables it to meet its goals.
10. The municipality should develop a culture comprised of employees that are loyal and committed to the values of the organisation.
11. Human resource management and a modification in practices that will influence its productivity and survival, must be established by the municipality.

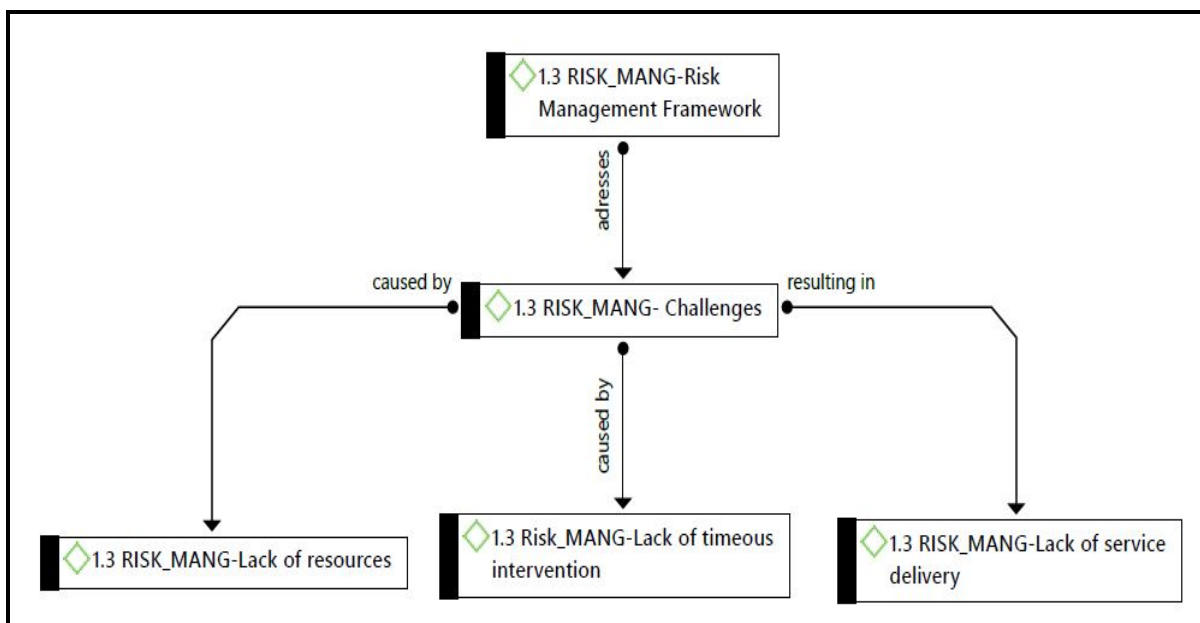
All (100%) of the participants agreed with the proposed actions in the textbox. No further comments were made. The actions remained the same in the final framework. Furthermore, an emerging concept was elaborated upon.

## Emerging concept

Participant 4B raised an important point, that the municipal framework must include “*performance management. Either [in] another category or within this section*”. An action regarding a performance management system was added in the final framework in this category of Organisational maturity. There are further actions from the draft Framework for this category.

### 5.3.3 Category 3 Risk management

Figure 5.15 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on risk management, a category of the Framework requiring validation (refer to sections 3.4.1 and 4.2.4, and annexure 5).



**Figure 5.15: Atlas.ti Network output-Risk management-MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.15 summarises the views of the participants for this category as follows: The risk management framework must address the challenges associated with risk. Municipalities experience challenges in managing the risk caused by a lack of resources and lack of timeous interventions to risk. When the risk is not managed effectively, it may result in a lack of or poor service delivery.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

The municipality must:

1. Implement a customised risk management plan and system that is sensitive to its environment and realities;
2. Respond adequately to risks and monitor the risk management system.

All (100%) of the participants agreed with the proposed actions in the textbox (refer to annexure 11). For action 1, participant 2E suggested a title change to 'customised risk management plan': "*we refer to it as a risk management policy framework as an overarching risk management framework inclusive of a risk management policy, strategy and implementation plan*" (participant 2E). The suggestion of the participant was valid and a title change was made in the final framework (refer to section 3 of the final framework - annexure 5).

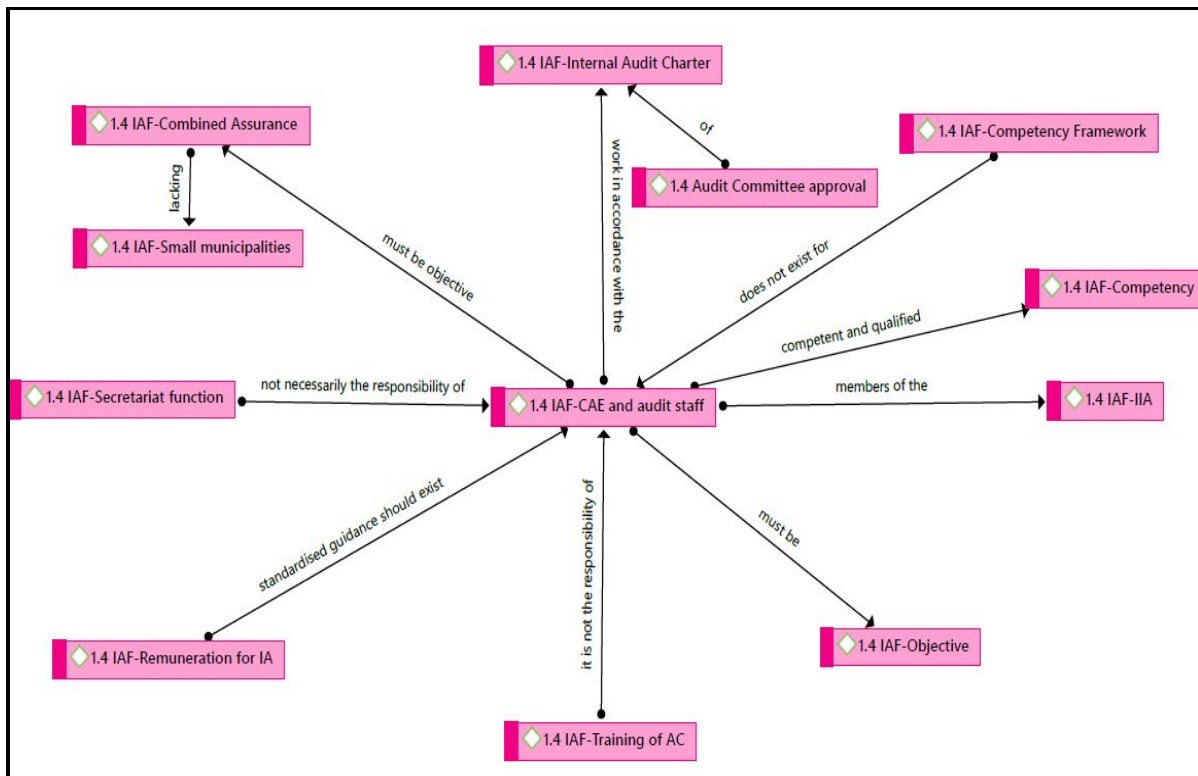
For proposed action 2, participant 1A commented on the challenges municipalities face with regard to risk management. Lack of experienced and sufficient employees to address risk management in municipalities, is one of the challenges: "*you can't run a timeous collective with one risk officer, it's not practical and feasible*" (participant 1A). Also, the frequency of risk assessment is not sufficient: "*risk assessments take place primarily once a year*". Therefore, due to these reasons, "*a more timeous intervention and what we see there [sic] is just not happening*" (participant 1A). According to participant 4A, when risk is not managed well, poor municipal service delivery can result. Hence, it is also important that audit committees provide adequate advice on risk management. The word 'timeously' was added to action 2 (refer to section 3 of the final framework - annexure 5). No further changes were made to the final framework. The participants' views supported the proposed actions. Furthermore, an emerging concept was discussed.

#### Emerging concept

According to participant 3B, "*there is just room for the risk management process to be regulated*" by National Treasury. He suggests that the National Treasury should improve the regulations regarding risk management in municipalities. The action was presented in part C (refer to section 5.5.1).

### 5.3.4 Category 4 Audit functions

Figure 5.16 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the internal audit function, a category of the Framework requiring validation (refer to sections 3.4.1 and 4.2.5, and annexure 5).



**Figure 5.16: Atlas.ti Network output-Internal audit function-MUNICIPAL FRAMEWORK**  
(Source: Own compilation from Atlas.ti)

Figure 5.16 summarises the views of the participants for this category as follows: The internal audit function must be executed in accordance with the internal audit charter that has been approved by the audit committee. The CAE and audit staff must be objective when performing their role and in respect of combined assurance. It is a concern that combined assurance is lacking in municipalities, especially small municipalities - as they lack the skills. Training is therefore crucial to improve the skills within the internal audit function and also the audit committee. However, it is not the responsibility of the CAE to provide training to audit committee members, but that of the municipal human resources department. Also, it is not its role to provide secretariat services to the audit committee.

Although municipalities possess the competency framework, they do not address competencies of the CAE and internal audit staff members. The CAE and staff members of the internal audit should not only be competent, but also possess the necessary qualifications and must be members of IIA. Also, standardised guidance for the remuneration of internal audit staff members should be available.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The municipality should establish an independent internal audit function.

Thirteen (93%) participants agreed with proposed action 1 in the textbox, while participant 1C (7%) disagreed (refer to annexure 11). Participant 3C was concerned that in remote and poor municipalities, they “*appoint a junior person and they say we [they] have complied in terms of the MFMA*” [in establishing the internal audit function]. The internal audit function “*needs to demonstrate that the capacity (human, skills & infrastructure) that is there is able to perform its functions effectively*”. It should not be a mere issue of compliance. The action was rephrased in the final framework to include the view of participant 3C (refer to section 8 of the final framework - annexure 5).

Furthermore, participant 1C disagreed as “*internal audit is a management function so they cannot be independent to the municipality because they are part of management*”. He further commented that “*they cannot be independent but they need to be objective in terms of their function*”. However, the legislation supports both the independence and objectivity of the internal audit function. “*Internal audit activity is independent when it can carry out its work freely and objectively and has the support of senior management and audit committee*” (National Treasury 2012b:16). Due to the legislative requirement and the majority of the participants’ positive response, the proposed action was not amended in the final framework. There are further actions from the draft Framework for this category.

2. Appoint a competent CAE and internal auditors.

3. Remunerate its internal auditors at a fair rate to enable absorption of competent internal auditors.

All (100%) of the participants agreed with the proposed actions 2 and t3 in the textbox (refer to annexure 11). For action 2, participant 1A recommended that the CAE should not only be competent but “*competent and qualified or appropriately qualified*”. Furthermore, participant 4B recommends that “*the CAE and the internal auditors should be registered with the IIA*”. The views of the participants were considered in the final framework (refer to section 8 of the final framework - annexure 5).

For action 3, a concern was raised that “*a competency framework for municipalities it’s not addressing the issue of chief audit executive and his staff and therefore you sit with a disparity between the expected level of internal auditors*” (participant 1A). Hence, participant 4B suggested a standard guide of “*the title[s] and the remuneration at every level*” for internal audit staff members. There are further actions from the draft Framework for this category.

4. Mandate council to approve the comprehensive internal audit charter stipulating the purpose, authority, and responsibilities of the internal audit function.

Twelve (86%) participants agreed to the proposed action in the textbox, while two (14%) participants disagreed (refer to annexure 11). Participants 2C and 4A both agree that “*the approval of the audit committee charter remains the primary responsibility of the audit committee*”. Council “*only adopt it, they don’t approve it*” (participant 2C). Furthermore, participant 4B did not find it necessary to describe the charter as ‘comprehensive’ in the proposed action because it may lead to role-players providing additional descriptions such as “*accurate and clear and simple*”, and the articulation would then potentially proliferate. This description is also not regarded as necessary as the audit charter is expected to possess those attributes, without mentioning it. The action in the final framework was rephrased to take into account the views of the participants (refer to section 8 of the final framework - annexure 5). There are further actions from the draft Framework for this category.

5. Allow the CAE to consider the competencies, objectivity and due professional care of other assurance- and consulting providers.
6. Ascertain that the duty scope of the internal audit function is sufficient to



support the municipality and audit committee.

7. Confirm that the CAE has access to the audit committee and its report.
8. Determine that the CAE consult the audit committee chairperson for expert advice.

All (100%) of the participants agreed to the proposed actions in the textbox (refer to annexure 11). Participant 1C challenged the action that the CAE should have access to the audit committee report, arguing that it is not a requirement, and, in fact, the CAE should “*report to the audit committee*”. Access to the audit committee reports was removed from the final framework since the reports are intended for council use. Furthermore, an additional recommendation by participant 2C was that “*municipality must adopt a combined assurance*”. The recommendation was added to the final framework (refer to section 8 of the final framework - annexure 5). Although it is admirable for municipalities to have combined assurance, it was a concern that small and poverty-stricken municipalities lack skills for such “*specialised audits*” (participant 3B) and it would not be a feasible mandate, until skilled staff members are appointed. No further changes were made to the existing actions in the final framework. There are further actions from the draft Framework for this category.

9. Ensure that the CAE provide training to the audit committee in respect of critical areas where insight is lacked.

Thirteen (93%) participants agreed to the proposed action in the textbox, while one (7%) participant disagreed (refer to annexure 11). Participant 4B disagreed with the action as “*training responsibility vests in the human resources department, not the CAE*”. The action was rephrased in the final framework (refer to section 8 of the final framework - annexure 5). There are further actions from the draft Framework for this category.

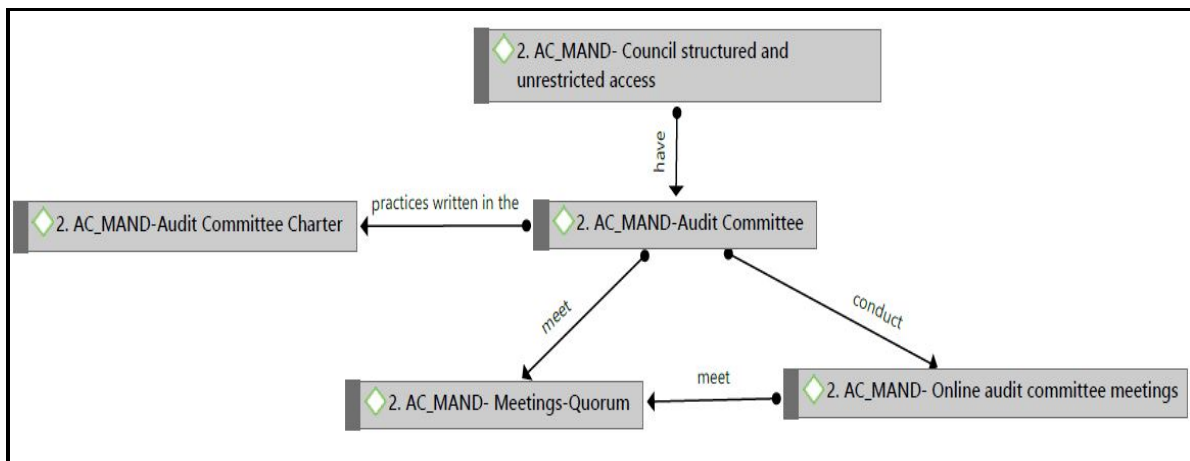
10. Mandate the internal audit function to provide secretariat (administrative) services to the audit committee members in preparation for the audit committee meetings.

Eleven (79%) participants agreed to the action in the textbox, while three (21%) disagreed (refer to annexure 11). Participants 1C, 2D and 4B disagreed as “*the*

municipality has its structure of having either a committee secretary or a company secretary” (participant 1C). The proposed action was removed from the final framework.

### 5.3.5 Category 5 The audit committee mandate

Figure 5.17 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the audit committee mandate, a category of the Framework requiring validation (refer to sections 3.4.2 and 4.3, and annexure 5).



**Figure 5.17: Atlas.ti Network output- The audit committee mandate-MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.17 summarises the views of the participants for this category as follows: All the expected audit committee practices should be scripted in an audit committee charter. Council should have structured and unrestricted access to the audit committee. Furthermore, audit committees should be allowed to conduct online meetings. Their meetings must meet quorum.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

#### **Practices of procedures**

1. Compile and approve a comprehensive audit committee charter comprising of:
  - a) List of duties;
  - b) Number of meetings;

- c) Meetings procedures;
- d) Agenda and minutes of meetings as compulsory requirements;
- e) Self-assessment and dismissal procedures of audit committee members; and
- f) Other relevant matters.

All (100%) of the participants agreed to the actions in the textbox (refer to annexure 11). Participant 4B suggested to “*delete the word ‘comprehensive’*” as the audit charter should be comprehensive, nonetheless. Also, participant 2C suggested that the charter includes information regarding “*audit committees’ appointments, ethical conduct and remuneration*” [of the audit committee]. All the views were considered in the final framework (refer to section 5 of the final framework - annexure 5).

Furthermore, participant 4A criticised the wording of action 1f), “Other relevant matters”. He required “matters” to be clarified. In defence of the action, it is argued that the municipalities might have different items they view as important to audit committees that should form part of the charter. For example, participant 4B sought the charter “*to add those areas where the audit committee can also be asked to assist for example recruitment for senior posts, part of the disciplinary board*”. Such activities might not apply to all municipalities, hence the need for municipalities to include those matters that are relevant to them alone. What is regarded as crucial to the final framework, is to be explicit about the minimum information that should be included in the charter. There are further actions from the draft Framework for this category.

### **Practices of understanding**

2. Council should have unrestricted access to the audit committee.
3. Council to understand the role of the audit committee resulting in suitable members being appointed to the committee.
4. The interaction between the audit committee and management and the frequency of its meetings, should be sufficient.
5. Compulsory attendance of the audit committee meetings by relevant municipal stakeholders.

6. Conduct induction for new audit committee members.
7. Provide necessary training for all audit committee members.

All (100%) of the participants agreed to the actions in the textbox (refer to annexure 11). Participant 4C agreed with action 2 but recommended that it must take place “*in a structured manner*”. Her view was valid and considered in the final framework (refer to section 5 of the final framework - annexure 5). There are further actions from the draft Framework for this category.

### **Practices of engagement**

8. The agenda and information-pack must be relevant.
9. Executive summaries highlighting significant issues should be distributed to audit committee members along with the information- pack.
10. The agenda and information-pack should be distributed to audit committee members in advance, to allow sufficient time for them to prepare for their meeting.
11. The council should review the performance assessments of the audit committee and its members.

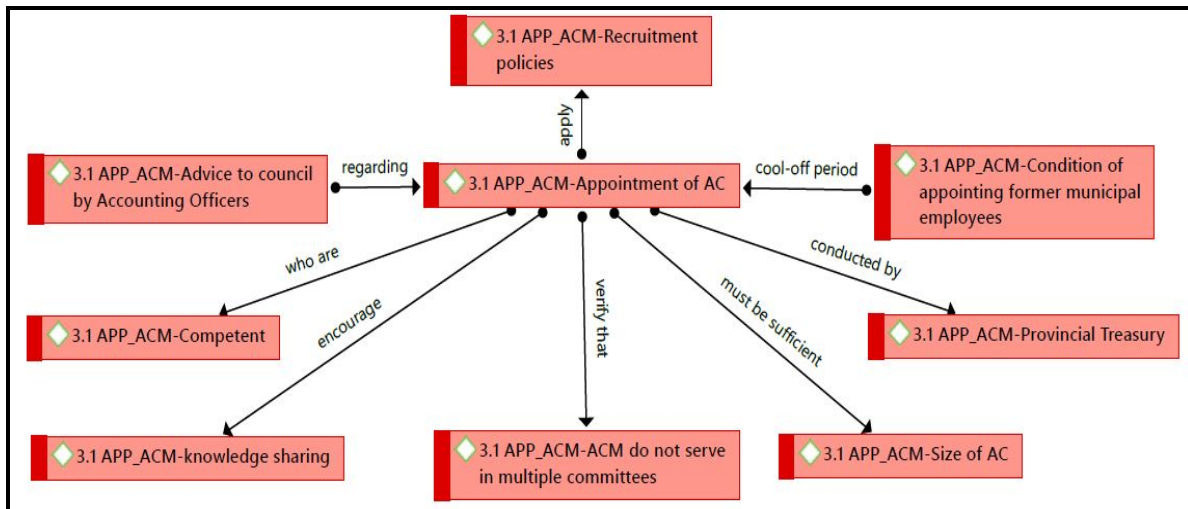
All (100%) of the participants agreed to the actions in the textbox (refer to annexure 11). Actions 8 to 10 remained unchanged in the final framework. Action 11 included “other relevant parties” to assess the performance of audit committees and its members. The suggestions are from part A category 2, proposed action 9. For changes in the final framework, refer to section 2 of the final framework- annexure 5. The additional two actions for practices of engagements are discussed in the emerging concepts section.

### **Emerging concepts**

Participant 3B emphasised the need for online meetings, to encourage attendance. Also, participant 4A suggested to “*adding a quorum or the minimum number of people that should actually be available*” [for a meeting] to the framework. The views were found to be appropriate and were added to the final framework (refer to section 5 of the final framework - annexure 5).

### 5.3.6 Category 6 Appointment of audit committee members

Figure 5.18 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the appointment of audit committee members, a category of the Framework requiring validation (refer to sections 3.4.3 and 4.4, and annexure 5).



**Figure 5.18: Atlas.ti Network output- Appointment of audit committee members-MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.18 summarises the views of the participants for this category as follows: Recruitment policies should be applied when appointing audit committee members. When recruiting audit committee members, the council should verify that the applicants are not overcommitted by serving on multiple committees (more than three). The council is encouraged to seek advice from the accounting officer regarding the appointment of audit committee members, especially with regard to the skills required. The council should appoint members who are competent. Additionally, a cool-off period should be a condition of employment for former municipal employees who would like to apply for audit committee positions.

Furthermore, some participants prefer that the appointment of the audit committee be centralised and performed by provincial treasuries. Also, the size of the audit committees must be sufficient to align with the size of the municipalities. Moreover, knowledge-sharing amongst the appointed audit committee members is encouraged.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. Council must be the only body authorised to appoint the audit committee.
2. Municipalities must have policies that govern human resource management practices relating to audit committee's appointment, ethical conduct, and remuneration.

All (100%) of the participants agreed to the actions in the textbox (refer to annexure 11). The existing challenge with the appointment of the audit committee is "*delegate [delegation of] the function that is assigned by [to] council to the accounting officer and his staff*" and "*councillors are not involved in the physical interview nor the process of assessing the audit committee members*" (participant 1A). This view was supported by participants 3B and 3C. Although participant 3C accept such practice on condition that "*it should be in writing*" when council delegate their authority, the practice remains unlawful since it is its responsibility according to the MFMA, Section 166(5) (SAG 2003, s. 166(5)). Participant 2D accurately advised that the involvement of accounting officers in the appointment of audit committee members should be limited to advice that is "*sought from the accounting officer of the required skill and adherence to the audit committee charter*".

Participant 4A proposed the solution that "*the appointment of the audit committees can be centralised at the provincial level*". Participant 2C is in agreement with the proposal that audit committee members "*be appointed by Provincial Treasury*". Participant 4B agrees with the centralisation of this action, but proposes a different organisation, i.e. SALGA. He comments that "*a more ideal situation is maybe of one gives that [the appointment of audit committee members function] to SALGA with a system that monitors the skills of audit committee members*" to create "*further independence for oversight*". Lastly, all participants agreed with action 2. Participant 2A supports the view of using "*the same [municipal human resources] policies of recruitment*" when appointing audit committees. There are further actions from the draft Framework for this category.

### **Appointment requirements**

3. Appoint individuals that are independent (do not have a conflict of interest, are unbiased with no external influence and act in an objective and impartial manner).

4. Appointment of members possessing the appropriate combination of competencies, that is heterogeneous (diverse).
5. Appoint audit committee members with an understanding of the municipal environment in terms of legislation, structure, systems, practices, policies etc.
6. Appoint capable members to provide advice that can create unique strategies for the municipality, that generate opportunities, mitigate threats, increase net revenue, or decrease net cost.
7. Establish a rare (unique) audit committee comprising a combination of competencies that cannot be imitated by competitors.
8. The structures and processes of the municipality must be sufficiently organised to maximise the services of the audit committees.

All (100%) of the participants agreed to the actions in the textbox except for action 7 (refer to annexure 11). Two (14%) participants disagreed with action 7 (refer to annexure 11). Participant 2A disagreed as “*knowledge sharing amongst each other [municipalities] is encouraged*” and therefore, it is not necessary to create an audit committee that cannot be imitated, rather create a committee with competent members. Also, participant 2E disagreed with the action, as municipalities do not compete amongst each other. The action was revised in the final framework to take into account the views of the participants (refer to section 6 of the final framework - annexure 5). There are further actions from the draft Framework for this category.

### **Appointment process**

9. Background checks including verification of employment references, educational credentials, criminal record, credit history, former employment etc., should be conducted in respect of eligible candidates.
10. The council should verify that the applicant does not serve on three or more other audit committees, as this could negatively influence the effectiveness of the committee.
11. Council can verify the applicant’s suitability with other organisations where the applicant served or is serving as an audit committee member, in an effort to ascertain whether the applicant is independent, reliable,

trustworthy, competent and committed.

12. Council and the human resource management unit must refrain from including candidates that do not meet the minimum requirements, to the shortlist.

13. The interview questions must sufficiently test the independence and competencies of the candidates.

14. Council should not appoint:

a) individuals that have close professional or personal relations with management or councillors;

b) former or current auditors of local government;

c) retired executives from the local government; and

d) politically connected individuals without relevant experience.

15. If the appointment system is not fair, transparent, equitable, competitive and cost-effective, and does not endorse the MFMA, it should be classified as unlawful, and the perpetrators must be punished.

16. The municipality must avoid practices that lead to negative publicity.

All (100%) of the participants agreed to the actions in the textbox, except for actions 10, 14b and 14c. (refer to annexure 11). One, (7%) participant 2D, disagreed with action 10 (refer to annexure 11) as *“municipalities are not that different from each other especially the local municipalities”* and *“if a member of an audit committee serves on more than three audit committees of local municipalities, such member can share knowledge”*. The view of knowledge-sharing is valid, however, it does negate the fact that overcommitted audit committee members might not be independent and may lack time to prepare for all their meetings. Also, meetings can take place on the same day and at the same time, resulting in missed meetings. Therefore, the action was not changed to consider the view of participant 2D. However, it was changed to reflect the statutory requirement of not serving on more than three audit committees, except in the case of shared audit committees. Furthermore, participant 2A suggested that members disclose *“information during the application process in the Curriculum Vitae”* and *“if the “information was misrepresented”, they must be terminated*. This view was considered in the final framework (refer to section 6 of the final framework - annexure 5).



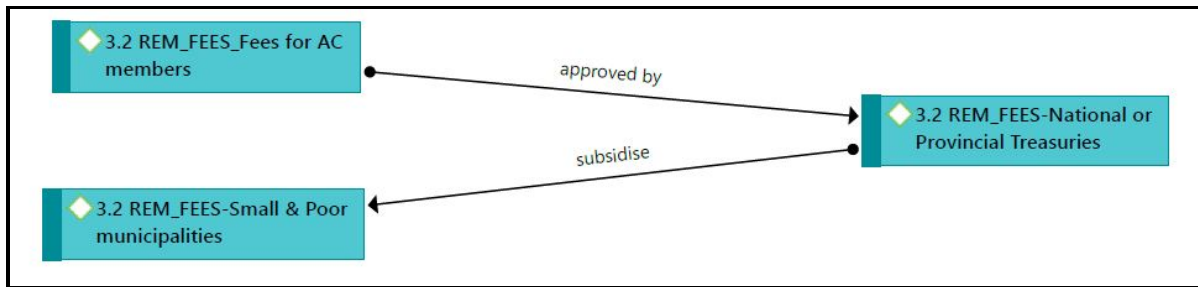
With regard to actions 14(b) and 14(c), nine (64%) participants agreed to the action (refer to annexure 11). One (7%) partially agreed and four (29%) disagreed (refer to annexure 11). The main reason for participants 2A, 2B, 2C, 2E and 4C to partially agree and others to disagree with the action, was that former and retired employees of the municipalities have vast experience that can be helpful to audit committee and the municipalities. *“These are people who have the most experience about the municipal environment as they have been part of it and can add lots of value to the committees”* (participant 2B). The views of the participants were taken into account and the proposed actions 14(b) and 14(c) were removed from the final framework. Participants 2A and 2C suggested that municipalities must impose a condition on hiring former municipal workers as audit committee members: *“there must be a cool-off period”* (participant 2A). The suggestion was valid and considered in the final framework (refer to section 6 of the final framework - annexure 5). Furthermore, an emerging concept was raised and is discussed below.

