ASSESSMENT OF EFFICIENCY OF AUDIT COMMITTEE IN STRENGTHENING PUBLIC FINANCE MANAGEMENT IN LOCAL GOVERNMENT AUTHORITIES IN TANZANIA: THE CASE STUDY OF BAHI DISTRICT COUNCIL
ASSESSMENT OF EFFICIENCY OF AUDIT COMMITTEE IN STRENGTHENING PUBLIC FINANCE MANAGEMENT IN LOCAL GOVERNMENT AUTHORITIES IN TANZANIA: THE CASE STUDY OF BAHI DISTRICT COUNCIL

By

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

JUNE 2013
DECLARATION

I, Gideon Charles Mhagama, declare that this dissertation is my own original work except where noted by references and that has not been presented to any other University for a similar or any other degree award.

Signature…………………………………………

Date………………………………………………
ACKNOWLEDGEMENT

My special thanks and heartfelt gratitude go to the Almighty God for his guidance and power; without Him nothing could move.

Profound gratitude is extended to my supervisor, Mr. T.G.J. Magambo for his guidance, patience and positive contribution in various aspects which eventually made this research possible.

I am indebted to my employer, Local Government Training Institute, for extending financial support and resources to see it through to completion.

I am heavily indebted to the members of my family particularly my wife, children, sisters and brothers, for their prayers, moral and material support throughout my studies.

I also wish to thank my dear respondents from Bahi District Council who were very cooperative; they provided relevant data that enabled the production of this research. Special thanks go to acting Director of Bahi DC, DT, Heads of Departments, members of audit committee, Honourable councillors especially Finance committee and members of staff for their kindness and moral support.

Finally, I am grateful to my fellow students of MSc. in Accounting and Finance, group members, my friend Peter and all who in one way or another have made me be where I am now. God bless you all.
DEDICATION

This dissertation is dedicated to my late son Fred. Also to my lovely late mother Jemima Anderson Kabumali who fought hard for my school fees, yet ended up without seeing the fruits of her labour. Lastly, to my wife Zawadi and children Suzana, Benson and Freda for passion and courage when I was pursuing my studies.
<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>BDC</td>
<td>Bahi District Council</td>
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<tr>
<td>CAG</td>
<td>Controller and Auditor General</td>
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<tr>
<td>CSRC</td>
<td>Chinese Security Regulatory Committee</td>
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<td>DT</td>
<td>District Treasury</td>
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<td>HoD</td>
<td>Heads of Departments</td>
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<td>LAFM</td>
<td>Local Authority Financial Memorandum</td>
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<td>LGA</td>
<td>Local Government Authority</td>
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<td>NAS</td>
<td>Non Audit Services</td>
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<td>NBAA</td>
<td>National Board for Accountants and Auditors</td>
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<tr>
<td>PMO RALG</td>
<td>Prime Minister’s Office Regional Administration and Local Government</td>
</tr>
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<td>REPOA</td>
<td>Research for Poverty Alleviation</td>
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<td>URT</td>
<td>United Republic of Tanzania</td>
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ABSTRACT

This paper develops a theoretical model on audit committee effectiveness after reviewing related previous studies. Corporate governance is believed as means of improving economic efficiency in a country. Corporate governance rules have economically significant impact on firm value. Previous literature generally argue that inclusion of independent, knowledgeable and expert members and delegation of adequate authority make an audit committee effective which plays significant role in the areas of financial reporting, internal auditing, risk management, dealing with external auditor, and compliance issues. Academic literature suggests that audit committee effectiveness has significant positive impact in minimizing agency conflicts and protecting stakeholders’ interests.

The research objective was to assess the efficiency of Audit Committee in strengthening public finance management in local government authorities. Several specific objectives were developed among them were to assess the impact of Audit Committee’s setup, composition and appointment in strengthening financial management and to identify factors affecting performance of Audit Committee.

The research methodology adopted was a case study research design in Bahi district council. Data collection methods comprised interviews, questionnaires and documentary review. The methods used for data analysis and processing were qualitative and quantitative as well as descriptive procedures.

