

**ASSESSMENT OF EFFECTIVENESS OF AUDIT COMMITTEE OF
PUBLIC SECTOR IN TANZANIA:**

**A CASE OF NATIONAL EXAMINATIONS COUNCIL OF
TANZANIA**

By

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**A Dissertation Report Submitted to Mzumbe University in Partial Fulfillment of
the Requirements for Award of the Degree of Master of Science in Accounting
and Finance of Mzumbe University**

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommended for acceptance by the Mzumbe University, a dissertation entitled **Assessment of Effectiveness of Audit Committee in the Public Sector in Tanzania: A Case of National Examinations Council of Tanzania** in partial/fulfillment of the requirements for award of Degree of Master of Science in Accounting and Finance (MSc. A&F) of Mzumbe University (Morogoro Main Campus).

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DEDICATION

I dedicate this work to my parents for their care and support during my childhood life, my studies since early stage to date. I would also wish to dedicate this work to my wife Debora Ndagamsu; my daughters: Winfrida, Subira and Abigail Daughter; and my son Seme for their love, prayer and encouragement towards the completion of this Program.

LIST OF ABBREVIATIONS

AC	-	Audit Committee
ATCL	-	Air Tanzania Company Ltd
BRC	-	Blue Ribbon Commission
CAG	-	Controller and Auditor General
FCCG	-	Finance Committee on Corporate Governance
IIA	-	The Institute of Internal Auditors
NBAA	-	National Board of Accountants and Auditors
OECD	-	The Organization for Economic Co-operation and Development
OPSG	-	Office of Public Sector Governance
TRL	-	Tanzania Railway Ltd
TTCL	-	Tanzania Telecommunications Company Ltd
URT	-	United Republic of Tanzania
USA	-	United States of America

ABSTRACT

Public sector audit committee is a major mechanism used by governments to monitor management's behavior in the sector to enhance proactive oversight of financial, compliance reporting and disclosure process. The main concern of this study was to assess the effectiveness of audit committee of the public sector of Tanzania. Specifically, the research focused at assessing the factors influencing the effectiveness of AC of the public sector entities in Tanzania; examining impact of audit committee independence on the effective functioning of audit committee of the public sector; examining the relationship between quality of audit with the audit committee; and examining factors hindering the effective functioning of audit committees in the public sector.

The researcher used a case study design and the study was carried out in Dar es Salaam, at the NECTA headquarters. Data were collected using mostly questionnaires and where complimented by interview and documentary review. Descriptive statistics was used to analyze data which included; percentages, frequencies, and mean. Also, Microsoft Excel was employed to process data.

The findings revealed that inclusion of a member in the audit committee with current accounting and financial management experiences; frequency of meeting and diligence of AC; audit committee members' independence; inclusion of majority of non-executive/directors members in the audit committee; and reasonable size of audit committee are the essential factors for effectiveness of audit committee of public sector. Also, the study emphasizes on effectiveness of audit committee which is capable to execute its oversight role and responsibilities in relation to quality of audit in the public sector. However, the study revealed several institutional and structural factors hindering the efficiency of audit committees in performing their obligations. To resolve the challenging factors, it is recommended among others that the URT Guidelines for Audit Committees in the public sector (2013) be revised to enhance its effective functioning in the public sector in Tanzania.

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CHAPTER ONE

1.0 Introduction

This chapter outlines and details the processes which prompted the initiation of the study. It introduces the study which focuses to assess the effectiveness of audit committees of public sector in Tanzania. It describes the background of the study, research problem statement, research objectives and research questions, significance of the study, limitations and delimitations of the study.

1.1 Background of the Study

The economic crunch that happening in 2008 augmented the concentration on both the function of the audit committees on the quality of disclosed financial information's in both private and public sectors. The audit committees function have been crucial in making sure accurate and transparent disclosures though task remain to be very difficult and challenging, affecting their effectiveness (Badara and Saidin, 2014). In fact, AC is considered as a crucial and integral element of good corporate governance activities in the public service.

Audit committee is one of the major governance and assurance mechanism which is used to ensure accountability on utilization of the public sector resources entrusted to the management on behalf of the people, all the citizens. Audit committee is subcommittee of the Board of Directors with chairperson selected from among the committee members charged with oversight role on audit quality. Chang, Chen and Zhou (2013) assert that for audit committee to work efficiently have to possess various qualities including members' financial expertise, experiences and independence; size of the committee, number of committee meetings, length of meetings and diligence of the committee, AC charter and appropriate laws and regulations governing the public resources management.

The aim of an AC whether is in the private or the public sector is mainly to facilitate and improve institutional governance. Governance in the public sector relates to the means by which goals are generated to address the needs and expectations of several

stakeholders. It also includes tasks that ensure a government's credibility, equitable provision of services, and reduce the risk of public corruption, as stated by The Institute of Internal Audit (IIA, 2014).

The need for the services and role of ACs gained a great concern after the scandals which caused the collapse of the major corporations such as Coloroll, Maxwell Empire and Bank of Credit and Enron and WorldCom in the United State of America (USA). More recently, the world has faced the economic crisis caused by the global financial crisis originated in the USA, which is believed to happen due to poor or bad management in the financial sector in the USA. In this regard, the emphasis in improving corporate governance practices became a critical aspect to all nations.

Study by Collier and Zaman (2005) as quoted by Magrane and Malthus (2010) indicate a significant rise and harmonization in the use of audit committees internationally, including the European Commission's requirement that all public-interest entities in the European Union have an audit committee. Also, in the USA, the Sarbanes-Oxley Act of 2002 provide a specific requirement, which requires, among other things, that corporations should have and make use ACs and disclose the composition of their audit committees in their annual reports (Magrane and Malthus (2010). The existence of audit committee in the organization is considered as a mechanism to improve the monitoring of financial reporting; effectiveness of internal control of the corporation; effectiveness of internal and external auditors; and protects the interest of all stakeholders. This is done by minimizing the communication gap between the external auditors and management of the organization and through strengthening internal controls systems, risk management and the role of the internal/external auditors.

In Tanzania, establishment of AC is mandated under the Public Finance Regulations No. 30 of 2001 revised 2004, sub-regulation 1 which stipulates that "there shall be in each Ministry, Department, Agency or Region a Committee to be known as the audit committee". In addition, the establishment of audit committee in the public sector organizations has been strengthened by the formulation of the guidelines for audit

committees in the public sector (2013). Despite of the Public Finance Regulations No. 30 of 2001 with its 2004 revision that provide substantial power to deal with management on controversial issues in to public sector, their performances have been very minimal. Thus still audit committees have not promoted good governance by resolving financial reporting disputes.

Mutaju (2012), Mhagama (2013) studies found that in public sector still public resources management is not effectively and reliably practiced in Tanzania. This is supported by Controller and Auditor General (CAG) reports indicating the vain of internal control as problem continuing in the public sector. For example, annual general reports on the financial statements for fiscal years 2008/2009 to 2010/2011 shows weak internal controls over salary payments in the LGAs and MDAs resulting to significant expenditures of public funds.

Therefore the current study assessed the established of AC in public sector based on the selected factors important in ensuring trustworthy financial reporting process, internal controls, and risks management for good corporate governances. Furthermore, it examined the hindrance factors that reduce audit committee performance in public sectors in Tanzania.

1.2 Statement of the Problem

Currently, the AC has become imperative for public sector and private sector entities and it is regarded as a mechanism that has been worldwide used worldwide by organizations to manage the financial reporting and. Audit committee is a corner stone of corporate governance (Smith, 2006) as quoted by Mhagama (2013).

Audit committees are recognized as one of the important factor of effective accountability and transparency in public sector. They play important roles with respect to the reliability of public sector organization's financial information, its system of controls, its management of risks and the legal and moral conduct of management and employees.

CAG report 2014/2015 reported weaknesses in performance of AC of the MDAs. These weaknesses are related to the assessment of internal control; audit committee's compliance with laws, regulations, plan and other government directives. The observed weaknesses in CAG's report of 2014/2015 are: some Audit Committees did not conduct quarterly statutory meetings; some AC did not discuss the audit reports as recommended; some did not prepare and present their annual audit report; some of the AC did not adequately review the plan and implementation of internal control procedures in their entity related to assets managements, expenditures and revenues management and procurement management; some Audit Committees did not invite the CAG to attend quarterly committee meetings contrary to Sec 32(3) of PFR of 2001; some did not review the financial statements for the year ended 30th June 2015; and some Audit Committees members did not receive adequate trainings for effective performance of their duties.

Also for the fiscal year 2015/2016, CAG audit report indicates that out of 53 outstanding recommendations, 39(74%) have not been addressed while 14(26%) are currently under implementation. These weaknesses are the indication that something is wrong with respect of functioning of audit committee of the public sector entities. This raises the question on their performances.

These reported weaknesses of AC of MDAs, signifies that ACs are not functioning as effective as they are supposed to do. In this regard, it is important to assess effectiveness of Audit Committees of the public sector entities in Tanzania and thereafter, identify factors hindering the effectiveness of the Audit Committees of public sector so as to come out with possible solutions which will improve their effectiveness and achieve their expected objectives.

1.3 Objectives of the Study

1.3.1 General research objective

The general objective of this study is to assess the audit committee effectiveness of the public sector entities in Tanzania, with a view to raising issues that must be

addressed to further improve its effectiveness and enhance good corporate governance in the country.

1.3.2 Specific objectives

In view of the significance of the effective audit committee in monitoring the corporate financial reporting and internal control; ensuring accountability and corporate governance in organizations, the study seeks to assess the state of audit committee's effectiveness in public sector in Tanzania. Specifically, the study seeks to achieve the following objectives:

- i. To assess the factors influencing the effectiveness of audit committee of the public sector entities in Tanzania.
- ii. To examine impact of audit committee independence on the effective functioning of audit committee of the public sector.
- iii. To examine the relationship between quality of audit with the audit committee of public sector
- iv. To examine factors hindering the effectiveness of audit committees of public sector entities in Tanzania.

1.4 Research Questions

To achieve the objectives of the study, research focused on addressing the following research questions:

- i. What are the factors influencing effectiveness of audit committee of public sector entities?
- ii. What are the attribute factors characterizing the audit committee independence?
- iii. What is the link of quality of audit with the audit committee in the public sector?
- iv. What are the factors hindering the effectiveness of audit committees of public sector entities in Tanzania?

The research instruments were carefully designed to have questions that will likely provide answers to the research questions for the study and hence achieve its objectives.

1.5 Significance of the Study

Study will contribute to the understanding of: the AC concept and its critical in the process of implementing good corporate governance in Tanzania; the characteristics of the effective audit committee, its roles and responsibilities; and other issues for development of effective corporate governance.

The findings have implications to the management, policymakers, regulatory bodies to set up effective guidelines and other stakeholders in the process of enhancing good corporate practices in the country. It will serve as a source of knowledge to other researchers in the similar area.

Lastly, it can be used as means for the researcher of this study to accomplish its objective of acquiring the qualification to be awarded the Master of Science in Accounting and Finance of the Mzumbe University.

1.6 Limitations of the Study

The concepts studied are composite and are exposed to further investigation through rigorous research. Time was been also a limiting factor because the researcher is a demanding man who is busy at his workplace and works during odd hours throughout the week. Limited resources especially finance was also impacted in this study as the researcher himself bears all the cost associated with the study. Furthermore, some of the respondents were reluctant and unwilling to give out the correct information.

1.7 Delimitations

Though the time set for the study may not be enough, the researcher took a short leave and reviewed various council documents to ensure valid, accurate and relevant data are made available, analyzed and interpreted to enable research report to be

prepared. Also the researcher efficiently and conveniently used minimum time and limited resources to facilitate this study.

1.8 Summary of the Chapter

The chapter introduces the basis for the study and provides a brief overview to the research problem. The study objective has clearly been stated with respect of assessment of effectiveness of AC of public sector in Tanzania. The rationale for undertaking the research in that area of interest has been justified with the fact that establishing an audit committee is one thing but having an effective audit committee is the other case. ACs are described as vital component of accountability and transparency in public sector entities; and have key roles with regard to the moral of the public sector organization's financial information, system of internal controls, and risk management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section reviews the theoretical part and empirical literature in regard of audit committee: concepts, legislative authority, significance, role and responsibilities, in relation to corporate governance, effective determinants and research gap have been discussed; and conceptual framework and research model were developed. The objective focused to examine the effectiveness of audit committee of public sector in Tanzania by using available relevant literatures, journals, reports and established regulations and guidelines.

2.2 Basis of the Audit Committee

2.2.1 Conceptual Definitions

Various concepts which are related to the AC effectiveness are defined and discussed. Definitions of six AC concepts relating to the study problem are presented and discussed. These includes: AC concept, AC effectiveness, AC composition, AC members' knowledge and experience, size of the AC, and meetings and diligence of the AC.

2.2.1.1 Audit Committee

IIA (2014) define an audit committee or an independent AC as a public sector entity committee of the board comprising at least a majority of members who are independent with entrusted with responsibility to oversight of management practices in the key areas of governance. Key governance areas include: value and ethics, internal control framework, governance structure, audit tasks, external assurance providers, management action strategies, financial and public accountability reports.

Audit committee is a committee under the main board of an organization. It provide means of communications among corporate governance players and forum where together they can deal with issues concerned to the risk management and other corporate governance (Saad et al., 2006).

Audit committee represents a committee of the board of directors, which is accountable to oversight the financial reporting processes and quality of financial control to ensure value of the firm (FCCG, 1999). According to the Guidelines for Audit Committees in the Public Sector (2013), AC is defined as a specialist, independent oversight body established to review and provide advice to the highest levels on the control, governance and management of risks in the public sector organizations.

The definitions provided by various literatures all are in agreement that: AC is the committee formed under the board of directors or other higher level body, assigned with the oversight role and responsibility to ensure financial reporting credibility and facilitating the good corporate governance in the organization.

IIA (2014) define independent AC member as a person who is not employed by, or providing any services to the organization beyond his or her duties as a committee member. According to the guidelines established for the public sector in Tanzania, independence is defined as being free from interferences in performing the role as a member of an AC.