#### Emerging concept

Participant 1B required the final framework to include the *“minimum and maximum number of audit committee members”*. The study adopts the minimum number of three persons not employed by the municipality, as per legislation (SAG 2003, s. 166(4)(a); National Treasury 2012a:3). However, the maximum number of audit committee members depends on the size and complexity of the municipality and also, affordability. Therefore, the framework cannot determine the maximum number of members and this view was not added to the final framework.

#### **5.3.7 Category 7 Remuneration of audit committee members**

Figure 5.19 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the remuneration of audit committee members, a category of the Framework requiring validation (refer to sections 3.4.3 and 4.4.4, and annexure 5).



**Figure 5.19: Atlas.ti Network output- Remuneration of audit committee members- MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.19 summarises the views of the participants for this category as follows: some participants believe that audit committee members should not be paid more than the approved standard rate by National and provincial treasury. They are of the opinion that the rate determined by the National Treasury is sufficient, as higher remuneration does not translate to better quality of work. Furthermore, numerous participants support the notion of National or provincial treasuries subsidising the cost of audit committees in small and poverty-stricken municipalities. Those that are opposed to such subsidy expressed concern that members will become dependent on the subsidy and it can be problematic when treasuries might, at times, not possess the resources to afford the subsidy.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. Council must approve fair remuneration rates for audit committee members, considering the risks, geographic location of the municipality and the logistics (travelling, accommodation, meeting venue, etc.).
2. Council should consider incentives that will entice skilled and experienced individuals to occupy audit committee positions in poor and remote municipalities.
3. The National or Provincial Treasury must subsidise poor municipalities, to pay market-related remuneration for audit committee members.

All (100%) of the participants agreed with action 1 in the textbox (refer to annexure 11), while participant 4A (7%) disagreed with action 2 and participant 4B (7%) disagreed with action 3 (refer to annexure 11). With regard to action 2, most

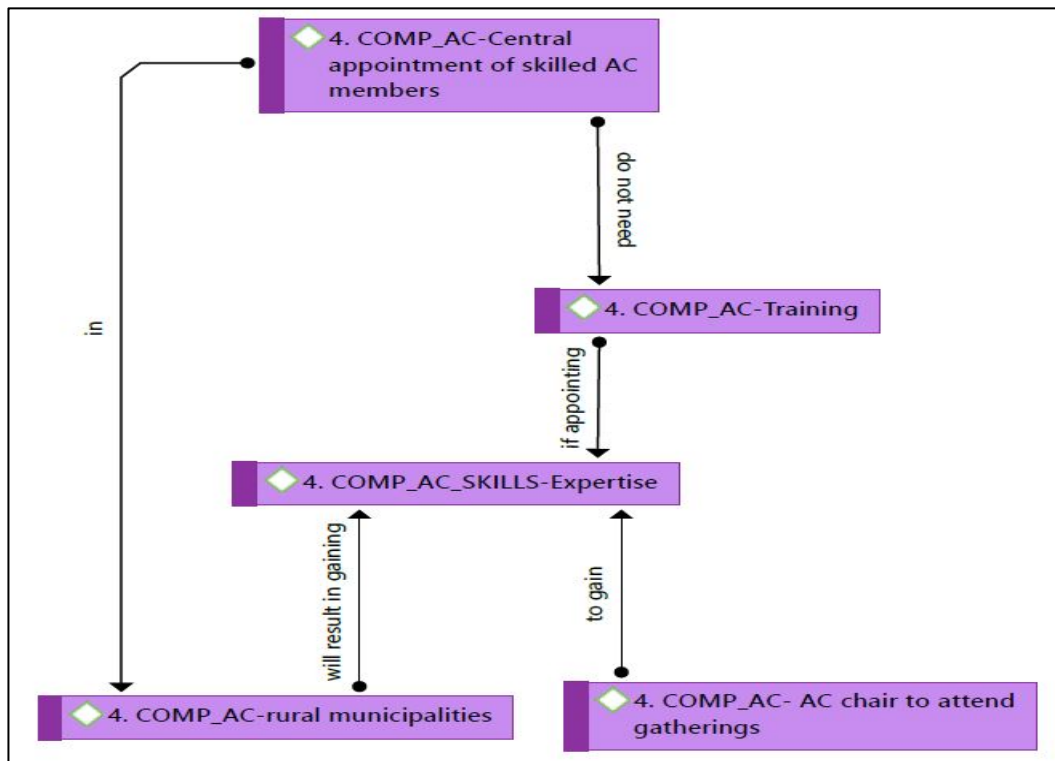
participants agreed with the action “*provided that the independence of the member is not impaired*”. However, participant 4A completely disagreed. He emphasised that the focus should not be about paying high remuneration as high “*remuneration does not translate into the best quality audit committee person or member*”. “*The remuneration of audit committee members should not even go beyond what is suggested in their own directives or circulars*” because the purpose is not high remuneration but to “*contribute towards the good governance of the municipalities*” (participant 4A).

Furthermore, participant 4B does not agree with action 3 as a subsidy might “*create a dependency on National [or] Provincial Treasury to the extent that [when] they don’t have funds available, then the municipal audit committee[s] might not proceed at all.*” Also, “*I’m not sure if National or Provincial is willing to do that but it is something that can be looked at*” (participant 3B). Participant 4B proposed that the organisation that can subsidise municipalities is SALGA, as it “*manages all this [the] oversight*” and “*the municipality pays a subscription [municipalities pay subscriptions].*”

Although high remuneration does, indeed, not translate to the quality of members and treasuries might not be willing to subsidise audit committee cost, the problem persists that small and poverty-stricken municipalities in remote areas lack qualified audit committee members. Until conducting online or telephonic audit committee meetings is the norm, incentives must be paid to attract experienced and qualified audit committees. Therefore, actions 2 and 3 remain relevant. The actions were rephrased in the final framework (refer to section 7 of the final framework - annexure 5).

### **5.3.8 Category 8 Competencies of the audit committee**

Figure 5.20 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the competencies of the audit committee, a category of the Framework requiring validation (refer to sections 3.4.4 and 4.5, and annexure 5).



**Figure 5.20: Atlas.ti Network output- Competencies of the audit committees- MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.20 summarises the views of the participants for this category as follows: Rural municipalities will acquire audit committees that have the necessary expertise if recruitment and appointment of members are managed centrally by provincial treasuries. Relevant gatherings can be used as a platform for the audit committee chairperson to gain the necessary expertise for his or her role. Although training can be used for audit committees to acquire expertise, an opposing view was held that if audit committee members with expertise are appointed from the beginning, there will not be a need for training.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. The council must appoint experts with the relevant appropriate blend of expertise, both financial and non-financial.
2. The council must appoint an expert in financial and auditing skills, when it recruits members to the committee.
3. The council must appoint an audit committee with an understanding and

knowledge of:

- a) The municipal environment, risks and legislation;
  - b) Rural environment -for the audit committee in the rural municipality;
  - c) Structures, powers and functions of all the institutions associated with the municipalities (Inter-governmental support);
  - d) Infrastructure;
  - e) Municipal income & debt collection;
  - f) Service delivery;
  - g) Methods to attract competent human resources to the municipality;  
and
  - h) Disciplinary measures for non-performing staff members.
4. The municipality must provide training to audit committee members regarding legislation and the intergovernmental support structures of the municipality.
  5. The council must allow the audit committee chairperson to attend intergovernmental forums consisting of mayors or administrators that share knowledge and best practices concerning strategy, plans, goals and solutions to municipal problems.

All (100%) of the participants agreed with all the actions in the textbox (refer to annexure 11). For action 1, participant 4A believes it is possible to have an audit committee with the right mix of expertise even in small and rural municipalities, if “*a pool of audit committees that are [is] based on their Provincial treasuries*”, (meaning the skilled members) are sourced centrally.

In action 2, participants 1C, 2A, 2C and 3C suggested inclusion of other skills such as “*risk management, information systems, legal, performance management and environmental issues etc.*” (participant 2A). The skills that were listed in the audit committee framework were added to the final municipality framework (refer to section 8 of the final framework - annexure 5).

In respect of action 3(h), participant 4B suggested to “*just leave it at disciplinary measures, so that it can include HR and supply chain management and legal and*

*other areas in municipalities as well*". The suggestion is valid and was taken into account in the final framework (refer to section 8 of the final framework - annexure 5).

Furthermore, regarding action 4, participant 3B suggested *"online training"* to minimise costs. Participant 2D mentioned that *"if the correctly skilled individuals are appointed, this training will not be necessary."* Online training was mentioned in the final framework (refer to section 8 of the final framework - annexure 5).

With regard to action 5, participant 4B suggested that *"audit committee should also attend the municipality's own strategic planning session, not just governmental forums"*. This issue was discussed in part A, section 2 Organisational maturity. It was established that the audit committee will utilise internal audit assurance reports on strategic municipal matters instead of attending the meetings, as attending such meetings is an operational activity. The action in the final framework was amended to be inclusive of attending additional gatherings that can empower the audit committee chairperson (refer to section 8 of the final framework - annexure 5).

### 5.3.9 Category 9 The ethical conduct of the audit committee members

Figure 5.21 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the ethical conduct of the audit committee members, a category of the Framework requiring validation (refer to sections 3.4.3 and 4.4.2, and annexure 5).



**Figure 5.21: Atlas.ti Network output-The ethical conduct of the audit committee members-MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.21 summarises the views of the participants for this category as follows: The ethical expectations with regard to the audit committee members' conduct, should be included in the charter. These expectations include attending a specific minimum number of audit committee meetings. Although it is admirable to have all members of the audit committee be affiliated to a professional body, it is not practically possible.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

- 1) Council should develop and implement ethics policies and a code of ethics for audit committees.
- 2) Council must be engaged in the hiring of moral and termination of immoral audit committee members.
- 3) Council is to appoint members that are affiliated to professional bodies and are obliged to behave as is required by the code of conduct of their respective bodies.
- 4) The municipality must establish the maximum number of meetings from which audit committee members are allowed to be absent, before their contract is terminated.

All (100%) of the participants agreed with actions 1, 2 and 4 in the textbox (refer to annexure 11). Only eleven (79%) agreed with action 3 while three (21%) participants disagreed (refer to annexure 11). For action 1, participant 4C mentioned that the required ethics policies and code of ethics should also be scripted in the audit committee charter. Her view was added to the final framework (refer to section 9 of the final framework - annexure 5).

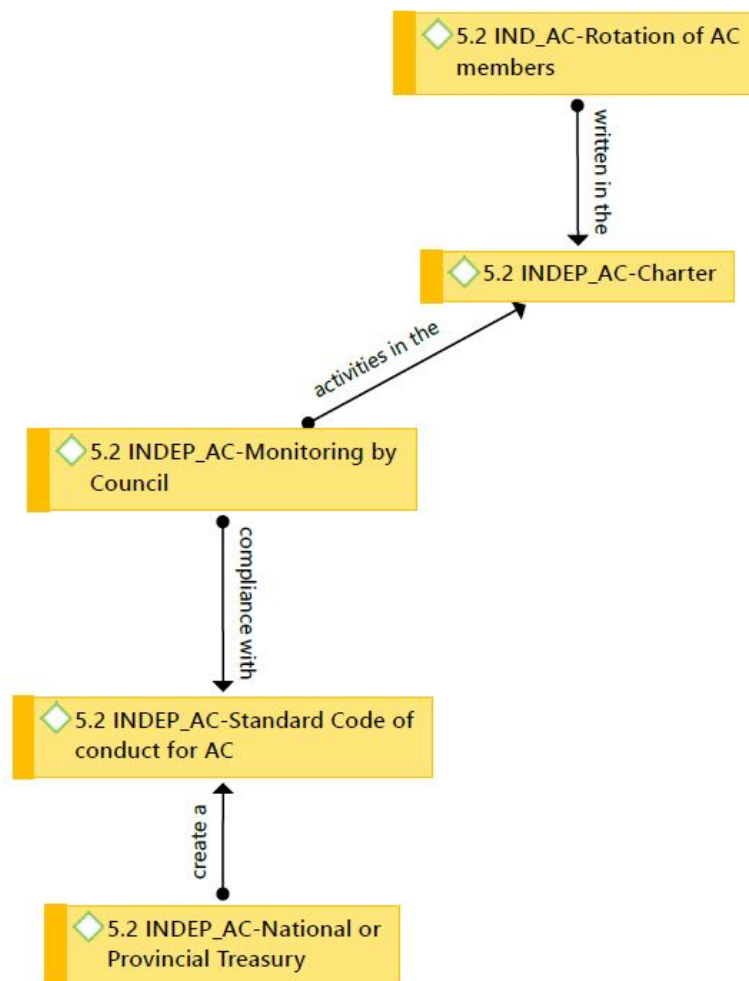
With action 3, participants 1A, 3B and 4C disagreed with the action as "*it is going to be too difficult to be enforced*" (participant 4C). Although participant 2D agreed with the action, he also mentioned that it would be impractical to implement. The proposed action was removed from the final framework.

For action 4, participants 1A, 2A, 2E, 3C suggested that the action "*must be stated in the audit committee charter so that audit committee members are aware of what is expected of them*" (participant 3C). Participant 1A further commented that "*the audit*

*committee chairperson and the secretariat must follow due process*” when terminating a contract. Their opinions were considered and additions were made to the final framework. Furthermore, participant 2C insisted that *“we need to get to the reason for non-attendance before we terminate the contract”*. Even though valid reasons can be provided for the maximum absenteeism by the member, the negative impact on the committee remains - therefore, it is maintained that the contract must be terminated.

### 5.3.10 Category 10 Independence of audit committee members

Figure 5.22 was designed in Atlas.ti Network, reflecting all the concepts obtained from the participants on the independence of audit committee members, a category of the Framework requiring validation (refer to sections 3.4.3 and 4.4.3, and annexure 5).



**Figure 5.22: Atlas.ti Network output- Independence of audit committee members- MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)



Figure 5.22 summarises the participant-views of this category as follows: The activities that promote the independence of the audit committee and its members, include rotation (changing) of members following their contract conclusion - this should be scripted in the audit committee charter. Council should monitor whether activities required by the charter are adhered to by the audit committee. Also, when the code of conduct for audit committees drafted by National or Provincial Treasury comes into existence, the council should monitor whether the audit committee complies with such code.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. Council must include requirements regarding independence, declaration of conflict of interest and rotation of audit committees, in its policies.
2. Council must appoint members that can function independently.
3. Council to regularly review the conflict of interest register and act timeously.
4. Dismiss members that are not compliant to policy and code of conduct.

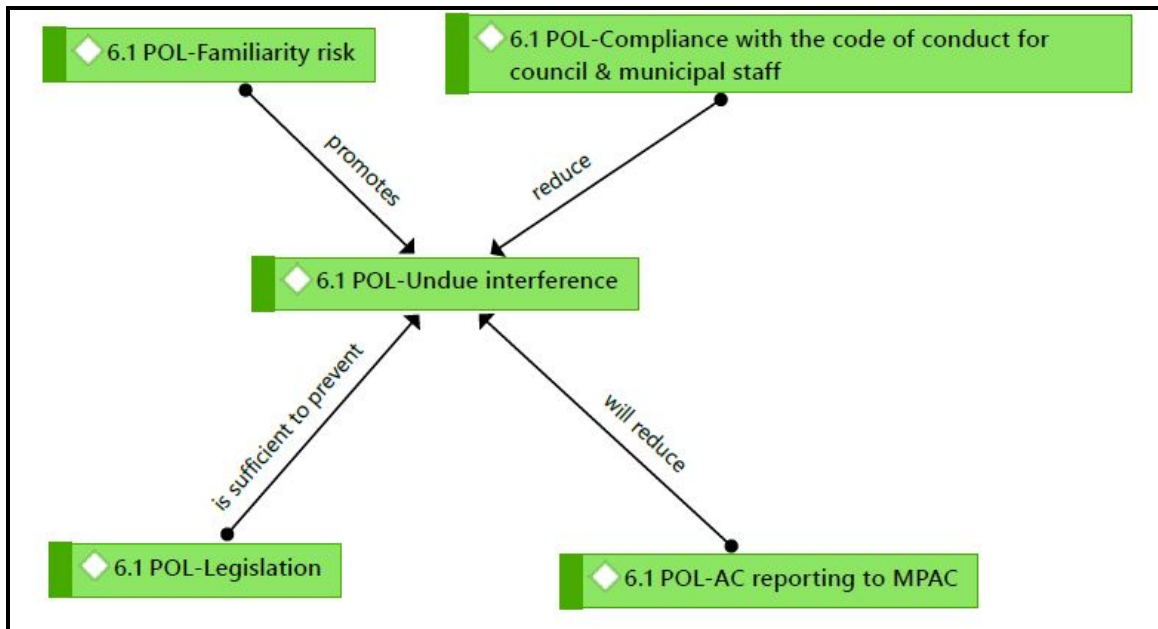
All (100%) of the participants agreed with all the actions (refer to annexure 11). Participants 1A, 2A and 3C suggested that all the actions “*should also be added in the audit committee charter*” (participant 3C). Their view was added to the final framework. For action 1, participant 4B proposed using a different word for “rotation”, as it could be confusing. The action was amended (refer to section 10 of the final framework - annexure 5) and included that the information must be contained in a charter.

Regarding action 3, “*I currently do not feel that this is being done from the council’s side, the review of the independence so I think there is room for improvement*” and regarding action 4 “*there is nothing like a code of practice or conduct for audit committee members*” (participant 1A). Participant 1A suggested that “*a standard document [of code of conduct] for all and it must be coming from Treasury*”. His view was valid and relates to actions that need to be executed by National Treasury. In line with the current practice, the charter should contain a list of expectant ethical behaviours for audit committees. Therefore, the action was amended to exclude the

code of conduct - since it does not exist - and include, instead, the charter and legislation (refer to section 10 of the final framework - annexure 5).

### 5.3.11 Category 11 Political interference

Figure 5.23 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on political interference - a category of the Framework requiring validation (refer to sections 3.4.5 and 4.6.1, and annexure 5).



**Figure 5.23: Atlas.ti Network output- Political interference-MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.23 summarises the views of the participants for this category as follows: Familiarity risk of the audit committee with the council and municipal employees promotes undue interference. Compliance with the code of conduct, for council and municipal employees, can eliminate undue interference. An interesting new concept was raised that the audit committee should interact with and report to MPAC instead of the councillors, to reduce undue interference from councillors. Furthermore, some participants are convinced that the existing legislation is sufficient to prevent political interference.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. There must be a segregation of duties between council, administrators and the audit committee.
2. Council should not interfere with administrative functions, in particular supply chain matters and the appointment of staff members.
3. Council must include sanctions for political interference in their policies.
4. Actions to be taken against the council, management and any person that interfere improperly with audit committee function.
5. The council, accounting officer, management, staff and other stakeholders of the municipality should not disrupt the audit committees' function.
6. Council and management should not withhold information from the audit committee.
7. Legislation to be amended to allow the local community to have voting rights in council- and ward meetings, to reduce decisions based on political interference.

Thirteen (93%) participants agreed with actions 1 to 6 while participant 4C (7%) declined to comment due to her limited knowledge of the subject (refer to annexure 11). For action 7, only eight (57%) participants agreed, five (36%) disagreed and participant 4C (7%) likewise did not comment due to her limited knowledge of the subject (refer to annexure 11).

Regarding action 2, *“we are basically limiting ourselves with issues of supply chain management and appointment of staff. What about any other operational activities?”* (participant 1A). Also, the council should *“adhere to relevant policies and procedures”* (participant 2A) [and legislation]. This view of adherence was supported by participant 3C. The proposed action was amended to include the views of the participants (refer to section 11 of the final framework - annexure 5).

Regarding action 3, the action was improved by the researcher without the participants' input. The word “political” interference was changed to “undue” interference, to avoid limiting interference to only that of a political nature. Action 4 and 5 were consolidated into one action in the final framework (refer to section 11 of

the final framework - annexure 5). Regarding action 4, the word “disciplinary” was added to describe the action.

Disagreements erupted regarding action 7, owing to participants being of the opinion that such an action is “*counter-productive to a democratic state*”, and the impossible “*practicalities*” of applying the action (participants 1A and 1B). The five participants that disagreed with the action argued that it is unnecessary to amend the legislation, as the citizens exercised their democratic right to vote for their representative and therefore the public voice is heard through their elected representatives: “*the community can hold council accountable to [using the] current structures provided*” (participant 2A). Also, it is not practically possible to manage a fair system, in the context of audit committees that can include the votes of ordinary citizens. The views of the participants were valid and the proposed action was removed from the final framework. Furthermore, emerging concepts were discussed.

#### Emerging concepts

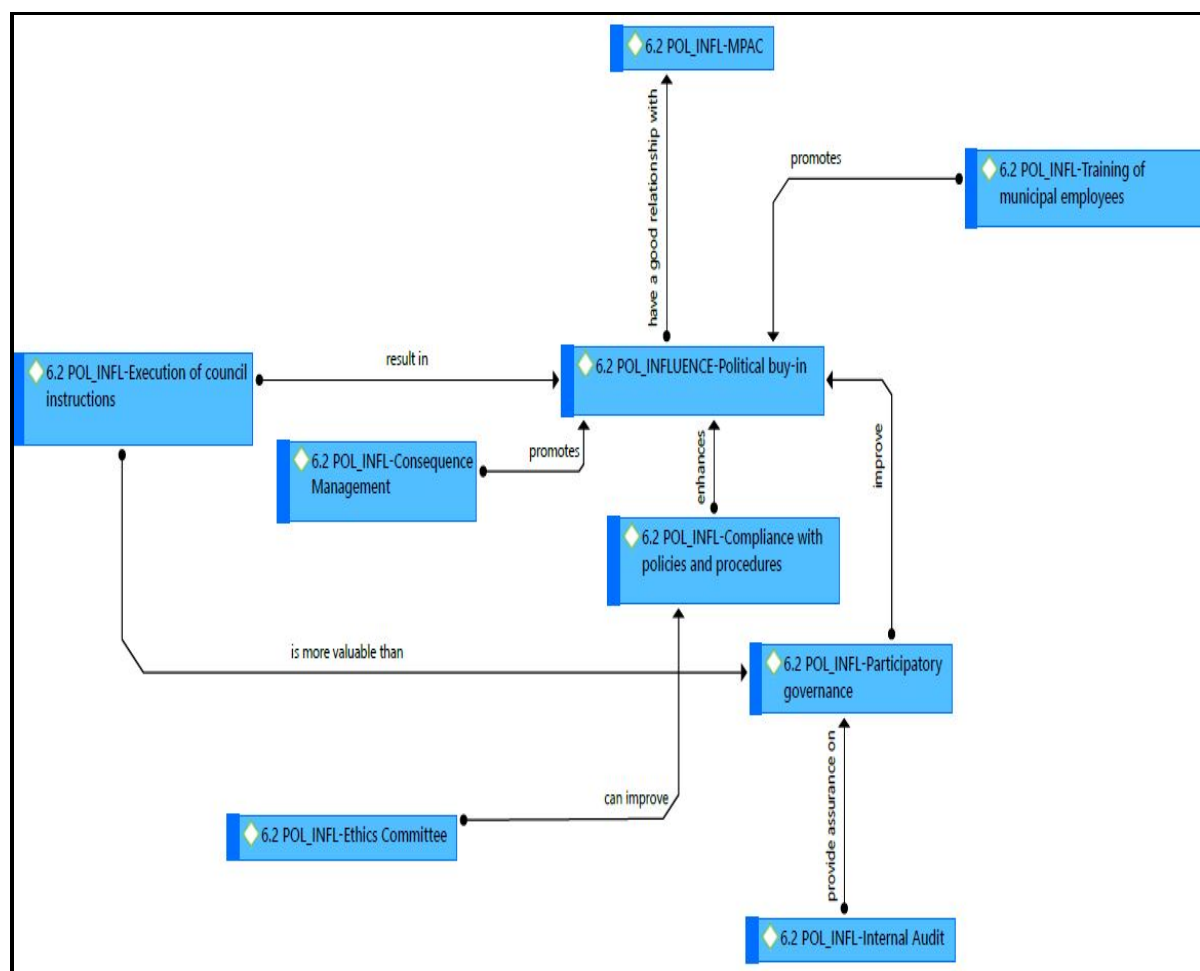
Participant 3B raised a concern of familiarity risk in respect of “*audit committee members’ friends are councillors*” and in some instances “*audit committee member[s] that sit[s] longer than six years*” [which is their maximum legislated term], by which independence of audit committees can be impaired. To curb such risk, participant 3C’s previous suggestion that “*the code of conduct for officials and councillors must be read every time when the audit committee has a meeting to remind all role players that the audit committee is an independent body*” can be used. However, the application of a code of conduct by the council and municipal employees should not be limited to reading it during the audit committee meeting, it must also be fully applied in all its engagements.

Participant 4A holds a view that opposes the legislation. He recommends that the audit committee “*should not anywhere else [sic] get to interact directly with their politicians which are the councillors. They must have a bridging governance which is MPAC*”. Legislation encourages interaction between the audit committee and councillors, through reporting. This issue was previously discussed in 6.1 and 6.2 of part A - Audit committee framework, that MPAC can be utilised by the audit committee chairperson as a vehicle to influence councillors in making sound decisions. However, MPAC should not usurp the role of the councillors, of receiving

and cross-examining on the audit committee reports. Therefore, the necessary action concerning MPAC assisting the audit committee to influence council, was already considered in part A.

### 5.3.12 Category 12 Ability to influence and gain political buy-in

Figure 5.24 was designed in Atlas.ti Network. It reflects all the concepts obtained from the participants on the ability of the audit committee to influence and gain political buy-in in the municipalities, a category of the Framework requiring validation (refer to sections 3.4.5 and 4.6.2, and annexure 5).



**Figure 5.24: Atlas.ti Network output- Ability to influence and gain political buy-in- MUNICIPAL FRAMEWORK** (Source: Own compilation from Atlas.ti)

Figure 5.24 summarises the views of the participants for this category as follows: A particular participant strongly believes that execution of council instructions by municipal employees is more valuable than participatory governance that should

stimulate influence from the public of council to execute the useful recommendations proposed by the audit committees. It was also commented that political influence and buy-in for audit committees can be achieved when there is a relationship with influential, executive individuals such as the mayor and the chairperson of MPAC. Furthermore, participatory governance practices improve influence and political buy-in as it increases the odds of the council implementing useful advice from audit committees. Therefore, training of municipal employees on participatory governance practices is necessary to promote public influence and political buy-in. Also, the internal audit function must provide assurance regarding participatory governance practices, to audit committees.

In addition, the ethics champion and committee can improve compliance with policies and procedures. The compliance with policies by the council and municipal employees enhances audit committee influence and political buy-in. It is, therefore, necessary to implement consequence management of the non-compliant council and municipal employees, to promote audit committee influence and political-buy-in.

The draft framework actions verified by the interview participants are indicated by the grey text boxes.

1. Participatory governance practices (participation of stakeholders of the municipality, especially the community), must be enforced.
2. Staff members of the municipalities must be educated to conduct participatory governance practices with the community.
3. Credible sanctions should be imposed on those individuals who do not possess the political will to fulfil the objectives of the municipality or decline to participate in participatory governance practices.
4. The municipalities should develop structures, mechanisms, processes and procedures that will promote governance-participation by the local community.
5. Council to adopt valuable expert advice from the audit committee regarding participatory governance practices.
6. Consequence management should be implemented in response to the lack of implementation of participatory governance.