The study findings revealed that objective and independent audit committee strongly improves the effectiveness of internal and external auditors, but several factors hinder the efficiency of the audit committees in executing their responsibilities of enhancing accounting and auditing functions. Based on the above, it is recommended among others that the current set up, composition and appointment of audit committees be overhauled and establish an objective and independent audit committees in all councils.
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CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.1 General Introduction

This chapter introduces the study on the assessment of efficiency of audit committee in strengthening public finance management in local government authorities. The chapter starts with the background to the study and entails among other things, the rationale to the study, the research problem statement, the hypothesis, and objectives of the study, the research methodology and limitations of the study.

1.2 Background to the study

In order for the public sector to deliver public services and achieve its policy objectives, it is critical that public finances are managed well (NBAA, 2011).

There is an increasing pressure for entrusted officials to demonstrate a high level of accountability over the use of public resources. This can only be achieved if there is a sound internal control system, good corporate finance and sound, efficient, independent and competent audit committee.

Audit committee is a corner stone of corporate governance (Smith, 2006). The importance of corporate governance became dramatically clear in 2002 as a result of fall down of big corporation in the world as a result of dishonest and acts of frauds by the management and audit firms (Smith, 2006). This resulted into destruction of billions of dollars of shareholders’ wealth, the loss of thousands of jobs, criminal investigations of dozens of executives and record-breaking bankruptcy filings in the world. It was apparent that there was deliberate move within the management to confiscate the resources entrusted to them by shareholders. Even auditors failed to give early warnings on the bankrupt companies.

1
Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.

Users of financial reports or statements are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.

The call for accountability is demanding change from all levels of the public sector in many countries nowadays, Tanzania being no exception.

1.3 Statement of the Research Problem

The impact of efficient Audit Committee in strengthening financial management in local authorities forms the question of study due to a number of reasons. First it has taken long time for local authorities to establish audit committees.

Circular No CHA/3/215/01 of 27th of November 2007 issued by the Prime Minister’s Office- Regional Administration and Local Government was the beginning of the establishment of Audit Committee. Even those few LGAs with audit committees are not performing well as per objective of its establishment and expectation of the government.

Many weaknesses have been observed in Controller and Auditor General’s report of 2011-salaries paid to ghost workers, inadequate internal control system, poor
management of development projects, non-compliance with the Public Procurement Act and its underlying regulations, fictitious price in the maintenance and procurement of spares and fuel, implementation of CAG’s recommendations, and excessive allowance payments in relation to the costs of projects implemented.

These weaknesses/issues have partly been contributed by absence or weaknesses in internal audit and Audit Committee functions in respective councils. Many Audit Committees have been established as a matter of formality. In some areas they are seen to be like rubber stamps. Accounting Officers have been vested with great powers to appoint Audit Committees; this hinders independence of the committee. On the other hand the composition and competence of the members is still a puzzle which has yet to be tackled. Thus there is a big gap created by the role of Audit Committee in local authorities. This study therefore intends to examine the efficiency of Audit Committee in strengthening public finance management to minimize if not curb misuse of public resources and ensure high integrity and quality service delivery to the public.

1.4 Objectives of the study

1.4.1 General objective

The general objective of this study was to examine efficiency of audit committee in strengthening public finance management in local government authorities.

1.4.2 Specific objectives

The study was guided by the following specific objectives:-

i) To assess the impact of Audit Committee’s setup, composition and appointment in strengthening financial management and control.

ii) To assess the independence of Audit Committee in executing its functions

iii) To identify the relationship between Internal Audit and Audit Committee

iv) To establish factors affecting performance of Audit Committee.
1.5 Research Questions

Throughout this study the following research questions were addressed:-

i) What is the impact of Audit Committee’s setup, composition and appointment in strengthening financial management and control?

ii) Does the Audit Committee perform its duty independently?

iii) What are the relations between Internal Audit and Audit Committee?

iv) What are the factors that hinder effective performance of Audit Committee?