Independence is a most critical feature of an effective AC. The AC should be independent of the organization's management to perform the oversight role and protect the public or stakeholders' interests. Existence of independent AC is a sign of the firm's commitment for fair corporate governance practice Kusnadi et al. (2015). The AC stands as an independent source of advice to the board, and plays a key role in an organization's governance structure. To ensure the AC's independence, it is a leading practice for the majority of its members to be independent from the organization IIA (2014). AC independence is key feature for ensuring good corporate

governance practices in any organization in the private or public sector. AC's independence is needed for carrying out its monitoring responsibilities delegated by the board of directors or any designed body.

2.2.1.2 Audit Committee Effectiveness

DeZoort et al. (2002) defined effective AC, "*an effective AC has qualified members with the authority and resources to protect shareholders' interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts*". Also, DeZoort et al. (2002) reported that AC effectiveness is significantly dependent on AC members' collective commitment to fulfill their oversight duties responsibly and management giving full co-operation and support to the access of required information for decision making. Also, they indicated that firm performance is enhanced when there is high proportion of independent AC members with practicing accounting experience on the committee and firm explicitly disclosed the right of AC to report to regulatory authorities or higher authorities.

Kipng'eno (2011) in his study indicated that audit independency, formal mandate, unlimited access and competent leadership when improved enhance the effectiveness of ACs. Also, Mhagama (2013) argued that inclusion of independent, knowledgeable and expert members and delegation of adequate authority make the AC effective to undertake its significant role in the area of financial reporting, internal audit, risk management, external audit function, and compliance issues.

2.2.1.3 Audit Committee Composition

AC composition is referred to factors that influence AC effectiveness and its setup depends on the organization size, complexity, and responsibilities. IIA (2014) indicates that an effective AC should have members with an appropriate mix of skills and experience relevant to the organizations responsibilities. Good governance practices suggest that a committee is to include at least three members, all of whom are non-executive directors and a majority of which are independent. The chairperson of the AC is to be independent and should not be the chairperson of the board of directors of the same organization. In addition, at least one member of the AC is

expected to have relevant qualifications and experience. DeZoort et al. (2002) stated that AC members with financial reporting, auditing knowledge and corporate governance experience are capable to understand audit judgments and support the auditor in auditor-management disputes, and more likely to address and detect material misstatements.

2.2.1.4 AC Members' Knowledge and Experience

Given the specific responsibilities of the AC in relation to overseeing internal control and financial reporting, good governance dictates that AC members should possess a certain level of competencies. BRC (1999) recommendations pointed out the importance of having an AC of members who are financially literate and at least one member have accounting or related financial management expertise. Expertise in this particular case is referred for person with record of past employment experience in accounting or finance or any comparable experience or background which results in the individual's financial sophistication, including having been a CEO or other senior officer with financial oversight responsibilities.

Kusnadi et al. (2015) noted that since the AC's main task is to oversee corporate financial reporting and auditing processes, its members should possess sufficient expertise to understand the issues to be investigated or discussed during course of executing their role and responsibilities. However, it is also important to have at least member of AC who possess expertise in the industry (including knowledge of the nature of business) in which the organization operates. DeZoort et al. (2002) stated that AC members with financial reporting, auditing knowledge and corporate governance experience are capable to understand audit judgments and support the auditor in auditor-management disputes, and more likely to address and detect material misstatements.

2.2.1.5 Size of the AC

An AC's responsibility will vary depending upon various circumstances which considers the complexity of business activities, size of the organization, and regulatory requirements. The size of the AC will be determined with regard to the

needs of a particular organization, size of the board of directors and the relevant regulatory requirements. However, size of the AC is determined by referring to some literatures which suggest appropriate number of AC members to ensure proper functioning of the AC. Requirements by stock market regulators in USA and UK set a minimum number of three AC members (NACD, 2002). NASDAQ requires all firms listed under them to have AC with a minimum three directors. Generally, ACs have between three and eight members with the typical AC having four or five. As a general rule, the minimum number of AC members for an effective AC is three. This ensures sufficient range of skills and experience is available (IIA, 2014). HKSA (2002) suggested that a typical AC will comprise between three and five members, depending on the size of the firm and the range and complexity of the issues arising. A membership of three or more, with a quorum of two independent non-executive directors is considered desirable by the HKSA to enhance efficiency in decision making and make the best use of the mix of available skills and experience.

2.2.1.6 Meetings and Diligence of the AC

Functioning of ACs is justified through having regularly meetings which finally support them to understand the operating activities of the organization and discharge accordingly their role and responsibilities. The frequency of AC meetings is considered to be one of the indications of an effective AC or not. Lin et al., (2007) supported the idea that ACs that meets more frequently enhances the quality and credibility of financial statements and reporting. DeZoort et al. (2002) reports that AC diligence as proxy to the number of annual meetings is revealed in the effort applied by the AC in its oversight duties. ACs that meet more frequently are in a better position understand and deal with financial reporting issues that may ultimately affect the quality of reported earnings. Diligence is defined as readiness of members of AC to work as a team; they must be willing to pose questions and seek response from management, internal auditors, external auditors and other stake holders (DeZoort et al., 2012).

The number of meetings and their duration will vary depending on the range and complexity of the AC's responsibilities, it would be expected the AC would meet at

least four times a year, together with a separate meeting to consider the entity's financial statements. Studies in US and UK reported that ACs held meetings on an average of four to six times per year with the average duration of three to four hours per meeting (DeZoort et al., 2002). However, number of AC meeting is one thing but members' diligence is very important for ACs to pursue their roles and duties effectively and demonstration of high commitment and integrity (Kandandu, 2016).

2.2.2 Agency Theory and the Audit Committee

Agency theory is linked with legal relationships within the entity, defining legal relations of principal and an agent, whose rights and responsibilities are specified by a contract of employment, Collier and Agyei-Mpomah, (2009). The theory identifies the behavior of an agent (the manager) whose actions the principal (shareholder) tries to uncover and get it to manipulate and control in the course of a management control systems.

The basic intention of the theory is to influence what an agent do, however gives authority to an agent in an unsure environments. The agents will in turn spend and use much effort in performing their duties and tasks allotted and the outcomes are reliant on internal and external aspects and the quantity of efforts spent in realizing goal. The theory is applicable in accounting reports as ACs are required to play an extremely significant roles in monitoring and changing the actions of agents. This creates the audit committee roles in monitoring the financial outputs that measures their efforts contingent or inferred the measures/actions that perfectly imitate and reveal their efforts spent.

McConnel & Servaes (2009) state that the agency theory is the theory of the business firm which argues incentive with the managerial challenges arises from the separations of ownership and decision making. In line with Jensen & Meckling (1976) describes that an agency relationships as a contracts whereby the principal (shareholders or stakeholders) engage the agent (AC) to carry out services on their behalf by delegating a number of decision making authorities to the agent. Thus

Agents are assigned with the liability of use and control the all resources of the business entity. This can be applied to explain the obligations of audit committee to efficiently act in the best interest of public by monitoring the financial transactions, controls and reporting to ensure that audit committee remains to be cornerstone to development and good governance.

Through Jensen & Meckling (1976) the agency theory affirm that principal-agent conflicts can crop up if roles of management are alienated from roles of ownership, tied with the prevailing of unequal information. For example, the misuse of public or firm assets and resources arising from the management satisfying personal interests in practicing or implementing projects risks can lead conflicts between management and audit committee hence affect its performance in public sector.

In the same vein Power (2002) describes that, in financial management, critical way of monitoring is in the course of the year financial reports. The best option under this situation is the use and invests on Audit Committee, that a firm can invest much in the audit functions to make sure trustfulness financial reporting. To guarantee effective AC based on agency theory, managements are motivated to organize and preparing the financial reports sufficiently indicating the returns produced in the business firms.

Agency provides for the prevalence of large positive relationships among Audit Committees functioning and financial reporting quality. The theory also explains meager prevailing of AC in the board is adequate to make sure financial reporting improved. Contrary Treadway (1987) suggested that, the fact reason of existence of Audit Committee in the board is not a assurance that committee is efficient in fulfilling its roles of managing the financial accounting reporting processes.

2.2.3 Establishment of Audit Committee in the Public Sector Organizations in Tanzania

Audit committees are currently considered as a vital part of the good governance in all organizations. They enhance effective accountability and transparency in today's

public sector organizations. They play key roles with regard to reliability of the financial reporting information, internal controls system, management of risks and legal and moral conduct of management and employees. Generally, due to relevance of audit committee, the government of Tanzania facilitated the process of formulation of ACs in the public entity by passing laws and regulations which gave directives that all public sector organizations are supposed to have established audit committees in their respectively organizations.

2.2.3.1 Legislative Authority of Audit Committees of Public Sector

Establishment of audit committees in the public sector organizations in Tanzania are mandated by section 6(2) of the public finance Act, 2001 as amended in 2004 and 2010, which give mandate to the Permanent Secretary – treasury to issue directions and/or instructions to ensure safety and effective use of public resources. Pursuant to this Act, the Minister of finance issued public finance regulation No. 30 of 2001 which was revised in 2004 whose sub-regulation 1 stipulates that “there shall be in each ministry, department, agency or region a Committee to be known as the Audit Committee”. Furthermore, section 38(2) of the public finance Act, 2001 as amended in 2004 and 2010 give the Internal Auditor General power to evaluate effectiveness of audit committees and enhance their capacity. Pursuant to this section, the Internal Auditor General issued the Audit Committee Guidelines (2013) with purpose to improve capacity of committees of public sector.

2.2.3.2 Other specific Legislative Authority to Form Audit Committees

- i) Audit committees for local government authorities is regulated by the order number 12 of local authority financial memorandum, (2009) paragraph (1) which stipulates that “there shall be, in every council, a committee to be known as an audit committee”.
- ii) Part II, section 12(1) of Bank of Tanzania Act, 2006 mandate Bank of Tanzania to establish its own audit committee

- iii) The repealed Tanzania Revenue Authority Act, chapter 399 of 1995: Part III – powers and functions of the board section 10(4) provide its board to establish audit committee.
- iv) The National Social Security Fund Act, 1997: Part VI section 53 establishes the board of trustees as the governing body of the fund. Section 59(1) authorizes the board to establish audit committee of the fund.
- v) Medical Stores Department Regulations, 2005, Part VIII section 27(1); states that there shall be established a sub-committee of the board of trustees known as the AC.
- vi) The Auditors and Accountants Registration Act, 1972: Part II section 6 of the Act power the board to form the audit committee.

However, the regulations, states that audit committees in the public sector should comprise senior members of management of public sector entities who are nominated by their respective appointing authority and at least one member appointed from outside the organization. Audit committees are required to perform an oversight role of the organizational activities.

2.2.4 Significance of Audit Committees

The benefits of forming an effective AC are summarized as following:

- i) Increase confidence to board members and stakeholders on fairness of financial statements.
- ii) Improve the independence of internal and external audit functions
- iii) Provides assurance through a process of independence review.
- iv) Enhances awareness of the necessity of internal control and implementation of audit recommendations.
- v) Minimizes the risk which may hinder organization to achieve business objectives.
- vi) Provides a platform for discussion of sensitive and critical audit issues.
- vii) Foster effective working relationships among auditors and the board.
- viii) Promote an effective process of reviewing challenges of executive management team performance.

- ix) Minimizes the risk of mismanagement of the resources of the firm.
- x) Provides guidance on sound corporate governance.

In this regard contribution of audit committees is significant towards improving good corporate governance and accountability to the public interest.

2.2.5 Role and Responsibilities of the Audit committee

AC is essentially seen as a vital instrument in supporting the board members in promoting accountability and reliability of financial reporting (BRC, 1999). AC plays an oversight role and responsibility for improving internal control, compliance of laws and regulations, sound corporate financial reporting and auditing processes.

In public sector, ACs plays a significant role in the framework of the public sector entities. They are expected to play a crucial function of assuring independence and providing advice to accounting authority on key areas of an entity's operations and performance. Apart from the fact that, AC legal status of the public sector and private sector entities is different, the role of the AC is similar in both sectors. However, the role of each AC will vary or determined by the relevant legislative requirements; and each entity's complexity, size, and environment under which it operates Saad et al., (2016).

This study will discuss only four main roles of AC together with their respective responsibilities. These include the following: Internal audit function, external audit function, Financial Reporting, and internal controls..

2.2.5.1 Financial Reporting Process

The AC roles in regard to the entity external reporting is one of independent review of the financial reports and ensuring reliable financial information to the external users. According to Okoye and Akenbor, (2010) and Sori et al., (2007) reported responsibilities which are generally performed by AC when monitoring the financial reporting processes to include the follows:

- i) Reviewing the accounting policies applied by the organization and ensure are relevant to the firm.
- ii) Reviewing the significant assumptions and judgments used by management, especially estimations which influence the reported amounts in the financial reports.
- iii) Reviewing financial statements if complied with the accepted accounting requirements.
- iv) Reviewing the results of the external audit and any issues identified.
- v) Exercise skepticism on dealing with management for any unusual transactions and their presentation and disclosure in the financial books.
- vi) Analyzing financial performance report and seek explanation for significant variations from forecasted budgets.
- vii) Ensure that assurance in regard to the integrity of the financial statements given by management.

2.2.5.2 Internal Auditors' Function

AC responsibilities is to strengthen internal audit function by ensuring managements are tasked to established and maintain an effective internal audit structure (Sori et al. 2007). In this regard, Lin et al., (2007) and Badara and Saidin (2014) indicated responsibilities to be exercised by an AC to include the following:

- i) Reviewing budget, staffing and skills of internal audit function.
- ii) Evaluating the independence of internal auditors.
- iii) Discuss effectiveness of internal control and problems in performing the internal audit with the chief of internal auditors.
- iv) Reviewing and passing internal audit annual plan and follow up of progress.
- v) Reviewing management's responses and implementations to raised issues by auditors.
- vi) Reviewing the link between internal and external auditors and coordination of their work.

2.2.5.3 External Auditors' Function

The responsibilities of AC in regard to the external audit function are detailed as outlined by Lin et al., (2007) and Badara and Saidin (2014) as follow:

- i) Reviewing the findings of the external auditor.
- ii) Reviewing on the recommendation and implementation of external audit issues raised and accepted by management
- iii) Evaluating independence of external auditors.
- iv) Reviewing the fairness of the external audit fees.
- v) Arbitrating disputes between management and auditors.
- vi) Discuss with external auditor about constraints faced during the process of auditing financial statements and scope and timing of the audit.