Twelve (86%) participants agreed with actions 1 to 3 and actions 5 to 6 in the grey textbox, while participant 1A (7%) disagreed with all the actions, and participant 4C (7%) did not comment on all actions in this category due to her limited knowledge of the subject (refer to annexure 11). In respect of action 4, two (14%) participants disagreed - participants 1A and 4B. Participant 1A disagreed with the action as he believes that *“administrators are there to execute the policies of council and if you want to start lobbying and creating political buy-in, then you are participating in political activities whereas you should be focusing on administrative matters”*. Participant 4B disagreed with action 4, although he agreed with all the other actions. Action 4 promotes the participatory governance that participant 1A does not agree with. Participant 4B argued *“that this might not be relevant in the audit committee context”*. The practice of participatory governance in municipalities is vital, as it promotes transparency to the public and the accountability of councillors. Public awareness of audit committee advice to council might cause the council to be more considerate and willing to adopt the useful advice from audit committees. Hence, all the actions in this category are relevant to the audit committee context.

For action 2, participant 3B supported the action by commenting that the municipal employees must receive training regarding participatory governance practices *“from School of Governance”*. The action remained unchanged in the final framework.

Participant 1A disagreed with action 3 as, according to him, *“an administrator should never be allowed to have political will”* but rather *“execute the instructions of council”*. His argument is reasonable, as the parties that are usually associated with political will are political actors, such as councillors. The action was amended to replace *“political will”* with *“will”*. Also, participant 4B suggested to *“delete the word ‘credible’*. *Sanctions are supposed to be credible anyway”*. The word *“credible”* expresses the soundness of the sanction - it was therefore deemed to be relevant and was not removed from the final framework.

With regard to for action 4, participant 1B suggested that the internal audit function should provide assurance on *“the extent to which the municipality implements this issue of participatory governance”*. The view of participant 1B was included in the final framework (refer to section 12 of the final framework - annexure 5).

Regarding action 6, participant 2A stated that the action should be performed “as accommodated in the consequence management policy and standard operating procedures”. Her view was considered and added to the final framework (refer to section 12 of the final framework - annexure 5).

Emerging concepts

Participant 4A believes that “MPAC is the only structure that can assist [audit committee] to be heard at the council level”. Participant 1A supports this view: “get the mayor, the speaker, the chairperson of Finance and the chairperson of MPAC attend to audit committees and thereby create a relationship with your political office bearer that in turn may influence the political buy-in process”. Additional action was added to the final framework to include the views of the participants (refer to section 12 of the final framework - annexure 5).

Furthermore, participant 3B suggested that “appointing a champion and a committee, an ethics champion and a committee” will improve compliance to policies by the municipalities. His view was adopted in the final framework but added to category 5.1, the Ethical conduct of the audit committee members.

**5.3.13 Part B: Conclusion**

Table 5.3 shows the highest code frequencies or groundedness per framework category. As explained in the conclusion section of part A, the code groundedness provides evidence that framework categories are relevant and significant.

**Table 5.3: Atlas.ti code groundedness- MUNICIPAL FRAMEWORK**

<b>Code</b>	<b>Grounded</b>
Category 1 Municipal administration	4
Category 2 Organisational maturity	4
Category 3 Risk Management	3
Category 4 Internal Audit Function	3
Category 5 The audit committee mandate	5
Category 6 Appointment of audit committee members	10
Category 7 Remuneration of audit committee members	5
Category 8 Competencies of the audit committee	5
Category 9 The ethical conduct of the audit committee members	6
Category 10 Independence of audit committee members	2



Category 11 Political interference	5
Category 12 Ability to influence and gain political buy-in	4
<b><i>The highest number of quotations per category</i></b>	

(Source: Own compilation)

The framework category 6, the Appointment of audit committee members, received the highest quotations. It is the same as part A, Audit committee framework. It is a category in theme 3 (3.4.3) that received the highest quotations. It is an indication that careful considerations should be had, when appointing audit committees. Also, it shows that audit committee outcomes are impacted by whom it is appointed to serve. The most contentious issues in this category were concerned what constituted an adequate body to appoint the audit committees, and the maximum number of committees that the audit committee member should serve. Several interview participants suggested that the appointment of audit committees should be centralised. They suggested the provincial treasuries take the role of appointing audit committee members from the council. It was also argued by some participants that there should not be a limit to the number of committees members serve. Implementation of both of these issues, will require amendment to the legislation. However, the second suggestion concerning members serving in more than three committees, should be discouraged to safeguard the independence of audit committees.

The second-highest category is category 9- the Ethical conduct of the audit committee. The importance of the audit committee charter was the most deliberated matter. Likewise, in categories 3- Risk management, 5-the Audit committee mandate and 10-Independence of audit committees. The internal audit charter was also the most discussed matter in category 4-Internal audit function. It is an indication that both the audit committee charter and the internal audit charter are significant directors of these functions. The categories cover theme 1 (refer to 3.4.1), 2 (refer to 3.4.2) and 3 (refer to 3.4.3).

In category 11- Political interference, legislation receives the highest quotations, signifying that it was the topic that was discussed the most in this category, belonging

to theme 5 (refer to 3.4.5). This captures its significance as a primary driver in the focus group (refer to 3.4.5). Also, the groundedness of category 7- Remuneration of audit committee members, in small and poor municipalities, is confirmatory evidence of the significant affinity in theme 4 of the '*location of the municipality*' as a primary driver for focus group 1 (refer to 3.4.4). The groundedness illustrated by table 5.3 is confirmatory evidence of the significance of all the categories of the framework that covers all five themes (refer to 3.4).

#### **5.4 Part C: National and Provincial Treasury support and SALGA**

The interview participants raised significant matters, relevant to enhance the effectiveness of audit committees. However, those matters could not be included in the Frameworks as the actions cannot be executed by audit committees nor municipalities, but are to be regulated by the National Treasury, provincial treasuries and also SALGA. The participants' recommendations were viewed, by the researcher, as inter-governmental support (refer to sections 3.4.5 and 4.6.3.1) to the municipality. The categories that were affected are listed hereafter.

##### **5.4.1 Category 3 Risk management**

The participant suggested that the National Treasury must improve risk management regulations. "*In terms of National Treasury, I just feel they need to regulate risk management because there is a lot of room for improvement*" (participant 3B - Audit Committee Guide & Municipality Guide).

##### **5.4.2 Category 4 Audit functions**

It has been suggested that SALGA provide training to the audit committees. "*I think that it's HR that should train or maybe we can say SALGA, one of the oversight bodies over audit committees*" (participant 4B - Municipal Guide). The suggested action can be amended to state that the National Treasury must determine the mandatory training needs for audit committees and the government organisation that should provide the training.

##### **5.4.3 Category 6 Appointment of audit committee members**

Several participants suggested that "*the appointment of the audit committees can be centralised at the provincial level*" (participant 4A - Municipal Guide). Participant 2C

(Audit Committee Guide) supports that audit committee members “*be appointed by Provincial Treasury*” “*to strengthen their independence*”. Participant 4B (Audit Committee Guide) agrees with the centralisation of this action but proposed a different organisation, i.e. SALGA. He mentions that SALGA can also “*monitor the skills of audit committee members*” to create “*further independence for oversight*”.

#### **5.4.4 Category 7 Remuneration of audit committee members**

Several participants were concerned that audit committees are “*underpaid, especially the professionals*” (participant 3B – Audit Committee Guide). They argue that a flat rate does “*not suffice to keep professionals in audit committees*” (participant 1A – Audit Committee Guide), “*leading to high turnover making the audit committee ineffective*” (participant 3C – Audit Committee Guide). Therefore, the National Treasury must benchmark with other countries, best practices derived from research and performance outcomes, when determining the remuneration of audit committee members.

Another concern was that poor and smaller municipalities “*can’t really [afford to] pay the rates*” (participant 3B – Audit Committee Guide). It was proposed that “*SALGA... manages all this oversight and where the municipality pays a subscription*” (participant 4B - Municipal Guide), thereby, in effect, subsidising the remuneration of audit committees in poor and smaller municipalities. The National Treasury can, therefore, decide on how those municipalities may be subsidised.

Since centralisation for purposes of the appointment of audit committees was previously suggested by the participants, the remuneration payments can also be centralised, to avoid complications in administration and a payroll system where two or more entities are involved. The National Treasury can determine which structure is tasked to take over the responsibility. Also, centralisation will ensure that all members are paid a standard rate, including those in small and poor municipalities.

#### **5.4.5 Category 10 Independence of audit committee members**

“*There is nothing like a code of practice or conduct for audit committee members... A standard document for all and it must be coming from Treasury*” (participant 1A - Municipal Guide). Therefore, the National Treasury must consider composing a Code of conduct for audit committee members.

#### **5.4.6 Category 11 Political interference**

Participant 3C proposed that *“SALGA should look into the issue of education requirements for politicians. In other words, government should introduce educational requirements as one of the key aspects to become a councillor.”* The suggestion will require amendments to legislation as there is currently no minimum educational requirement prescribed for councillors.

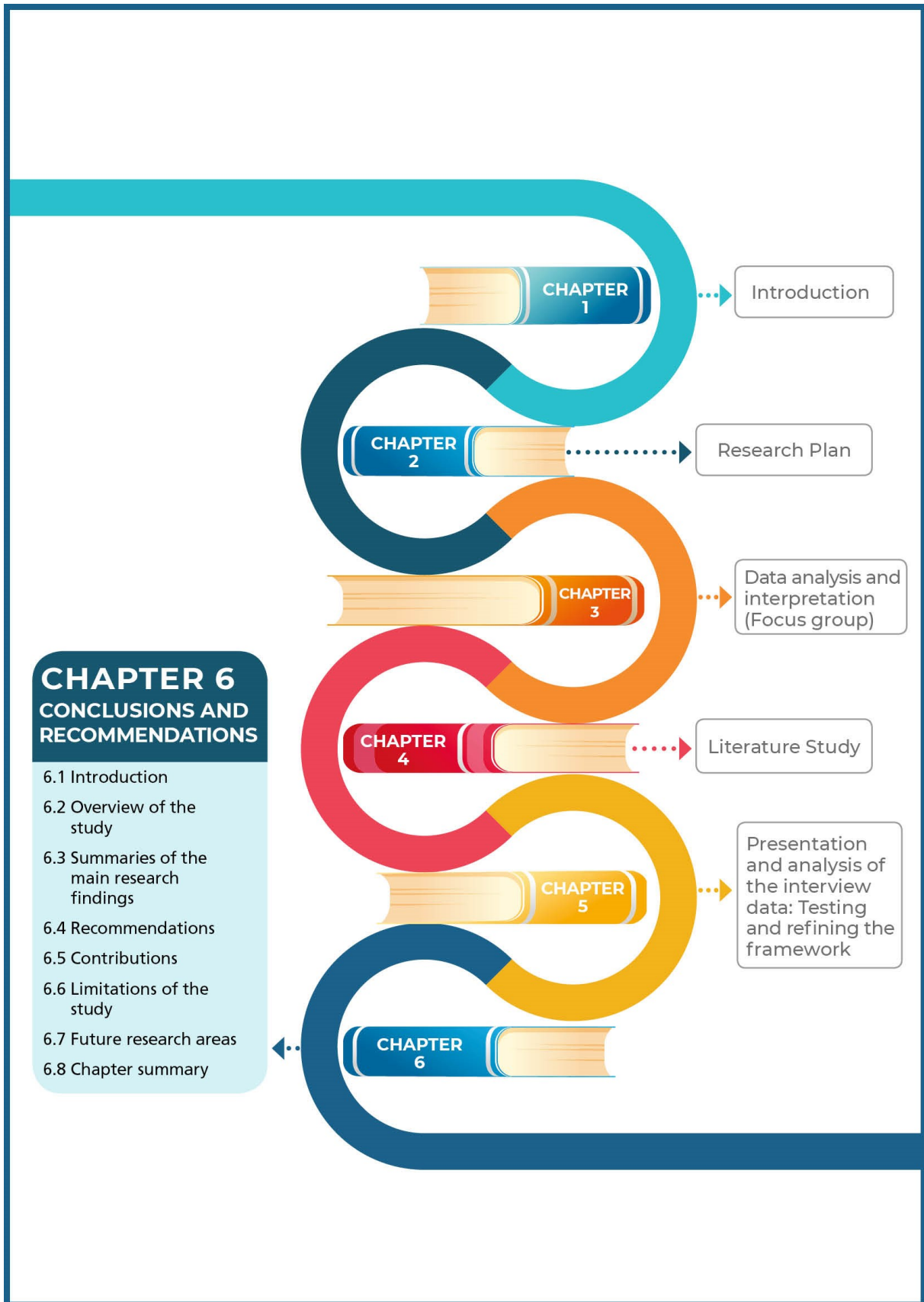
#### **5.4.7 Part C: Conclusion**

Several participants are of the opinion that certain roles that are currently executed at municipal level, must be centralised, including roles such as appointing and training audit committee members. Also, some participants are not satisfied with the current remuneration rate for audit committee members and suggest that the National Treasury should review and increase the rate. Furthermore, suggestions were made that the National Treasury improve the municipal risk management framework and also create a code of conduct for audit committee members. Lastly, to reduce political interference, it was suggested that a minimum education qualification requirement for councillors be prescribed - this can be impractical to adopt in the present generation owing to the historical background of South Africa in terms of which some of the elderly politicians were not allowed access to or the opportunity of pursuing formal education.

#### **5.5 Chapter summary**

The draft framework was verified by interview participants. The participants' data were analysed, interpreted, and informed the final framework. The final framework is a novel contribution to municipal audit committees, municipalities and inter-governmental organisations that support municipalities. The next chapter will consist of the summary of the findings, conclusions, contributions, limitations, and recommendations for further research.

## CHAPTER 6 CONCLUSIONS AND RECOMMENDATIONS



## **6.1 Introduction**

In the previous chapter, the research findings from interviews conducted to test and refine the framework, were discussed. In this chapter, the main findings of the literature review and the empirical studies are summarised. Recommendations on how the study can be applied in practice are provided. These are followed by theoretical and methodological contributions. Lastly, the limitations of the study and future research areas are discussed.

## **6.2 Overview of the study**

The study was motivated by the research problem (refer to section 1.4) of persisting malpractice, maladministration and poor service delivery by South African municipalities that are receiving advisory services from audit committees. The audit committees are vital in guiding the municipalities on the right path of effective governance, and providing advice to municipal stakeholders (SAG 2003, s. 166(2)). Given this context, the effectiveness of municipal audit committees is questionable and improving the effectiveness of municipal audit committees is necessary. Hence, the primary objective of the study, as stated in section 1.5, is to propose a framework to enhance audit committees' effectiveness in South African municipalities.

To achieve the primary research objective, the study has three secondary objectives (refer to section 1.5) that are summarised in section 6.3. The study adopted a qualitative research methodology from a constructivist and interpretivist perspective, to collect data. The source of data is multiple human worldview experiences with the research phenomenon. The researcher co-interpreted the phenomenon using participants' views to seek meaning and create knowledge, within the context of the participant-contribution and the literature.

## **6.3 Summaries of the main research findings**

The research findings and conclusions in respect of each secondary research objective are presented.

### **6.3.1 Secondary research objective 1**

**Secondary research objective 1:** To understand the factors influencing the effectiveness of audit committees in South African municipalities, obtained from 1)

stakeholders of municipalities and 2) audit committee members (refer to chapter 3).

In chapter 3 of the study, the trustworthy qualitative research technique of IQA was employed to collect and analyse data from reliable sources using two focus groups. The empirical investigation was conducted to obtain evidence from the experiences of municipal stakeholders and audit committee members, to gain an understanding of factors that influence the effectiveness of audit committees. The outcome of the investigation was the identification of 25 affinities and 132 sub-affinities (refer to figures 3.1 and 3.7) that influence the effectiveness of audit committees in the municipality, according to the participants. Those affinities guided the flow of the study in chapter 4, directing the topics for examining the literature and probing the potential categories (headings) to include in the proposed framework (refer to section 4.7). From the 25 affinities, similar and related affinities were grouped together resulting in five themes, namely: theme 1- Municipal administration, theme 2- Audit committee mandate, theme 3- Appointment of audit committee members, theme 4- Competencies of the audit committees and theme 5- Challenges the audit committee face when executing their mandate (refer to table 3.14).

### **Theme 1- Municipal administration**

It was concluded that the key factors that influence the effectiveness of audit committees (refer to section 3.4.1) are:

- municipality administration function;
- management of municipalities;
- organisational maturity;
- risk management;
- internal audit function and
- assurance providers.

For the audit committee to be effective in its role, it will require a competent, skilled, effective and supportive council; municipal management; internal audit function, and the equivalent qualities from other relevant assurance providers. It was concluded that some municipalities have not matured as organisations, as staff members lack

institutional knowledge and experience, resulting in the lack of competent municipal staff to develop and implement risk management plans, thus leading to non-execution of audit committee advice that impacts good governance. It was also established that some municipalities hold dysfunctional internal audit functions - unable to provide proper services to the municipality and quality reports to the audit committee.

## **Theme 2- Audit committee mandate**

The key factors that influence the audit committee mandate (refer to section 3.4.2) are:

- ToR for audit committees;
- the role of the audit committee chairperson;
- audit committee's understanding of its mandate;
- municipality's understanding of audit committee mandate and preparation; and
- participation of audit committee members (to give effect to their mandate).

It was concluded that the role of the audit committee is not always understood by its members, as well as by the municipal council and management. New members of the audit committee do not receive induction and there is no sufficient training- and continuous learning programmes for audit committees in local government.

The participants also commented that, in a number of municipalities, the role of the audit committee is not documented in a charter and in certain instances, the audit committee does not comply with its ToR. For example, several audit committee members are not well prepared for their meetings in order to provide valuable input, while others do not attend meetings regularly. For the audit committee to be effective, it requires strong leadership skills from its chairperson.

## **Theme 3- Appointment of audit committee members**

Key factors that influence the effectiveness of audit committees, with reference to theme 3 (refer to section 3.4.3) are:

- the recruitment, selection and appointment of audit committee members,
- remuneration of audit committee members,



- ethics of audit committee members as well their ethical conduct, and
- their independence.

The participants declared that the process of recruiting, selecting and appointing audit committee members must be executed by the councils, as legislated, to reduce the risk of members' independence being compromised when performing their roles. Also, the councils should appoint ethical members who will comply with the ToR of the audit committee. To enhance ethical behaviour, it was pointed out that the councils should consider appointing members who are allied to professional bodies and who are liable to comply with their respective professional bodies' codes of conduct. It is concerning that unskilled audit committee members are often appointed by poverty-stricken and rural municipalities owing to a low remuneration rate. The metropolitan municipalities habitually acquire skilled members because of the higher payment. Therefore, the inconsistency of remuneration rates amongst municipalities influences the quality of members and, subsequently, the effectiveness of the committee. The effectiveness is also impacted by members who do not provide quality input as they are overcommitted by serving on several other committees at the same time, for the purpose of receiving higher aggregate remuneration.

#### **Theme 4- Competencies of the audit committees**

Factors relating to the competencies of the audit committee (refer to section 3.4.4), influencing its effectiveness, include:

- location of the municipality;
- understanding of the legislative framework;
- inter-governmental support; and
- diversity of audit committee skills.

The audit committees of remote and rural municipalities often possess members that are unskilled, incompetent and inexperienced. For audit committees to be effective, they must comprise of members with diverse skills and experience. Also, the audit committee members must have an understanding of the legislative framework and attendant know-how in terms of how the law and regulations of the municipality should be applied. They must also have knowledge of available inter-governmental support for the municipalities, from other governmental organisations.

## **Theme 5- Challenges the audit committee face when executing their mandate**

Additional key factors that influence the effectiveness of audit committees are expressed by theme 5 (refer to section 3.4.5) and are based on challenges the audit committee faces when executing its mandate. These challenges are:

- political interference, and
- audit committees' inability to influence and gain political buy-in.

The causes for audit committees' ineffectiveness are lack of councils' support for their role and councils' interference with the operations of the audit committee. Hence, the audit committee chairpersons must have strong leadership skills and not tolerate any compromise of their independence, also, persuasion skills to influence and gain councils' political buy-in. Lack of influence is *inter alia* caused by audit committees who do not exercise its disclosure power in annual reports.

### **6.3.2 Secondary research objective 2**

**Secondary research objective 2:** To further explore the factors identified by the focus groups through a literature study, linked to theories and to identify best practices (refer to chapter 4).

In chapter 4, it was required - for the knowledge contribution - to further examine, through a literature study, the key factors imparted by the focus group-participants (refer to section 3.4). These layered investigations could then suggest the findings for best possible practices that can improve audit committees' effectiveness. From the focus group- lens applied to the literature study, the following issues came to the fore and are summatively presented herewith: Before discussing the role of the audit committees and other relevant factors to their effectiveness, it was necessary to begin by understanding the municipal administrations and the role of councils and municipal staff members. Thereafter, the role of the audit committees and the challenges they encounter in executing their mandate, were probed. The challenges in appointing audit committees, and appointment- requirements and processes that should be in place, were also considered. Lastly, the competencies of audit committees were deliberated. The summaries of themes from the literature study in this section will follow the same procedure, starting with the municipal administration.

### **6.3.2.1 Theme 1- Municipal administration**

The municipalities must acquire and manage suitable and sufficient physical capital resources, human capital resources and organisational capital resources, to fulfil its purpose. Most municipalities are unable to fulfil their mandate, due to poor administration of their resources. Some of the reasons for poor administration, resulting in poor service delivery, are:

- lack of capabilities caused by unskilled and incompetent council and municipal staff members;
- the appointment of unqualified employees;
- poor internal controls;
- non-compliance to laws and regulations;
- lack of adequate performance systems;
- lack of accountability; and
- poor management and neglect of the infrastructure.

Owing to the aforementioned reasons, municipal plans in the IDP are often not achieved, resulting in poor service delivery. Based on the organisational behaviour model, municipalities experiencing these kinds of difficulties are immature organisations. To improve the immature municipal status to maturity level, the following must occur:

- key vacant positions must be filled;
- recruitment of skilled labour;
- training;
- the adequate keeping of records (municipal documentation);
- monitoring controls; and
- developing a productive- and accountability culture within structures of the municipalities, that can achieve municipal goals.

Also, to improve the performance of the municipality, council and management should:

- diagnose the municipality;

- assess the performance of the council and municipal staff members;
- design, implement and support programs that can improve the municipal performance and statutory compliance;
- evaluate the organisation's performance regularly; and
- enforce accountability of management and staff members, to promote implementation of useful recommendations from internal and external auditors, audit committees and MPAC.

For municipal administration to be effective:

- the audit committee must have knowledge of the municipal administration in order to provide appropriate advice;
- the municipality must have adequate risk management programs;
- council must appoint a risk management expert as an audit committee member;
- the internal audit function must be effective and managed by a competent CAE;
- the municipality must have an adequate budget to appoint a qualified and skilled CAE and internal auditors, with a sufficient number of internal auditors in relation to the scope of work;
- the CAE and the audit committee chairperson must meet frequently and have a good working relationship;
- the audit committee must approve the internal audit charter;
- training must be provided for the CAE and internal auditors; and
- the CAE and internal auditors must conduct themselves and their engagements according to IIA Standards and the code of ethics of internal auditors, embracing independence, objectivity, proficiency, due professional care and ethical behaviour.

### **6.3.2.2 Theme 2- Audit committee mandate**

The audit committee's mandate is not limited to providing advice regarding municipal administration but includes all other issues concerning the municipality. Its advice must be based on the principles of:

- salience (relevance and timeliness of the advisory knowledge);

- credibility (credible advice produced from sound, robust knowledge); and
- representativeness (fair and unbiased advice).

The mandate of the municipal audit committee was further examined through practice theory. The theory directs how the mandate of audit committees can be executed, starting with practices of the procedure, followed by practices of understanding and lastly practices of engagement. Based on the practice theory, it was concluded that:

- the audit committee must understand and apply regulations when performing its role and its functions should be executed in accordance with an approved audit committee charter;
- understanding can be gained through training audit committee members, induction of new members, reading minutes of meetings, cultivating a good relationship with the relevant stakeholders, and regular meetings of the audit committee chairperson and the relevant stakeholders;
- the audit committee chairperson must be experienced, professional, independent, objective and able to facilitate effective meetings;
- the chairperson must be able to build good relationships with the relevant stakeholders without compromising his independence; and
- the chairperson must have the ability to conduct self-assessment of the committee.

The municipality must also play its role in the practices of engagement, by:

- understanding the role of the audit committee and supporting it;
- timeously distributing the relevant dossiers with executive summaries to audit committee members, allowing them sufficient time to prepare for their meetings; and
- assessing the performance of the audit committee.

### **6.3.2.3 Theme 3- Appointment of audit committee members**

Considering the skills required by the audit committee and the audit committee chairperson, the appointment such should, therefore, be executed appropriately. The municipal council is the only structure legally tasked to appoint members to the audit committee. It is, however, concerning that in practice other parties, such as

accounting officers, appoint members to the audit committee, promoting the compromise of the independence of audit committee members. The appointment of audit committee members must therefore comply with the law and human resource policies. The appointment process that the council should follow when appointing the audit committee members (refer to section 4.4.1) is:

- conduct background checks of educational credentials, criminal record, credit history etc., and verify the eligible candidates' professional and personal references;
- execute a reference check to confirm that the eligible candidates do not serve on more than three audit committees simultaneously;
- ensure that the candidates considered meet all the minimum requirements of the position;
- adhere to legislation and human resources policies;
- avoid appointing candidates who:
  - have close professional or personal relations with management or councillors,
  - are politically connected without the relevant required experience, and
  - are overcommitted as that could compromise the quality of their service.

#### **6.3.2.4 Theme 4- Competencies of the audit committee**

The heterogeneous, immobility and VRIO (valuable, rare, inimitable and organisation) framework of the resource-based view of the firm theory, is suggested for the council to consider in the appointment of audit committee members. The VRIO framework encourages a mix of skills in the audit committee that are rare and not duplicated. However, the interview participants raised a valid objection to rareness and inimitability, in achieving the secondary research objective 3. They argued that the nature of the municipal environment and public sector, in general, do not promote rare and inimitable skills, as government organisations must share knowledge. Council should appoint:

- audit committee members who possess a variety of competencies;
- valuable members who can offer advice that will create opportunities, mitigate threats, increase net revenue or decrease net cost; and

- members who have the right mix of skills, and knowledge of the municipal environment and legislation.

The audit committee must possess the right mix of competencies in order to render adequate advice to the municipality. The diversity of competencies include knowledge, skills, abilities and relevant character in financial and non-financial expertise, audit, legislation, intergovernmental relations and support, and specific aspects of the municipal environment in various locations. The audit committee members that lack the competencies should receive training.

Due to poverty-stricken municipalities' inability to afford fair audit committee payment rates, other government organisations, such as the National Treasury, provincial treasuries or SALGA, should intervene to assist in funding the remuneration of the audit committee members of underprivileged municipalities. Fair remuneration of members will attract the necessary diversity of skills required by the committee.

The appointed members with diverse competencies are expected to conduct themselves ethically. The audit committee should be independent of the council, municipal management and staff members, or any other parties outside the committee. The type-dimension and ethical practices can enhance the ethical conduct of the audit committee members. The members must:

- hold knowledge, skills, abilities and character in conducting themselves ethically;
- be objective and without conflict of interest;
- apply ethical practices such as independence and declaration of interest;
- be free from external influence in their deliberations and decision-making;
- comply with legislation, policies, charter and code of conduct;
- attend training that promotes ethical conduct; and
- resign when they reach the maximum number of years for service, prescribed by legislation.

#### **6.3.2.5 Theme 5- Audit committee challenges when executing its mandate**

Executing the mandate of the municipal audit committee can be a challenge when the audit committee is not supported by the municipal council or is dominated by the council. It is, therefore, necessary that municipalities:

- have policies;
- apply sanctions; and
- allow reporting to higher authorities, to prevent political interference by the council and encourage segregation of duties.