1.6 Significance of the study

The study examines efficiency of audit committee in strengthening public finance management in local government authorities. The significance of this research will be well understood keeping in view the following points:

First, it is expected that the findings from this study will help to improve or overhaul the setup, appointment criteria and composition of the audit committee.

Second, it will assist the audit committees to directly improve the quality of financial reporting, for example by monitoring senior management or by improving communication between internal and external auditors. Forcing local authorities to form independent audit committees is unlikely to have significant benefits for Accounting Officers who are unwilling to be monitored.

Third, the findings will provide policy-relevant evidence as it has investigated what audit committees actually do, thereby providing an assessment of the interaction between senior management, audit firms, and audit committees.

Fourth, this study can also be used as a reference guide to candidates who prepare themselves for research projects. In addition, the students who are aspiring to go further on corporate management related disciplines will find this study helpful by broadening
their knowledge, skills and tactics in understanding various factors that hinder effective performance of Audit Committees in other councils and suggest the ways to overcome them given the differences in locations, education and income levels of the key players such as finance committees as well as political set up in respective councils.

Last, the researcher himself has duo advantages; for this study will fulfil the partial requirement for the award of the degree of Master of Science in Accounting and Finance from Mzumbe University and the study may add an input to policy makers in issues of corporate management and finance management in local government authorities as far as internal audit and audit committee is concerned.

1.8 Limitations of the study

Normally having large populations have an added advantage in generalizing the research findings. But because of the time factor set to accomplish this study, logistics of undertaking the research, location of the study area, human factors as well as financial issues compelled the researcher to be confined to a single district council. Thus Bahi district council was selected to represent local government authorities from Dodoma region and other LGAs in Tanzania although this may not necessarily provide a basis for drawing a logical conclusion for all local authorities in Tanzania due to above noted factors.

1.9 Delimitation of the study

The study investigates the efficiency of Audit Committee in strengthening audit committees in LGAs. Only one council has been selected to represent other councils. Due to coverage of the study and the number of respondents interviewed, the findings cannot be generalized to apply to other councils. Much council status differs in terms of location, number of employees (staffing), availability of donors, financial resources, and level of economic development and attitude of the Accounting Officers.
CHAPTER TWO  
LITERATURE REVIEW

2.1 Introduction

Many authors have pointed out with great emphasis the importance of reviewing critically the work done by other researchers in similar fields in order to grasp the knowledge and identify the gaps that exists.

In Jankowicz (2005) quoted by Saunders et al., (2009.59) says “the work that you do is not done in a vacuum, but builds on the ideas of other people who have studied the field before you. This requires you describe what has been published, and to marshal the information in a relevant and critical way”.

This chapter therefore shall review the literature related to assessment of audit committees’ efficiency in strengthening public finance management in local government authorities. This study is expected to add knowledge and bring about awareness to the public.

2.2 Theoretical aspect

2.2.1 Audit Committee

According to Tuteja and Malubi (2011) audit committee is a committee consisting of non-executive directors which is able to view an entity’s affairs in a detached and independent way and liaise effectively with the internal auditor, external auditors and the Board.

On the other hand Controller and Auditor General define Audit Committee to be a standing committee of the Board of Directors whose purpose is to assist the Board in fulfilling its oversight responsibility.
American Institute of Certified Public Accountants define an audit committee as "A committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting process of the issuer and audits of the financial statements of the issuer; and if no such committee exists with respect to an issuer, the entire board of directors of the issuer."