2.2.5.4 Oversight of Internal Controls

The AC is responsible for overseeing internal controls of the firm. Lin et al., (2007) stated that for ACs to effectively undertake their responsibilities are expected to:

- i) Reviewing the effectiveness of entity's internal control system, including information technology and security system controls.
- ii) Reviewing internal control over financial reporting and other operations of the firm.

2.2.6 Corporate Governance

AC is widely accepted as key player and spearheads of the good corporate governance practices. It plays crucial roles regarding to the entity's direction and accountability. ACs have gained popularity and trust in the organizations and are believed by many researchers that they ensure credibility and reliability of financial statements. It is also very important for an organization to have an appropriate AC to enhance good corporate governance.

2.2.7 Determinants of Audit Committee Effectiveness

In recent years the Audit Committee has become imperative for all business entities and is regarded as a instrument that is used worldwide by organizations to monitor business operations. DeZoort et al., (2002) defined effective AC, “as AC that has members with qualities, authority and resources to protect interest of shareholders.

IIA (2014) indicates that an effective AC should involve members with an appropriate number, skills and experience to perform its responsibilities. In addition, highlighted that AC composition and AC members attributes will be influenced by a variety of factors such as organization size, complexity, and responsibilities. Kipng’eno (2011) in his study indicated that audit independency, formal mandate, unlimited access and competent leadership when improved enhance the effectiveness of ACs. Also, Mhagama (2013) argued that inclusion of independent, knowledgeable and expert members and delegation of adequate authority make the AC effective to undertake its significant role in the area of financial reporting, internal audit, risk management, external audit function, and compliance issues.

The relevance of AC has induced several countries to promulgate establishment of ACs in their various private and public sector entities in order to strengthen their internal and external audit functions, financial management, financial reporting, internal controls system and overall governance (Saad et al., 2016). IIA (2014) pointed out that independent Audit Committee is the key characteristic of an effective Audit Committee as it helps public sector organizations meet taxpayers’ increasing demands for transparency and accountability by providing oversight of management practices in the key governance areas including: value and ethical, government structure, internal control, external assurance provider, management action plans, financial statements and accountability reports (IIA, 2014). Hughes (1999) as quoted by Chukwunedu, Ogochukwu & Onuora (2014) identified nine key attributes of quality ACs. These include:

From the literatures discussed above, audit committee effectiveness should be assessed using the following variables: audit committee independence, audit

committee expertise and knowledge, AC meetings and diligence, size of the committee and AC charter. In addition, established laws and regulations provide AC with the powers and authority to effectively perform its roles and responsibilities properly. These variables are critical for an AC to pursue its oversight role and responsibilities in the organizations.

2.2.8 Factors hindering the effectiveness of audit committee

Effective AC is desirable so as to enhance and ensure effective corporate governance practices in business organizations. However, there are some factors which hinder effectiveness of audit committees. Okezie, (2004) identified factors which causes ineffectiveness of audit committees. This includes the following:

- i) Misunderstanding and conflict between management and members of the audit committees.
- ii) Misunderstanding by members of the board thereof lead to divisions amongst the board of directors.
- iii) Inadequate authority to audit committee
- iv) Unproductive bureaucracy
- v) AC conflict of interest with the firm
- vi) Lack of charter to define their roles and responsibilities.
- vii) AC members lack of expertise and experience
- viii) Inclusion of majority executive director in the audit committee

2.3 Empirical Literatures

Lin, Xiao and Tang (2007) investigated on the roles and responsibilities and basic qualities of AC in China. The findings was that the more concrete audit committee oversight roles and responsibilities for improving internal control, rules compliance, sound corporate financial reporting and auditing processes have not been fully recognized, particularly by company management and independent directors. In addition, the study reveals that actual audit committee operations in practice are ineffective even though a large portion of Chinese listed companies have set up audit committees.

Kipng'eno (2011) carried out a study on effectiveness of AC on public sector governance, using a case study of government ministries in Kenya. The study applied a descriptive survey approach in collecting data from the respondents. Study population was 42 staff working in the department of finance and accounting in the government ministries. The findings of the study suggested that government ministries needs to enhance the effectiveness of AC through creating awareness of AC to the concerned departments and having an administrative procedure in which checking documents, counting assets, and reporting on past events to various types of management for the purpose of internal auditing. In addition, suggested that standards which provide a framework to be set so as to promote quality audit work that is systematic, objective, and based on evidence. Finally, the study concluded that audit independence, formal mandate, unlimited access and competent leadership should be improved to enhance the effectiveness of AC in the government ministries.

Kandandu (2016) evaluated audit committees in the government ministries in Namibia by assessing their composition, function and regulations governing them. The study used the qualitative method with Thematic and content analysis was used in this study. The study findings revealed that the 4 government ministries with audit committees, only one ministry consisted of independent members as well as an independent chairperson. The other 3 ministries are chaired by members within the organization. The 2 ministries are chaired by the Permanent Secretary and 1 by a medical doctor and 1 ministry is chaired by an outsider. This is contrary to the best practice, which requires that the chairperson of the committee should be an independent member as well as the member of the audit committee. The majority of the audit committee members should be preferably includes non-executive directors.

Study by DeZoort et al. (2002) described the factors that contribute to audit committee effectiveness. Indicated that an effective audit committee should has a qualified members with the authority and resources to protect stakeholders interests by ensuring reliable financial reporting, internal controls and risk management through its diligent oversight efforts. They suggested determinants of audit committee to include the audit committee composition, authority, resources and diligence.

Kituku & Ahmad (2016) investigated and evaluated the factors that influence the effectiveness of the Malaysian audit committees in the performing their roles. The study identified four independent variables which are knowledge and expertise, independence, size and frequency of meetings. The study found that four identified independent variables were significantly the influence of the dependent variable which is the effectiveness of the audit committees in the performing their roles. Thus, the study proved that for an audit committee to be effective, its members must have financial knowledge and expertise, which would then enable them to direct any material misstatements as well as any fraudulent accounting methods. In addition, the study's findings stress that the audit committee should be independent. This would provide objectivity of judgments made by audit committees which helps to improve corporate governance in both public and private sectors.

Study undertaken by Dhaliwal et al. (2007) investigated the association between three types of audit committee financial expertise (accounting, finance and supervisory) and accruals quality, in the presence of strong AC or board governance. Results indicated a positive relation between accounting expertise and accruals quality, which is more pronounced in the presence of strong AC governance. Their findings suggested that future refinements to the financial expertise definition must focus on accounting expertise.

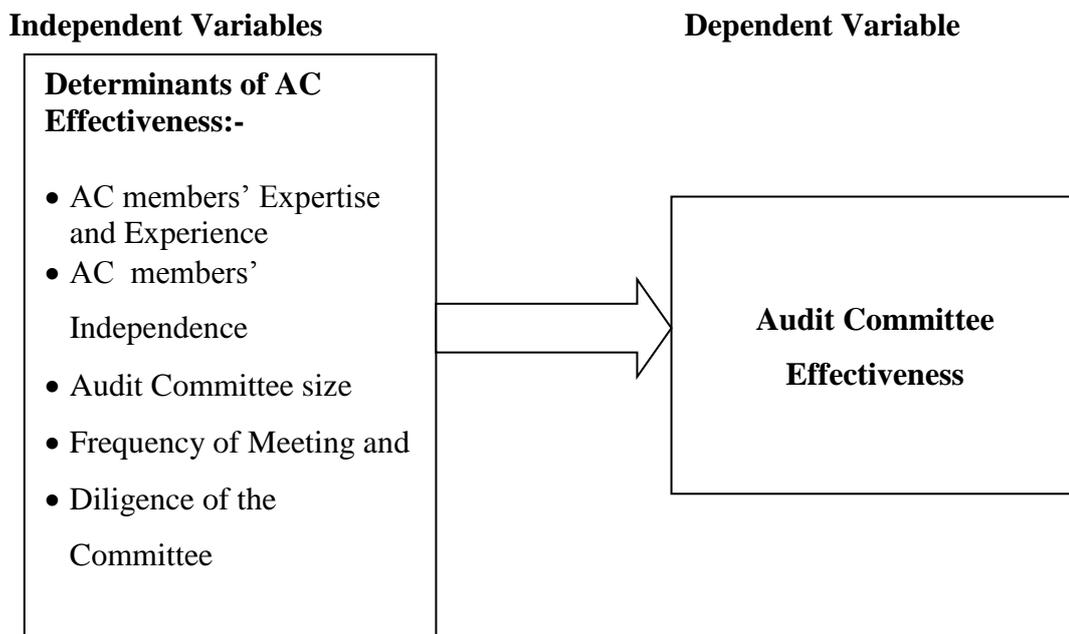
According to study by Sori et al., (2007) investigated the perception of senior managers of Malaysian publicly listed companies on the issues relating to AC authority and effectiveness. The findings indicated that disclosure of committee charter enhance the perceptions of users of financial statements concerning the effectiveness of the committee. AC powers within the organization are delivered from a combination of written authority (AC charter) and the clear support of top management.

2.4 Conceptual Framework and Research Model

The researcher has designed conceptual framework based on assumptions that the audit committee effectiveness is derived from the attribute factors which are AC

members' independence, AC members' expertise and experience, AC size, Frequency of meeting and diligence of AC. Proper functioning of Audit Committee is viewed on how performs its obligation on internal and external audit functions. The research model which summarizes the main variables used to carry out the study has are presented in figure 2.1

Figure 2.1: Research Model



Source: Researcher (2019)

2.4.1 Explanation of the Framework

The model clearly describes that AC effectiveness mainly depends on AC members' independence, AC members' expertise and experience, AC size, Frequency of meeting and diligence of AC. On the other hand the AC designed oversight role, which refers to its obligations are important components for testing how AC effectively execute its oversight role.

2.4.1.1 AC Members' Knowledge and Experience

Given the specific responsibilities of the AC in relation to oversight role on the quality of audit and financial management and corporate governance require that AC

members to have certain level of competencies. BRC (1999) suggested that out the condition of deploying an AC of members who are knowledgeable in finance and have one or more member who is profession in financial management.

However, it is also important to have at least member of AC who possess expertise in the industry. DeZoort et al. (2002) stated that financial management and auditing knowledge and corporate governance experience are qualities to be possessed by a an AC member to be capable to understand audit recommendations and support the auditor in case of disputes with the management.

2.4.1.2 Audit committee size

AC's responsibility will vary depending upon various circumstances which considers the complexity of business activities and regulatory requirements. The number of AC members will be determined with regard to the needs of a particular organization, number of members of board and the relevant regulatory requirements.

NASDAQ requires all firms listed under them to have AC with a minimum three directors. Generally rule, ACs should have a number of three to five which will provide sufficient number of various knowledge's in the committee, (IIA, 2014).

2.4.1.3 AC Members' Independence

IIA (2014) define independent AC member as a member who is not an employee or have no conflict of interest with the organization. According to the guidelines established for the public sector in Tanzania, independence is defined as being free from interferences in performing the role as a member of an AC. Independence is a most critical feature of an effective AC

2.4.1.4 Meetings and Diligence of the Committee

Functioning of ACs is justified through having regularly meetings which finally support them to understand the operating activities of the organization and discharge accordingly their role and responsibilities. The frequency of AC meetings is considered to be one of the indications of an effective AC or not. Lin et al., (2007)

supported the idea that ACs that meet more frequently promote effectiveness. AC diligence as a proxy for the number of annual sessions of meetings is revealed in the effort applied by the AC in its oversight duties. ACs that meet more frequently are in a better position to understand and deal with financial reporting issues that may ultimately affect the quality of reported earnings.

However, the number of AC meetings is one thing, but members' diligence is very important for ACs to pursue their roles and duties effectively and demonstrate high commitment and integrity (Kandandu, 2016).

2.4.1.5 AC responsibilities in relation to internal audit operations

Effectiveness of AC is also identified through their functions in internal audit functions: AC reviewing forecasted budget; internal audit functions; AC examine the independence of internal audit controls; discuss with the auditors about quality of audit reports; AC reviewing authorized internal audit annual plan, its scope and implementation; reviewing management's response and implementations of internal auditors' recommendations; and reviewing relationship between internal and external auditors and coordination of their work.

2.4.1.6 AC responsibilities in relation to external audit operations

The other variable involves audit committee functions on the external audit function involve surveying the following factors: AC reviews the findings and recommendations of the external auditor, AC reviews implementation of recommendation by external auditor accepted by management. AC assess independence of external auditors, AC review the fairness of the external audit fees, AC arbitrate in disputes between management and auditors when they do not reach a consensus in regard to audit report and AC discuss with external auditor about problems of the audit, audited financial statements and scope and timing of the audit.

2.5 Research Gap

Audit Committee is agreed to be the mostly used tool for enhancing reliability of the financial statements and ensuring good corporate governance of the organization

(IIA, 2014); Guidelines for Audit Committees in Tanzania (2013). In public sector Independent Audit Committee when exist in the organization it gives reasonable assurance to the organization to meet taxpayers' increased demands for transparencies and accountabilities by offering monitoring on management practices to ensure the public interest is protected and served (IIA, 2014).

However, despite of having United Republic of Tanzania, AC Guidelines in the Public Sector (2013) and other financial and auditing regulations in our country that emphasizes on the public sound financial management still many cases of corruption practices, poor implementations of audit recommendations, increased mismanagement of government's resources and poor performing in some public sector organizations. These have been reported by CAGs reports for the fiscal year 2008/2009 to 2015/2016 though the Audit committees are established and are in operations. This is critically against its establishment's goals and good governances. In this regard, need for having a study on identifying the gap between practices and effectiveness of Audit Committee of public sector entities is a valuable approach to enhance good governance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of the research methodology is to detail how the research was conducted. Brief reviews of research design, data collection and analysis methods are presented in this particular case. Methodology is defined as a research model employed by a researcher in a particular project, including basic knowledge related to the subject and research methods in question and the frame context (Sarantakos, 1998). In addition, methodology means the science of methods and contains the standards and principles employed to guide the choice, structure, process and use of methods, as directed by the underlying paradigm (Sarantakos, 1998). Methods are the tools of data generation and analysis. Aina (2004), states that in social research, methods are the specific techniques used.