The audit committee can provide advice to municipalities regarding those policies and sanctions. Also, the audit committee must apply the *type* dimension of the resource-based view of the firm theory, to acquire political buy-in. This means that members of the committee must have psychological knowledge, skills, abilities and other personal characteristics to influence the council and gain its political buy-in. To prevent political interference, the audit committee chairperson must:

- have persuasion skills;
- have the ability to construct persuasive arguments;
- be an appealing presenter;
- have the ability to appreciate the human mental state (mentalise); and
- be flexible, without compromising ethical conduct, and have good judgement.

Also, the audit committee must advise on participatory governance practices that will encourage public participation and promote council decision-making that will benefit the public. To encourage accountability, audit committees must disclose to the public the recommendations (advice) they provide to the council. Furthermore, the audit committee must have a good relationship with MPAC to employ the MPAC authority to influence council to implement the useful advice by the audit committee.

### 6.3.3 Secondary research objective 3

**Secondary research objective 3:** To obtain input from stakeholders on the relevance and completeness of the framework developed from the data gathered by means of focus groups and literature. [This also led to refining the framework.] (Refer to chapter 5).

In chapter 5, the interview participants provided their input to refine the proposed framework. The majority of the participants agreed with the proposed actions in both the Framework for the audit committees and for the municipalities (refer to annexures



4 and 5). An additional Framework for National treasury, provincial treasuries and SALGA was formulated utilising the data collected from stakeholders during interviews (refer to annexure 6). The summary of the actions from the draft Frameworks that remained unchanged in the final Frameworks, is discussed in the previous section (refer to section 6.3.2) of literature study. This section, therefore, will only discuss the amendments to the proposed actions from the draft Frameworks, as well as new actions that were derived from the participants' statements. It will also remark on those actions that were removed, due to valid reasons proffered by the participants.

#### **6.3.3.1 Category 1. Municipal administration**

In this category, a concern was raised that the audit committee might become operationally involved with the municipal administrative matters, exceeding the scope of its mandate. The following was added to the final framework:

- the audit committee should not engage in the operational matters of the municipality;
- the audit committee must stay within the parameters of its advisory role; and
- a title change from “administrative tools” to “financial tools” that the audit committee must be cognisant of, was incorporated to the final Framework.

With regard to the proposed actions in the Framework for municipalities, participants agreed with most actions, except the action requiring the council to include the audit committee as a standing item on their agenda. The action was objected to, as the council meets monthly while the audit committee reports quarterly, and the action was therefore removed from the framework, owing to the variance of the timing. Additional information was added to the final framework, relating to the need to enforce accountability, as MPAC should include the audit committee report containing its recommendations to the council, in its integrated report - the report must reveal the audit committee advice adopted by the council and the municipality, and the reasons why recommendations were not adopted.

#### **6.3.3.2 Category 2. Organisational maturity**

The participant's main argument with regard to the actions proposed in the Framework for the audit committee, was that audit committees are not required to

advise on municipal human capital resources as municipalities hold specialised oversight structures that manage such matters. It was declared that the audit committee should only review assurance reports for compliance with legislation and policies, and advise council accordingly, to enhance the growth of the municipality to a maturity level.

Participants agreed with all the proposed actions in the Framework for municipalities, with observations that resulted in amendments and new actions. These include the following:

- council and staff members must have legislative knowledge and apply it;
- council and staff members must understand and comply with the performance management system, to promote organisational maturity;
- the need to fill the vacant positions should be assessed and the positions must be filled in accordance with IDP needs and human resources policies;
- training of individuals within the municipality is essential, to promote organisational maturity;
- training should include all the necessary soft skills, legislation, policies and technical skills; and
- virtual training should be encouraged to accommodate cost-saving and to facilitate access to training by rural and remote municipalities.

#### **6.3.3.3 Category 3. Risk management**

All participants agreed with the proposed actions in both Frameworks. In the Framework for audit committees, the participants added an action:

- the audit committee must provide advice on financial management matters to reduce the risk of lack of or poor management of funds and resources, resulting in lack of or poor service delivery and public protests. The advice they provide must be based on legislation and risk management best practice.

In the Framework for municipalities, the participants added actions in respect of:

- implementing a risk management framework that is relevant to the municipal environment; and

- the municipality must respond to risk timeously - it was, however, a concern that municipalities lack the resources and skills for risk intervention, resulting in lack of or poor service delivery by the municipality.

#### **6.3.3.4 Category 4. Audit functions**

The participants agreed with all the proposed actions in the Frameworks for the audit committee. The participants added that:

- the meetings should not be restricted to the CAE and audit committee chairperson but should include other internal auditors and the audit committee. However, the CAE and the chairperson of the audit committee must always be in attendance of all the meetings;
- the meetings should be structured and constructive;
- the audit committee chairperson should acquire an understanding of the challenges encountered by internal audit and the external audit functions;
- frequent private meetings of the audit committee with external and also with internal auditors are necessary, to enable the audit committee to understand the organisational issues and the function of those assurance providers;
- the assurance reports must be reviewed by the audit committee and be used to compose useful recommendations to the council; and
- the audit committee chairperson should report parties that do not implement the audit recommendations to council, to promote accountability.

In the Framework for municipalities, the majority of the participants agreed with all the proposed actions. The valid observations raised by participants were:

- the secretarial functions of the audit committee should not be the responsibility of the internal audit function, but a dedicated function must be made available within the municipality;
- the audit committee must be responsible for approving the internal audit charter and the council must review it;
- the CAE and internal auditors should be competent and have qualifications - they must be members of the IIA;
- the municipalities must adopt a combined assurance approach; and

- training of audit committee members who lack skills, should be the responsibility of the municipal human resources department or intergovernmental organisations that support municipalities, such as SALGA and the treasuries - it should not be the role of the CAE.

#### **6.3.3.5 Category 5. Audit committee mandate**

The participants agreed with all the proposed actions in both the Frameworks. Additional information that was added to the Framework for the audit committee, was:

- a need for the audit committee charter to align with the internal and external audit functions;
- an audit committee charter to stipulate the minimum competencies needed by the audit committee;
- the audit committee chairperson must be prepared for meetings with a complete agenda, hence the need for frequent meetings with the audit committee secretariat;
- the audit committee chairperson must cultivate a good relationship with the MPAC chairperson;
- the audit committee chairperson should invite the MPAC chairperson to audit committee meetings to enhance their relationship; and
- all meetings must meet a quorum.

With regard to the Framework for municipalities, the participants remarked that the following items should be added to the audit committee charter:

- the appointment of audit committee members;
- their ethical conduct;
- remuneration; and
- the number or percentage of members that constitutes a quorum.

Also, municipalities should allow and acknowledge virtual audit committee meetings, to encourage maximum attendance. Lastly, not only council should assess the audit committee performance, but also the relevant parties that engage with the audit committee.

### **6.3.3.6 Category 6. Appointment of audit committee members**

The majority of the participants agreed with the proposed actions from both the Frameworks. The participants did not agree with appointing a rare (unique or singular) municipal audit committee as municipalities are supposed to share knowledge amongst each other and with other public organisations. The Framework for the audit committee was amended to state that:

- the appointment of audit committee members should be executed by the provincial treasuries, to uphold the independence of such members.

In the Framework for municipalities, all the participants agreed that the appointment of audit committee members should be executed by the council, to enhance their independence. The following was added:

- members who are unable to travel to remote and poor municipalities can be appointed to attend virtual meetings - this practice will eliminate the lack of skills in those municipalities;
- municipalities must ensure that they appoint a sufficient number of audit committee members;
- newly appointed members must disclose their appointments by other committees, to enable the council to assess their availability;
- council should terminate the contracts of the members who failed to disclose their involvements and are overly committed; and
- a cooling-off period for former employees of the municipality, who apply to be appointed to the audit committee.

### **6.3.3.7 Category 7. Remuneration of audit committee members**

The majority of the participants agreed with the proposed actions from both the Frameworks. Some participants disagreed with the action that the audit committee should render advice regarding its remuneration, owing to the conflict of interest. In respect of the Framework for municipalities, the participants added that the incentives paid to members serving in small, poor and remote municipalities, should not influence their independence. It was also mentioned that:

- if virtual and telephonic audit committee meetings are allowed, the municipalities will have greater access to skilled members.

#### **6.3.3.8 Category 8. Competencies of the audit committee**

The majority of the participants agreed with the proposed actions from both the Frameworks. In the Framework for the audit committee, new actions were added:

- audit committee members must attend training in support of their continuous professional development;
- audit committees must acquire knowledge regarding the municipality, including the relevant legislation, via training;
- the core competencies that each municipal audit committee should possess are legal, finance, audit, performance management, information, communication technology (ICT), risk management, engineering and environmental; and
- the audit committee must possess sufficient knowledge to offer advice in the aforementioned areas of competencies, including combined assurance, business continuity management, anti-fraud and corruption.

The action regarding human resources in the proposed Framework was addressed in the category of “organisational maturity” and was therefore removed from this category. The new action expressed in the Framework for municipalities is:

- the municipality must arrange online training, including teaching on legislation and intergovernmental support, in order for audit committee members to acquire knowledge about the municipal environment.

#### **6.3.3.9 Category 9. Ethical conduct by the audit committee**

The majority of the participants agreed to the actions in both the Frameworks. The participants added that:

- council should include ethical policies and a code of conduct to the charter, for audit committees to comply with; and

- the municipality must appoint an ethics champion and an ethics committee to enforce compliance to ethical conduct by the audit committee, municipal employees and council.

#### **6.3.3.10 Category 10. Independence of the audit committee**

The additional information that was added by participants was that the audit committee must promote good governance with its independent contribution, as follows:

- the audit committee charter must contain stipulations that promote independence and provide for management of conflict of interest;
- it must be compulsory for members to resign after their full term has concluded, and new members must be appointed;
- council should review the independence of the audit committee annually;
- self-assessment by the audit committee is crucial, in order for it to identify areas of improvement;
- the reports of the audit committee's self-assessment must be reviewed by the council and council must take the necessary actions and issue requirements emanating from the reports; and
- the audit committee that does not comply with regulations, charter, policies, code of conduct and are not independent, should be dismissed.

#### **6.3.3.11 Category 11. Political interference**

In the Framework for audit committees, actions were added:

- the charter must authorise the audit committee to report political interference; and
- the audit committee chairperson must read aloud the segments of the code of conduct for councillors and staff members that promote non-interference, when councillors and members of the municipal staff are attending the audit committee meeting.

In the draft Framework for municipalities, the action that suggests an amendment to legislation to include the public vote in council, was removed. The participants maintain that the public had already exercised their democratic right by voting for

councillors to represent them, therefore, there was no need for them to vote in the council and it was also not going to be practically possible to enforce the action.

#### **6.3.3.12 Category 12. Ability to influence and gain political buy-in**

It will assist the municipal audit committee to gain influence and political buy-in, when:

- the audit committee chairperson has established a good relationship with the mayor, speaker, the chairperson of finance and the chairperson of MPAC, and invites them to attend audit committee meetings.

Since participatory governance can assist the audit committee in gaining influence and political buy-in, it is important that:

- the audit committee receives an assurance report from internal audit function regarding participatory governance; and
- the audit committee advise the council on promoting participatory governance.

The advice of the audit committee regarding policies and sanctions that aim to prevent political interference, must be rendered within their legislated mandate and approved by the charter, as the audit committee should not engage in the operational matters of the municipality. It was also stated that should MPAC remove significant information from the audit committee report without its permission, the audit committee chairperson must report to a higher authority. However, reporting to higher authority does not require a legislative amendment, but it can be included in internal policies or charter. Hence the action was removed from the proposed guide of the audit committee. Also, the action that suggests that council and management should be compelled to adopt audit committee advice was removed, as it is not lawful to force the council to implement audit committee advice.

#### **6.3.3.13 Additional actions**

Participants produced additional actions that form part of the Framework for National Treasury, Provincial treasuries and SALGA (refer to annexure 6). These actions are:

- the National Treasury must improve risk management regulations;



- the appointment of the audit committee must be centralised and executed by the provincial treasuries or SALGA, to prevent unfair appointment practices within municipalities;
- remuneration of audit committee members must be centralised and the National Treasury can determine which government structure can assume the responsibility;
- the National Treasury must determine the mandatory training needs for audit committee members and which government organisation should provide the training;
- SALGA must monitor the adequacy skills of audit committees;
- National Treasury must benchmark with other countries and best practices derived from research and performance outcomes, when determining the remuneration of audit committee members;
- National Treasury can decide on how the remuneration of audit committee members of poor and smaller municipalities, can be subsidised;
- National Treasury must create a code of conduct for audit committee members; and
- government must amend legislation to prescribe a minimum required formal education level for the councillors.

## **6.4 Recommendations**

The findings of the literature study and empirical studies from focus groups and interviews can be beneficial in numerous ways when applied by the relevant parties. The recommendations to various parties to improve the effectiveness of audit committees are provided.

### **6.4.1 Audit committees**

The study provides guidelines for municipal audit committees on how to perform their role effectively and also how to behave ethically. The audit committee's understanding of the role of MPAC, council, the internal audit function and management, will deepen through its engagement with its mandate and the guidelines offered here, further educating it regarding its support of and engagement with the audit functions.

#### **6.4.2 Management of the municipalities**

Audit committee effectiveness can be enhanced when management:

- understand the role of the audit committee;
- support the role of the audit committee, by adopting relevant actions from the framework;
- appoint competent members who will create and implement a useful risk management framework to reduce the risk of the municipality;
- appoint an ethics champion and ethics committee that will enforce ethical conduct of both the staff members of the municipality and audit committee members;
- appoint a qualified and competent CAE and staff members to the internal audit function;
- arrange training for staff members lacking the necessary skills.

#### **6.4.3 Regulators**

**(National Treasury, provincial treasuries, CoGTA & SALGA)**

The MFMA Circular No. 65 in respect of the audit committee and internal audit can be improved, by the regulators including the following actions:

- virtual audit committee meetings;
- online training of audit committees;
- prescribe minimum qualifications for the CAE and internal auditors; and
- regulations on how to deal with political interference, and gain influence and political buy-in.

These virtual meetings and training sessions will reduce municipal expenditure and increase the attendance of audit committee members. Qualified internal auditors will improve the effectiveness of the internal audit function.

Furthermore, the CoGTA and SALGA should:

- develop specific guidelines and training for audit committees, to deepen their understanding of the structures facilitating intergovernmental support for municipalities.

Also, regulators should centralise a number of the functions to enhance the effectiveness of the audit committee:

- the appointment and remuneration of audit committee members to be performed by provincial treasuries or SALGA, to promote audit committee independence from the council and municipal management;
- the National Treasury to review the remuneration rate by benchmarking with other countries;
- the National Treasury should determine funding and funding organisation for a standard remuneration of audit committee members of poor and small municipalities;
- the National Treasury should take the responsibility for identifying the organisation that should assume provision for the training needs of audit committees;
- the National Treasury should develop a code of conduct for audit committees;
- the National Treasury to develop an improved, comprehensive risk management framework; and
- the National Treasury, provincial treasuries and SALGA to develop a competency framework for municipal staff members.

#### **6.4.4 The Municipal Public Accounts Committee**

The framework provides for a better understanding by MPAC of the distinctive roles of the audit committee, council and management. The framework can be employed by MPAC:

- to create performance measurement criteria for the council and also to hold the council accountable; and
- as a guideline for items that should be included in the annual integrated report.

#### **6.4.5 Council**

The council can use the final framework to:

- deepen their knowledge and understanding of the role of the audit committee and how to support the audit committee;
- to recruit skilled members that will add value to the committee;

- to determine the minimum requirements of competencies for audit committee members;
- create an adequate process of appointing new members to the audit committee;
- to understand the ethical character and behavioural qualities to verify when recruiting for new members;
- gain knowledge on how to promote the ethical behaviour and independence of the audit committee and its members;
- to verify the accuracy and completeness of their respective audit committee charters;
- measure the performance of the audit committee against a comprehensive charter; and
- learn how to avoid undue interference with audit committee activities.

#### **6.4.6 Human resource management of the municipalities**

The municipal human resource departments can utilise the framework to:

- improve the appointment process of the audit committee members;
- identify the core competencies needed for the audit committee;
- assess vacant positions in the municipality, and fill them;
- address the training needs of the council, staff members of the municipality and audit committee members; and
- implement virtual training that is accessible anywhere, irrespective of location, and that requires less expenditure.

#### **6.4.7 Internal audit function**

- The guidelines regarding the competencies of the CAE and internal auditors to ensure an effective internal audit function, can be adopted from the study;
- an improved approach to promote a good relationship between the internal audit function and the audit committee, can be implemented, as suggested by the study; and
- the internal audit staff as a whole can have unrestricted access to the audit committee in the presence of the CAE and the audit committee chairperson, for constructive and structured meetings, as the study recommends.

#### **6.4.8 External audit function**

Adoption of the framework by municipalities can:

- deepen the knowledge of external auditors in respect of the clarifications of the roles of the audit committee, MPAC, council, internal audit function, risk management function and other functions within the municipality; and
- cause external auditors to rely on the findings of competent internal auditors, resulting in less scope for external auditors owing to the elimination of duplication work, and lower audit fees for the municipality.

#### **6.4.9 Local community**

Adoption of the framework by the municipality will result in:

- a mature municipality and effective risk management- and internal audit functions; and
- improved service delivery to the local community, resulting in fewer public protests.

#### **6.4.10 Professional bodies**

Professional bodies such as The Southern African Institute of Government Auditors (SAIGA), The IIA-SA and SAICA, can employ the study to:

- expand their standards and code of ethics, to guide members who serve on audit committees.

#### **6.4.11 Training organisations**

Training organisations such as the National School of Government can use the study to:

- identify training needs; and
- inform the content for the training material regarding the effectiveness of the audit committee and how the council and the municipality can support the audit committees.

#### **6.4.12 Best Practices**

The existing best practices such as provided by the King Reports on Governance for South Africa can extend their content beyond the oversight role of audit committees.

They can use the study to:

- develop new aspects that are relevant to audit committees with an advisory role.

#### **6.4.13 Researchers**

The study can be used:

- as a benchmark study in other countries;
- as a learning platform, to apply the IQA technique and the resource-based theory - rarely applied to accountancy studies.
- by scholars, to adopt the methodology of the IQA technique and the resource-based view of the firm theory that is rarely used, for other accountancy studies;
- to create new opportunities for multidisciplinary research in the field of Public Sector Administration and Accounting Sciences.

### **6.5 Contributions**

The main contributions to the resource-based view of the firm theory, agency theory and methodology are discussed further in this section. The application of the theories and methodology resulted in the framework for this study.

#### **6.5.1 Theoretical gaps and contributions**

The resource-based view of the firm theory was identified and selected as the theory that can more comprehensively explain the factors influencing the effectiveness of audit committees (refer to section 1.6.2). The theoretical gaps and contributions to the resource-based theory of the firm that are discussed in this section, were noted during the data analysis. The theoretical gaps for agency theory are explained in greater depth in section 1.6.1. and by the contribution-segment in section 6.5.1.2.

##### **6.5.1.1 Resource-based view of the firm theory**

The characteristics of the resources in the resource-based view of the firm theory of immobile, inimitable and non-substitutable features, to achieve competitive

advantage (refer to section 4.3.2) do not take into account organisations that share resources, capabilities and strategies (Barney 1991:105-112). Competitive advantage across the public sector, against one another, is not achievable or desirable within the public sector, as organisations within the public sector are encouraged to work together and inform each other on matters that can be beneficial. The government organisations are expected to comply with the principles of inter-governmental relations and co-operative government that include supporting, assisting, consulting and informing one another (SAG 1996, s. 41(1)). The national and provincial government are specifically required by law to “*support and strengthen the capacity of municipalities*” (SAG 1996, s. 154(1)). Co-operation in the public sector is contrary to the abovementioned characteristics of the resource-based view of the firm theory, that require competition and individuality to create barriers to prevent other organisations to use the same resources and strategy of the organisation. **[Theoretical gap]**.

Therefore, the resource-based view of the firm theory can be useful in organisations that do not compete to create strategies in respect of resources. As a result, the resource-based view of the firm theory must be revised to include organisations without competitors. It must state that “If an organisation strives to increase its value against its competitors, then the organisational resources should be heterogeneous, immobile, inimitable and non-substitutable” (as the theory currently finds). However, add that if an organisation is without competitors, it must strive to increase its value and to improve its performance to meet its goals. The organisational resources can be heterogeneous or used co-operatively and for mutual benefit to achieve a public good.’ **[Theoretical contribution]**.

The resource-based view of the firm theory focuses on individual firm resources (internal resources of the organisation) to acquire a competitive advantage (Barney 1991:101). It is a limitation that the theory only considers the internal resources of the organisation that promotes decentralisation. The internal resources and capabilities of the organisation are only used by the organisation, without sharing with other organisations. **[Theoretical gap]**.

In contrast, some organisations such as municipalities have functions and resources that are external. For example, audit committees consist of external members (SAG

2003, s. 166(5)), the remuneration rate of audit committees is determined by external regulators such as National Treasury (National Treasury 2019) and the revenue share of the municipalities is managed by the National Treasury (SAG 1996, s. 214(1)(a)). In addition, the interview participants suggested that the following activities be centralised to either National Treasury, the provincial treasuries or SALGA: appointment and remuneration of audit committees, training, development of code of conduct for audit committee members and risk management framework for municipalities (refer to section 5.5). Therefore, to form realistic strategies, organisations must consider external forces (Caldas 2010:21) and external resources. The performance and strategy of the public sector are linked to both internal and external variables and political forces (Boyne & Walker 2010:186 & 189). Therefore, if the resource-based view of the firm theory should aspire to develop realistic strategies, it must include external resources and capabilities, and the centralisation of resources and functions. [**Theoretical contribution**]. This study also reveals contributions to the grand theory, the agency theory.

#### **6.5.1.2 Agency theory**

The theoretical gaps in the grand theory, the agency theory, are discussed in section 1.6.1 following the core building blocks of common ground, complication and concern (Lange & Pfarrer 2017:410). The course of action and contribution are part of the building blocks that reveal the theoretical contributions to the grand theory and are discussed in the following section.

#### **Course of Action**

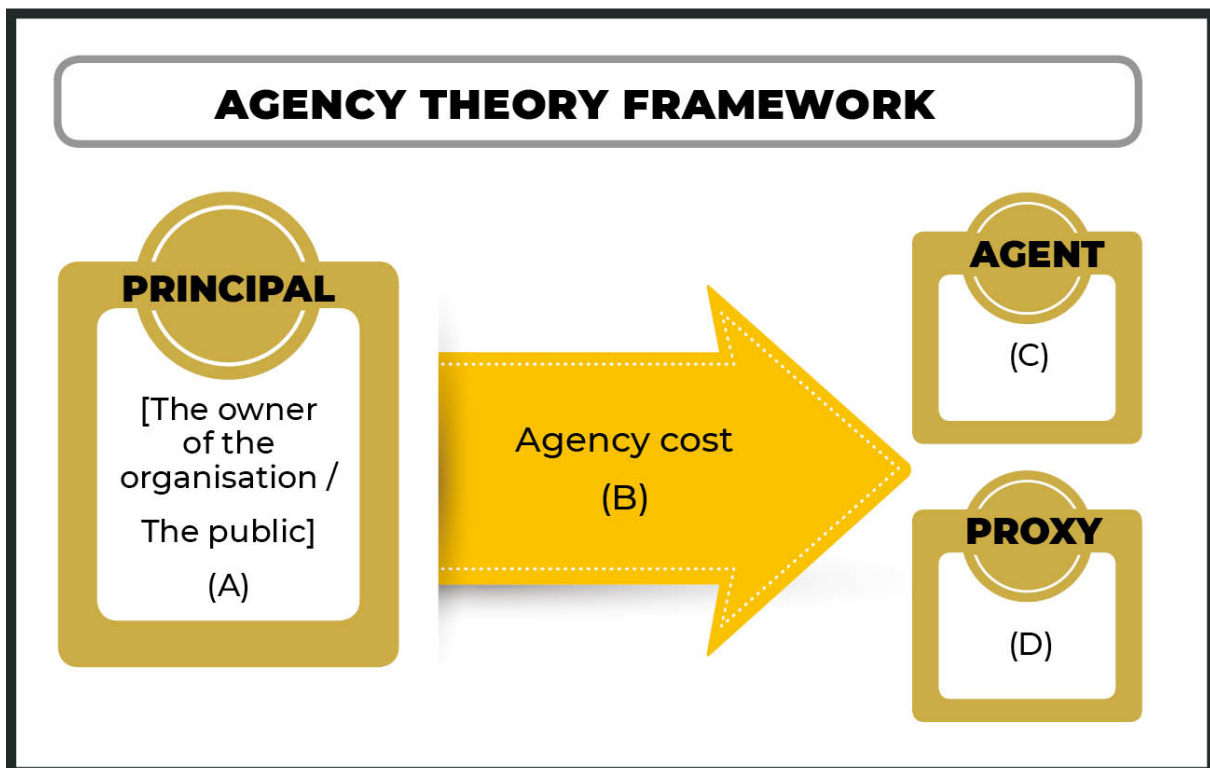
The current form of the agency theory cannot be assumed to be the dominant theory for all audit committee studies as the role of the audit committee differs. It can be oversight or advisory (refer to section 4.3.1). If the role of the audit committee is oversight, the current form of agency theory is relevant. However, if the role of the audit committee is advisory, the current form of agency theory is not applicable.

Therefore, the limitations of the agency theory discussed in section 1.6.1, can be resolved by:

1. Modelling relationships amongst constructs (Lange & Pfarrer 2017:409):



- a. The proxy of the principal should be added to a relationship of agency theory.
  - b. External parties not employed by an organisation but influencing the organisation should form part of agents.
2. Exploring an advance theoretical process (Lange & Pfarrer 2017:409):
    - a. The agency theory should include the process of monitoring the goal conflict and information asymmetries of:
      - i. proxy; and
      - ii. agents not employed by the organisations.
  3. Developing a framework that takes into account the limitations of the current form of agency theory. The framework constitutes the current and new constructs of agency theory and how they relate to one another. It is previously explained how and why the constructs relate to each other in the complication and concern section. The proposed framework is demonstrated by figure 6.1.



**Figure 6.1: Agency theory framework**

*(Source: Own compilation)*

The agency theory framework in figure 6.1 illustrates that the principal (A) is the owner of the organisation or the public, in the case of government organisations. The

principal should spend on agency costs (B) to monitor the goal conflict and information asymmetries of the agent (C) and the proxy (D). The agent (C) should include any individual employed or not employed by the principal together with the organisations that make decisions on behalf of the principal. A proxy (D) is any individual or organisation elected by the principal to act on its behalf. The principal (A) must spend on agency cost (B) that will be of assistance in monitoring and advising the agent (C) and proxy (D) when making decisions for the organisation.

### **Contribution**

The contribution to the theory will be the remodelling of the relationships, addressing the deficiency in the theory. The theory will include complex structures of organisations such as public sector organisations. A more complete view of the parties and the relationships are provided in the proposed framework, figure 6.1. Also, the discourse of the role of audit committees, including advisory, will be theoretically supported by the proposed framework. It is justifiable that all the necessary parties and processes be included in the literature discussion of agency theory, to explore relevant and practical solutions.

Secondly, with the proposed framework, the researchers who study audit committees and who focus on an advisory role, will be able to apply the framework in a clear manner as the theory include both the oversight and advisory structures.

Lastly, policymakers may be motivated to combine the two roles of the oversight and advisory as standard roles for audit committees. The audit committee may add more value if they advise municipalities and thereafter monitor the decision taken by the municipalities.

### **6.5.2 Methodological contribution**

Qualitative research methodology was used to expose the embedded knowledge of the relevant key stakeholders, as purposive experts, regarding the effectiveness of audit committees. Initiating the study with focus groups to obtain an understanding of the factors that influence the effectiveness of audit committees, was a different approach than using extant literature. The location of themes to investigate were not obtained from extant research studies, but from real experiences by the key stakeholders that are directly affected by the phenomenon. A deeper understanding

of the phenomenon was uncovered. The application of qualitative research methodology in the study brought a unique theoretical and empirical convergence to the final framework (refer to annexures 4, 5 and 6).