In defining an audit committee emphasis is usually placed on its composition and functions. For instance, according to Al-Lehaidan (2006) citing the works of Canadian Institute of Chartered Accountants (CICA, 1992: 20), Marrian (1988:2) and Rickard (1993) respectively define audit committee as:

“A committee of Directors of an Organization whose specific responsibility is to review the annual financial statements before submission to the board of directors. The committee generally acts as liaison between the auditor and the board of directors and its activities may include the review of nomination of the auditor, overall scope of the audit, results of the audit, internal financial controls, and financial information for publication” , Canadian Institute of Chartered Accountants (CICA, 1992: 20)

In the view of Marrian (1988: 2), it is:

“A committee of the board normally comprising three to five directors with no operating responsibility in financial management. Its primary tasks are to review the financial statements, the effectiveness of the company’s accounting and internal control systems, and the findings of the auditors and to make recommendations on the appointment and remuneration of the external auditors”
According to Rickard (1993: 35):

“An audit committee consists of a group of senior staff, chaired by the chief executive officer or his deputy. The committee’s responsibility is to safeguard the independence of the internal audit function and ensure continual improvement in management performance and accountability by seeking action on internal audit and external audit reports”

All the above definitions agree that an audit committee is a sub-committee of the main board of directors of a company, usually formed from non-executive directors, and charged with matters relating to financial reporting, internal control systems and audit and to act as a link between the board of directors, internal and external auditors. Al-Lehaidan (2006).

2.2.2 Roles and Responsibilities of Audit Committee

Okezie (2004) as referenced by Okoye and Cletus (2006) stated that the main roles of audit committee are primarily to give added assurance to, adequacy and reliability of financial statements thereby:

i) Ensuring effective, efficient and independent performance of statutory audit because it is the intention of the company’s law that the auditors are independent of management in the discharge of their duties.

ii) Improving the communication channel of financial reporting between the auditor and the auditor.

iii) Monitoring the implementations of audit report because no report is effective without implementation.
iv) Ensuring that corporate policies and actual operations are in agreement with corporate social responsibilities by making sure that the board and management are not prejudicing shareholders’ interest.

AISG (1977) as referenced by Okoye and Cletus (2006) recommended minimum responsibilities of audit committee as follows:

i) To become duly acquainted with the audit function, both internal and external

ii) To review the effectiveness of accounting and control systems.

iii) To review annual and other financial statements prior to their submission to the board of directors

iv) To consider any matters the auditor may wish to bring to the attention of directors.

v) To devote part of its meetings to discussions between external executives serving on the committee and the external auditor.

Other responsibilities have been addressed by Johnson and Johnson (2001) and Okezie (2004) to include:

i) Review the financial statements to ensure that they disclose adequately all material matters affecting them, disclose requirements and statement of accounting standards are compiled with, and the company has consistently followed the accounting policies as stated in the notes to the annual accounts.
ii) Review audit findings and ensure that auditors’ recommendations are given due consideration.

iii) Recommend appointment and remuneration of auditors. These intend to review the effectiveness of audit functions and strengthen the independence of the auditors and their functions.

2.2.3 Functions of Audit committee

A critical analysis of the literature revealed that the functions of audit committee centre around the financial statements, external/ internal auditing, internal controls, accounting systems, and investigations. The awareness of the functions of financial reporting is created through effective functioning of the audit committee. Conventionally, the functions of audit committees are:-

i) They review company’s current accounting policies and making suggestions for possible change thereto.

ii) They determine and review the procedures for published interim financial statements, draft prospectus, and profit forecast;

iii) They evaluate the standards of internal control and financial reporting;

iv) They review the company’s financial statements;

v) They make recommendations for improving management control;

vi) They assist the external auditors in obtaining all the relevant information they require and in resolving any difficulties experienced by them in pursing their independent examinations;
vii) They deal with any material reservations of the auditors regarding the company’s management, its records and its financial accounts including the manner in which significant items are presented in them;

viii) They ensure that procedures are laid down whereby the committee, reviews rights circulars, interim statements, forecasts and financial information before they are distributed to shareholders;

ix) They review the company’s internal control procedures and rules.

x) They recommend the removal or retirement of external auditors.

2.2.4 The Development of Audit Committee in LGAs

In recent years, the accounting profession, users of financial statements and the government have expressed concern over the incidence of fraudulent financial reporting. One response on the part of companies to this concern has been the establishment of audit committees (McMullen, 1996). A historical review of the development of audit committees in various countries will highlight the importance of such committees to ensure reliable, high quality financial reporting and thus by implication the need for an effective audit committee to enhance the integrity of companies’ financial reports.