In addition, methodology means the science of methods and contains the standards and principles employed to guide the choice, structure, process and use of methods, as directed by the underlying paradigm (Sarantakos, 1998).

3.2 Research Approach

This explains how the study was directed to achieve the findings and conclusion of the research problem. This study applied mainly the qualitative research approach. However, in some aspects quantitative approach was used when analyzing data. The qualitative approach attempts to describe and interpret some human phenomenon often in words of selected individuals. It stresses on the socially constructed reality and the situation constraints that shape of inquiry (Denzin and Lincoln, 1994). Qualitative approach to research is concerned with subjectivity assessment of attitudes, opinions and behavior.

3.3 Research Design

This study applied a case study research design to assess the audit committee effectiveness of public sector in Tanzania. The term case study refers to both a

method of analysis and a specific research design for examining a problem, both of which are used in most circumstances to generalize across population. Kothari (2004) defines a case study method as a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, be that a person, a family, an institution, a cultural group or even the entire community. The method is useful because it narrows the area of the study and ensures adequate and relevant information to the research problem. In addition, case study design is simple and not much expensive compared to other designs. The method is useful because it narrows the area of the study and ensures adequate and relevant information to the research problem. A case study was applied to ensure that the focus of a study maintained and manageable as the researcher was facing limited time and resources to handle large scale research.

The data and information for the study were collected from NECTA's council members, management team, relevant employees; and external auditors who were involved in NECTA's audits during the year 2012/2013 to 2016/2017. The rationales for there are selection is derived from their obligations and involvement in the operations of the council, their knowledge and experience in AC activities.

3.4 Area of the Study

The study conducted in Dar es Salaam, at the National Examination Council of Tanzania (NECTA) headquarters. The area selected for study is a head office of the audit committee where all audit committee activities or operations are carried out; targeted key players of corporate governance and researcher resides in Dar es Salaam. The selection of NECTA is based on the fact that it is a public sector organization which is expected to conform to the principles and guidelines of corporate governance and compelled to establish an audit committee. The selection of this study area is due to its convenience to the researcher for accessing data and information for carrying out the study. In addition, inadequate of time and fund compelled the researcher to choose a public sector found in Dar es Salaam since the researcher is working and reside in Dar es Salaam. In addition, NECTA is one of a public sector entity which consistently for more than ten year got a clean audit report by CAG.

3.5 Population of the Study

Bryman (2008) defines population as the set or basically the universe of units which the sample is selected. According to Kothari (2004), all the items under consideration in any field of inquiry constitute a ‘universe’ or ‘population’.

In this study, the population involved eleven (11) members of board of directors from NECTA; eleven (11) members of management team from NECTA; Twelve (12) external auditors from two audit firms (BDO East Africa-Tanzania and TAX Professionals) who were involved in NECTOR’s audit during the financial year 2012/2013 to 2016/2017, each contributing six auditors; Three (3) internal auditors from NECTA; thirteen (13) finance and accounting personnel from NECTA; eight (8) procurement and management personnel from NECTA; and five (5) human resource management personnel from NECTA. The targeted population in one way or another is involved with activities associated or related to the roles and responsibilities of audit committee in regard to good corporate governance at NECTA.

Also, due to their experience, knowledge and involvement in the various operations related to audit committee operations and corporate governance issues, they are in a position to provide valuable data and information relating to the effectiveness of the audit committee in the organization. Therefore, the researcher used this population to assess the effectiveness of audit committee in the public sector.

3.6 Sampling Procedures and Sample Size

Sampling is a process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Kumar, 2005). Aina (2004) states two major categories of sampling, namely, probability and non – probability sampling. Probability sampling has an advantage where by each member of the population has an equal chance of being selected. Probability sampling include simple random, systematic, stratified and cluster sampling techniques. On the other hand, non - probability sampling includes snow ball sampling, quota, purposive, case study and

convenience sampling. Performing non probability sampling is considerably less expensive than doing probability sampling.

This study employed non probability techniques which involved convenience and purposive sampling techniques to select respondents of the study. People to be involved in the sample were those who it was convenient or were easily to be got.

3.6.1 Convenience sampling

Convenience sampling is the research which used people who are available or ease to access and this method is used due to the nature of the study area that intends that intends to collect data on the single unit or single public entity. This was been applied to select case of study area based on the methods merits of; collecting data from a group of employees easy to contacted or to reached. Furthermore the method is enormously speedy, easy, readily available, and cost effective, fast in understandings of certain trends or to develop hypotheses for future research (Kumar, 2005).

3.6.2 Purposive sampling

Purposive sampling involves researchers selecting the sample by including people of interest and excludes those who do not suit the purpose and is normally used when you want to access a particular subset of people (Kumar, 2005). These techniques are non-probability and hence can be subjected to bias and error.

The method was been applied to select Council member, management team, external and internal auditor, finance and accounting personnel, Procurement and management personnel and human resource management personnel respondents. This relied on researcher own judgment and experiences to select sample (experts and subjects) based on their adequate knowledge and involvement of research problem.

Also the researcher opts for purposive sampling to select respondents according to their involvement, status and position in the audit, financial management and management

The method consumes less time compared to many other sampling methods because only appropriate participants were involved. Outcome of purposive sampling are usually more representative of target population compared to other non-probability sampling methods.

3.7 Sample Size

Sample size is the subset of the population actually drawn from the sampling frame. According to Sarantakos (1998), a sample is a small group of individuals that is observed and whose finding allows generalization about the population. It is generally known that the larger the sample sizes of a population, the more reliable the results that would be obtained.

Aina (2004) provides a general principal of sample size that, if the population is less than one thousand, then 30% sampling ratio been adequate. Therefore, in order to come up with a manageable and reliable sample size, this study used a sampling ratio of 71.4%, of the targeted population.

Table 3.1: Sample size

S/N	Name of inquiry	Target Population	Sample Size (71.4%)
1	Council members	11	9
2	Management team	11	11
3	External auditors	12	5
4	Internal auditors	3	3
5	Finance and accounting personnel	13	8
6	Procurement and management personnel	8	6
7	Human Resource management personnel	5	3
Total population		63	45

The reasons behind their selection in the sample size include: their roles and responsibilities in the organization's operations; and their wide knowledge and experience in relation to corporate governance. Also some of these respondents have

a direct or indirect relationship with the activities of the audit committee, hence their inclusion is relevant.

3.8 Data Collection Methods

These are tools used to collect data for a research project. Aina (2004) lists some of these tools as questionnaires, interviews, group discussions, and observations. In addition, their functions are mainly to enable a researcher to collect reliable data which was later been analyzed. Questionnaire, interview and documentary review was used to collect data for this study.

3.8.1 Questionnaires

Questionnaire is an efficient data collection mechanism when it is designed properly. This study used questionnaires as a main instrument in the process of gathering data and information. The main reasons the study applied questionnaires are: it is cheaper option and less time consuming, they facilitate collection of large amount of data in a relatively shorter period, cheaper to administer when properly designed and anonymity of respondents is guaranteed. This study therefore used questionnaires which contained questions with interest to collect data relating to perception of respondents. Questionnaires were physically distributed to respondents. In order to ensure that only data related to research questions and objectives was correctly captured, the research questions were framed in a way to address the objectives and not otherwise.

The rationale of choice of questionnaire is bases on instrument being cheap to administer, ensures anonymity to respondents and minimum chances of researcher biases hence it provides equal chance for participating in the study. Therefore it allowed drawing of valid inferences from the population of the study.

3.8.2 Interviews

Interview is a method used for data collection, which involves selected respondents who are asked questions in order to obtain information on a problem being studied.

This is a two-way systematic conversation between an investigator and informants initiated for obtaining information relevant to a specific study (Kothari, 2009).

This method was used for the purpose of supplementing questionnaires so as to solicit views of respondents, especially those who are highly knowledgeable and with more experience with issues relating to audit committees and corporate governance in general. This ensured the researcher to have or obtain more information and clarity in the subject matter under study. Eight respondents were interviewed by the researcher, these included four council members and four management team who are knowledgeable and have great experience in AC's operations in the public sector in Tanzania.

3.9 Data Organization

Data collected for the study was properly organized in order to ease data analysis process. The data was cleaned and pre-processed in order to correct identified problems and clear all contradictory data, stored in appropriate storage, preferably in electronic and hard copy. As regards to record keeping, a database was created by using Microsoft word, excel and access that allowed manipulation and cross tabulations.

3.10 Data Analysis

The study involved both qualitative and quantitative methods of data analysis.

The collected data were analysed using descriptive analysis and frequencies, mean and percentages where employed for ranking responses presented on tables, chart and figures to in order to achieve objectives of the study. The categorization of data into themes was easier for identifying the opinions, views and perception of respondents on the effectiveness of AC on public sector. Microsoft excel was used to process data and generation of figures and percentages.

3.11 Data Presentation

Frequency tables and percentages were utilized in presenting results of the analysed data to draw conclusions to ensure better understandability of the general response of the respondents in respect to the problem under study.

3.12 Ethical Consideration

In order for the researcher to comply with research ethics, the researcher introduced himself to the respondents using a copy of letter given by the university. The researcher explained the purpose of the study to each of the respondents. The researcher informed the respondents not to write names on the questionnaires so as to maintain confidentiality

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Introduction

The main purpose of this chapter is to present the findings of the study by using responses received from respondents. The first part of this chapter presents the background information of the respondents, followed by a section which provides findings of the study as analyzed in respect of the respondents' responses on reasons influencing effectiveness of AC, examining AC independence, assessment on effective functioning of AC and on the factors hindering the effectiveness of AC.

The findings presented on this chapter are significantly guided by the general objective which focused on audit committee effectiveness of the public sector entities in Tanzania, a case study of NECTA.

4.2 Respondents' General Information

Five questions were included in the questionnaire form to capture background information of the respondents:

Table 4.1: Respondent's General Information

Question 1: Respondents' Gender		
Gender	Frequency	Percentage
Male	26	57.7%
Female	19	42.3%
Total	45	100%
Question 2: Respondents' Age		
Range	Frequency	Percentage
20 to 30	8	17.8%
31 to 40	11	24.4%
41 to 50	17	37.8%
51 to 60	9	20.0%
Total	45	100%
Question 3: Respondents' Education Level		
Education	Frequency	Percentage
Certificate	00	00.0%
Diploma	3	6.7%
Advanced Diploma/Degree	23	51.1%
Master's Degree	17	37.8%
PhD	02	4.4%
Total	45	100%
Question 4: Respondents' Range of Years in-service		
Below 1 year	00	00.0%
Between 1 and 5 years	12	26.7%
Between 5 and 10 years	15	33.3%
Over 10 years	18	40.0%
Total	45	100%
Question 5: Respondents' Position Status in the Organization		
Position	Frequency	Percentage
Other Cadres of Employees	20	44.4%
Member of Management Team	11	24.4%
Council Member (not AC members)	4	9.0%
Member of Audit Committee	5	11.1%
External Auditor	5	11.1%
Total	45	100%

Source: Field data (2017)

From the Table 4.1, findings indicate the involvement of both sexes. The female who participated were 19(42.3%) and male 26(57.7%). This justifies the fact that male are the majority and dominated in various professional and employment positions in the public sector compared to female.

However, the study also comprised respondents with different ages this includes respondents 17(37.8%) were between 41-50 years, followed by 11(24.4%) between 31-40 years and 8(17.8%) were between 20-30 years. While 9(20.0%) were between 51-60 years'. The different ages participated reflect to presence of different experiences of respondents, hence a good mix and indicate fair representation of the population under the study.

Education level in public sector is, a key issue related to the ability of understanding and absorbing the audit and financial knowledge. The respondents participated in the study possess the following education level distribution; 23(51.1%) respondents having advanced diploma/bachelor degrees followed by 17(37.8%) of respondents having master's degree in various discipline ranging from business, management, accounting etc. While 3(6.7%) respondents had ordinary diploma and only 2(4.4%) of respondents had PHDs.

The experience acquired in current positions is also an important factor in identifying the effectiveness of audit committees in public sector. In this study about 12(26.7%) had between 1-5 years' experience, 15(33.3%) were 5- 10 years and 18(40.0%) had over 10 years' experience. This suggests that most of the employees are having the adequate experiences in various public services delivery management and financial matters.

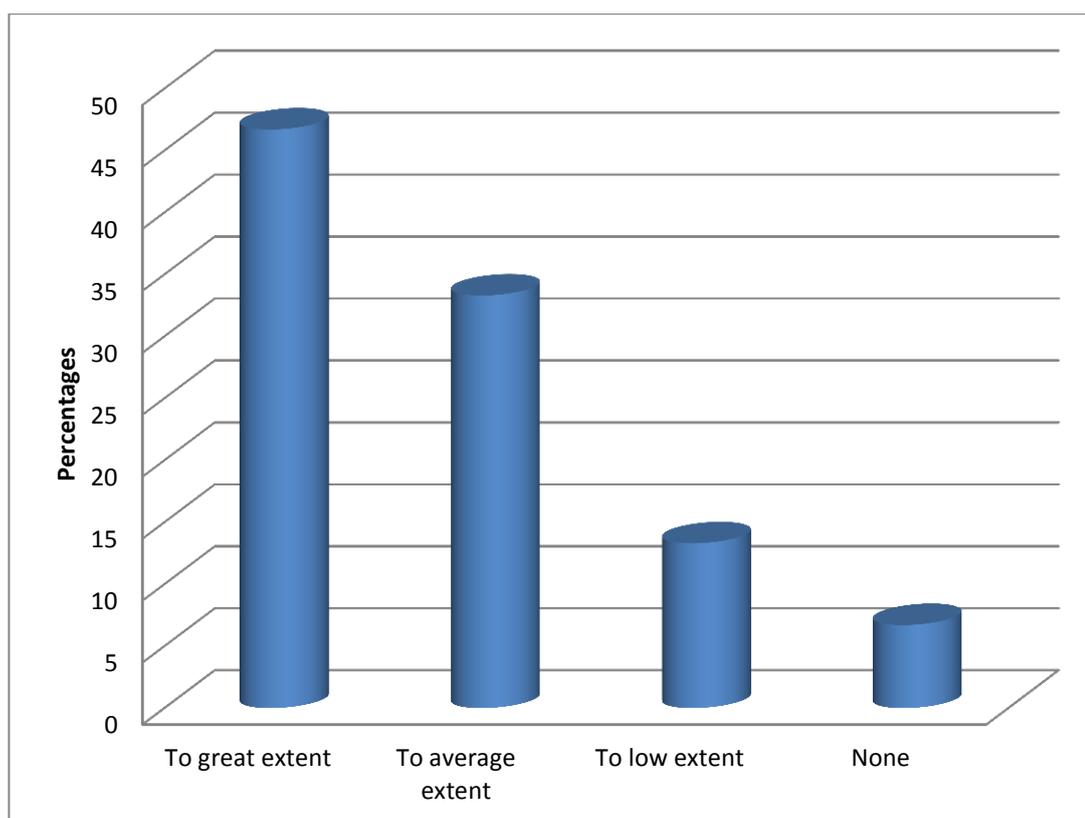
Finally, question 5 asked the respondents the position status in the organization. NECTA other cadres of employees such as Accountants, Auditors and procurement specialists provided a total number of 20 (44.4%) of respondents and were followed by 11(24.4%) members of management team. Others were 4(9.0%) Council Members (not member of the AC), 5(11.1%) members of audit committee and 5(11.1%) were

External Auditors. The findings indicate that, respondents were well experienced in various positions of management, financial related matters and corporate governance.