### **6.5.3 Contributions to supplement legislation, policies and charters**

The purpose of this study is to develop and propose a framework, comprised of actions derived from prescribed legislation and guidelines, literature and participant-views, that can be utilised by South African municipalities, audit committees and regulators to supplement legislation, policies and charters, with the aim to increase the effectiveness of municipal audit committees. The proposed activities or actions are categorised in an Framework for audit committees, municipalities as well as a guide for governmental treasuries and SALGA (refer to annexures 4, 5 and 6).

#### **1. Municipal administration**

- The function of the audit committee must be supported by both internal and external relevant stakeholders of the municipality.
- The audit committee should not engage in operational matters.

#### **2. Organisational maturity**

- The municipality should be adequately managed on individual, group and organisational levels. A strong cohesion must exist amongst these levels.
- The internal stakeholders of the municipality must understand and apply legislation and institutional knowledge when executing their daily functions.
- Virtual training of council and staff members should be practised more often to reduce costs and increase accessibility.
- The audit committee must scrutinise the internal and external audit reports and the oversight committee reports concerning human resources, and provide the necessary advice.

#### **3. Risk Management**

- National Treasury must improve risk management regulations.

#### **4. Audit Functions**

- South African legislation does not prescribe the independence of the internal audit function, as required by the IIA Standards. The regulators should consider legislating independence as a requirement.
- Although it is legislated that the municipality must facilitate the culture of accountability, the framework provides guidelines on the specific areas of accountability. For example, enforcing accountability and disciplinary actions of the council and employees who do not implement the recommendations of auditors and audit committee without a valid reason.
- Regulations should explicitly state that informal unrestricted, but structured private meetings between the audit committee chairperson, the CAE and the external auditors, are allowed, only when necessary including members of the audit committee and assurance providers in the presence of their supervisors.
- The competency framework for both the CAEs and internal auditors must be created. Currently, only the CAE qualifications and experience are mentioned in MFMA Circular No. 65 (hereinafter the “Circular”). It must be emphasised that all staff members of the internal audit function must be IIA members.
- National Treasury to determine the mandatory training needs for audit committee members and appoint the government organisation that should provide such training.

#### **5. The audit committee mandate**

- The Circular provides for the scheduling of distributing the information pack to audit committee members seven days in advance, however, it is not explicit that the information in the pack should be relevant, with executive summaries, highlighting significant issues.
- Also, the Circular is silent about the importance of attaining a quorum of 51 per cent in audit committee meetings. It is also silent about allowing virtual audit committee meetings.
- The audit committee chairperson must:

- possess skills of presentation, writing, reporting and persuasion, in addition to communicating skills as stated in the circular;
- be independent and objective when setting the agenda of the meeting and facilitating the meetings;
- communicate frequently with the audit committee secretariat in preparation for the audit committee meetings;
- have abilities to facilitate face-to-face and virtual meetings, lead discussions, and encourage other members to attend meetings and to participate meaningfully in meetings;
- identify skills gaps in the audit committee and request council to appoint necessary experts.

## **6. Appointment of audit committee members**

- Legislation to be amended to authorise provincial treasuries to appoint audit committee members on behalf of municipalities. If appointments are performed by the Treasuries, it will reduce the risk of conflict of interest in audit committees, where members safeguard the interest of those in the municipalities who appointed them.
- Background checks with employment references, educational credentials, criminal record, credit history, former employers etc. should be conducted in respect of eligible audit committee members.
- Provincial treasuries or SALGA must monitor the skills adequacy of audit committees.
- Location boundaries should not exist and skilled audit committee members unable to travel to remote areas, should be allowed to attend virtual meetings.
- Individuals that have close professional or personal relations with management or councillors, and politically connected individuals without the relevant required experience, should not be appointed.
- A cool-off period should be determined and applied to former employees of the municipalities prior to them being appointed to the audit committee.
- The perpetrators of unlawful practices in the appointment of audit committee members, must be punished.

## **7. Remuneration of audit committee members**

- National Treasury must benchmark with other countries and consider performance outcomes and best practices when determining the fair and market-related remuneration of audit committee members.
- National Treasury can decide how audit committee members of poor and smaller municipalities can be subsidised.
- Remuneration of audit committee members must be centralised. National Treasury can determine the structure that can assume the responsibility.

## **8. Competencies of the audit committee**

- The following skills can be added to the list of required skills for audit committees in the circular: municipal income & debt collection, and inter-governmental support.
- The audit committee must receive the necessary specialised training from the municipality.
- The council must allow the audit committee chairperson to attend gatherings discussing issues of municipal governance.

## **9. The ethical conduct of the audit committees**

- Legislation does not provide a code of ethics for the audit committee and its members. The National Treasury must develop a uniform code of ethics for all members.
- The audit committee charter must include the maximum number of meetings for which the audit committee member may be absent before the appointment is summarily terminated.
- The municipality must appoint an ethics champion and establish an ethics committee that will enforce compliance of ethical conduct by municipalities.

## **10. Independence of audit committee members**

- Council is to regularly review the conflict of interest register and act timeously.

## **11. Political interference**

- The audit committee chairperson should not allow council and management of the municipality to manipulate the meeting agenda.

- When councillors and members of the municipal staff are attending the audit committee meeting, the audit committee chairperson should read aloud the segments of code of conduct for councillors and staff members that promote non-interference.
- The audit committee chairperson should be authorised to report unwarranted interference by the council, staff members of the municipalities and stakeholders, to a structure that has charter-stated authority over the alleged perpetrators.
- Council must include the sanctions for undue interference in the municipal list of policies.
- Disciplinary actions must be instituted against the council, management or any person that unduly interfere with or disrupt the audit committee function.
- Council and management should not withhold information from the audit committee.
- The government to amend legislation to have a minimum required formal education level for the councillors.

## **12. Ability to influence and gain political buy-in**

- The chairperson of the audit committee must have knowledge, skills, ability, competencies, personality and the strategy, to be persuasive.
- The audit committee must use MPAC to influence the council in adopting the useful advice proposed by them.
- The significant audit committee advice that was not adopted by the municipality should be disclosed in the annual audit committee report, for public knowledge, to enforce the accountability of council.
- If the annual audit committee report compiled by the chairperson is amended without the chairperson's permission to mislead the public, the chairperson must report the matter to higher authorities.
- Staff members of the municipalities must be trained to conduct participatory governance practices with the stakeholders of the community.
- The internal audit function must provide assurance regarding participatory governance practices to audit committees.

- Consequence management should be instituted against those that do not practice participatory governance in accordance with consequence management policy and standard operating procedures, when required.

## **6.6 Limitations of the study**

The study has a country/context and a sector limitation. The examination of the effectiveness of audit committees is limited to South African municipalities, in the sphere of local government. However, the outcome of the research can be applied to other countries, for comparative analysis. How audit committees may be better guided, may be reviewed by audit committees in the provincial and national government. The study also has a population and sample limitation. The population and sample size are limited to the audit committee members and the stakeholders from the seven provinces of South Africa. Furthermore, there are theme limitations. The variables that are explored in the literature study and empirical research to examine the effectiveness of the audit committee are limited to the focus groups' affinities/themes based on a purposive sample with the understanding that these are experts in the field. The potential variables outside the focus group-outcomes were not explored, however, this is to be expected within qualitative studies and using an interpretive paradigm.

Also, there are methodology and research method limitations. The researcher only used a qualitative methodological approach with focus groups, literature study and survey as research methods. Due to budget constraints, only two focus groups were conducted for exploratory purposes. The focus groups were sufficient because the purpose of acquiring the affinities/themes and their relationships, was fulfilled. There was also a limited number of interviews conducted to test the framework that was developed. The interviews were sufficient since they were conducted with the key and influential stakeholders of municipalities and data saturation was achieved.

## **6.7 Future research areas**

The potential future research areas identified, are the following:

- The final frameworks developed should be tested by means of deductive reasoning to obtain input from a broader audience;



- Different contexts - the study may be applied to other spheres of government and/or other countries;
- Diverse themes that impact the effectiveness of audit committees can be explored by conducting focus groups with other participants and stakeholders;
- Use of case studies to determine different themes that impact the effectiveness of audit committees;
- The agency theory framework can be improved and extended by testing the efficiency and economical benefit of the agency cost.
- Use of quantitative methodology to explore objective measurements of the existing categories of the framework;
- The effectiveness of the audit committee can be examined using a different theoretical lens;
- The study can be extended further to examine:
  - How MPAC can influence the effectiveness of the municipal audit committee,
  - The effectiveness of audit committees in the provincial and national government, employing the same methodological approach.

## **6.8 Chapter summary**

The core value to the municipal council of adopting the framework is that they will be better guided to appoint suitable audit committee members and informed on how to support the audit committee. Also, guidelines for the audit committee on how to be effective when performing its role will strengthen audit committee capabilities and, hopefully, its confidence. Knowledge and understanding of the role of the audit committee, and its value to and support by MPAC and the council, are crucial to the effectiveness of the audit committee. The actions from the proposed framework can be used by the council to assess the effectiveness of audit committees and revisit their strategies in prioritising the value of audit committees. Audit committee members who are independent, behave ethically, are cognisant of the relevant legislation and the municipal environment, and contributing to the right mix of skills and capabilities, can be appointed, when the framework is adopted. Also, a strong and competent internal audit function, risk management function and ethics

committee, can be developed by the municipality upon adoption of the framework. The functions are key to the effectiveness of the audit committee.

Furthermore, the framework is also valuable to poor, small, rural and remote municipalities. The skills of the audit committees can be improved by introducing virtual and telephonic audit committee meetings. The virtual and telephonic meetings will allow qualified and skilled audit committee members located anywhere in the world to be appointed and provide the necessary services without the additional costs and logistics of travelling and accommodation. Also, the introduction of virtual training to existing members in need of skills, will reduce the cost of training audit committee members.

A call for centralisation of several functions such as appointing and remunerating the audit committees, will eliminate a number of risks and promote transparency and procedural fairness, as well as independent and skilled audit committee members serving the municipalities. Lastly, the framework can strengthen accountability and improve the governance of municipalities. Adoption of the framework and the useful advice from effective audit committees will reduce mismanagement and maladministration and improve systems in the municipalities. An audit committee is effective when it can reach the optimal role of an audit committee that accomplishes its goals and brings significant value to the organisation, while complying with rules and regulations and behaving ethically.

*“A satisfied customer is the best business strategy of all.” - Michael LeBoeuf*

The audit committees should be effective to provide useful advice that will assist municipalities to deliver exceptional services to their customers.

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## ANNEXURES

### ANNEXURE 1 ETHICS APPROVAL TO CONDUCT THE STUDY AND FOCUS GROUPS



#### UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE

Date 2017-08-02

ERC Reference:  
2017\_CAS\_032

Dear Prof GP Coetzee

Name : Prof GP Coetzee  
Student/ Staff #: 90249100

**Decision: Ethics Approval from  
2017-08-02 to 2022-08-01**

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

**Co-researchers: Prof M van Staden**  
**Ms Mangakane Pududu**  
**Ms A Legodi**  
**Mr A Rampershad**  
**Mr P Lansdell**

**Working title of research:**

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

**Qualification:** Doctoral degrees (research collaboration)

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

*The application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on 25 July 2017 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved.*

The proposed research may now commence with the provisions that:

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



Prof E Sadler, Executive Dean: College of Accounting Sciences  
University of South Africa, AJH v/d Walt Building 2-113  
Pretter Street, Muckleneuk Ridge, City of Tshwane  
PO Box 392, UNISA 0003, South Africa  
Telephone: +27 12 429 4432 Facsimile: 086 510 8807  
www.unisa.ac.za

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

*Note:*

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

Yours sincerely,



Ms L Grebe  
Chair of CAS RERC  
E-mail: grebel@unisa.ac.za  
Tel: 012 429 4994



Prof E Sadler  
Executive Dean CAS

## ANNEXURE 2      CONSENT FORM FOR FOCUS GROUP PARTICIPANTS



DEPARTMENT OF AUDITING

### CONSENT TO PARTICIPATE IN FOCUS GROUP 1 – STAKEHOLDERS OF MUNICIPALITIES

I, \_\_\_\_\_ (*participant name*), confirm that Audrey Legodi (the researcher) has obtained my consent (via email and/or telephone and/or in person) to participate in this focus group, and that the researcher (or focus group facilitator) has informed me as to the nature, procedure, potential benefits and anticipated inconvenience of my participation.

The researcher and/or focus group facilitator has explained to me the purpose of the focus group and its benefits.

I have had sufficient opportunity to ask questions and I am prepared to participate in the focus group.

I understand that my participation is voluntary and that I am free to withdraw at any stage.

I am aware that the findings and result of this research project will be processed into a research report, formal feedback to participants upon completion of the research project, journal publications and/or conference proceedings. My participation and personal details will however not be disclosed and will be kept confidential.

A signed copy of this consent agreement will be sent to me via email within five working days after the focus group meeting and I have permission to follow up with the researcher.

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

<b>Yes</b>	
<b>No</b>	

Participant Name & Surname..... (*please print*)

Participant Signature.....Date.....

Researcher's Name & Surname .....(*please print*)

Researcher's signature.....Date.....

**ANNEXURE 3      DETAILED AFFINITY RELATIONSHIP TABLE (DART)**

**DETAILED AFFINITY RELATIONSHIP TABLE (DART)**

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

For example:

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

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

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

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

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

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

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

<b>Affinities Principles</b>	<b>Possible relationships</b>
<ol style="list-style-type: none"> <li>1. Assurance providers</li> <li>2. Independence</li> <li>3. Legislative framework</li> <li>4. Ethical conduct</li> <li>5. Audit committee understanding of mandate</li> <li>6. Municipality understanding of AC mandate</li> <li>7. Preparation and participation of AC members</li> <li>8. Inter-governmental support</li> <li>9. Municipality administration function</li> <li>10. Political interference</li> <li>11. Role of Audit Committee chairperson</li> <li>12. Diversity of Audit committee skills</li> </ol>	<p>If Affinity 1 influences Affinity 2 then:</p> <p style="text-align: center;">1 → 2</p> <p>If Affinity 2 influences Affinity 1 then:</p> <p style="text-align: center;">1 ← 2</p>

<p>13. Recruitment and appointment of AC members</p> <p>14. Remuneration of AC members</p>	<p>If there is no relationship between affinities:</p> <p>1 &lt; &gt; 2</p>
--	---

Date:

\_\_\_\_\_

Name:

\_\_\_\_\_

Affinity pair			Give an example in natural language using an IF/THEN statement to explain the relationship according to your personal experience
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#### ANNEXURE 4      FRAMEWORK FOR AUDIT COMMITTEES DRAFT VS FINAL

- The text highlighted in yellow is the new information, added to the final Framework.
- The text that has been struck through, are actions from the draft Framework that were removed from the final guide based on empirical evidence derived from the interviews.

FRAMEWORK FOR AUDIT COMMITTEES			
DRAFT ACTIONS	FINAL ACTIONS	REFERENCES	LEGISLATION/ GUIDANCE
<b>1. Municipal administration</b>	<b>1. Municipal administration</b>	<b>References</b>	<b>Legislation/ Guidance</b>
1. The audit committees must be familiar with and understand the administrative tools of the municipality, such as the annual budget, the Integrated Development Plan (IDP), the Service Delivery Budget Implementation Plan (SDBIP), and Performance Management System and be able to render expert advice.	1. The audit committee must be familiar with and understand the <b>financial tools</b> of the municipality, such as the annual budget, the Integrated Development Plan (IDP), the Service Delivery Budget Implementation Plan (SDBIP), and Performance Management System and be able to render expert advice. <sup>1a</sup>	Refer to sections 3.4.1, 4.2.1, 4.2.2 & 5.2.1.	<sup>1a</sup> [SAG 2000a, ss. 3(d), 11(3)(k), 16(1), 20(2), 38, 57(5), 77 & 81(c); SAG 2005a].



2. The audit committees must provide advice on administrative matters.

2. The audit committee must provide the necessary advice on administrative matters when required, enabling the municipality to make informed decisions and take accountability. However, it should not engage with operational matters and compromise its independence.

2. Organisational maturity	2. Organisational maturity	References	Legislation/ Guidance
<p>1. The audit committees can improve municipal administration by monitoring and providing expert advice on:</p>	<p>1. The audit committee should promote good governance in the municipality.<sup>2a</sup></p> <p>2. The audit committee should be aware of human resource matters discussed by the Human Resources Committee and it must render advice regarding those matters.</p> <p>3. The audit committee should obtain assurance from internal auditors that the municipality complies with legislation.<sup>2b</sup></p> <p>4. The audit committee should obtain</p>	<p>Refer to sections 3.4.1, 4.2.3 &amp; 5.2.2.</p>	<p><sup>2a</sup>SAG 2003, s. 166(2)(vi)</p> <p><sup>2b</sup>SAG 2003, s. 165(2)(vii).</p>

assurance from internal audit, external audit and other assurance providers that the municipality complies with legislation<sup>2b</sup> and policies regarding:

- a) Organisational structure and culture - (Organisational level)
  - b) The structure, roles and responsibilities of the departments within the municipality - (Group level)
  - c) Management of human capital resources within the municipalities (from the appointment of staff, training of staff, and other elements) – (Individual level)
- 
- a) Organisational structure and culture - (Organisational level)
  - b) Managing the human capital resources of municipalities (from the appointment of staff, training of staff, and other elements) –

(Individual level)

- c) The structure, roles and responsibilities of the departments within the municipality –

(Group level)

3. Risk Management	3. Risk Management	References	Legislation/ Guidance
<p>The audit committee must possess the knowledge and provide expert advice on:</p> <ol style="list-style-type: none"><li>1. The business of the municipality;</li><li>2. Risk management system; and</li><li>3. Information Technology, Cybersecurity.</li></ol>	<ol style="list-style-type: none"><li>1. The audit committee must possess up-to-date knowledge of risk management strategies.<sup>3a</sup></li><li>2. The audit committee should provide advice based on legislation and risk management best practice.<sup>3b</sup></li><li>3. The audit committee should provide adequate financial management advice to the municipality<sup>3b</sup> to reduce the risk of lack of or poor service delivery owing to sustainability issues.</li></ol>	<p>Refer to sections 3.4.1, 4.2.4 &amp; 5.2.3.</p>	<p><sup>3a</sup>SAG 2012:5, 14 <sup>3b</sup>SAG 2003, s. 166(2)(a).</p>

4. Audit Functions	4. Audit Functions	References	Legislation/ Guidance
<p>1. The audit committee must monitor and provide expert advice on:</p> <p>a) Competencies of internal auditors and competency framework structure of the internal audit function.</p> <p>b) The structure, purpose, authority, responsibilities, competencies, independence, charter, audit plan and resource requirements of the internal audit function.</p>	<p>1. The audit committee must monitor and provide expert advice on<sup>4a</sup>:</p> <p>a) Competencies of internal auditors and competency framework structure of the internal audit function.</p> <p>b) The structure, purpose, authority, responsibilities, competencies, independence, charter, audit plan and resource requirements of the internal audit function.</p>	<p>Refer to sections 3.4.1, 4.2.5 &amp; 5.2.4.</p>	<p><sup>4a</sup> SAG 2012:14</p> <p><sup>4b</sup> SAG 2003, s. 166(2)(a)(i)</p> <p><sup>4c</sup> SAG 2012:16</p> <p><sup>4d</sup> SAG 2012:5, 7</p> <p><sup>4e</sup> SAG 2003, s. 166(2)(a)</p> <p><sup>4f</sup> SAG 2012:14.</p>
<p>2. The audit committee must review internal audit reports to understand the business and risks and also provide the necessary advice.</p>	<p>2. The audit committee must employ the reviewed audit reports by the audit function managers, to formulate its advice.<sup>4b</sup></p> <p>3. The audit committee Chair must attend meetings with the CAE<sup>4c</sup> and the</p>		

external auditors' senior personnel, to discuss their reports and the challenges they encounter, when necessary.

4. The audit committee must report to the council significant matters regarding internal and external audit findings and recommendations.<sup>4d</sup>

5. To promote the effectiveness of assurance providers such as internal and external audit, the audit committee must hold management accountable by reporting it to the council for not implementing the necessary recommendations from assurance providers. The reporting can be extended to the annual report by the audit committee.

3. The audit committee must be up to date with the risk and business issues escalated by the CAE and use good judgement to evaluate and render

6. The audit committee must be up to date with the risk and business issues escalated by the CAE and use good judgement to evaluate and render

advice.

4. The CAE should have unrestricted access to the Chair of the audit committee.
5. The audit committee Chair must meet frequently with the CAE, in preparation for the audit committee meeting and prioritising the agenda.

advice.<sup>4d, 4e</sup>

7. The CAE<sup>4f</sup> and staff members of the internal audit function should have unrestricted but structured access to the audit committee. The CAE and the Chair of the audit committee must always be in attendance of these meetings.

5. The audit committee mandate	5. The audit committee mandate	References	Legislation/ Guidance
1. The audit committee must: <ol style="list-style-type: none"> <li>a) Offer relevant, timely, credible, fair and unbiased advice that will enhance the work of the municipality; and</li> <li>b) Comply with terms of reference from legislation and the audit committee charter.</li> </ol>	1. The audit committee must: <ol style="list-style-type: none"> <li>a) Offer relevant, timely, credible, fair and unbiased advice that will enhance the work of the municipality; and</li> <li>b) Comply with terms of reference from legislation and the audit committee charter;<sup>5a</sup></li> </ol>	Refer to sections 3.4.2, 4.3 & 5.2.5.	<sup>5a</sup> SAG 2012:14 <sup>5b</sup> SAG 2012:4 <sup>5c</sup> SAG 2012:7 <sup>5d</sup> ANAO 2015:29 <sup>5e</sup> SAG 2012:3 <sup>5f</sup> SAG 2012:5 <sup>5g</sup> SAG

**A) Practices of procedures**

2. The audit committee's charter must stipulate that:

a) The audit committee's work plan should be aligned to the charter's provisions;

b) Agendas for the audit committee's meetings should be composed in accordance with the provisions of the charter;

**A) Practices of procedures**

2. The audit committee's charter *inter alia* must:

a) Stipulate the minimum competencies required.

b) Stipulate that the audit committee work plan should be aligned to the charter's provisions;<sup>5a</sup>

c) Stipulate that agendas for the audit committee meetings should be composed in accordance with the provisions of the charter;<sup>5a</sup>

2012:9.

- c) Records for the meeting minutes should be kept in a safe place; and
- d) The audit committee must conduct annual self-assessment.

d) Align with the internal and external audit functions.

- e) Stipulate that records of the meeting minutes be kept in a safe place,<sup>5a</sup> and
- f) Stipulate that the audit committee must conduct annual self-assessment.<sup>5a</sup>

***B) Practices of understanding***

3. The Chair of the audit committee should:
- a) Possess strong communication skills to bring an understanding of the committees' mandate to relevant municipal stakeholders;
  - b) Attend to private meetings and periodic calls with the relevant municipal stakeholders to gain an understanding of municipal

***B) Practices of understanding***

3. The Chair of the audit committee should:
- a) Possess strong communication skills to bring an understanding of the committee mandate to relevant municipal stakeholders,<sup>5a</sup>
  - b) Attend to private meetings and periodic calls with the relevant municipal stakeholders to gain an understanding of municipal undertakings;<sup>5a, 5b</sup> and



undertakings; and

- c) Execute reporting that will assist the council to understand the role and usefulness of the audit committee.

- c) Execute reporting that will assist the council to understand the role and usefulness of the audit committee.<sup>5c</sup>

- d) Cultivate a relationship with the MPAC Chair and invite him or her to attend audit committee meetings.<sup>5b</sup>

4. The **new audit committee members** must:

- a) Attend programmes (induction, training etc.) that will enhance their knowledge;
- b) Attend scheduled meetings and workshops with the municipal stakeholders to acquire relevant information;
- c) Read recent minutes of audit committee meetings to gain

4. The **new audit committee members** must:

- a) Attend programmes (induction, training etc.) that will enhance their knowledge;<sup>5c</sup>
- b) Attend scheduled meetings and workshops with the municipal stakeholders to acquire relevant information;<sup>5d</sup>
- c) Read recent minutes of audit committee meetings to gain an

understanding of the matters discussed in the audit committee; and

- d) Understand the material (information pack) provided and contribute to the meetings; and
- e) Maintain good relations with the key stakeholders of the municipality.

***C) Practices of engagement***

- 5. The audit committee Chair must be highly experienced; professional; sceptical; confident with high integrity; organised and proactive; have strong communication and interpersonal skills; and be willing to devote the time and energy necessary.
- 6. The audit committee Chair must possess:
  - a) Vast experience in leadership

understanding of the matters discussed in the audit committee;<sup>5d</sup> and

- d) Understand the material (information pack) provided and contribute to the meetings;<sup>5e</sup> and
- e) Maintain good relations with the key stakeholders of the municipality.<sup>5a</sup>

***C) Practices of engagement***

- 5. The audit committee chair must be highly experienced; professional; sceptical; confident with high integrity; organised and proactive; have strong communication and interpersonal skills; and be willing to devote the time and energy necessary.
- 6. The audit committee Chair must possess:
  - a) Vast experience in leadership and

and knowledge of financial management, accounting, audit, governance, risk, industry, organisational culture and management behaviour;

b) Communication, presentation, writing and reporting skills;

c) The ability to:

- i. Facilitate meetings
- ii. Lead discussions; and
- iii. Encourage other members to attend meetings and participate meaningfully in meetings.

d) Competencies to build relationships with council, management, other

knowledge of financial management, accounting, audit, governance, risk, industry, organisational culture and management behaviour;<sup>5f</sup>

b) Communication, presentation, writing and reporting skills;

c) The ability to:

- i. Facilitate face-to-face and virtual meetings
- ii. Lead discussions; and
- iii. Encourage other members to attend meetings and participate in meaningfully in meetings.

d) Competencies to build relationships with council, management, other stakeholders

stakeholders of the municipality and fellow audit committee members;

- e) Persuasion skills to convince council and management to adopt audit committee advice;
- f) Competencies to develop and execute an annual work plan; and
- g) Capabilities to identify skills gaps in the audit committee and request council to appoint necessary experts.

of the municipality and fellow audit committee members;<sup>5a, 5b</sup>

- e) Persuasion skills to convince council and management to adopt audit committee advice;
- f) Competencies to develop and execute an annual work plan;<sup>5e, 5f</sup> and
- g) Capabilities to identify skills gaps in the audit committee and request council to appoint necessary experts.

7. The audit committee Chair must communicate frequently with the audit committee secretariat in preparation for audit committee meetings.

7. The audit committee Chair must be independent and objective when influencing the agenda of the meeting and facilitating the meetings.
8. The audit committee Chair must deliver quality reports to council and the MPAC.
9. The audit committee Chair must promote the audit committees' annual self-assessment.
8. The audit committee Chair must be independent and objective when **setting** the agenda of the meeting and facilitating the meetings.
9. **The agendas must be complete and address all the necessary and crucial items that need to be discussed by the audit committee.**
10. The audit committee Chair must deliver quality **quarterly reports and an annual report to the council.**<sup>5c</sup>
11. The audit committee Chair must **facilitate adequate** annual self-assessments by the audit committee.<sup>5g</sup>

6. Appointment of audit committee members	6. Appointment of audit committee members	References	Legislation/ Guidance
<p>1. The audit committee members should not safeguard the interest of those who appointed them, at the expense of the municipality and its stakeholders.</p>	<p>1. Legislation to be amended to authorise Provincial Treasuries to appoint municipal audit committee members. The appointments performed by the Treasuries will reduce the risk of conflict of interest for audit committee members, where members safeguard the interest of those in the municipalities who appointed them.</p>	<p>Refer to sections 3.4.3, 4.4.1 &amp; 5.2.6.</p>	<p><sup>6a</sup> SAG 2012:5.</p>
<p>2. The audit committee members should not serve on multiple audit committees as that can impact their performance negatively.</p>	<p>2. The audit committee members should not serve on more than three audit committees simultaneously, except in the case of shared audit committees.</p>		<p><sup>6a</sup></p>
<p>3. The audit committee members must be affiliated to a professional body.</p>	<p>3. The audit committee members holding professional qualifications must be</p>		

affiliated to the associated professional body.