The requirement for establishment of Audit Committee in LGAs came as a result of Circular CHA/3/215/01 of 27th November, 2007 issued by PMO-RALG as well as Order No. 12 of the Local Authority Financial Memorandum 2009 that required each LGA to have Audit Committee. It stated that the committee shall be composing of not more than five and not less than three members of whom at least two members shall be nominated from the Head of Departments within the council and other two from institutions outside the council.
The main responsibilities are stipulated in the order No. 12 (5) of the LAFM 2009 as follows:

i) To approve the internal audit annual programme and strategic audit plan of the council

ii) To review all internal and external audit reports involving matters of concern to senior management of the entity and identification and dissemination of good practices.

iii) To provide advice to the Accounting Officer on action to be taken on matters of concern rose in report of the internal auditor or in a report of the Controller and Auditor General concerning the entity.

iv) Coordinate audit programme conducted by internal auditors and programme conducted by the Controller and Auditor General.

2.2.5 Objectives of an audit committee:

i) Increasing public confidence in the credibility and objectivity of published financial information.

ii) Assisting directors (particularly executive directors) in meeting their responsibilities in respect of financial reporting.

iii) Strengthening the independent position of a company’s internal auditor by providing an independent channel of communication.
iv) Strengthening the independent position of a company’s external auditor by providing an additional channel of communication

2.2.6 Role and function of Audit Committee

An audit committee is a sub-committee of the board of directors, usually containing a number of non-executive directors. The role and function of audit committee has been described by different bodies. If they happen to operate effectively, audit committees bring significant benefits. In particular, they have the potential to:

i) Improve the quality of financial reporting, by reviewing the financial statements on behalf of the Board.

ii) Create a climate of discipline and control which will reduce the opportunity for fraud.

iii) Enable the non-executive directors to contribute an independent judgment and play a positive role.

iv) Help the finance director, by providing a forum in which he can raise issues of concern, and which he can use to get things done which might otherwise be difficult.

v) Strengthen the position of the external auditor, by providing a channel of communication and forum for issues of concern.

vi) Provide a framework within which the external auditor can assert his independence in the event of a dispute with management.
vii) Strengthen the position of the internal auditor function, by providing a greater degree of independence from management.

viii) Increase public confidence in the credibility and objectivity of financial statements’

2.2.7 The Role of the Audit Committee in the Public Sector

Due to increased scrutiny in the public sector, many government agencies have been working to improve their fiscal responsibility. One of the ways they are doing this is by establishing an audit committee. Examples of effective audit committee roles include:

i) An audit committee should periodically meet with officials, management and department heads to review and monitor internal controls and preparation of financial reports.

ii) The committee should take an active role in the overall prevention and detection of fraud, while also encouraging management to establish a code of conduct.

iii) The committee should also make sure that proper fraud prevention and detection programs are in place and effective, and that there are tools in place, such as a fraud detection hotline and whistle blower policy.

iv) If an internal audit function exists, it should report directly to the audit committee. The committee can act as the "eyes and ears" of the overall internal control process. The committee should meet with the external auditors to get an independent perspective of management's efforts related to
internal controls, and to verify that the external auditor is truly independent from those involved in managing the government organization.

2.2.8 Audit committee and corporate governance

As a part of critical corporate governance mechanisms, the audit committee has an oversight function dealing with different managerial activities, corporate reporting, and auditing. This oversight includes ensuring the quality of accounting policies, internal controls, and independent auditors to enhance control mechanisms, anticipate financial risks, and promote accurate, transparent, and timely disclosure of corporate information to various users of the organization’s financial information.

According to Chang et al., (2013), the top six most frequently mentioned reasons in the CSRC corporate governance reports for having ineffective audit committees are as follows.

i) Difficulties in coordinating with related parties
ii) Lack of experience because audit committee has been established for a short period of time
iii) No clear separation of duties in the board of directors because the board of directors act as a group
iv) Few members in the audit committee
v) Changes in audit committee members
vi) The importance of an audit committee is not recognized by the firm and the board of directors.