4.3 Awareness level on the Audit committees meaning and roles

The study assessed the respondents' awareness level on the meaning of the audit committees and their roles in public sector.

Figure 4:1 Awareness level on the Audit committees meaning and roles



Source: Field data (2017)

Most of the respondents 21(46.7%) agreed to large extent that they were aware of the AC and acknowledge their presence at NECTA. However, they were not clear of their role and functions. Most of them mentioned the internal auditor's role and functions. To average extent was agreed by 15(33.3%) while being aware to average extent was identified by 6(13.3%) respondents. however, only 3(6.7%) were found to be not aware of the AC presence and its functions at NECTA.

The findings suggest that, the AC presence is largely known by civil servants though there might be gaps in understanding their actual roles and responsibility in corporate governance.

4.4 Objective one: To assess the factors influencing the effectiveness of audit committee of the public sector entities in Tanzania

The first research goal was to assess major factors which influence the effectiveness of AC of the public sector in Tanzania. AC composition; frequency of meetings and diligence of AC were used to address this objective. List of questions was generated for each factor. A list of options for each question was made, from which the respondents were required to choose between "Not Satisfied = 1", "Less Satisfied = 2", "Satisfied = 3", "Strongly Satisfied = 4" and "Very Strongly Satisfied = 5" for each of the listed question. These options generated expected mean (3.0), which was used to compare with the computed mean score from respondent's level of satisfaction in analyzing the findings. The findings are showed in Table 4.2, Table 4.3 and Table 4.4 respectively.

4.4.1 Audit Committee Composition

This refers to members' mental attributes such as expertise, experience and number of members contributing to its composition. According to the Dhaliwal, Naiker & Navissi, (2007) described that AC composition refers to members' mental attributes such as expertise, experience and number of members (AC size). The study evaluated respondents' responses on the level of satisfaction with regard to the listed attributes in Table 4.2 below regarding to the AC composition by using NECTA as a case study. The findings are presented in Table 4.2. Furthermore, these findings from listed five attribute factors in Table 4.2 are summarized as depicted in Figure 4.2 using computed averages from respondents' level of satisfaction response per each option represented as percentages.

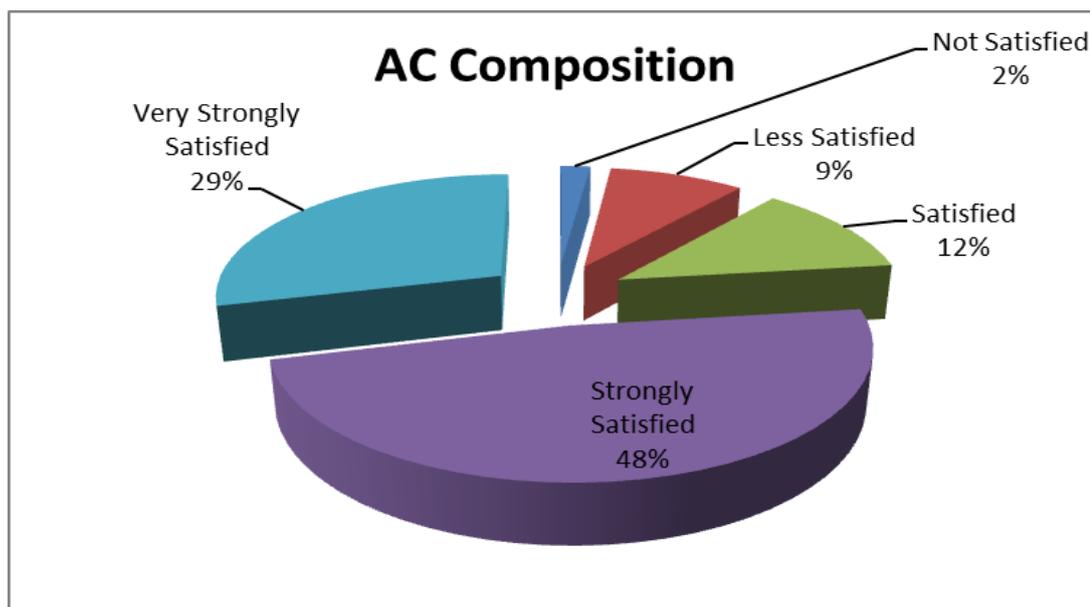
Table 4.2: Audit committee composition

S/ N	Statement	N	Respondents' level of satisfaction					Mean Score
			1	2	3	4	5	
a.	Satisfied members have sufficient skills, experience, time and resources to undertake their duties	37	0	1	3	20	13	4.2
b.	Satisfied they are all financial literate	37	1	2	4	19	11	4
c.	Satisfied the composition includes at least one member with recent and relevant accounting and financial experience	37	0	4	6	15	12	3.7
d.	Satisfied they have sufficient understanding of the organization and the sector in which it operates	37	2	5	7	17	6	3.5
e.	Satisfied with number of members (size) of AC	37	1	4	3	18	11	3.9
Average response per option		37	1	3	5	18	11	3.9
Percentage of satisfaction per option (%)		100	2	9	12	48	29	

Source: Field Work, 2017

Key: N = Number of respondents

Figure 4.2 Audit committee composition



Source: Produced by Microsoft Excel Spreadsheet Analysis

From Table 4.2, the findings revealed that the computed mean scores for each question and average mean score (3.9) for all questions were greater than the expected mean score (3.0), which implies that AC composition at NECTA has attribute factors which are essential to effectively influence the performance of AC in a positive manner.

Top on the list of attribute factors is the satisfaction on audit committee members, as a whole, have sufficient skills, experience, time and resources to undertake their duties, with mean score (4.2); followed by all audit committee members characterized with financial literate, mean score (4). Other attribute factors' mean score were: number of members (size) of AC (3.9); inclusion of at least one member with recent and relevant accounting and financial experience in the AC (3.7); and AC members has sufficient understanding of the organization and the sector in which it operates (3.5).

The findings was also highlighted during the interview with the members of AC and management team respondents who said that *“majority of AC members at NECTA comprises people who are highly knowledgeable in finance and accounting and have*

extensive experience in managing the public sector entities and are capable to execute their role and responsibilities effectively". This signifies that still the appointment of AC members need to be enhanced to ensure that members are selected by professionalism basis and not by merit to ensure its effectiveness.

Figure 4.2, presents summarized findings from Table 4.2 responses, revealing that 29(77%) were in favour of a strong and very strong satisfaction in respect of the AC composition at NECTA, this demonstrated presence of attribute factors which are essential to influence effectiveness of its AC. On the other hand, the findings also indicates that only 4(11%) respondents were dissatisfied or less satisfied that AC composition at NECTA has attributes which could positively influence the performance of AC.

4.4.2 Frequency of meetings and diligence of AC

Meetings and diligence of the audit committee indicates the presence and how active an AC is. These input factors ensure the effectiveness of the audit committee only if members to the committee are active, convene adequate number of meetings, and provides adequate time and effort to discharge their duties properly. The study evaluated respondents' responses on the satisfaction level with regard to the number of meetings and diligence of AC by using NECTA as a case study for this purpose. The findings are presented in Table 4.3 and Figure 4.3.

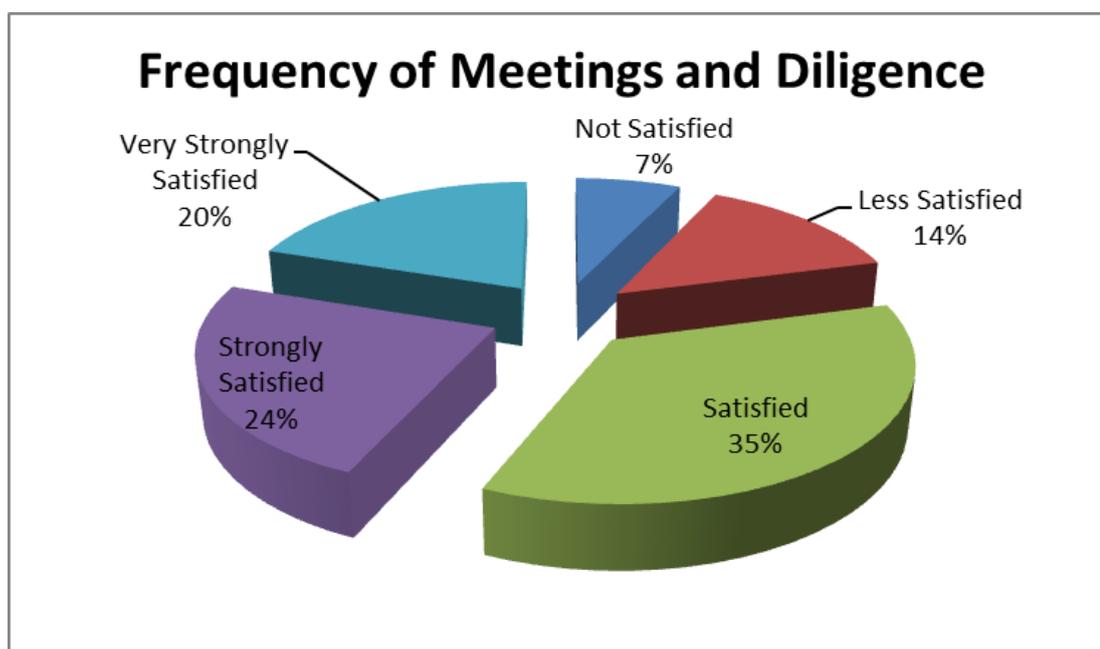
Table 4.3: Frequency of Meetings and Diligence of AC

S/N	Statement	N	Respondents' level of satisfaction					Mean Score
			1	2	3	4	5	
a.	Satisfied with the number of meetings held by audit committee per year	37	0	0	11	8	12	4.0
b.	Satisfied with the participation and contributions of every AC member in discussing agenda items during the meeting sessions	37	0	0	16	7	8	3.7
c.	Satisfied that, AC members are free to access all materials and information necessary to enhance decision making process	37	7	10	8	4	2	2
d.	Satisfied that AC members work as a one team and are committed towards their roles and responsibilities	37	0	4	3	15	9	3.9
e.	Satisfied that induction and professional development programmes provided to AC adequately equip AC members to understand the business environment of organization they operate	37	4	11	6	5	5	2.9
f.	Satisfied with the AC quorum attending meetings	37	0	0	13	8	10	3.9
Average response per option		37	3	5	13	9	7	3.4
Percentage of satisfaction per option (%)		100	7	14	35	24	20	

Source: Field Work, 2017

Key: N = Number of respondents

Figure 4.3 Frequency of meetings and diligence of AC



Source: Produced by Microsoft Excel Spreadsheet Analysis

The findings revealed top on the list of attributing factors contributing to frequency of meetings and diligence of AC was the satisfaction with the number of meetings held by audit committee per year, with computed mean score (4.0); followed by satisfaction with AC members working as one team and are commitment towards their roles and responsibilities; and the AC quorum attending meetings which both indicated a computed mean score (3.9). The other positive satisfaction was related to participation and contributions of every AC member in discussing agenda items during the meeting sessions with mean score (3.7).

On the other hand, results show AC members were not adequately equipped to understand the business environment of organization in which they are expected to operate, with a mean score (2.9). The findings also indicated that AC members were not free to access all materials and information necessary to enhance decision making process, obtained mean score (2.0).

This was also observed in interview conducted to AC members and members of management team, who responded that; *“They were not yet given a special induction*

or professional course to equip them to have understanding of the business environment of organization”. In addition, they indicated that; “Time scheduled for meetings were inadequate to review large number of documents and in some instances managements were not providing some of the organization financial documents in time”

From Figure 4.2, the findings revealed that 16(44%) respondents were in favour of a strong and very strong satisfaction in respect of the frequency of meeting and diligence of AC on enhancing usefulness of AC in Government entities. On the other hand, the findings also indicates that only 8(21%) respondents were dissatisfied or less satisfied that frequency of meeting and diligence of AC had attributes which could positively influence the performance of AC. Furthermore, the findings indicated that 13(35%) respondents were moderate satisfied with the influence of meeting and diligence of AC on the positive performance of AC in Government entities.