4. The audit committee must render expert advice to the council regarding the expertise needed.

4. The audit committees must render expert advice to the council regarding the expertise needed.

7. Remuneration of audit committee members	7. Remuneration of audit committee members	References	Legislation/ Guidance
<p>1. The audit committee member should not over-commit to serving on different committees in order to receive high remuneration.</p> <p>2. The audit committee can render expert advice regarding the remuneration policy and rates for audit committee members.</p>	<p>1. Audit committee members should not over-commit to serving on different committees in order to maximise their income.<sup>7a</sup></p> <p><del>2. The audit committees can render expert advice regarding the remuneration policy and rates for audit committee members.</del></p>	<p>Refer to sections 3.4.3, 4.4.4 &amp; 5.2.7.</p>	<p><sup>7a</sup> SAG 2012:5.</p>

8. Competencies of the audit committee	8. Competencies of the audit committee	References	Legislation/ Guidance
<p>1. The audit committee members should understand their roles and responsibilities, and possess knowledge, skills, abilities and the suitable attitude to perform their duties.</p> <p>2. The audit committee must be comprised of the appropriate blend of competencies, both financial and non-financial.</p> <p>3. The audit committee must include a financial expert.</p>	<p>1. The audit committee members should understand their roles and responsibilities, and possess knowledge, skills, abilities and the suitable attitude to perform their duties.<sup>8a</sup></p> <p>2. The audit committee members must attend training in support of their continuous professional development concerning municipal matters, including relevant legislation.</p> <p>3. The audit committee must be comprised of the appropriate blend of competencies, both financial and non-financial.<sup>8a</sup></p> <p>4. The audit committee must include a financial expert.<sup>8a</sup></p>	<p>Refer to sections 3.4.4, 4.5 &amp; 5.2.8.</p>	<p><sup>8a</sup> SAG 2012:5.</p>



5. Amongst other competencies, legal, audit, performance management, information technology, communication technology (ICT), risk management, engineering and environmental are core competencies that should be established in an audit committee.<sup>8a</sup>
4. The audit committee must possess knowledge and understanding of the:
  - a) Municipal environment, risks and legislation; and
  - b) Structures, powers and functions of all the institutions associated with the municipalities.
5. The audit committee must hold sufficient knowledge concerning
6. The audit committee must possess up-to-date knowledge and understanding of the:
  - a) Municipal environment, risks and legislation; and
  - b) Structures, powers and functions of all the institutions associated with the municipalities;
7. The audit committee must hold sufficient knowledge concerning

intergovernmental relations and support, in order to provide useful advice to the municipality.

6. The audit committee Chair is to attend intergovernmental forums consisting of mayors or administrators that share knowledge and best practices concerning strategy, plans, goals, and solutions to municipal problems, to gain an understanding of the municipality and intergovernmental support.
7. The audit committee should hold sufficient knowledge to render useful advice regarding:
  - a) Services provided by the municipalities;
  - b) Collecting revenue, and debt recovery from the municipal debtors (the

intergovernmental relations and support, in order to provide useful advice to the municipality.

8. The audit committee Chair is to attend gatherings that discuss matters of municipal governance.
9. The audit committee should hold sufficient knowledge <sup>8a</sup> to render useful advice regarding:
  - a) Services provided by the municipalities;
  - b) Collecting revenue, and debt recovery from the municipal debtors;

residents);

c) Municipal infrastructure and its maintenance;and

d) Disciplinary measures regarding inappropriate appointments and poor performing municipal staff members.

8. In addition to (7 above), the audit

c) Municipal infrastructure and its maintenance;

d) ICT, governance, controls, access and safeguarding of information in the municipality and its entities; and

e) Risk management portfolio such as the combined assurance model, as well as business continuity management, and anti-fraud and corruption;

f) Disciplinary measures.

10. The audit committee must hold

committee of the poor rural municipalities must hold sufficient knowledge to render advice on:

- a) How to increase income for the municipality;
- b) How to attract competent human resources, including audit committee members.

sufficient knowledge to advise on methods to increase income for the municipality.

- ~~b) How to attract competent human resources, including audit committee members.~~

9. The ethical conduct of the audit committees	9. The ethical conduct of the audit committees	References	Legislation/ Guidance
1. The audit committee member must be self-motivated to behave ethically.	1. The audit committee member must be self-motivated to behave ethically.	Refer to sections 3.4.3, 4.4.2 & 5.2.9.	<sup>9a</sup> SAG 2012:3
2. The audit committee member must comply with legislation, relevant best practices, policies and code of ethics.	2. The audit committee member must comply with legislation, relevant best practices, <b>charter</b> , policies <sup>9a</sup> and code of <b>conduct</b> .		<sup>9b</sup> SAG 2012:14.
3. The audit committee member must attend training that	3. The audit committee member must attend training that		

promotes ethical behaviour.

4. The audit committee chair must have unlimited access to the council, to promote ethical conduct.

promotes ethical behaviour.

4. The **charter** must allow the audit committee Chair to have **unrestricted, structured and constructive meetings** with the council.<sup>9b</sup>

10. Independence of audit committee members	10. Independence of audit committee members	References	Legislation/ Guidance
<ol style="list-style-type: none"> <li>1. The audit committee should:               <ol style="list-style-type: none"> <li>a) Be independent;</li> <li>b) Not hold a conflict of interest, be unbiased with no external influence, and act in an objective and impartial manner;</li> <li>c) Declare any private and business interest in every audit committee meeting - it should be a standing item on the agenda; and</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. The audit committee, <b>collectively and individually</b>, should:               <ol style="list-style-type: none"> <li>a) Be independent,<sup>10a</sup></li> <li>b) Not hold a conflict of interest, be unbiased with no external influence, and act in an objective and impartial manner;<sup>10b</sup></li> <li>c) Declare any private and business interest <b>annually</b> and also in every audit committee meeting, as a standing item on the</li> </ol> </li> </ol>	Refer to sections 3.4.3, 4.4.3 & 5.2.10.	<sup>10a</sup> [SAG 2003, s. 166(2); ANAO 2015:27; IoDSA 2016:13; PSACF 2017:3] <sup>10b</sup> [ANAO 2015:27; IoDSA 2016:13; PSACF 2017:3] <sup>10c</sup> [IoDSA 2013:7; ANAO 2015:43] <sup>10d</sup> SAG 2012:6 <sup>10e</sup> SAG 2012:8,12,14 <sup>10f</sup> SAG 2012:3 <sup>10g</sup> SAG 2012:9.

agenda; <sup>10c</sup>

d) Rotate members that serve at the municipality, to promote independence.

d) Ensure members resign after serving their legislated full term, however, it should be executed at different time intervals to prevent a skills dearth; <sup>10d</sup> and

e) Promote good governance by its independent contribution. <sup>10e</sup>

2. The charter must be explicit and prescribe both allowed and prohibited actions concerning audit committee members' behaviour, to promote their independence. <sup>10f</sup>

2. The mandatory annual assessment to examine their independence should be

3. The mandatory annual self-assessment should be conducted for the audit

conducted by all audit committee members and the results reported to the council.

committee and also for all its members.<sup>10g</sup>

4. The audit committee members should receive training to improve their performance and also to enhance their independence.

11. Political interference	11. Political interference	References	Legislation/ Guidance
1. The audit committee Chair should not allow council and municipal management to manipulate its meeting agenda.	1. The audit committee Chair should not allow council and municipal management to manipulate its meeting agenda.	Refer to sections 3.4.5, 4.6.1 & 5.2.11.	<sup>11a</sup> [SAG 2003, s. 166(2); ANAO 2015:27; IoDSA 2016:13; PSACF 2017:3].
	2. When councillors and municipal staff members are attending the audit committee meeting, the Chair should read aloud the segments of the code of conduct for councillors and those for staff members, that promote non-interference.		

- |   |  |
|---|--|
| <p>2. The audit committee should be independent in its deliberations and decision-making.</p> <p>3. The audit committee Chair should have the authority to report an interfering council, the management or any stakeholder, to a structure that holds authority over the perpetrators.</p> | <p>3. The audit committee should be independent in its deliberations and decision-making.<sup>11a</sup></p> <p>4. The audit committee Chair should have the authority to report <b>unwarranted</b> interference by the council, municipal staff members and stakeholders, to a <b>structure that holds charter-assigned authority over the alleged perpetrators.</b></p> |
|---|--|

12. Ability to influence and gain political buy-in	12. Ability to influence and gain political buy-in	References	Legislation/ Guidance
<p>1. The audit committee must render expert advice on policies and sanctions that oppose political interference.</p>	<p>1. The audit committee must render expert advice on policies and sanctions that oppose political interference <b>when it is within their legislated right and approved by the charter. Even so, they should not engage with operational matters concerning</b></p>	<p>Refer to sections 3.4.5, 4.6.2 &amp; 5.2.12.</p>	<p><sup>12a</sup> SAG 2003, s. 166(2) <sup>12b</sup> SAG 2012:14.</p>



the implementation of policies  
and sanctions.<sup>12a</sup>

2. The audit committee must:

- a) Possess information and procedures (knowledge) to curb political interference, to influence the council to adopt its advice, and to gain political buy-in;
- b) Know how to make use of the information in practice, to curb political interference and be influential in gaining political buy-in (skills);
- c) Possess the mental capability to suppress political interference and be influential in gaining political buy-in (ability);

2. The audit committee must:

- a) Possess information and procedures (*knowledge*) to curb political interference, to influence the council to adopt its advice, and to gain political buy-in;
- b) Know how to make use of the information in practice, to curb political interference and be influential in gaining political buy-in (*skills*);
- c) Possess the mental capability to suppress political interference and be influential in gaining political buy-in (*ability*);

and

- d) Possess the necessary character and qualities to prevent political interference and be influential in gaining political buy-in (other characteristics/attitude).

3. The Chair of the audit committee must:

- a) Be legislatively authorised to report political interference to a higher authority, such as the MEC and Minister;
- b) Hold strategy and competencies to be persuasive especially when the committee's advice, that will benefit the municipality, is

and

- d) Possess the necessary character and qualities to prevent political interference and be influential in gaining political buy-in (*other characteristics/attitude*).

3. The Chair of the audit committee must:

- ~~a) Be legislatively authorised to report political interference to a higher authority, such as the MEC and Minister.~~
- b) Hold strategy and competencies to be persuasive especially when the committee's advice, that will benefit the municipality, is ignored or

ignored or rejected by the council, management or other stakeholders;

- c) Employ available legislation and policies to compel the council and management to adopt the audit committee's advice;
- d) Possess the skill to mentalise (the ability to read and interpret human mental states such as emotions, needs and purposes);
- e) Own the judgement skills to understand how the receiver make decisions;
- f) Have the ability to construct persuasive arguments;
- g) Conduct presentations

rejected by the council, management or other stakeholders;

- ~~e) Employ available legislation and policies to compel the council and management to adopt the audit committee's advice.~~
- d) Possess the skill to mentalise (the ability to read and interpret human mental states such as emotions, needs and purposes);
- e) Own the judgement skills to understand how the receiver make decisions;
- f) Have the ability to construct persuasive arguments;
- g) Conduct presentations

appealing to the receiver;and

- h) Possess the ability to adjust his/her behaviour to coordinate with the social context, without compromising moral character and independence.

appealing to the receiver;

- h) Possess the ability to adjust his/her behaviour to coordinate with the social context, without compromising moral character and independence.

4. The audit committee must have a good relationship with the Municipal Public Accounts Committee (MPAC).<sup>12b</sup> The audit committee must use MPAC to influence council in adopting the useful advice proposed by them.

4. The audit committee must provide expert advice on policies of participatory governance practices and its

5. The audit committee must provide expert advice<sup>12a</sup> on policies of participatory governance practices.

implementation.

5. The audit committee must use their disclosure power in the annual reports to expose maladministration in the municipalities.

6. The audit committee's recommendations [advice], not implemented by the municipality, should be disclosed to the public, to enforce accountability.

6. Significant audit committee advice that was not adopted by the municipality, should be disclosed for public knowledge, in the annual audit committee report, to enforce accountability by the council.

7. Should the annual audit committee report compiled by the Chair be amended without the Chair's permission in order to mislead the public, the Chair must report the matter to higher authorities.

## ANNEXURE 5      FRAMEWORK FOR MUNICIPALITIES-DRAFT VS FINAL

- The text highlighted in yellow is the new information, added to the final Framework.
- The text that has been struck through, are actions from the draft Framework that were removed from the final guide based on empirical evidence derived from the interviews.

FRAMEWORK FOR MUNICIPALITIES			
DRAFT ACTIONS	FINAL ACTIONS	REFERENCES	LEGISLATION/ GUIDANCE
<b>1. Municipal administration function</b>	<b>1. Municipal administration function</b>	<b>References</b>	<b>Legislation/ Guidance</b>
1. The function of the audit committee must be supported by the municipal council, management, staff and other relevant stakeholders.	1. The function of the audit committee must be supported by the municipal council, management, staff and other relevant stakeholders.	Refer to sections 3.4.1, 4.2.1, 4.2.2 & 5.3.1.	<sup>1a</sup> SAG 2012:7.

2. There must be a standing agenda item in the council ordinary meetings, where the chairperson of the audit committee reports in terms of its engagements.
3. Councillors must have the ability to interrogate the information supplied by the audit committee chairperson and select the appropriate advice to adopt in the municipality.
4. Councillors are to report to the public concerning the advice by the audit committee, internal auditors and external auditors rejected by council and furnish the reasons for such

- ~~2. There must be a standing agenda item in the council ordinary meetings, where the chairperson of the audit committee reports in terms of its engagements.~~
3. Councillors must be authorised to question the information supplied by the audit committee chairperson and select appropriate advice to be adopted by the municipality.
4. The municipal integrated report must include a list of all advice offered by the audit committee and indicate whether the advice was adopted or not, along with the reasons thereof.

rejection. The practice will promote accountability.

The practice will promote accountability.<sup>1a</sup>

2. Organisational maturity	2. Organisational maturity	References	Legislation/ Guidance
<p>1. The municipal council and staff members must possess institutional knowledge in respect of the municipality and other relevant institutions.</p>	<p>1. The municipal council and staff members must possess relevant legislative and institutional knowledge in respect of the municipality and other relevant institutions, and implement such knowledge.<sup>2a</sup></p>	<p>Refer to sections 3.4.1, 4.2.3 &amp; 5.3.2.</p>	<p><sup>2a</sup>SAG 2003, s. 60(a)(b)</p>
<p>2. The municipality must keep proper records and comply with legislation, policies and procedures.</p>	<p>2. The municipality must keep proper records and comply with legislation, policies and procedures.<sup>2a,2b</sup></p>		<p><sup>2b</sup>SAG 2003, s. 62(1)(b)</p> <p><sup>2c</sup>[SAG 2003, s. 81(2); SAG 2003, s. 87(5)(d)(i); SAG 2003, s. 88(1)(a)]</p>
	<p>3. The municipal council and staff members must</p>		<p><sup>2d</sup> SAG 2000, s. 51(d)</p> <p><sup>2e</sup>[IIA 2017:22; SAG 2012:2;</p>



- understand and apply the legislative requirements and policies regarding the performance management system.<sup>2c</sup>
3. The municipality must fill its vacant positions.
  4. The municipality must assess the need and efficiency of its vacant positions.
  5. The necessary vacant positions must be filled in accordance with legislation and human resource policies, considering the IDP needs.<sup>2d</sup>
  4. The municipality should be adequately managed on an individual, group and organisational level.
  6. The municipality should be adequately managed on an individual, group and organisational level.

### Individual Level

5. The municipality should execute recruitment of employees with the appropriate diversity of skills, age, sex, race, etc., and personalities and values that complement the organisational goals.
6. The municipality must facilitate training, such as emotional intelligence training, for all employees.

### Group Level

7. The municipality should exercise proper control and monitoring of

### Individual Level

7. The municipality should execute recruitment of employees with the appropriate diversity of skills, age, sex, race etc. and personalities and values that complement the organisational goals.
8. The municipality must arrange face-to-face and online training in respect of legislation, policies, and technical- and soft skills, for all councillors and municipal employees.<sup>2e</sup>

### Group Level

9. The municipality should exercise proper control and monitoring of

communication, leadership, power, politics, conflicts and management, amongst its groups or teams.

8. The municipal leadership must possess the ability to establish group cohesion.

### **Organisational level**

9. The municipality must develop organisational structure and a culture that enables it to meet its goals.

10. The municipality should develop a culture comprised of employees that are loyal and committed to the values of the organisation.

11. Human resource management and a modification in practices that

communication, leadership, power, politics, conflicts and management, amongst its groups or teams.

10. The municipal leadership must possess the ability to establish group cohesion.

### **Organisational level**

11. The municipality must develop organisational structure and a culture that enables it to meet its goals.

12. The municipality should develop a culture comprised of employees that are loyal and committed to the values of the organisation.

12. Human resource management and a

will influence its productivity and survival, must be established by the municipality.

modification in practices that will influence its productivity and survival, must be established by the municipality.

3. Risk management	3. Risk management	References	Legislation/ Guidance
<p>The municipality must:</p> <ol style="list-style-type: none"> <li>1. Implement a customised risk management plan and system that is sensitive to its environment and realities.</li> <li>2. Respond adequately to risks and monitor the risk management system.</li> </ol>	<p>The municipality must:</p> <ol style="list-style-type: none"> <li>1. Implement a risk management <b>framework</b> and a system that is sensitive to its environment and realities.<sup>3a</sup></li> <li>2. Respond <b>timeously</b> and adequately to risks and monitor the risk management system.<sup>3a</sup></li> </ol>	<p>Refer to sections 3.4.1, 4.2.4 &amp; 5.3.3.</p>	<p><sup>3a</sup>SAG 2003, s. 62(1)(c)(i).</p>

4. Audit functions	4. Audit functions	References	Legislation/ Guidance
<p>The municipality should:</p> <ol style="list-style-type: none"> <li>1. Establish an independent internal audit function.</li> <li>2. Appoint a competent CAE and internal auditors.</li> <li>3. Remunerate its internal auditors at a fair rate to enable absorption of competent internal auditors.</li> <li>4. Mandate council to approve</li> </ol>	<p>The municipality should:</p> <ol style="list-style-type: none"> <li>1. Establish an independent and effective internal audit function holding the capacity (human, skills &amp; infrastructure) to sustain its effectiveness.<sup>4a</sup></li> <li>2. Appoint a competent and appropriately qualified CAE and internal auditors.<sup>4b</sup></li> <li>3. Remunerate its internal auditors at a fair rate to enable absorption of competent, qualified internal auditors.</li> <li>4. Ensure that the CAE<sup>4b</sup> and the internal auditors are registered with the Institute of Internal Auditors.</li> </ol>	<p>Refer to sections 3.4.1, 4.2.5 &amp; 5.3.4.</p>	<p><sup>4a</sup> IIA 2017:3, 11</p> <p><sup>4b</sup> SAG 2012:15</p> <p><sup>4c</sup> SAG 2012:10,16</p> <p><sup>4d</sup> IIA 2017: 11</p> <p><sup>4e</sup> IIA 2017: 15</p> <p><sup>4f</sup> SAG 2012:14</p> <p><sup>4g</sup> SAG 2003, s. 166(2)(a)(i).</p>

the comprehensive internal audit charter stipulating the purpose, authority, and responsibilities of the internal audit function.

5. Allow the CAE to consider the competencies, objectivity and due professional care of other assurance- and consulting providers.
  6. Ascertain that the duty scope of the internal audit function is sufficient to support the municipality and audit committee.
  7. Confirm that the CAE has access to the audit committee and its report.
5. Mandate council to adopt the approved internal audit charter composed by the audit committee.<sup>4c</sup>
  6. Adopt a combined assurance approach.
  7. Allow the CAE to consider the competencies, objectivity and due professional care of other assurance- and consulting providers.<sup>4d</sup>
  8. Ascertain that the duty scope of the internal audit function is sufficient<sup>4e</sup> to support the municipality and audit committee.
  9. Confirm that the CAE<sup>4f</sup> and staff members of the internal audit function have unrestricted but structured

access to the audit committee, and that the CAE and the audit committee Chair are always in attendance of any such meetings.

8. Determine that the CAE consult the audit committee chairperson for expert advice.

9. Ensure that the CAE provide training to the audit committee in respect of critical areas where insight is lacked.

10. Mandate the internal audit function to provide

10. Determine that the CAE consult the audit committee chairperson for expert advice.<sup>4f,4g</sup>

11. Determine that the human resource department of the municipalities and other oversight bodies such as SALGA and the treasuries, provide training for the audit committee in respect of critical areas requiring insight.

~~12. Mandate the internal audit function to provide~~

secretariat (administrative) services to the audit committee members in preparation for the audit committee meetings.

~~secretariat (administrative) services to the audit committee members in preparation for the audit committee meetings.~~

5. The audit committee mandate	5. The audit committee mandate	References	Legislation/ Guidance
<p><b><u>Practices of procedures</u></b></p> <p>1. Compile and approve a comprehensive audit committee charter comprising of:</p>	<p><b><u>Practices of procedures</u></b></p> <p>1. Compile and approve the audit committee charter comprising of information regarding.<sup>5a</sup></p> <ul style="list-style-type: none"> <li>i. Appointment of audit committee members;</li> <li>ii. Ethical conduct of audit committee members;</li> <li>iii. Remuneration of audit committee members;</li> <li>iv. List of duties of audit</li> </ul>	<p>Refer to sections 3.4.2, 4.3 &amp; 5.3.5.</p>	<p><sup>5a</sup> SAG 2012:14</p> <p><sup>5b</sup> SAG 2012:7</p> <p><sup>5c</sup> SAG 2012:4</p> <p><sup>5d</sup> SAG 2012:3.</p>



- a) List of duties;
  - b) Number of meetings;
  - c) Meetings procedures;
  - d) Agenda and minutes of meetings as compulsory requirements;
  - e) Self-assessment and dismissal procedures of audit committee members; and
  - f) Other relevant matters.
- committee members;
  - v. Number of audit committee meetings;
  - vi. Audit committee meeting procedures;
  - vii. Agenda and minutes of audit committee meetings as compulsory requirements;
  - viii. Self-assessment and dismissal procedures of audit committee members; and
  - ix. Other relevant matters.

**Practices of understanding**

**Practices of understanding**

- 2. To promote understanding between the municipality and audit committee, the following actions should take place:

2. Council should have unrestricted access to the audit committee.
3. Council to understand the role of
  - a) Council must understand the role of the audit committee to ensure that suitable members are appointed to the committee.
  - b) The municipality must arrange induction for new audit committee members. <sup>5b</sup>
  - c) Council should have structured and unrestricted access to the audit committee. <sup>5a</sup>
  - d) There must be sufficient interaction between the audit committee and management as well as sufficient frequency of meetings. <sup>5c</sup>
  - e) Compulsory attendance

the audit committee resulting in suitable members being appointed to the committee.

4. The interaction between the audit committee and management and the frequency of its meetings, should be sufficient.
5. Compulsory attendance of the audit committee meetings by relevant municipal stakeholders.
6. Conduct induction for new audit committee members.
7. Provide necessary training for all audit committee members.

#### **Practices of engagement**

8. The agenda and information-pack must be relevant.
9. Executive summaries highlighting

of the audit committee meetings by relevant municipal stakeholders.<sup>5a</sup>

- f) Provide necessary training for all audit committee members.

#### **Practices of engagement**

3. The agenda and information-pack must be relevant.
4. Executive summaries highlighting significant issues should be distributed to audit committee members along with the information-pack.
5. The agenda and information-pack should be distributed to audit committee members in advance, to allow sufficient time for them to prepare for their

significant issues should be distributed to audit committee members along with the information-pack.

10. The agenda and information-pack should be distributed to audit committee members in advance, to allow sufficient time for them to prepare for their meeting.

meeting.<sup>5a</sup>

6. Virtual audit committee meetings should be allowed, to encourage maximum attendance.

7. The council must determine a quorum for audit committee meetings, of no less than 51% of the members. The agreed number or percentage of members that form a quorum must be documented in the charter.

8. The council and other relevant parties should assess the performance of the audit committee and its members.<sup>5d</sup>

11. The council should review the performance assessments of the audit committee and its members.

6. Appointment of audit committee members	6. Appointment of audit committee members	References	Legislation/ Guidance
<p>1. Council must be the only body authorised to appoint the audit committee.</p>	<p>1. The council<sup>6a</sup> or Provincial Treasury must be the only bodies authorised to appoint audit committees.</p> <p>2. If the audit committee lacks skills due to the remote location of the municipality, the council should consider appointing skilled audit committee members that can attend the meetings online.</p> <p>3. Council must appoint a sufficient</p>	<p>Refer to sections 3.4.3, 4.4.1 &amp; 5.3.6.</p>	<p><sup>6a</sup>[SAG 2003, s. 166(5); GFOA 2008:1; IoDSA 2016:55]</p> <p><sup>6b</sup> SAG 2012:4</p> <p><sup>6c</sup> SAG 2012:3</p> <p><sup>6d</sup> SAG 2012:6</p> <p><sup>6e</sup> SAG 2012:5</p>

number of members to the committee, considering the legislated minimum requirement of three people.<sup>6b</sup>

2. Municipalities must have policies that govern human resource management practices relating to audit committee's appointment, ethical conduct, and remuneration.
4. Municipalities must have policies that govern human resource management practices relating to audit committee's appointment, ethical conduct, and remuneration.<sup>6c</sup>

#### **Appointment requirements**

#### **Appointment requirements**

3. Appoint individuals that are independent (do not have a conflict of interest, are unbiased with no external influence and act in an objective and impartial manner).
4. Appointment of members possessing the appropriate combination of competencies, that
5. Appoint individuals that are independent (do not have a conflict of interest, are unbiased with no external influence and act in an objective and impartial manner).<sup>6c,6d</sup>
6. Appointment of members possessing the appropriate combination of competencies,

is heterogeneous (diverse).

5. Appoint audit committee members with an understanding of the municipal environment in terms of legislation, structure, systems, practices, policies etc.
6. Appoint capable members to provide advice that can create unique strategies for the municipality, that generate opportunities, mitigate threats, increase net revenue, or decrease net cost.
7. Establish a rare (unique) audit committee comprising a combination of competencies that cannot be imitated by competitors.
8. The structures and processes of the municipality must be

that is heterogeneous (diverse)<sup>6e</sup> and can add value to the municipality.

7. Appoint audit committee members with an understanding of the municipal environment in terms of legislation, structure, systems, practices, policies etc.<sup>6e</sup>
8. Appoint capable members to provide advice that can create unique strategies for the municipality, that generate opportunities, mitigate threats, increase net revenue, or decrease net cost.
9. Establish a rare (unique) audit committee comprising a combination of competencies that cannot be imitated by competitors.

sufficiently organised to maximise the services of the audit committees.

**Appointment process**

9. Background checks including verification of employment references, educational credentials, criminal record, credit history, former employment etc., should be conducted in respect of eligible candidates.

10. The council should verify that the applicant does not serve on three or more other audit committees, as this could negatively influence the effectiveness of the committee.

10. The structures and processes of the municipality must be sufficiently organised to maximise the services of the audit committees.

**Appointment process**

11. Background checks including verification of employment references, educational credentials, criminal record, credit history, former employment etc., should be conducted in respect of eligible candidates.

12. The council should verify that the applicant does not serve on more than three audit committees simultaneously, except in the case of shared audit committees.6e



11. Council can verify the applicant's suitability with other organisations where the applicant served or is serving as an audit committee member, in an effort to ascertain whether the applicant is independent, reliable, trustworthy, competent and committed.
12. Council and the human resource management unit must refrain from including candidates that do not meet the minimum requirements, to the shortlist.
13. The interview questions must sufficiently test the independence
13. Members must disclose information about the number of audit committees they serve, during the application process. If the information was misrepresented, their contract of service should be terminated.
14. Council can verify the applicant's suitability with other organisations where the applicant served or is serving as an audit committee member, in an effort to ascertain whether the applicant is independent, reliable, trustworthy, competent and committed.
15. Council and the human resource management unit must refrain from including candidates that do not meet the minimum requirements, to the shortlist.

and competencies of the candidates.