2.2.9 The audit committee and the internal audit

In order to help the internal audit unit fulfil its responsibilities, the audit committee should:
i) Ensure that the internal auditor has direct access to the Board Chairman and to the audit committee and is accountable to the audit committee

ii) Review and assess the annual internal audit work plan

iii) Receive periodic reports on the results of internal audit work

iv) Review and monitor management’s responsiveness to the internal auditor’s findings and recommendations

v) Meet with the head of internal audit unit at least once a year without the presence of management

vi) Monitor and assess the effectiveness of internal audit in the overall context of the company’s risk management system.

2.2.10 The need for audit committee

The audit committee is established with the aim of enhancing confidence in the integrity of an organisation’s processes and procedures relating to internal control and corporate reporting including financial reporting. Audit Committee provides an ‘independent’ reassurance to the board through its oversight and monitoring role. Audit Committee may also play a significant role in the oversight of the company’s risk management policies and programs.

In Tanzania prior enactment of Public Act, 2001 there was no Audit Committee in public sector operations. The concept of Public sector Audit Committee has been adopted and adapted from governance models that operate in the private sector. As far as Local government authorities are concerned the beginning of Audit Committee was necessitated by Circular No. CHA/3/215/01 of 27th November, 2007 issued by PMO-RALG that required Local Government Authorities to establish an effective Audit Committee.

There are undoubtedly issues to be addressed in establishing an audit committee and resourcing costs to be considered. Regardless of this, the benefits are significant. A council with an audit committee:
i) Is seen as committed to high quality, objective financial reporting
ii) Receives regular appraisals of key operations and activities
iii) Benefits from enhanced communication between various functions and sectors within the council
iv) Receives independent and confidential advice on remedial action to improve efficiency, effectiveness and economy in the use of resources and
v) Is kept informed through progress reports on any remedial action underway.

An audit committee provides a bridge between councils, their management and their communities.

Information gathered in support goes beyond financial data. In particular it will provide guidance on whether the delivery of the service is providing an outcome commensurate with the resources the Council has committed. When operating effectively, an audit committee can relieve the elected members and/or management of a significant amount of unnecessary detail by highlighting only those issues that require strategic attention. Further the multi-disciplinary and independent nature of the audit committee provides access to a depth of knowledge that would assist councils address their governance responsibilities in the most effective and efficient manner.

2.2.11 Audit implication on the use of Audit committee

The credibility of an audit is to a large extent a function of auditor’s independence and this is a goal of audit committee. A review of extent literature from Okoye and Cletus, (2010) indicates that the use of audit committee has some audit implications as highlighted below:

i) The existence of an effective audit committee will act as a buffer between the auditor and the board of directors so that no undue pressure can be brought to bear on the auditor to comply with management demands. In addition, the
auditor is able to discuss and resolve any difficulties arising during the course of the audit, or to call on the committee to reinforce his views before the board.

ii) The committee is probably given the powers to review such areas as the audit plan, scope and timing of the audit, use of other auditors and internal auditors, auditor’s evaluation of internal audit procedures and the results of the independent audit. With these, additional attention is given to audit function.

iii) Although the audit committee can in no way reduce the scope of external audit as defined by statute, it can greatly assist the auditors in identifying areas requiring particular attention during the course of audit.

iv) Audit committee provides an objective internal assessment of account and internal control systems and financial statements. The external auditor has therefore a forum where weakness in the underlying systems or reservations in the presentation and disclosure of financial statements can be resolved.

v) Audit committee emphasizes on the credibility of financial reporting which results to increased public confidence in financial statements and the audit report

vi) The audit profession is very conscious of its need to raise audits standards and improve quality control. A thorough review of audit work by the committee can only facilitate such improvement.

vii) One of the problems that the auditor frequently encounters is the lack of opportunity to discuss issue with the board of directors. Sometimes, he finds it almost impossible to get beyond the operating management level other than at annual general meeting. The audit committee offers an alternative and direct
channel of communication to the board of directors, which the auditor can usefully pursue in bringing to its attention contentious financial and report matters which could give rise to a qualified report.