4.5 Specific Objective Two; to examine impact of audit committee independence on the effective functioning of audit committee of the public sector

The second research objective sought to examine the attributes of AC independence in relation to effective execution of AC role and responsibilities in the public entities in Tanzania. Factors studied under this objective were characterize by AC members’ independence in performing their functions effectively, these are AC comprising majority of its members who are non-executive, AC members must be independent from the Management team influence, AC members to be free from any conflict of interest with the organization, AC members must have free access to all materials and financial information for decision making purposes, and AC having adequate resources and authority in performing their roles and responsibilities. Respondents were required to choose between "Not Satisfied = 1", "Less Satisfied = 2", "Satisfied = 3", "Strongly Satisfied = 4" and "Very Strongly Satisfied = 5" for each of the listed factor. These options generated expected mean (3.0), which was used to compare with the computed mean score from respondent’s level of satisfaction in analyzing the

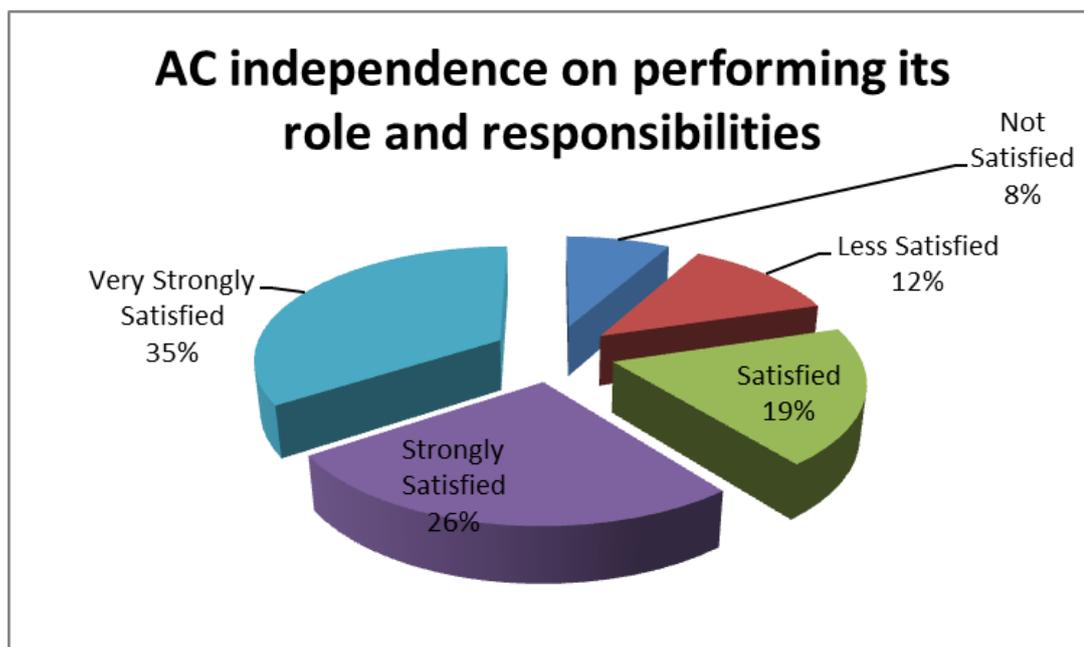
findings. The findings are presented in Table 4.4 and Figure 4.4 which present a summary of findings in percentages of average response per option.

Table 4.4: Audit committee independence

S/ N	Statement	N	Respondents' level of satisfaction					Mean Score
			1	2	3	4	5	
a.	Audit committee comprise majority of its members who are non-executive directors	37	0	0	2	6	29	4.7
b.	All audit committee members are independent from the influence of organization's management	37	1	1	6	18	11	4
c.	AC exercise their own judgments; voice their own opinions; and act freely from any conflicts of interest	37	2	3	4	16	12	3.9
d.	AC members are free to access all materials and financial information for decision making process	37	5	10	11	6	5	2.9
e.	AC have adequate resources and authority performing their roles and responsibilities	37	7	9	12	3	6	2.8
Average response per option		37	3	5	7	10	13	3.7
Percentage of satisfaction per option (%)		37	8	12	19	26	35	3.7

Source: Field Work, 2017

Figure 4.4 AC independence on performing their role and responsibilities



Source: Produced by Microsoft Excel Spreadsheet Analysis

From Table 4.4, the findings revealed that the computed mean scores for each question was greater than the expected mean score (3.0), it infers that AC independence at NECTA has adequately been observed which an avenue to effective performance of AC. The findings indicated that, most independence attribute factor observed was the AC characterized by a big percentage of its members who are non-executive directors with mean score (4.7). The next independence attributes was being independent from the influence of organization's management with mean score (4.0). The last attribute which supported AC independence at NECTA was noted on AC exercising independent judgments; voice opinions; and act freely from any conflicts of interest, mean score (3.9). However, respondents disagreed that AC members are free to access all materials and financial information for decision making process with mean score (2.9). Also, respondents disagreed with the attribute related to AC having adequate resources and authority to perform their role and responsibilities with mean score (2.8).

Similar to the above findings the interviewed members of AC and management, added that; *“To large extent the NECTA audit committee depends on the management in allocating and providing the resources for performing their responsibilities”*

From Figure 4.4, the findings revealed that 23(61%) respondents were in favour of a strong and very strong satisfaction which indicated that AC members at NECTA significantly had essential attributes to support exercising their independence effectively. On the other hand, the findings also indicates that only 8(20%) respondents were dissatisfied or less satisfied that AC members had all attributes which support exercising its independence in performing their role and responsibilities in public sector in Tanzania. Furthermore, the findings indicated that 7(19%) respondents were moderate satisfied with the independence of AC on the positive performance in public sector entities in Tanzania.

4.6 Specific Objective Three; to examine the relationship between quality of audit with the audit committee of public sector

This objective involved the examining of AC oversight role and responsibilities in following aspects of AC responsibilities on audit quality processes by focusing on the responsibilities of AC in relation to internal and internal audit operations. Respondents were required to choose between "Not Satisfied = 1", "Less Satisfied = 2", "Satisfied = 3", "Strongly Satisfied = 4" and "Very Strongly Satisfied = 5" for each of the listed item. These options generated expected mean (3.0), which was used to compare with the computed mean score from respondent's level of satisfaction in analyzing the findings. The findings are presented in Table 4.5 and Figure 4.5 for internal audit operations; and Table 4.6 and Figure 4.6 for external audit operations. Both figures present a summary of findings in percentages of average response per option.

4.6.1 Evaluation of AC Responsibilities on Internal Audit Operations

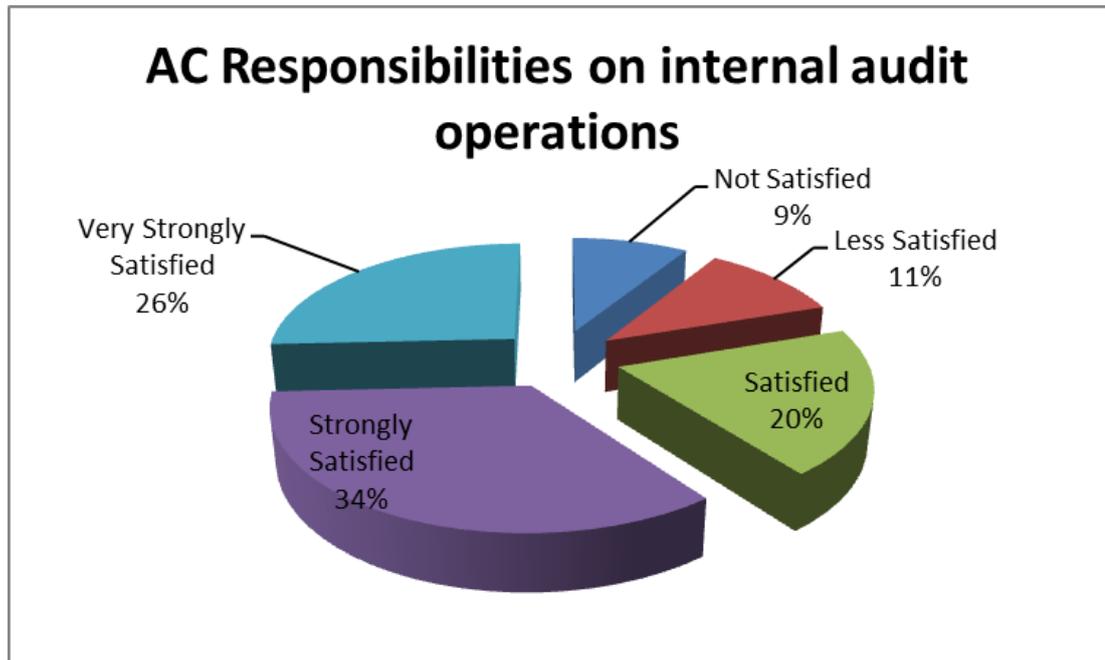
The study evaluated the extent to how audit committee effectively carries out its responsibilities related to internal audit operations in the public sector. This involved

examining their roles and responsibilities on Internal audit Operations in the organization. The findings were as follows;

Table 4.5 Evaluation of AC Responsibilities on Internal audit Operations

S/ N	Statement	N	Respondents' level of satisfaction					Mean Score
			1	2	3	4	5	
a.	AC review the budget, staffing and skills of the internal audit functions	37	1	3	5	12	16	4.1
b.	AC evaluate the independence and competence of internal audit function	37	1	2	4	18	12	4
c.	AC discuss with the chief of internal auditors about internal audit reports, effectiveness of internal controls and problems in performing the internal audit	37	5	5	4	17	6	3.4
d.	AC review and approve the internal audit annual plan, its scope and progress.	37	4	7	11	8	7	3.2
e.	AC review management's response and implementations to internal auditors' recommendations	37	7	6	13	7	4	2.9
f.	AC review the relationship between internal and external auditors and coordination of their work	37	2	1	7	15	12	3.9
Average response per option		37	3	4	7	13	10	3.6
Percentage of satisfaction per option (%)		100	9	11	20	34	26	

Figure 4.5 AC Responsibilities on Internal audit Operations



Source: Produced by Microsoft Excel Spreadsheet Analysis

From Table 4.5, the findings revealed that the most effective was that of AC reviewing the budget, staffing and skills of the internal audit functions with mean score (4.1); followed by AC evaluate the independence and competence of internal audit function with mean score (4.0). The other one with a positive high satisfaction is that of AC reviewing the relationship between internal and external auditors and coordination of their work having a mean score (3.9). Next was the function related to AC discussing with the chief of internal auditors about internal audit reports, effectiveness of internal controls and problems in performing the internal audit, with a mean score (3.4); followed by role of AC reviewing and approving the internal audit annual plan, its scope and progress, with a mean score (3.2).

The interviewed management team respondents also added that; *“One of the core function of the AC was to determine the efficiency of the internal audit functions in the public sector by reviewing their programmes and outcomes of their auditing processes”*

Clarifying the AC functions on the internal audit operations, the interviewed members of AC stated that; *“It is our obligation to ensure internal auditors have authority in performing their work by ensuring that they have plan and scope of work”*

Figure 4.5 used average percentages of respondents' level of satisfaction to present general findings with respect of AC effectiveness in performing their obligations related to internal audit operations. The findings revealed that 23(60%) respondents were in favour of strong and very strong satisfactions. On the other hand, the findings also indicates that only 7(20%) respondents were dissatisfied or less satisfied that AC at NECTA was effective in executing its role and responsibilities related to internal audit functions. Furthermore, the findings indicated that 7(20%) respondents were moderate satisfied with functioning of AC in relation to internal audit operations.

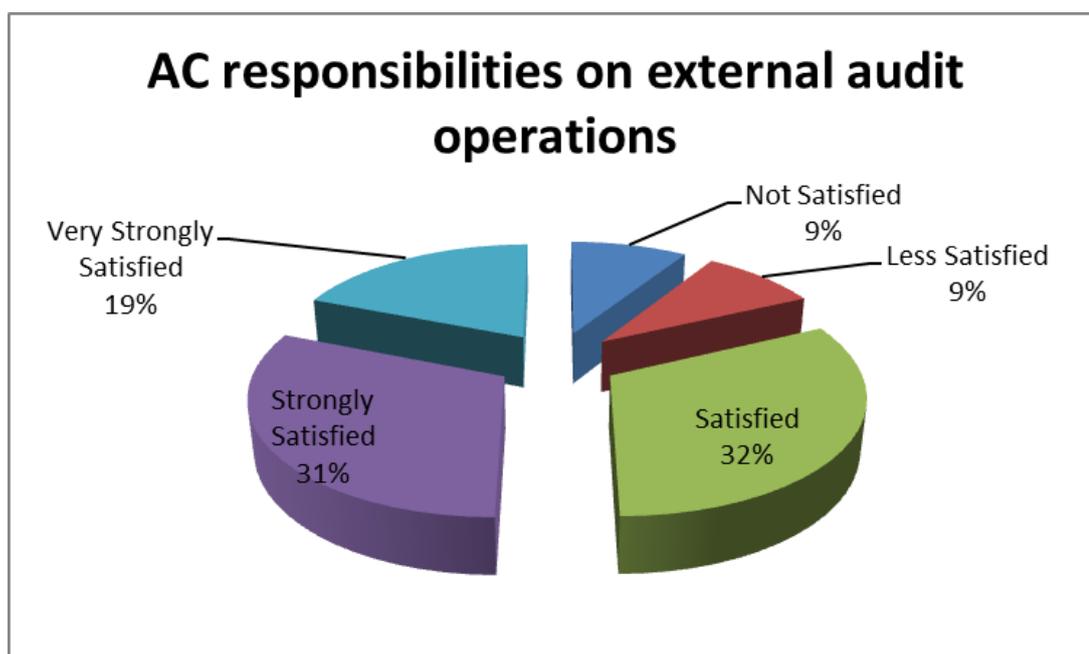
4.6.2 Evaluation of AC Responsibilities on External Audit Operations

The roles and responsibilities of AC in relation to external audit functions was evaluated to find the extent to how audit committee effectively carries out its responsibilities related to external audit operations in the public sector. The findings were as follows;

Table 4.6 Evaluation of AC Responsibilities on External Audit**Operations**

S/ N	Statement	N	Respondents' level of satisfaction					Mean Score
			1	2	3	4	5	
a.	AC review findings and recommendations of the external auditor	37	1	4	15	9	8	3.5
b.	AC review the implementation of recommendations by management	37	0	3	13	15	6	3.6
c.	AC evaluate independence of external audit function	37	5	5	14	10	3	3
d.	AC review the reasonableness of the external audit fees	37	4	2	4	17	10	3.7
e.	AC arbitrate in disputes between management and auditors when they do not reach a consensus in regard to audit report	37	7	6	14	7	3	2.8
f.	AC discuss with external auditor about problems of the audit, audited financial statements and scope and timing of the audit	37	2	1	11	11	12	3.8
Average response per option		37	3	4	11	12	7	3.4
Percentage of satisfaction per option (%)		100	9	9	32	31	19	

Figure 4.6 AC Responsibilities on External audit Operations



Source: Produced by Microsoft Excel Spreadsheet Analysis

The findings in Table 4.6 above, shows that the first most role and responsibilities noted was that of AC discussing with external auditor about problems of the audit, audited financial statements and scope and timing of the audit, with mean score (3.8). The second indicated responsibility was associated with AC reviewing the reasonableness of the external audit fees, with mean score (3.7). Others were AC reviewing the implementation of external audit recommendations accepted by management and where issues remain unsolved ensure that satisfactory progression is being made to mitigate the risk associated with audit findings, mean score (3.6); AC reviewing the findings and recommendations of the external auditor, mean score (3.5); and AC evaluating independence of external audit function, mean score (3.0).