14. Council should not appoint:

- a) individuals that have close professional or personal relations with management or councillors;
- b) former or current auditors of local government;
- c) retired executives from the local government; and
- d) politically connected individuals without relevant experience.

15. If the appointment system is not fair, transparent, equitable,

16. The interview questions must sufficiently test the independence and competencies of the candidates.

17. Council should not appoint:

- a) individuals with close professional or personal relations with management or councillors;
- b) ~~former or current auditors of local government;~~
- c) ~~retired executives from the local government;~~ and
- d) politically connected individuals without relevant experience.

18. A cool-off period should be applied to former municipal employees prior to becoming a member of the audit committee.

competitive and cost-effective, and does not endorse the MFMA, it should be classified as unlawful, and the perpetrators must be punished.

16. The municipality must avoid practices that lead to negative publicity.

19. If the appointment system is not fair, transparent, equitable, competitive and cost-effective, and does not endorse the MFMA, it should be classified as unlawful, and the perpetrators must be punished.

20. The municipality must avoid practices that lead to negative publicity.

<b>7. Remuneration of audit committee members</b>	<b>7. Remuneration of audit committee members</b>	<b>References</b>	<b>Legislation/ Guidance</b>
<p>1. Council must approve fair remuneration rates for audit committee members, considering the risks, geographic location of the municipality and the logistics (travelling, accommodation, meeting venue, etc.).</p>	<p>1. Council must approve fair remuneration rates for audit committee members, considering the risks, geographic location of the municipality and the logistics (travelling, accommodation, meeting venue, etc.).</p>	<p>Refer to sections 3.4.3, 4.4.4 &amp; 5.3.7.</p>	

2. Council should consider incentives that will entice skilled and experienced individuals to occupy audit committee positions in poor and remote municipalities.

3. The National or Provincial Treasury must subsidise poor municipalities, to pay market-related remuneration for audit committee members.

2. Council should consider incentives that will entice skilled and experienced individuals to occupy audit committee positions in poor, small and remote municipalities, without compromising their independence. However, incentives will not be necessary if the municipality allows audit committee meetings to be conducted online and telephonically.

3. The National Treasury must determine the source of funding to subsidise the remuneration of audit committee members in poor municipalities.

8. Competencies of the audit committee	8. Competencies of the audit committee	References	Legislation/ Guidance
<p>1. The council must appoint experts with the relevant appropriate blend of expertise, both financial and non-financial.</p> <p>2. The council must appoint an expert in financial and auditing skills, when it recruits members to the committee.</p> <p>3. The council must appoint an audit committee with an understanding and knowledge of:</p> <p style="padding-left: 40px;">a) The municipal environment, risks and legislation;</p>	<p>1. The council must appoint experts with the relevant appropriate blend of expertise, both financial and non-financial.<sup>8a</sup></p> <p>2. The council must appoint to the audit committee, experts possessing core competencies in financial, legal, audit, performance management, information, communication technology (ICT), risk management, engineering and environmental skills.<sup>8a</sup></p> <p>3. The council must appoint an audit committee with an understanding and knowledge<sup>8a</sup> of:</p> <p style="padding-left: 40px;">a) The municipal</p>	<p>Refer to sections 3.4.4, 4.5 &amp; 5.3.8.</p>	<p><sup>8a</sup> SAG 2012:5.</p>

- b) Rural environment -for the audit committee in the rural municipality;
- c) Structures, powers and functions of all the institutions associated with the municipalities (Inter-governmental support);
- d) Infrastructure;
- e) Municipal income & debt collection;
- f) Service delivery;
- g) Methods to attract competent human resources to the municipality; and
- h) Disciplinary measures for non-performing staff members.

- environment, risks and legislation;
- b) Rural environment -for the audit committee in the rural municipality;
- c) Structures, powers and functions of all the institutions associated with the municipalities (Inter-governmental support);
- d) Infrastructure;
- e) Municipal income & debt collection;
- f) Service delivery;
- g) methods to attract competent human resources to the municipality; and
- h) Disciplinary measures.

4. The municipality must provide training to audit committee members regarding legislation and the intergovernmental support structures of the municipality.
5. The council must allow the audit committee chairperson to attend intergovernmental forums consisting of mayors or administrators that share knowledge and best practices concerning strategy, plans, goals and solutions to municipal problems.

4. The municipality must provide **face-to-face and online** training to audit committee members regarding legislation and the intergovernmental support structures of the municipality.
5. The council must allow the audit committee **chairperson** to attend **gatherings that discuss matters of municipal governance.**

9. The ethical conduct of the audit committees	9. The ethical conduct of the audit committees	References	Legislation/ Guidance
<p>1. Council should develop and implement ethics policies and a code of ethics for audit committees.</p>	<p>1. Council should develop and implement ethics policies and a code of ethics for audit committees. <b>The information must be documented in a charter.</b><sup>9a</sup></p>	<p>Refer to sections 3.4.3, 4.4.2 &amp; 5.3.9.</p>	<p><sup>9a</sup> SAG 2012:3 <sup>9b</sup> [SAG 2003, s. 166(5); SAG 2012:10].</p>
<p>2. Council must be engaged in the hiring of moral and termination of immoral audit committee members.</p>	<p>2. Council must be engaged in the hiring of moral and termination of immoral audit committee members.<sup>9b</sup></p>		
<p>3. Council is to appoint members that are affiliated to professional bodies and are obliged to behave as is required by the code of conduct of their respective bodies.</p>	<p><del>3. Council is to appoint members that are affiliated to professional bodies and are obliged to behave as is required by the code of conduct of their respective bodies.</del></p>		
<p>4. The municipality must establish the</p>	<p>4. The municipality must establish</p>		



maximum number of meetings from which audit committee members are allowed to be absent, before their contract is terminated.

the maximum number of meetings from which audit committee members are allowed to be absent, before their contract is terminated. The audit committee chairperson and the secretariat must follow due process in terminating the contract and the stipulation must be documented in a charter.

5. The municipality must appoint an ethics champion and form an ethics committee that will enforce compliance to ethical conduct by its employees, including audit committee members.

10. Independence of audit committee members	10. Independence of audit committee members	References	Legislation/ Guidance
<p>1. Council must include requirements regarding independence, declaration of conflict of interest and rotation of audit committees, in its policies.</p>	<p>1. The following actions that promote the independence of audit committee members should be documented in a charter:</p> <p>a) Obligatory independence, declaration of conflict of interest, and the compulsory appointment of new members following the termination of members whose contracts have expired.</p>	<p>Refer to sections 3.4.3, 4.4.3 &amp; 5.3.10.</p>	<p><sup>10a</sup> [SAG 2003, s. 166(2); SAG 2012:6; IoDSA 2013:7, 2016:13; ANAO 2015:7,27,43; PSACF 2017:3]</p>
<p>2. Council must appoint members that can function independently.</p>	<p>2. Council must appoint members that can function independently.</p>		<p><sup>10b</sup> [SAG 2003, s. 166(2); ANAO 2015:27; IoDSA 2016:13; PSACF 2017:3]</p> <p><sup>10c</sup> SAG 2012:3</p> <p><sup>10d</sup> SAG 2012:6.</p>

10b

3. Council to regularly review the conflict of interest register and act timeously.

3. Council to regularly review the conflict of interest register and act timeously.

4. Council must evaluate the results of the audit committee's self-assessment and perform the necessary actions.

5. Council must assess the independence of the audit committee, annually.<sup>10c</sup>

4. Dismiss members that are not compliant to policy and code of conduct.

6. Council must dismiss members that are not compliant to legislation, the charter, policies and/or the code of conduct.<sup>10d</sup>

11. Political interference	11. Political interference	References	Legislation/ Guidance
<p>1. There must be a segregation of duties between council, administrators and the audit committee.</p>	<p>1. There must be a segregation of duties between the council, administrators and the audit committee.<sup>11a</sup></p>	<p>Refer to sections 3.4.5, 4.6.1 &amp; 5.3.11.</p>	<p><sup>11a</sup>[SAG 1996, s. 151(2); SAG 2003, s. 62, 166(2)]</p>
<p>2. Council should not interfere with administrative functions, in particular supply chain matters and the appointment of staff members.</p>	<p>2. Council should adhere to legislation, policies and procedures, and not unduly interfere with functions that are not their responsibility, i.e. operational, administrative and audit committee activities.<sup>11b</sup></p>		<p><sup>11b</sup> SAG 2003, s. 103.</p>
<p>3. Council must include sanctions for political interference in their policies.</p>	<p>3. Council must include sanctions for undue interference in the municipal list of policies.</p>		
<p>4. Actions to be taken against the</p>	<p>4. Disciplinary actions must be</p>		

council, management and any person that interfere improperly with audit committee function.

5. The council, accounting officer, management, staff and other stakeholders of the municipality should not disrupt the audit committees' function.

6. Council and management should not withhold information from the audit committee.

7. Legislation to be amended to allow the local community to have voting rights in council- and ward meetings, to reduce decisions based on political interference.

taken against the council, management and any person that unduly interfere with or disrupt the audit committee function.

5. Councillors and members of the municipal staff must always comply with their respective legislated code of conduct, to promote ethical conduct and also to eliminate undue interference with audit committee activities.

6. Council and management should not withhold information from the audit committee.

~~7. Legislation to be amended to allow the local community to have voting rights in council- and ward meetings, to reduce decisions based on political~~

interference.

12. Ability to influence and gain political buy-in	12. Ability to influence and gain political buy-in	References	Legislation/ Guidance
<p>1. Participatory governance practices (participation of stakeholders of the</p>	<p>1. The executive municipal employees such as the mayor, speaker, chairperson of finance, and the chairperson of MPAC, should regularly attend audit committee meetings while refraining from undue interference, in order to foster a relationship with the audit committee.<sup>12a</sup> As a result, the audit committee will gain influence in and political buy-in by the municipality.</p> <p>2. Participatory governance practices (participation of stakeholders of the municipality</p>	<p>Refer to sections 3.4.5, 4.6.2 &amp; 5.3.12.</p>	<p><sup>12a</sup> SAG 2012:14</p> <p><sup>12b</sup> SAG 2000, s. 20(2)</p> <p><sup>12c</sup> SAG 2003, s. 166(2).</p>

- municipality, especially the community), must be enforced.
2. Staff members of the municipalities must be educated to conduct participatory governance practices with the community.
  3. Credible sanctions should be imposed on those individuals who do not possess the political will to fulfil the objectives of the municipality or decline to participate in participatory governance practices.
  4. The municipalities should develop structures, mechanisms, processes and procedures that will promote governance-participation by the local community.
- in governance, especially the community) must be enforced.<sup>12b</sup>
3. Staff members of the municipalities must be educated to conduct participatory governance practices with the the community.
  4. The municipality should develop structures, mechanisms, processes and procedures that will promote participatory governance.
  5. The internal audit function must provide assurance to the audit

- committee regarding participatory governance practices.
5. Council to adopt valuable expert advice from the audit committee regarding participatory governance practices.
  6. Consequence management should be implemented in response to the lack of implementation of participatory governance.
6. Council to adopt valuable expert advice from the audit committee regarding participatory governance practices.<sup>12c</sup>
  7. Consequence management in accordance with consequence management policy and standard operating procedures should be deployed in respect of those employees that do not practice participatory governance, when required.
  8. Sanctions should be imposed on those individuals who do not possess the will to fulfil the objectives of the municipality or decline to participate in participatory governance practices.



## ANNEXURE 6 FRAMEWORK FOR NATIONAL TREASURY, PROVINCIAL TREASURIES AND SALGA FINAL ACTIONS

### FRAMEWORK FOR NATIONAL TREASURY, PROVINCIAL TREASURIES AND SALGA

#### FINAL ACTIONS

##### 3. Risk management

1. National Treasury must improve risk management regulations.

##### 4. Audit functions

1. National Treasury must determine the mandatory training needs of audit committee members and the government organisation that should provide the training.
2. National Treasury must create a competency framework for both the CAEs and the internal auditors.

##### 6. Appointment of audit committee members

1. The appointment of the audit committee members should be centralised at provincial level or at SALGA.
2. Provincial treasuries or SALGA must monitor the adequacy skills of audit committees.

## **7. Remuneration of audit committee members**

1. National Treasury must benchmark with other countries and best practices derived from research and performance outcomes when determining the remuneration of audit committee members.
2. National Treasury can decide on how audit committee members of poor and smaller municipalities can be subsidised.
3. Remuneration of audit committee members must be centralised. The National Treasury can determine the structure that must assume the responsibility.

## **10. Independence of audit committee members**

1. National Treasury must create a code of conduct for audit committee members.

## **11. Political interference**

1. Government to amend legislation to prescribe a minimum requirement of formal education level for the councillors.

## ANNEXURE 7 ETHICS APPROVAL TO CONDUCT INTERVIEWS



### UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE

Date 2020-03-10

Dear Ms A Legodi,

ERC reference :

2020\_CAS\_005

Name: A Legodi

Student/ Staff #:31810713

**Decision: Ethics Approval from  
2020-03-10 to 2023-03-09**

**Researchers:** Ms Audrey Legodi  
legodiha@tut.ac.za

Supervisor: Prof LJ Erasmus  
Prof GP Coetzee

**Working title of research:**

**Enhancing audit committee effectiveness in South African municipalities**

**Qualification:** PhD

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee. Ethics approval is granted for the period indicated above for **the interviews to be held to collect the relevant data.**

*The application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on **10 March 2020** in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.



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

*Note:*

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

Yours sincerely,



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



Prof L Ntsalaze  
Executive Dean CAS



URERC 25.04.17 - Decision template (V2) - Approve

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## **ANNEXURE 8      INFORMATION SHEET & INFORMED CONSENT FORM (INTERVIEWS)**

### **PARTICIPANT INFORMATION SHEET**

Ethics clearance reference number: 2016\_CAS\_028 / 2017\_CAS\_032 / 2020\_CAS\_005

Project Title: Optimising the oversight role and value for audit committees in South Africa

PhD Title: Enhancing audit committee effectiveness in South African municipalities

#### **Dear Prospective Participant**

My name is Audrey Legodi, and I am doing research under the supervision of Prof. Lourens Erasmus - a professor, in the Department of Financial Governance, School of Applied Accountancy and Professor Philna Coetzee - from Tshwane University of Technology, Deans office, towards a doctoral degree (PhD) at the University of South Africa. I have funding from the National Research Foundation (NRF) for a sabbatical grant. I am inviting you to participate in my study entitled 'Optimising the role and value for audit committees in South African municipalities'. This study is part of the larger research study on audit committees in South Africa undertaken by the Research on Audit Committees South Africa (RACSA) research group of doctoral students. The scope of the entire study includes national and provincial departments, public entities, municipalities and the private sector.

This particular study only focuses on municipalities. The research aim is to propose a framework that will optimise the function of audit committees in the municipalities of South Africa.

You have been invited to participate in the study because of your knowledge and working experience of municipal audit committees. The identified participants were chosen to participate in the study because they belong to at least one of the following groups:

- Group 1- Current or former audit committee member;
- Group 2- Current or former municipal workers (For example, council members, municipal managers, chief audit executives and other relevant parties);
- Group 3- Regulators; and
- Group 4- Stakeholders of the municipalities.

Your contact details were obtained either from one of the following sources: website of officials from municipalities; South African Local Government Association; National Treasury;

Provincial Treasury; CoGTA; The Auditor-General of South Africa; The Public Sector Audit Committee Forum; or individuals associated with you.

You are requested to participate in one hour interview that will be audio-recorded and transcribed verbatim. The interview can be over internet tools such as Zoom & Skype, or telephonically or face to face. Please take note of the technological risk associated with using the internet tools and telephone as an interview tool, your identity and the information shared can be accessed by unauthorised parties. You are therefore advised to create a new internet account that cannot identify you, only for this study, if you wish to protect your identity.

The researcher will take notes during the interview sessions. You will be provided with a framework that is proposed by the researcher to optimise the role of the audit committee in the South African municipalities. The framework consists of an 'Framework for audit committees' and an 'Framework for municipalities'. You will be asked to state your views on each item on the framework during interviews (*Please find the attached framework*).

The benefit of participating is that your viewpoints will contribute to the findings of the study that may be used by stakeholders such as municipalities, audit committees, policymakers and the scientific community.

Participating in this study is voluntary and you are under no obligation to consent to participation. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason. Your participation does not expose you to any risks. Your identity and your recorded responses will be treated strictly confidential by the researcher. You have the right to insist that your name will not be recorded anywhere and that no one, apart from the researcher and identified members of the research team, will know about your involvement in this research.

The records that identify you will be available only to people working on the study unless you give permission for other people to see the records. The transcriber has signed a confidential agreement to maintain the anonymity of the information. Your anonymous data will be used in this study and also for other purposes such as a research report, journal articles and conference proceedings. You will be referred by a code number or a pseudonym in the data.

Hard copies of your answers if printed will be stored by the researcher for a period of five years in a locked cupboard/filing cabinet at her home for future research or academic purposes. Electronic information will be stored on a password-protected computer. Future use of the stored data will be subject to further Research Ethics Review and approval if

applicable. Hard copies will be shredded and electronic copies will be permanently deleted from the hard drive of the computer through the use of a relevant software programme after the period of five years.

There is no payment or incentives for participating in this study. However, if you would like to be informed of the final research findings, please contact Audrey Legodi on 060 603 2575 or [legodiha@tut.ac.za](mailto:legodiha@tut.ac.za). The findings are accessible from the year 2021. This study has received written approval from the Research Ethics Review Committee of the College of Accounting Sciences, Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

Should you require any further information or want to contact the researcher about any aspect of this study, please contact Audrey Legodi on 060 603 2575, [legodiha@tut.ac.za](mailto:legodiha@tut.ac.za). Should you have concerns about the way in which the research has been conducted, you may contact Prof. Lourens Erasmus, 012 429 8844, [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za) who is the supervisor of the study and also the chairperson of the ethics committee.

Thank you for taking the time to read this information sheet and for participating in this study.

Kind regards

Audrey Legodi  
20 March 2020

## **ASSENT TO PARTICIPATE IN THIS STUDY**

I, \_\_\_\_\_(participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read and understood the study as explained in the information sheet.

I have had sufficient opportunity to ask questions and am prepared to participate in the study.

I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable).

I am aware that the findings of this study will be processed into a research report, journal publications and/or conference proceedings, but that my participation will be kept confidential unless otherwise specified.

I agree to the audio recording during the interviews.

I have received a signed copy of the informed consent agreement.

Participant Name & Surname..... (please print)

Participant Signature.....Date.....

Researcher's Name & Surname.....(please print)

Researcher's signature.....Date.....



## ANNEXURE 9 DEMOGRAPHIC OVERVIEW OF INTERVIEW PARTICIPANTS

### Demographic overview of interview participants

No.	Respondent	Gender	Age category	Category	Province	Type of Municipality	Work Experience (Years)	Highest Qualification	Professional Qualification	Professional Affiliations
1	1A (46 minutes)	Male	50-59	Current or former audit committee member	Northern & Western Cape	District & Local	30	Advance Diploma (Internal Auditing)	<ul style="list-style-type: none"> <li>Registered Government Auditor (RGA)</li> <li>Certified Government Audit Professional (CGAP)</li> </ul>	<ul style="list-style-type: none"> <li>Southern African Institute of Government Auditors (SAIGA)</li> <li>The Institute for Internal Auditors (IIA)</li> <li>Association for Fraud Examiners</li> <li>Association of Fraud Examiners South African Chapter.</li> </ul>
2	1B (23 minutes)	Male	40-49	Current or former audit committee member	Eastern Cape	Local	20	Masters Degree	None	<ul style="list-style-type: none"> <li>Institute of Directors South Africa (IoDSA)</li> <li>Legal Practice Council (LPC)</li> </ul>
3	1C	Male	50-59	Current or	Gauteng	Metropolitan	20+	Doctorate	Chartered	<ul style="list-style-type: none"> <li>Institute of</li> </ul>

	(25 minutes)			former audit committee member				Degree	Director of South Africa [CD(SA)]	Chartered Secretaries & Administrators (FCIS), <ul style="list-style-type: none"> <li>Institute of Chartered Certified Accountant (ACCA-UK)</li> <li>Institute of Directors South Africa (IoDSA) Corporate Governance Network (CGN)</li> </ul>
4	2A (25 minutes)	Female	40-49	Current or former municipal workers	Western Cape	Metropolitan	25+	B.Compt Degree	<ul style="list-style-type: none"> <li>Certified Director</li> <li>Certified Internal Auditor (CIA)</li> <li>Certified Ethics Officer</li> </ul>	The Institute for Internal Auditors (IIA)
5	2B (14 minutes)	Female	40-49	Current or former municipal workers  (Chief Audit Executives)	Mpumalanga	District	20	B.Tech (Internal Auditing)	None	The Institute for Internal Auditors (IIA)

6	2C (25 minutes)	Male	40-49	Current or former municipal workers  (Chief Audit Executives)	Mpumalanga	District	18	Post Graduate Diploma: (Internal Audit)	Registered Government Auditor (RGA)	<ul style="list-style-type: none"> <li>The Institute for Internal Auditors (IIA)</li> <li>The Chartered Institute of Government Finance Audit and Risk Officers (CIGFARO)</li> </ul>
7	2D (18 minutes)	Male	30-39	Current or former municipal workers  (Chief Audit Executives)	KwaZulu-Natal	Local	8	B.Com (Hons) Accounting Sciences Degree	None	The Institute for Internal Auditors (IIA)
8	2E (18 minutes)	Male	30-39	Current or former municipal workers  (Chief Audit Executives)	Western Cape	Local	11	Masters Degree	<ul style="list-style-type: none"> <li>Certified Internal Auditor (CIA)</li> <li>Professional Internal Auditor (PIA)</li> <li>Certified Government Auditing Professional (CGAP)</li> </ul>	The Institute for Internal Auditors (IIA)
9	3A	Female	40-49	Regulators	Gauteng	AGSA	18	B.Com (Honours)	<ul style="list-style-type: none"> <li>Chartered Accountant</li> </ul>	<ul style="list-style-type: none"> <li>The South African</li> </ul>

	(15 minutes)							Accounting Degree	(CA)(SA) • Registered Auditor (RA)	Institute of Chartered Accountants (SAICA) • The Independent Regulatory Board for Auditors (IRBA)
10	3B (24 minutes)	Male	40-49	Regulators	Western Cape	Western Cape Provincial Treasury	18	B.Com (Accounting) Degree	Internal Audit Technician(IAT)	The Institute for Internal Auditors (IIA)
11	3C (29 minutes)	Male	40-49	Regulators	KwaZulu-Natal	KwaZulu-Natal Provincial Treasury	15	B-Tech (Internal Auditing)	None	• The Institute for Internal Auditors (IIA) • Institute of Risk Management South Africa (IRMSA)
12	4A (60 minutes)	Male	40-49	Stakeholders of the municipalities	Gauteng & Limpopo		21	Doctoral degree	None	• The Institute for Internal Auditors (IIA)
13	4B (34 minutes)	Male	40-49	Stakeholders of the municipalities	Northern Cape		22	Masters Degree	• Chartered Accountant (CA)(SA) • Certified Internal Auditor (CIA)	• The Institute for Internal Auditors (IIA) • The South African Institute of Chartered Accountants

14	4C (31 minutes)	Female	30-39	Stakeholders of the municipalities	Western Cape	15	B.Com (Honours) Accounting	<ul style="list-style-type: none"> <li>• Chartered Accountant South Africa (CA(SA))</li> <li>• Certified Internal Auditor (CIA)</li> <li>• Professional Internal Auditor (PIA)</li> </ul>	<ul style="list-style-type: none"> <li>• The South African Institute of Chartered Accountants (SAICA)</li> <li>• Institute of Internal Auditors (IIA)</li> <li>• The Institute of Risk Management South Africa (IRMSA)</li> </ul>
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## ANNEXURE 10 FREQUENCY COUNT REPORT FOR FRAMEWORK OF AUDIT COMMITTEE

### Annexure 10 Frequency Count Report-AUDIT COMMITTEE Guide

PARTICIPANTS	1. Municipal administration (1)			1. Municipal administration (2)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1		
Participant 1B	1			1		
Participant 1C	1			1		
Participant 2A	1			1		
Participant 2B	1			1		
Participant 2C	1			1		
Participant 2D	1			1		
Participant 2E	1			1		
Participant 3A	1					1
Participant 3B	1			1		
Participant 3C	1			1		
Participant 4A	1			1		
Participant 4B	1			1		
Participant 4C	1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>7,1%</b>

PARTICIPANTS	2. Organisational maturity (1a)			2. Organisational maturity (1b)			2. Organisational maturity (1c)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1					1	1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1	1				1	1		1
Participant 2B	1			1			1		
Participant 2C	1					1	1		
Participant 2D	1			1			1		
Participant 2E	1	1				1		1	
Participant 3A			1			1	1		1
Participant 3B	1			1			1		
Participant 3C		1				1		1	
Participant 4A			1				1		1
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>9</b>	<b>3</b>	<b>2</b>	<b>7</b>	<b>1</b>	<b>6</b>	<b>9</b>	<b>2</b>	<b>3</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>64,3%</b>	<b>21,4%</b>	<b>14,3%</b>	<b>50,0%</b>	<b>7,1%</b>	<b>42,9%</b>	<b>64,3%</b>	<b>14,3%</b>	<b>21,4%</b>

Responses from participants

PARTICIPANTS	3. Risk management (1)			3. Risk management (2)			3. Risk Management (3)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	4. Internal Audit Function (1a)			4. Internal Audit Function (1b)			4. Internal Audit Function (2)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1					1
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	4. Internal Audit Function (3)			4. Internal Audit Function (4)			4. Internal Audit Function (5)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1				1		1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1				1		1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>2</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>85,7%</b>	<b>14,3%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (1a)			5. The audit committee mandate (1b)			5. The audit committee mandate (2a)			5. The audit committee mandate (2b)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>



Responses from participants

PARTICIPANTS	5. The audit committee mandate (2c)			5. The audit committee mandate (2d)			5. The audit committee mandate (3a)			5. The audit committee mandate (3b)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (3c)			5. The audit committee mandate (4a)			5. The audit committee mandate (4b)			5. The audit committee mandate (4c)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (4d)			5. The audit committee mandate (4e)			5. The audit committee mandate (5)			5. The audit committee mandate (6a)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (6b)			5. The audit committee mandate (6c)			5. The audit committee mandate (6d)			5. The audit committee mandate (6e)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (6f)			5. The audit committee mandate (6g)			5. The audit committee mandate (7)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (8)			5. The audit committee mandate (9)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1		
Participant 1B	1			1		
Participant 1C	1			1		
Participant 2A	1			1		
Participant 2B	1			1		
Participant 2C	1			1		
Participant 2D	1			1		
Participant 2E	1			1		
Participant 3A	1			1		
Participant 3B	1			1		
Participant 3C	1			1		
Participant 4A	1			1		
Participant 4B	1			1		
Participant 4C	1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	6. Appointment of audit committee members (1)			6. Appointment of audit committee members (2)			6. Appointment of audit committee members (3)			6. Appointment of audit committee members (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1					1			1	1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1					1	1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1					1	1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>11</b>	<b>0</b>	<b>3</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>78,6%</b>	<b>0,0%</b>	<b>21,4%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	7. Remuneration of audit committee members (1)			7. Remuneration of audit committee members (2)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A				1		
Participant 1B	1				1	
Participant 1C	1					1
Participant 2A	1					1
Participant 2B	1					1
Participant 2C	1			1		
Participant 2D	1			1		
Participant 2E	1					1
Participant 3A	1					1
Participant 3B	1			1		
Participant 3C	1			1		
Participant 4A	1			1		
Participant 4B	1			1		
Participant 4C	1					1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b></b>	<b>1</b>	<b>7</b>	<b>6</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b></b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b></b>	<b>7,1%</b>	<b>50,0%</b>	<b>42,9%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (1)			8. Competencies of the audit committee (2)			8. Competencies of the audit committee (3)			8. Competencies of the audit committee (4a)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (4b)			8. Competencies of the audit committee (5)			8. Competencies of the audit committee (6)			8. Competencies of the audit committee (7a)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1					1	1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (7b)			8. Competencies of the audit committee (7c)			8. Competencies of the audit committee (7d)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (8a)			8. Competencies of the audit committee (8b)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1		
Participant 1B	1			1		
Participant 1C	1			1		
Participant 2A	1			1		
Participant 2B	1			1		
Participant 2C	1			1		
Participant 2D	1			1		
Participant 2E	1			1		
Participant 3A	1			1		
Participant 3B	1			1		
Participant 3C	1			1		
Participant 4A	1			1		
Participant 4B	1			1		
Participant 4C	1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	9. The ethical conduct of the audit committee members (1)			9. The ethical conduct of the audit committee members (2)			9. The ethical conduct of the audit committee members (3)			9. The ethical conduct of the audit committee members (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		1
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	10. Independence of audit committee members (1a)			10. Independence of audit committee members (1b)			10. Independence of audit committee members (1c)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	10. Independence of audit committee members (1d)			10. Independence of audit committee members (2)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1		
Participant 1B	1			1		
Participant 1C	1			1		
Participant 2A	1			1		
Participant 2B	1			1		
Participant 2C	1			1		
Participant 2D	1			1		
Participant 2E	1			1		
Participant 3A	1			1		
Participant 3B	1			1		
Participant 3C	1			1		
Participant 4A	1			1		
Participant 4B	1			1		
Participant 4C	1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>100,0%</b>	<b>0,0%</b>	<b>0,0%</b>