2.2.12 Determinants of Audit committee Effectiveness

Chang et al., (2013) indicate the following factors which determine audit committee effectiveness:

i) Audit Committee Independence
ii) Audit Committee Diligence
iii) Audit Committee Financial Expertise

2.2.13 Factors hindering the effectiveness of Audit Committee

According to Okoye and Cletus (2010) citing the work of Okezie (2004), McDonald and Thompson (2005) and Thai (2005) identified the following factors as being responsible for the ineffectiveness of audit committees.

i) They may bring about misunderstanding and conflict between management and members of the audit committees, because they may see them as infringing on their duties.
ii) They may give rise to misunderstanding by members of the board and thereof lead to divisions amongst the board of directors.
iii) The authority of the committee may be too strong that the morale of management may be affected. The management may be demotivated thereby discourage initiatives.
iv) They create more unproductive bureaucracy and divide the board vertically between executives and non-executive directors,
v) Conflict may rise between shareholders representatives and representatives of the board of directors on the headship of the committee.
vi) They are very much concerned with the protection of their own interest and therefore prefer to hide behind very well established auditors.  

vii) Lack of clearly defined objectives and benefits to be communicated to all affected parties  

viii) Members of the committee may lack the expertise and experience for an informed appraisal and recommendations on financial statements and financial reporting.  

ix) The committee may dominate the members of the board making other members passive  

x) The committee lacks independence of the management and the board of directors and therefore could be frustrated by management since it is management that funds the affairs of the committee.

2.3 Empirical literature

The empirical literature review analyses previous researches related to this to establish gap. Both published and unpublished research papers in print and electronic formats were reviewed to provide secondary information for the current study. The subsequent part provides a review of key studies conducted in and out of Tanzania.

Mashoko (2010) assessed effectiveness of audit committee functions in the financial performance of government ministries. His study conducted in six government ministries located in Dar es Salaam namely; community development, gender and children, natural resources and tourism, Home affairs, Industrial trade and marketing, labour and youth development and ministry of water. The research reveal that the government has not provided uniform direction of audit committee work relative isolation of each other, most of audit committee were not effective in performing their duties and final observed that public regulation require and empower the accounting office to decide the size of the audit committee between the range from minimum of three to maximum of five members. The researcher has come out with various
recommendations which form a base for my research study. On the issue of reviewing operating structure of Audit Committee and Internal audit function the researcher has recommended to review the current setup structure of Audit Committee and internal audit functions in the government. Independent authority to be formed for appointing members of the committee and that they should report to higher independent authority.

Marobhe (2012) evaluated factors influencing the effectiveness of audit committees in the public sector of Tanzania. In his research he used the case study design whereby the case of the government ministries was used to represent the overall public sector. In order to evaluate the factors influencing the effectiveness of audit committees in the public sector; the researcher used the frequency of audit committee meetings, the composition and structure of these audit committees as the variables to evaluate effectiveness. The findings of his study revealed that audit committees in the public sector conducted an average of five (5) meetings in the last financial year hence making them effective. However he found out that audit committees are less effective in overseeing financial matters due to the fact that they have only one (1) independent member and only one (1) member who is knowledgeable in the matters related to accounting, auditing and finance.

Zaman and Turley (2007) investigated the conditions and processes affecting the operation and potential effectiveness of audit committees, with particular focus on the interaction between the audit committee, individuals from financial reporting and internal audit functions and the external auditors. A case study approach was employed, based on direct engagement with participants in audit committee activities, including the audit committee chair, external auditors, internal auditors, and senior management. They found that informal networks between audit committee participants condition the impact of the audit committee and that the most significant effects of the audit committee on governance outcomes occur outside the formal structures and processes. An audit committee has pervasive behavioral effects within the organization and may be used as a threat, an ally and an arbiter in bringing solutions to issues and conflicts.
Audit committees are used in organizational politics, communication processes and power plays and also affect interpretations of events and cultural values.