The findings also supported by interviewed AC members respondent who said; *“It was there are primary role to appraise and evaluate the external audit reports”*.

Figure 4.6 applied average percentages of respondents' level of satisfaction to present general findings with respect of AC effectiveness in performing their obligations related to external audit operations. From Figure 4.6, the findings showed that 19(50%) respondents were in favour of strong and very strong satisfactions which asserted that AC at NECTA was seen as effective in fulfilling its role and responsibilities related to external audit functions. On the other hand, the findings also indicates that only 7(18%) respondents were dissatisfied or less satisfied that AC at NECTA was effective in executing its role and responsibilities related to external audit functions. Furthermore, the findings indicated that 11(32%) respondents were moderate satisfied with functioning of AC in relation to external audit operations. Also, the findings revealed the average of mean score (3.4) which is greater than expected mean (3.0) indicating that AC at NECTA was regarded as efficiently performing their roles and responsibilities on internal audit operations.

4.7 Objective 4: Factors hindering the effectiveness of audit committees of public sector in Tanzania

The study also assessed the factors that directly or indirectly affect the audit committees' effectiveness. These factor comprised the following: lack of committee independence of management and the board; lack of experience and expertise of the committee members; splits among board members due to misunderstanding; conflict between the members of the committee and management; limited power and authority of the audit committee; limited number of membership of the committee; high level of bureaucracy; lack of elaborate role and functions of the audit committee; limited resources (finance, time and access to information) available to the audit committee; poor communications between audit committee and auditors, both internal and external auditors; and inadequate number of meetings and content of audit meetings. The findings are as presented in Table 4.7.

Table 4.7: Factors Hindering the Effectiveness of Audit Committees of Public Sector Entities in Tanzania

**Key: 1 = Strongly disagree; 2 = Disagree; 3 = Neutral; and 4 = Agree;
4 = Strongly agree**

S/ N	Statement	N	Respondents' level of satisfaction					Mean Score	Ranking
			1	2	3	4	5		
1	Lack of committee independence from influence of management and the board of directors	37	0	0	10	15	12	4.1	3
2	Lack of experience and expertise of the committee members	37	0	3	13	11	10	3.7	4
3	Splits among board members due to misunderstanding	37	0	4	15	12	6	3.5	5
4	Conflict between the members of the committee and management	37	1	6	17	9	4	3.2	7
5	Limited power and authority of the audit committee	37	0	0	7	13	17	4.3	1
6	Limited number of membership of the committee	37	1	7	16	9	4	3.2	7
7	High level of bureaucracy	37	2	4	12	10	9	3.5	5
8	Lack of elaborate role and functions of the audit committee	37	0	1	7	14	15	4.2	2
9	Limited resources (finance, time and access to information) available to the audit committee	37	0	8	10	10	9	3.5	5
10	Poor communications between audit committee and auditors, both internal and external auditors	37	2	7	12	10	6	3.3	6
11	Inadequate number of meetings and content of audit meetings	37	5	5	14	6	7	3.1	8

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 Introduction

The discussion on this chapter is guided by the objectives of the study which comprised four specific objectives. The main focus was on audit committee effectiveness of the public sector entities in Tanzania, a case study of NECTA.

5.2 Factors influencing the effectiveness of audit committee of the public sector

The first research objective sought to assess major factors which influence AC effectiveness of public sector in Tanzania. AC composition; frequency of meetings and diligence of AC were used to address this objective.

5.2.1 Audit Committee Composition

The findings revealed that the computed mean scores for all responses are greater than the expected mean score (3.0), it implies that AC composition at NECTA was considered to have attributes which are essential to effectively influence the performance of AC in a positive manner. The observed attributes included the follows: members of AC have sufficient expertise, experience, time and resources to execute their obligations; members of audit committee characterized with financial literate; Adequate AC members comprised in the audit committee of an entity; inclusion one or more member with relevant accounting and financial experiences in AC; and AC members who have understanding of the firm and its sector it operates.

Further, the findings indicated that 29(77%) of respondents were in favour of a strong and very strong satisfaction and 5(12%) were moderate satisfied in respect of the AC composition at NECTA, this demonstrated presence of attributes which are essential to influence effectiveness of its AC. On the other hand, the findings also indicates that only 4(11%) respondents were dissatisfied or less satisfied that AC composition at NECTA has attributes which could positively influence the performance of AC. From these findings it is clear that AC composition attributes were found to vital factors for the better functioning of audit committee. The fact that composition of majority of

AC members who are highly knowledgeable in finance and accounting and have extensive experience in managing the public sector entities ensures their capability to execute their role and responsibilities effectively. This signifies the need to appoint AC members on basis of professionalism and not by merit to ensure its effectiveness. According to the Dhaliwal, Naiker & Navissi, (2007) described that AC composition refers to members' mental attributes such as expertise, experience and audit committee size.

The findings pointed out that Audit Committee at NECTA have required financial expertise and experience which are important factors in attaining the utmost success of the AC performances in public sector. In line with findings, Zaman & Sarens, (2013) asserted that having audit committee members who possess financial expertise will likely decrease earnings management for organization at which the corporate governance mechanisms are frail. In addition, this argument was also supported by Mashoko, (2010) whose study indicating that “audit committee financial expertise has important impacts on (ROE) and (ROA) in the firm financial performances”.

5.2.2 Frequency of meetings and diligence of AC

AC is considered effective when its members are active convenes adequate number of meetings, work as a team and provide time and effort to discharge their role and responsibilities.

Results show AC members were not adequately equipped to understand the business environment of organization in which they are expected to operate, with a mean score (2.9). The findings also indicated that AC members were not free to access all materials and information necessary to enhance decision making process, obtained mean score (2.0). This implies that still there is a difficulties in accessing some of the important financial documents in time for ACs for performing their roles. These demonstrate the weaknesses which are detrimental to the effective functioning of AC in the public sector entities in Tanzania.

Furthermore, it was observed that no special induction or professional course was conducted to equip AC members to have understanding of the business environment of organization and also time scheduled for meetings were inadequate to review all financial documents. However, the findings shown that the computed mean scores for each question and average mean score (3.4) for all questions were greater than the expected mean score (3.0), justifying that frequency of meeting and diligence of AC at NECTA has attribute factors which are essential to positively influence AC performance.

From the findings observed, they generally confirm that frequency of meeting and diligence of AC is an essential factor in relation to effective functioning of AC in the public sector entities in Tanzania.

5.3 Impact of audit committee independence on the effective functioning of audit committee of the public sector

AC independence was studied in relation to AC role and responsibilities in the public entities in Tanzania. Factors examined under this objective were AC comprising majority of its members who are non-executive directors, AC members independence from the influence of organization's management team, AC members free from any conflict of interest with the organization, AC members free access to all materials and financial information for decision making purposes, and AC having adequate resources and authority in performing their roles and responsibilities.

The findings revealed that computed mean scores for all responses are greater than the expected mean score (3.0), which infers that AC independence at NECTA has adequately been observed and is an avenue to effective performance of AC. However, little independence was found on AC access to all materials and financial information; and inadequate resources and authority to support their operations. These justifies the fact that still in many government sector entities the AC are dependent on financial resources and other logistics from the management of the entities, that provide some difficulties in exercising their independence when executing their role and responsibilities. Most independence attribute observed was

the AC characterized by majority of its members who are non-executive directors. The next independence attributes was that of all AC members being independent from the influence of organization's management. The last attribute which supported AC independence at NECTA was on AC exercising their own judgments; voice their own opinions; and act freely from any conflicts of interest.

Generally, the findings categorize AC independence as a key attribute to the proper and effective functioning of AC in the public sector entities. However, the study indicated that to large extent NECTA audit committee depends on the management in allocation and provision of resources for performing their role and responsibilities, which contributes to the negative impact in relation to the independence of AC in the public sector entities.

These findings indicated that, despite of some shortfalls in freeness in accessing financial documents and resources which are still dependable from management, AC independence at NECTA with average mean score of (3.6) is bigger than expected mean (3.0) which significantly suggest that AC independently performance their expected role and responsibilities.

These findings are also revealed by Kandandu, (2016) and Kituku& Ahmad (2016), in their studies on audit committee on public sector indicated that, the independence of the AC is an essential condition in ensuring that members are proficiently performing their roles in public sector. In ensuring that audit remain to be integral fragment in improving public sector accountability and overall corporate performances government operations.

5.4 The relationship between quality of audit with the audit committee of public sector

This objective involved assessing AC responsibilities with regard to the internal and internal audit operations. Effective functioning of audit committee is observed from the performance of its obligations in relation to the functions of internal and external audits describe the effectiveness of audit committee. These obligations are studied under the AC responsibilities on internal audit and external audit operations.

5.4.1 AC Responsibilities on Internal Audit Operations

The study evaluated the extent to which audit committee carry out its responsibilities on internal audit operations in the public sector. This involved examining their roles and responsibility on Internal audit Operations in the organization.

The findings revealed that, the computed mean scores for each aspect of AC responsibilities, except for aspect that requires AC to review management's response and implementations to internal auditors' recommendations were greater than the expected mean (3.0). Also, the general average mean score is 3.6 which is greater than expected mean (3.0). This testified that AC has been performing its responsibilities in regard to internal audit functions effectively. The most effective was that of AC reviewing the budget, staffing and skills of the internal audit functions; followed by AC evaluating the independence and competence of internal audit function. The other one with a positive high satisfaction is that of AC reviewing the relationship between internal and external auditors and coordination of their work; next was the function related to AC discussing with the chief of internal auditors about internal audit reports, effectiveness of internal controls and problems in performing the internal audit; and the last in list is role of AC of reviewing and approving the internal audit annual plan, its scope and progress.

Responses from respondents revealed that 23(60%) respondents were in favour of strong and very strong satisfactions and 7(20%) respondents were moderate satisfied, demonstrating that AC at NECTA was considered as effective in executing its role and responsibilities related to internal audit functions. On the other hand, 7(20%) respondents were dissatisfied or less satisfied that AC at NECTA was effective in executing its role and responsibilities related to internal audit functions. Apart from this dissatisfaction, under this study AC is generally perceived as effective in performing its obligations in relation to internal audit operations in the public sector entities.

5.4.2 AC Responsibilities on External Audit Operations

The main interest was to focus on how audit committee carry out its responsibilities referring to external audit operations in the public sector. This involved examining their obligations relating to roles and responsibilities on external audit Operations in the public sector entities.

The observations revealed that the computed mean scores for each set responsibility, except for that one referred as AC obligations to arbitrate in disputes between management and auditors when they do not reach a consensus in regard to audit reports were greater than the expected mean score (3.0). Also, the general average mean score under this case was 3.4, hence supports the assertion that to a large extent AC perform effectively its roles and responsibilities linked to external audit operations in the public sector entities.

The first most noted responsibility was that of AC discussing with external auditor about problems of the audit, audited financial statements and scope and timing of the audit. The second responsibility was associated with AC reviewing the reasonableness of the external audit fees. Others were AC reviewing the implementation of external audit recommendations accepted by management and where issues remain unsolved ensure that satisfactory progression is being made to mitigate the risk associated with audit findings; AC reviewing the findings and recommendations of the external auditor; and AC evaluating independence of external audit functions.

The study showed that 19(50%) respondents were in favour of strong and very strong satisfactions and 11(32%) respondents were moderate satisfied, these specified that AC at NECTA is effective in fulfilling its role and responsibilities related to external audit functions. However, the study noted that 7(18%) respondents were dissatisfied or less satisfied that AC at NECTA was effective in executing its role and responsibilities related to external audit functions. Despite of having 7(18%) respondents who were dissatisfied, the AC to a great extent was perceived effective in performing their obligations vested to it in respect of external audit functions.

Despite of the findings indicating positive AC functioning on internal audit operations, still faces some shortfalls of their activities autonomous, objectivity, expertise and professional due care (Mhagama, 2013). This suggests that, AC have been ineffective in reviewing management's response and implementations highlighted by internal auditors' recommendations.

5.5 Factors hindering the effectiveness of audit committees of public sector in Tanzania

The study assessed the various factors that directly or indirectly affect the audit committee's effectiveness. The findings disclosed that computed mean scores for each factor was greater than the expected mean (3.0), so all listed factors under the study where considered relevant to impact the effectiveness of AC in the public sector entities in Tanzania. These critical factors for effective functioning of AC were ranked and the results are:

The highest effective (1st) ranked hindering factor observed is limited power and authority of the audit committee; the second (2nd) ranked factor is lack of elaborated role and functions of the audit committee; lack of committee independence from influence of management and the board is ranked as (3rd) hindering factor; the forth (4th) ranked factor is lack of experience and expertise of the committee members; factors referred as splits among board members due to misunderstanding and limited resources (finance, time and access to information) available to the audit committee were both ranked (5th); The sixth (6th) ranked factor is the presence of high level of bureaucracy in public entities; seventh (7th) in ranking is Poor communications between audit committee and auditors, both internal and external auditors; conflict between the members of the committee and management is ranked eighth (8th); limited number of membership of the committee is number nine (9) on the ranking list; and lastly ranked factor is related to inadequate number of meetings and content of audit meetings.