Responses from participants

PARTICIPANTS	11. Political interference (1)				11. Political interference (2)				11. Political interference (3)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1				1			
Participant 1B	1				1				1			
Participant 1C	1				1				1			
Participant 2A	1				1				1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>



Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (1)				12. Ability to influence and gain political buy-in (2a)				12. Ability to influence and gain political buy-in (2b)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1						1				1	
Participant 1B	1				1				1			
Participant 1C	1						1				1	
Participant 2A	1				1				1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>78,6%</b>	<b>0,0%</b>	<b>14,3%</b>	<b>7,1%</b>	<b>78,6%</b>	<b>0,0%</b>	<b>14,3%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (2c)				12. Ability to influence and gain political buy-in (2d)				12. Ability to influence and gain political buy-in (3a)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A			1				1		1			
Participant 1B	1				1				1			
Participant 1C			1				1				1	
Participant 2A	1				1						1	
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>78,6%</b>	<b>0,0%</b>	<b>14,3%</b>	<b>7,1%</b>	<b>78,6%</b>	<b>0,0%</b>	<b>14,3%</b>	<b>7,1%</b>	<b>78,6%</b>	<b>0,0%</b>	<b>14,3%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (3b)				12. Ability to influence and gain political buy-in (3c)				12. Ability to influence and gain political buy-in (3d)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1				1			
Participant 1B	1				1				1			
Participant 1C	1				1				1			
Participant 2A	1						1		1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>85,7%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>7,1%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (3e)				12. Ability to influence and gain political buy-in (3f)				12. Ability to influence and gain political buy-in (3g)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1				1			
Participant 1B	1				1				1			
Participant 1C	1				1				1			
Participant 2A	1				1				1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (3h)				12. Ability to influence and gain political buy-in (4)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1			
Participant 1B	1				1			
Participant 1C	1				1			
Participant 2A	1						1	
Participant 2B	1				1			
Participant 2C	1				1			
Participant 2D	1				1			
Participant 2E	1				1			
Participant 3A	1				1			
Participant 3B	1				1			
Participant 3C	1				1			
Participant 4A	1				1			
Participant 4B	1				1			
Participant 4C				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>85,7%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>7,1%</b>

Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (5)				12. Ability to influence and gain political buy-in (6)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1			
Participant 1B	1				1			
Participant 1C	1				1			
Participant 2A	1				1			
Participant 2B	1				1			
Participant 2C	1				1			
Participant 2D	1				1			
Participant 2E	1				1			
Participant 3A	1				1			
Participant 3B	1				1			
Participant 3C	1				1			
Participant 4A	1				1			
Participant 4B	1				1			
Participant 4C				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>	<b>92,9%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>7,1%</b>

**ANNEXURE 11      FREQUENCY COUNT REPORT FOR FRAMEWORK FOR MUNICIPALITY GUIDE**

### Annexure 11 Frequency Count Report-MUNICIPALITY Guide

Responses from participants

PARTICIPANTS	1. Municipal administration (1)			1. Municipal administration (2)			1. Municipal administration (3)			1. Municipal administration (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1					1
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1					1	1				1	
Participant 2B	1					1	1				1	
Participant 2C	1			1			1			1		
Participant 2D	1					1	1			1		
Participant 2E	1					1	1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>4</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>2</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>71%</b>	<b>0%</b>	<b>29%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>79%</b>	<b>14%</b>	<b>7%</b>

Responses from participants

PARTICIPANTS	2. Organisational maturity (1)			2. Organisational maturity (2)			2. Organisational maturity (3)			2. Organisational maturity (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	2. Organisational maturity (5)			2. Organisational maturity (6)			2. Organisational maturity (7)			2. Organisational maturity (8)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1				1		1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>1</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>93%</b>	<b>7%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	2. Organisational maturity (9)			2. Organisational maturity (10)			2. Organisational maturity (11)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	3. Risk Management (1)			3. Risk Management (2)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1		
Participant 1B	1			1		
Participant 1C	1			1		
Participant 2A	1			1		
Participant 2B	1			1		
Participant 2C	1			1		
Participant 2D	1			1		
Participant 2E	1			1		
Participant 3A	1			1		
Participant 3B	1			1		
Participant 3C	1			1		
Participant 4A	1			1		
Participant 4B	1			1		
Participant 4C	1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	4. Internal Audit Function (1)			4. Internal Audit Function (2)			4. Internal Audit Function (3)			4. Internal Audit Function (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C			1	1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1					1
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1					1
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>0</b>	<b>2</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>93%</b>	<b>0%</b>	<b>7%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>86%</b>	<b>0%</b>	<b>14%</b>

Responses from participants

PARTICIPANTS	4. Internal Audit Function (5)			4. Internal Audit Function (6)			4. Internal Audit Function (7)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	4. Internal Audit Function (8)			4. Internal Audit Function (9)			4. Internal Audit Function (10)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1					1
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1					1
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1					1			1
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>11</b>	<b>0</b>	<b>3</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>93%</b>	<b>0%</b>	<b>7%</b>	<b>79%</b>	<b>0%</b>	<b>21%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (1a)			5. The audit committee mandate (1b)			5. The audit committee mandate (1c)			5. The audit committee mandate (1d)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	5. The audit committee mandate (1e)			5. The audit committee mandate (1f)			5. The audit committee mandate (2)			5. The audit committee mandate (3)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>



Responses from participants

PARTICIPANTS	5.The audit committee mandate (4)			5.The audit committee mandate (5)			5.The audit committee mandate (6)			5.The audit committee mandate (7)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	5.The audit committee mandate (8)			5.The audit committee mandate (9)			5.The audit committee mandate (10)			5.The audit committee mandate (11)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	6. Appointment of audit committee members (1)			6. Appointment of audit committee members (2)			6. Appointment of audit committee members (3)			6. Appointment of audit committee members (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	6. Appointment of audit committee members (5)			6. Appointment of audit committee members (6)			6. Appointment of audit committee members (7)			6. Appointment of audit committee members (8)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1					1	1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1					1	1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>12</b>	<b>0</b>	<b>2</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>86%</b>	<b>0%</b>	<b>14%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	6. Appointment of audit committee members (9)			6. Appointment of audit committee members (10)			6. Appointment of audit committee members (11)			6. Appointment of audit committee members (12)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1					1	1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>93%</b>	<b>0%</b>	<b>7%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	6. Appointment of audit committee members (13)			6. Appointment of audit committee members (14a)			6. Appointment of audit committee members (14b)			6. Appointment of audit committee members (14c)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1					1			1
Participant 2B	1			1					1			1
Participant 2C	1			1					1			1
Participant 2D	1			1			1			1		
Participant 2E	1			1				1			1	
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1					1			1
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>1</b>	<b>4</b>	<b>9</b>	<b>1</b>	<b>4</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>64%</b>	<b>7%</b>	<b>29%</b>	<b>64%</b>	<b>7%</b>	<b>29%</b>

Responses from participants

PARTICIPANTS	6. Appointment of audit committee members (14d)			6. Appointment of audit committee members (15)			6. Appointment of audit committee members (16)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1			1			1		
Participant 4B	1			1			1		
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	7. Remuneration of audit committee members (1)			7. Remuneration of audit committee members (2)			7. Remuneration of audit committee members (3)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1		
Participant 1B	1			1			1		
Participant 1C	1			1			1		
Participant 2A	1			1			1		
Participant 2B	1			1			1		
Participant 2C	1			1			1		
Participant 2D	1			1			1		
Participant 2E	1			1			1		
Participant 3A	1			1			1		
Participant 3B	1			1			1		
Participant 3C	1			1			1		
Participant 4A	1					1	1		
Participant 4B	1			1					1
Participant 4C	1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>93%</b>	<b>0%</b>	<b>7%</b>	<b>93%</b>	<b>0%</b>	<b>7%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (1)			8. Competencies of the audit committee (2)			8. Competencies of the audit committee (3a)			8. Competencies of the audit committee (3b)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (3c)			8. Competencies of the audit committee (3d)			8. Competencies of the audit committee (3e)			8. Competencies of the audit committee (3f)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	8. Competencies of the audit committee (3g)			8. Competencies of the audit committee (3h)			8. Competencies of the audit committee (4)			8. Competencies of the audit committee (5)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	9. The ethical conduct of the audit committee members (1)			9. The ethical conduct of the audit committee members (2)			9. The ethical conduct of the audit committee members (3)			9. The ethical conduct of the audit committee members (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1					1	1		
Participant 1B	1			1				1		1		
Participant 1C	1			1				1		1		
Participant 2A	1			1				1		1		
Participant 2B	1			1				1		1		
Participant 2C	1			1				1		1		
Participant 2D	1			1				1		1		
Participant 2E	1			1				1		1		
Participant 3A	1			1				1		1		
Participant 3B	1			1					1	1		
Participant 3C	1			1				1		1		
Participant 4A	1			1				1		1		
Participant 4B	1			1				1		1		
Participant 4C	1			1					1	1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>0</b>	<b>3</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>79%</b>	<b>0%</b>	<b>21%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	10. Independence of audit committee members (1)			10. Independence of audit committee members (2)			10. Independence of audit committee members (3)			10. Independence of audit committee members (4)		
	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree	Agree	Partially Agree	Disagree
Participant 1A	1			1			1			1		
Participant 1B	1			1			1			1		
Participant 1C	1			1			1			1		
Participant 2A	1			1			1			1		
Participant 2B	1			1			1			1		
Participant 2C	1			1			1			1		
Participant 2D	1			1			1			1		
Participant 2E	1			1			1			1		
Participant 3A	1			1			1			1		
Participant 3B	1			1			1			1		
Participant 3C	1			1			1			1		
Participant 4A	1			1			1			1		
Participant 4B	1			1			1			1		
Participant 4C	1			1			1			1		
<b>TOTAL</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>

Responses from participants

PARTICIPANTS	11. Political interference (1)				11. Political interference (2)				11. Political interference (3)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1				1			
Participant 1B	1				1				1			
Participant 1C	1				1				1			
Participant 2A	1				1				1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>93%</b>	<b>0%</b>	<b>0%</b>	<b>7%</b>	<b>93%</b>	<b>0%</b>	<b>0%</b>	<b>7%</b>	<b>93%</b>	<b>0%</b>	<b>0%</b>	<b>7%</b>

Responses from participants

PARTICIPANTS	11. Political interference (4)				11. Political interference (5)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1				1			
Participant 1B	1				1			
Participant 1C	1				1			
Participant 2A	1				1			
Participant 2B	1				1			
Participant 2C	1				1			
Participant 2D	1				1			
Participant 2E	1				1			
Participant 3A	1				1			
Participant 3B	1				1			
Participant 3C	1				1			
Participant 4A	1				1			
Participant 4B	1				1			
Participant 4C				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>93%</b>	<b>0%</b>	<b>0%</b>	<b>7%</b>	<b>93%</b>	<b>0%</b>	<b>0%</b>	<b>7%</b>

Responses from participants

PARTICIPANTS	11. Political interference (6)				11. Political interference (7)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A	1						1	
Participant 1B	1						1	
Participant 1C	1				1			
Participant 2A	1						1	
Participant 2B	1				1			
Participant 2C	1				1			
Participant 2D	1				1			
Participant 2E	1						1	
Participant 3A	1				1			
Participant 3B	1				1			
Participant 3C	1				1			
Participant 4A	1				1			
Participant 4B	1						1	
Participant 4C				1				1
<b>TOTAL</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>8</b>	<b>0</b>	<b>5</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>93%</b>	<b>0%</b>	<b>0%</b>	<b>7%</b>	<b>57%</b>	<b>0%</b>	<b>36%</b>	<b>7%</b>



Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (1)				12. Ability to influence and gain political buy-in (2)				12. Ability to influence and gain political buy-in (3)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A			1				1				1	
Participant 1B	1				1				1			
Participant 1C	1				1				1			
Participant 2A	1				1				1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B	1				1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>86%</b>	<b>0%</b>	<b>7%</b>	<b>7%</b>	<b>86%</b>	<b>0%</b>	<b>7%</b>	<b>7%</b>	<b>86%</b>	<b>0%</b>	<b>7%</b>	<b>7%</b>

Responses from participants

PARTICIPANTS	12. Ability to influence and gain political buy-in (4)				12. Ability to influence and gain political buy-in (5)				12. Ability to influence and gain political buy-in (6)			
	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment	Agree	Partially Agree	Disagree	No Comment
Participant 1A			1				1				1	
Participant 1B	1				1				1			
Participant 1C	1				1				1			
Participant 2A	1				1				1			
Participant 2B	1				1				1			
Participant 2C	1				1				1			
Participant 2D	1				1				1			
Participant 2E	1				1				1			
Participant 3A	1				1				1			
Participant 3B	1				1				1			
Participant 3C	1				1				1			
Participant 4A	1				1				1			
Participant 4B			1		1				1			
Participant 4C				1				1				1
<b>TOTAL</b>	<b>11</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>TOTAL NUMBER OF PARTICIPANTS</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>%</b>	<b>79%</b>	<b>0%</b>	<b>14%</b>	<b>7%</b>	<b>86%</b>	<b>0%</b>	<b>7%</b>	<b>7%</b>	<b>86%</b>	<b>0%</b>	<b>7%</b>	<b>7%</b>

## ANNEXURE 12 CODE MANAGER REPORT-AUDIT COMMITTEE

	<b>Code</b>	<b>Grounded</b>	<b>Code Groups</b>
●	1.1 MUN_ADM- Financial Tools	2	1.1 Municipal administration
●	1.1 MUN_ADM- Legislation	8	1.1 Municipal administration
●	1.1 MUN_ADM-AC meetings	1	1.1 Municipal administration
●	1.1 MUN_ADM-AC Skills	1	1.1 Municipal administration
●	1.1 MUN_ADM-Charter	1	1.1 Municipal administration
●	1.1 MUN_ADMIN-Accountability of decision-making	1	1.1 Municipal administration
●	1.1 MUN_ADM-Independent	2	1.1 Municipal administration
●	1.1 MUN_ADM-Not the role of AC	3	1.1 Municipal administration
●	1.1 MUN_ADM-Professional Development	1	1.1 Municipal administration
●	1.1 MUN_ADM-Remuneration	1	1.1 Municipal administration
●	1.1 MUN_ADM-The role and responsibility of AC	8	1.1 Municipal administration
●	1.2 OM- The role and responsibility of AC	13	1.2 Organisational maturity
●	1.2 OM-Assurance	2	1.2 Organisational maturity
●	1.2 OM-Good governance	1	1.2 Organisational maturity
●	1.2 OM-Independent	1	1.2 Organisational maturity
●	1.3 RISK MANG-Legal skill	1	1.3 Risk Management
●	1.3 RISK_MANG_Broader meaning	3	1.3 Risk Management
●	1.3 RISK_MANG- Challenges	4	1.3 Risk Management
●	1.3 RISK_MANG-Aspects of advice	2	1.3 Risk Management
●	1.3 RISK_MANG-Budget	1	1.3 Risk Management
●	1.3 RISK_MANG-Importance	1	1.3 Risk Management
●	1.3 RISK_MANG-Performance management	2	1.3 Risk Management
●	1.3 RISK_MANG-Regulated	1	1.3 Risk Management
●	1.3 RISK_MANG-Requirements	2	1.3 Risk Management
●	1.3 RISK_MANG-Service delivery	6	1.3 Risk Management

●	1.3 RISK_MANG-Skills	2	1.3 Risk Management
●	1.4 IAF Audit fees	1	1.4 Internal Audit Function
●	1.4 IAF_AC chair-CAE & Staff of IAF	3	1.4 Internal Audit Function
●	1.4 IAF_CAE-Access to AC	1	1.4 Internal Audit Function
●	1.4 IAF_CHALL-Communication Challenge	1	1.4 Internal Audit Function
●	1.4 IAF-Accountability	1	1.4 Internal Audit Function
●	1.4 IAF-External Audit	2	1.4 Internal Audit Function
●	1.4 IAF-Meetings	1	1.4 Internal Audit Function
●	1.4 IAF-Regulations	1	1.4 Internal Audit Function
●	1.4 IAF-Relationships	1	1.4 Internal Audit Function
●	1.4 IAF-Role of AC	3	1.4 Internal Audit Function
●	1.4 IAF-Secretariat function	2	1.4 Internal Audit Function
●	1.4 IAF-Small municipalities	1	1.4 Internal Audit Function
●	2 AC_MAND_MPAC_AC reporting to MPAC	5	2. The audit committee mandate
●	2 AC_MAND_MPAC-Relationship between AC and MPAC	2	2. The audit committee mandate
●	2. AC_MAND- AC Agenda	2	2. The audit committee mandate
●	2. AC_MAND- Meetings	5	2. The audit committee mandate
●	2. AC_MAND- Skills of AC chair	1	2. The audit committee mandate
●	2. AC_MAND-Annual report	1	2. The audit committee mandate
●	2. AC_MAND-Budget	1	2. The audit committee mandate
●	2. AC_MAND-Charter	2	2. The audit committee mandate
●	2. AC_MAND-External Audit	1	2. The audit committee mandate
●	2. AC_MAND-Independent	1	2. The audit committee mandate
●	2. AC_MAND-IT	2	2. The audit committee mandate
●	2. AC_MAND-Legislation & policies	3	2. The audit committee mandate
●	2. AC_MAND-Role of AC	2	2. The audit committee mandate
●	2. AC_MAND-Secretarial function	1	2. The audit committee mandate
●	2. AC_MAND-Self-assessment	2	2. The audit committee

●			mandate
●	2. AC_MAND-Training & Development	2	2. The audit committee mandate
●	3.1 APP_ACM- Provincial Treasury	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-AC Advice to council	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Appointment of AC members	5	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Approach not to follow	2	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Belong to a professional body	13	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Budget	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Conflict of interest	4	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Ethics	4	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Expectations	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Independence	2	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Poor performance of AC member	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Small & Poor municipalities	2	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Term of service	4	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Overcommitted members	5	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Serving multiple ACs	9	3.1 Appointment of audit committee members
●	3.2 REM_FEES- Legislation + Treasury	12	3.2 Remuneration of audit committee members
●	3.2 REM_FEES_Fees for AC members	22	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Challenges	8	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Conflict of interest	7	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Driving force for AC members	4	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Oversight structures	1	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Preparations for AC meeting	2	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Serving multiple AC	3	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Small & Poor municipalities	3	3.2 Remuneration of audit committee members
●	4 COMP_AC-Governance	1	4 Competencies of the audit committee
●	4. COMP_AC_SKILLS-Minimum requirements	7	4 Competencies of the audit committee

●	4. COMP_AC-Advice	3	4 Competencies of the audit committee
●	4. COMP_AC-Intergovernmental support	3	4 Competencies of the audit committee
●	4. COMP_AC-Lack of skills	1	4 Competencies of the audit committee
●	4. COMP_AC-Legislation	1	4 Competencies of the audit committee
●	4. COMP_AC-Performance Management & ICT	1	4 Competencies of the audit committee
●	4. COMP_AC-Poor municipalities	1	4 Competencies of the audit committee
●	4. COMP_AC-Risk Management	1	4 Competencies of the audit committee
●	5.1 ETHICS-AC chair access to council	2	5.1 The ethical conduct of the audit committee members
●	5.1 ETHICS-Challenge	1	5.1 The ethical conduct of the audit committee members
●	5.1 ETHICS-Charter	2	5.1 The ethical conduct of the audit committee members
●	5.1 ETHICS-Expectations	4	5.1 The ethical conduct of the audit committee members
●	5.1 ETHICS-Good governance systems	2	5.1 The ethical conduct of the audit committee members
●	5.1 ETHICS-Legislation	1	5.1 The ethical conduct of the audit committee members
●	5.1 ETHICS-Training	2	5.1 The ethical conduct of the audit committee members
●	5.2 INDEP_AC- Definition	3	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Assessment	4	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Charter	3	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Conflict of Interest	5	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Declaration of interest	6	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Good governance	1	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Legislation	2	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Requirements	6	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Skills	1	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Training	1	5.2 Independence of audit committee members
●	6.1 POL_Chair-reporting political interference	5	6.1 Political interference
●	6.1 POL-Appointment of AC	2	6.1 Political interference

●	6.1 POL-code of conduct for council & municipal staff	2	6.1 Political interference
●	6.1 POL-Disclosure by AC	1	6.1 Political interference
●	6.1 POL-Familiarity risk	2	6.1 Political interference
●	6.1 POL-Meetings	4	6.1 Political interference
●	6.1 POL-MPAC	6	6.1 Political interference
●	6.2 POL_INFL-AC Advice	6	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Annual Integrated Report	3	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Charter	3	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Council educational requirement	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Independence	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Intergovernmental	2	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Legislation	7	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-MPAC	3	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Operational duties	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Politics & AC	4	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Reporting Matters	7	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Whistle blow	1	6.2 Ability to influence and gain political buy-in

## ANNEXURE 13 CODE MANAGER REPORT-MUNICIPALITY

	<b>Code</b>	<b>Grounded</b>	<b>Code Groups</b>
●	1.1 MUN_ADM-AC annual report	3	1.1Municipal administration
●	1.1 MUN_ADM-Advice	1	1.1Municipal administration
●	1.1 MUN_ADM-Council meetings	4	1.1Municipal administration
●	1.1 MUN_ADM-External audit	1	1.1Municipal administration
●	1.1 MUN_ADMIN-MPAC	2	1.1Municipal administration
●	1.1 MUN_ADM-The role and responsibility of AC	1	1.1Municipal administration
●	1.2 OM-Legislation knowledge	1	1.2 Organisational Maturity
●	1.2 OM-Performance Management	1	1.2 Organisational Maturity
●	1.2 OM-Policies & Procedures	1	1.2 Organisational Maturity
●	1.2 OM-Recruitment	1	1.2 Organisational Maturity
●	1.2 OM-Small municipalities	1	1.2 Organisational Maturity
●	1.2 OM-Training	3	1.2 Organisational Maturity
●	1.2 OM-Vacant positions	4	1.2 Organisational Maturity
●	1.3 RISK_MANG- Challenges	3	1.3 Risk Management
●	1.3 RISK_MANG-Lack of resources	1	1.3 Risk Management
●	1.3 RISK_MANG-Lack of service delivery	1	1.3 Risk Management
●	1.3 Risk_MANG-Lack of timeous intervention	1	1.3 Risk Management
●	1.3 RISK_MANG-Risk Management Framework	2	1.3 Risk Management
●	1.4 IAF-Audit Committee approval	1	1.4 Internal Audit Function
●	1.4 IAF-audit committee report	1	1.4 Internal Audit Function
●	1.4 IAF-CAE and audit staff	1	1.4 Internal Audit Function
●	1.4 IAF-Combined Assurance	1	1.4 Internal Audit Function
●	1.4 IAF-Competency	1	1.4 Internal Audit Function
●	1.4 IAF-Competency Framework	1	1.4 Internal Audit Function
●	1.4 IAF-IIA	1	1.4 Internal Audit Function

●	1.4 IAF-Internal Audit Charter	3	1.4 Internal Audit Function
●	1.4 IAF-Objective	1	1.4 Internal Audit Function
●	1.4 IAF-Remuneration for IA	1	1.4 Internal Audit Function
●	1.4 IAF-Secretariat function	3	1.4 Internal Audit Function
●	1.4 IAF-Small municipalities	2	1.4 Internal Audit Function
●	1.4 IAF-Training of AC	1	1.4 Internal Audit Function
●	2. AC_MAND- Council structured and unrestricted access	1	2. The audit committee mandate
●	2. AC_MAND- Meetings-Quorum	1	2. The audit committee mandate
●	2. AC_MAND- Online audit committee meetings	1	2. The audit committee mandate
●	2. AC_MAND-Audit Committee	1	2. The audit committee mandate
●	2. AC_MAND-Audit Committee Charter	5	2. The audit committee mandate
●	3.1 APP_ACM-ACM do not serve in multiple committees	2	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Advice to council by Accounting Officers	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Appointment of AC	10	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Competent	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Condition of appointing former municipal employees	2	3.1 Appointment of audit committee members
●	3.1 APP_ACM-knowledge sharing	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Provincial Treasury	2	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Recruitment policies	1	3.1 Appointment of audit committee members
●	3.1 APP_ACM-Size of AC	1	3.1 Appointment of audit committee members
●	3.2 REM_FEES_Fees for AC members	4	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-National or provincial treasuries	3	3.2 Remuneration of audit committee members
●	3.2 REM_FEES-Small & Poor municipalities	5	3.2 Remuneration of audit committee members
●	4. COMP_AC- AC chair to attend gatherings	1	4. Competencies of the audit committee
●	4. COMP_AC_SKILLS-Expertise	5	4. Competencies of the audit committee
●	4. COMP_AC-Central appointment of skilled AC members	1	4. Competencies of the audit committee



●	4. COMP_AC-rural municipalities	1	4. Competencies of the audit committee
●	4. COMP_AC-Training	2	4. Competencies of the audit committee
●	5.1 ETHICS-Audit committee members	1	5.1 The ethical conduct of the audit committees
●	5.1 ETHICS-Charter	6	5.1 The ethical conduct of the audit committees
●	5.1 ETHICS-Expectations	1	5.1 The ethical conduct of the audit committees
●	5.1 ETHICS-Professional bodies	4	5.1 The ethical conduct of the audit committees
●	5.2 IND_AC-Rotation of AC members	1	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Charter	2	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Monitoring by Council	1	5.2 Independence of audit committee members
●	5.2 INDEP_AC-National or Provincial Treasury	1	5.2 Independence of audit committee members
●	5.2 INDEP_AC-Standard Code of conduct for AC	2	5.2 Independence of audit committee members
●	6.1 POL-AC reporting to MPAC	1	6.1 Political interference
●	6.1 POL-Compliance with the code of conduct for council & municipal staff	1	6.1 Political interference
●	6.1 POL-Familiarity risk	1	6.1 Political interference
●	6.1 POL-Legislation	5	6.1 Political interference
●	6.1 POL-Undue interference	1	6.1 Political interference
●	6.2 POL_INFL-Compliance with policies and procedures	2	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Consequence Management	2	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Ethics Committee	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Execution of council instructions	2	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Internal Audit	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-MPAC	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Participatory governance	4	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFL-Training of municipal employees	1	6.2 Ability to influence and gain political buy-in
●	6.2 POL_INFLUENCE-Political buy-in	1	6.2 Ability to influence and gain political buy-in