Similar to the study findings by Okoye & Cletus (2010) and Zaman & Sarens, (2013) described various factors accountable for the ineffectiveness of audit committees in

public sector such as; political interferences, division resulted from misunderstandings and conflicts among management and members of the ACs, unproductive bureaucracy, protections of personal interests, inconsistencies in objectives and public benefits to be communicated and inadequate financial management (statements and reporting) as factors accountable for the ineffectiveness of audit committees in public sector. The general implication of the study findings indicated that ACs have been largely facing the challenges that in one way or another contributes to inadequate roles performances of the AC in public sector.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

Summary of study findings related to research objectives, conclusions, and general and specific recommendations are presented in this chapter. The main objective of the study is to evaluate effectiveness of AC of public sector entities in Tanzania.

6.2 Summary and Conclusion

Study was designed with the focus to evaluate effectiveness of AC on managing operations of public sector in Tanzania and the study was carried at NECTA headquarters in Dar es Salaam. Data were collected using mostly questionnaire and where complemented by interviews and documentary review. The analysis was done through descriptive statistics for demographic characteristics effects of independent variables on AC roles and responsibilities in various audit concepts. However, respondents different views on diverse research issues raised from the questionnaires were presented and analyzed in various tables and figures. Mean score and average percentages were used as measures of findings of the study.

The study assessed effectiveness of Audit Committee in public sector which is important in ensuring that the public sector entities management is complying with country financial regulations, good corporate governance practices and effective implementation of controls. This aimed at protecting public interest.

From the findings, it can be concluded that audit committee is a monitoring mechanism that improves and promotes fairness on financial statements and reports, effective internal and external operations, and enhancing good corporate practices in the public sector entities. The study by Ogoro, & Simiyu, (2015) indicated that AC adds trustworthiness, reliability and credibility to financial reporting and improves quality of audit, also concluded that despite of AC making auditing easy and practicable for the internal and external auditors of the public sector in most public entities it is important for good governance.

The impact of AC composition has been an important component in improving the audit committee effectiveness in public sector. The composition of AC at NECTA involved members with sufficient skills, experience, time, resources and are financial literate to undertake their duties properly. It involved five members out of whom two members had recent and relevant accounting and financial experience that were adequate to form an AC. The council audit committee has been formed and work based on best practice of good corporate governance requirements. AC at NECTA involved members outside organization management. This contradicts with the directives which are found in the URT Audit Committee Guidelines (2013) which state that, ACs in the public sector are to be composed of senior members of ministries, departments agencies, and local government authorities. These should be nominated by their respective appointing authority and one member appointed outside the organization. This necessitates the needs to review the AC guidelines so as to improve AC independence and qualities of the AC members.

Frequency of meeting and diligence of AC portrays real operations undertaken by AC members to influence their roles and responsibilities in the public sector entities. It was observed that AC member's qualities; frequency of meeting and diligence of AC; and AC independence were important factors to describe the effectiveness of audit committee in the public sector. Effective functioning of audit committee was witnessed from the performance of its obligations in relation to the internal and external audit functions.

AC independence is found to be a key instrument in executing all the obligations vested to the AC in the public sector entities. This means that the audit committees needs to be totally autonomous so as to conform a fundamental role in ensuring quality reporting and controls as well as the appropriate discovery, detection, identification and managements of financial risks. Similar to that Mhagama, (2013) argue that the management involvement in appointing procedures has big impact on audit committee autonomous as they also depend on the management on resources for carrying their duties. The AC at NECTA found to

pursue frequent meetings among internal audit unit employees and AC carry out of quarterly scheduled meetings consistent with the plan.

Through observation from questionnaires greater part agreed the presence of considerable effectiveness of audit committee in relation to its obligations in support to internal and external auditors. However, audit committee has not been adequately effective performing their primary duty of reviewing management's response and implementations to internal auditors' recommendations and arbitrating in disputes between management and auditors when they do not reach a consensus in regard to audit reports. The study also noted lack of regulatory elaborative roles and functions, independence, power, authority experience and expertise and resources of audit committee. These observed hindrances factors are largely lead to ineffective audit committees functioning in public sector as stipulated in the guidelines, The United Republic of Tanzania Guidelines for Audit Committees in the Public Sector (2013) and The United Republic of Tanzania (2004) Public Finance Regulation and The Institute of Internal Auditors (2014).

The study ranked critical factors for an AC to perform its role and functions effectively and the results are: first ranked hindering factor observed was limited power and authority of the audit committee; second ranked factor was lack of elaborated role and functions of the audit committee; lack of committee independence from influence of management and the board is ranked as third hindering factor; the forth ranked factor was lack of experience and expertise of the committee members; factors referred as splits among board members due to misunderstanding and limited resources (finance, time and access to information) available to the audit committee were both ranked fifth in the list; The sixth ranked factor was the presence of high level of bureaucracy in public entities; seventh in ranking was Poor communications between audit committee and auditors, both internal and external auditors; conflict between the members of the committee and management was ranked eighth eighth; limited number of membership of the committee was positioned number nine on the ranking list; and lastly ranked factor was related to inadequate number of meetings and content of audit meetings.

Furthermore, findings spotted various institutional and structural factors hindering the audit committee performance in public sector which includes: limited power and authority of the audit committee; lack of elaborated role and functions of the audit committee; lack of committee independence from influence of management and the board; lack of experience and expertise of the committee members; splits among board members due to misunderstanding; limited resources (finance, time and access to information) available to the audit committee; the presence of high level of bureaucracy in public entities; Poor communications between audit committee and auditors, both internal and external auditors; conflict between the members of the committee and management; limited number of membership of the committee; and inadequate number of meetings and content of audit meetings.

6.3 The study Proposed Recommendations

From the study literature review, qualitative and quantitative responses from different respondents and the findings observed, the following are suggested recommendations believing that if implemented or tailored can enhance the audit committees' effectiveness in public sector to achieve good governance:

- i) The yearly committee reports should be organized, prepared and presented to the management for appropriate actions on committee's recommendations to augment controls as well as its implementation and follow ups. This will help in ensuring that the management is taking proper actions and their attitudes towards the committee hence it will improve the controls compliances.
- ii) Establish the proper strategies to ensure AC members are given proper induction training to understand their environment of the organization, principle business activities of it; their powers and authority; and their roles and responsibilities. This is necessary to build capacities and equip member's with proper knowledge to support their effectiveness.
- iii) The government or organization management should frequently ensure the sufficient resources and adequate financial support to AC so as to

effectively perform their duties. Dependence of financial and resources from the Accounting Officer should be minimized to ensure AC independence in performing its role and responsibilities.

- iv) Management and/or Audit Committee members should organize the timely, frequently ongoing and up to date and needed trainings for members to strengthen career development of the members. This will build the capacity of members to be equipped with the speed of changes in financial reporting continuing globally and governance standards.
- v) Audit committees should have the legal power and mandate to appoint independent counsel and other consultants when they believe crucial to perform their responsibilities.
- vi) Thus in case of the financial complexities they should be allowed to hire/engage external expert to administer the issues which requires instant response from the members.
- vii) Audit committees should implement a formal whistle blower policy which identifies AC responsibilities, an appropriate procedure for receiving and investigating complaints and Confidentiality policies for whistle blowers.
- viii) The audit committee should appraise the level of coordination among the auditing practices behavior and actions of both internal and external auditors.
- ix) AC should be confident in preparing the audit scope that will reveal the weakness of internal controls such as frauds or materially financial reporting errors. Also has to promote the open and direct communications with the auditors to enhance reporting of control shortages in public sector.

6.4 Policy recommendations

From the findings the following policy reviews is recommended:

- i) **Comprehensive frequent reviews of the financial governing policies:** There should be a comprehensive frequent reviews of the financial governing policies governing the audit practices including the audit committees roles, power, independence and activities in public sector, Ministry of finances should work consciously to make sure that all public sectors including organizations, institutions and departments establish self-governing and sovereign audit committees with full powers and resources.
- ii) **Refurbishment and overhaul the existing audit committee system:** Also to refurbish and overhaul the existing set up system, compositions and appointments of the ACs to ensure its objective are attained, for example till now accounting officers have been vested with all powers, accountabilities of appointing and deciding the number of AC members. This will avoid the perceived notions that audit committees being official rubber stamps in ensuring the efficient public resources uses in public sector.

6.5 Areas for further studies

- i) As the current study were concentrated with assessing the effectiveness of the AC in public sector surveying on public entity, with consideration of scope and limitations in first chapter it creates a room of perfuming the survey study on the similar title combining more public entities.
- ii) Furthermore, the current study concentrated in assessing the effectiveness of Audit Committees in the public sector entities. Further studies can evaluate the public/citizen's awareness and perceptions towards Audit Committee roles and characteristics in relationship to audit quality.

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APPENDICES

Appendix 1: Study questionnaires

I request your kind support by responding to this questionnaire. All gathered information are treated confidential are a safe

While your cooperation to complete the questionnaire is valued and appreciated, your participation is voluntary. The only people to have access to the collected data are my supervisor and I. The results will be used only in an aggregated form and therefore your anonymity and confidentiality of your response are assured. In need for clarifications, please contact with researcher on **+255769247564** or **e-mail:fredyhaonga@gmail.com**. You are required to **tick or fill the correct answer** in the spaces provided.

Part I: General Information (Please tick the relevant answer)

1. Gender

Male	
Female	

2. Age group in years

20 - 30	
31 - 40	
41 -50	
51 - 60	
61 and above	

3. Education level

Certificate	
Diploma	
Adv. Diploma/Degree	
Master's degree	
PhD	

4. How long have you been in your organization?

Less than 1 year	
Between 1 and 5 years	
Between 5 and 10 years	
Over 10 years	

5. Current position status in your company

Normal employee	
Management Team	
Member of Council	
Audit Committee member	
External Auditor	

6. Awareness level on the Audit committees meaning and roles

Key: 1=None; 2=To low extent; 3=To average extent; and 4=To a great extent

S/N	Statement	level of awareness			
		1	2	3	4
a.	Am aware of the meaning of audit committee and its existence responsibilities in organization				

b. Mention roles of audit committee of the organization:

.....

Part II: Determinants of audit committee effectiveness

Key: 1=Not satisfied; 2=Less satisfied; 3=Satisfied; 4=Highly satisfied; Very highly satisfied

7. Audit committee composition

S/ N	Statement	Level of satisfaction				
		1	2	3	4	5
a.	Satisfied that the audit committee members have sufficient understanding of the sector and firm in which it operates					
b.	Satisfied that audit committee members, have sufficient skills, experience, time and resources to execute their duties					
c.	satisfied that all audit committee members are independent of the organization's management and have no conflicts of interest					
d.	Satisfied that all audit committee members are knowledgeable financial management					
e.	Satisfied that the audit committee includes one or more member with relevant accounting and financial knowledge					
f.	Audit committee comprise majority of its members who are non-executive directors					
g.	Satisfied with the number of audit committee members					

8. Frequency of meetings and diligence of AC

S/ N	Statement	N	Respondents' level of satisfaction				
			1	2	3	4	5
a.	Satisfied with the number of meetings held by audit committee per year						
b.	Satisfied with the participation and contributions of every AC member in discussing agenda items during the meeting sessions						
c.	Satisfied that, AC members are free to access all materials and information necessary to enhance decision making process						
d.	Satisfied that AC members work as a one team and are committed towards their roles and responsibilities						
e.	Satisfied that induction and professional development programmes provided to AC adequately equip AC members to understand the business environment of organization they operate						
f.	Satisfied with the AC quorum attending meetings						

Audit committee independence

S/ N	Statement	N	Respondents' level of satisfaction				
			1	2	3	4	5
a.	Audit committee comprise majority of its members who are non-executive directors						
b.	All audit committee members are independent from the influence of organization's management						
c.	AC exercise their own judgments; voice their own opinions; and act freely from any conflicts of interest						
d.	AC members are free to access all materials and financial information for decision making process						
e.	AC have adequate resources and authority performing their roles and responsibilities						

10. Internal audit function

S/N	Statement	Level of satisfaction				
		1	2	3	4	5
a.	AC reviews forecasted budget, staffing and skills of the internal audit auditors					
b.	AC evaluate the competence and independence of internal auditors					
c.	AC discuss with auditors about internal audit effectiveness and problems in performing the internal audit functions					
d.	AC review and authorize the internal audit annual plan, its scope and implementation.					
e.	AC review response and implementations by management agreed with internal auditors' recommendations					
f.	AC review relationship among internal and external auditors and how their work are coordinated					

11. External audit function

S/ N	Statement	Responses				
		SD	D	NS	A	SA
a.	AC review auditors' findings and recommendations					
b.	AC review the implementation of external audit recommendations by management					
c.	AC assess external audit independence of their functions					
d.	AC review the fairness of the external audit fees					
e.	AC resolves disputes between management and auditors when they do disagree in regard to audit report					
f.	AC discuss about problems faced by external auditor when audited financial reports					

Part IV: Factors hindering audit committee effectiveness in public sector

Key: SD = Strongly disagree; D = Disagree; N = Neutral; A = Agree; and SA = Strongly agree

S/N	Statement	SD	D	N	A	SA
1	Lack of independence from management and the board					
2	Lack of required experience and expertise to carry out their roles					
3	Board members division due to misunderstanding among them					
4	Conflict between the members of the audit committee and management					
5	Limited power of the audit committee					
6	Inadequate number of membership in the audit committee					
7	High level of bureaucracy					
8	Lack of elaborated audit committee charter					
9	Limited resources (finance, time and access to information) available to the audit committee					
10	Poor communications among audit committee and auditors					
11	Inadequate frequency of meetings and content of meetings					

13. Please suggest some measures to be taken by the government/regulators or other stakeholders which you think can improve or enhance audit committees effectiveness of public sector.

.....

Thank you very much for your kindly participation.

Appendix 2: Interviewing Questions

1. Respondents were asked to provide their views in issues related to training to equip them with the task assigned to them.
2. Respondents were asked their understanding in respect of the role and responsibilities of audit committee.
3. Respondents (Audit Committee Members) were asked questions relating to there are independence in performing their role and responsibilities.