Okoye and Cletus (2010) investigated the effectiveness of audit committee in Nigeria Public sector. To achieve the study, research questions were raised and relevant literatures were reviewed. The population of the study consisted of those sectors operating in River State in Nigeria. In order to collect the necessary data, questionnaires were administered on 36 chief executive officers of the organisations. The data generated from the study were analyzed using the mean scores. The findings revealed that audit committee strongly improves the effectiveness of internal and external auditors, but several factors hinder the effectiveness of the audit committee in executing their responsibilities of enhancing accounting and auditing functions. Based on the above, it was recommended among others that code of best practices should be made for audit committee’s effectiveness.

Saat at al., (2012) assessed factors affecting independent audit committee members in Malaysia. Their findings revealed that most of listed firms although have audit committee but they affected by autonomy of independence during conducting their duties. They argued that audit committee governing firm performance when there is higher proportion of independent audit committee members with practicing accountant experience. Further they observed that significance of audit committee members’ financial knowledge and skills, in particular accounting practitioners’ experience has been linked with their greater capability to comprehend and perform financial oversight duties effectively. Further assistance from members with accounting, auditing and/or finance experience provides the committees members with greater knowledge and awareness of the state of management’s administration of the firm’s internal control, reporting practice and financial activities in comparison to other directors’ knowledge on the same subject.
Chang et al., (2013) studied the determinants and consequences of audit committee effectiveness. They found that organisation with independent director accounting expertise, more paid supervisors, large chairman ownership, greater total assets, and Big 4 auditors are more likely to have effective audit committees; firms with a significant presence of the largest shareholder and diverse share ownership are less likely to have effective audit committees. Moreover, they observed that firms with effective audit committees are associated with less earnings management and lower audit fees, and are less likely to have modified opinions and delayed filings.

2.4 The synthesis

From the literature review of the previous studies it had been revealed that most of the researchers have come up with related problems facing audit committee in both Local Government authorities (LGAs) and public sectors in developed and developing countries. The same case applies to public and LGAs in Tanzania. Thus, there is a need for the Government intervention to establish, empower and strengthen audit committees in LGAs.

This study therefore intends to examine efficiency of audit committee in strengthening public finance management in local government authorities. The researcher has been evaluating the factors affecting audit committee in LGAs in strengthening financial management.

2.5 Conceptual Framework and Research Model

Conceptual framework is a structure designed by the researcher to show a road map of work. It can be expressed in terms of modals, variables or figures which reflect objectives of the study. The researcher has designed his own conceptual framework based on assumptions that the audit committee has direct relationship with financial
management in sense that improvement of audit committee will automatically result into improved financial management.

It is the view of the researcher that the problem of inefficient financial management emerges from challenges facing audit committee. This could be due to lack of independence, lack of financial power, and understaffing of financial expertise. All these are the main factors. However these variables cannot stand as they are to influence audit committee there are some intermediate variables such as Government policies and
Figure 2.1: Conceptual Framework

Main variable factors
a) Independence of Audit Committee
b) Financial power of Audit Committee
c) Staffing of financial expertise

Factors affecting audit committee functions

Audit committee (Dependent variable)

Intermediate Variables
a) Government policies
b) Political circumstances

Improve Public financial management (Independent variable)
- Strong performance of internal audit unit
- Efficient of control environment
- Good corporate governance
- Improved financial statements and reports

Source: Modified from various sources by Researcher, (2012)
2.5.1 Description of Framework
The Conceptual Framework has three parts: Inputs, Process and Output. The first part is concerned with audit committee following with the factors which affect it. The factors which affect audit committee are described into two main variables, namely main and intermediate variables.

The last part is improved financial management which comprises different indicators within the study area such as strong performance of internal audit unit, efficient of control environment, good corporate governance and improved financial statements and reports.

2.5.2 Description of variables
2.5.2.1 Independent audit committee
The independent audit commit fulfils a vital role of audit committee in ensuring quality reporting and controls as well as proper identification and financial management within the organisation.

2.5.2.2 Financial power
Financial power of audit committee will enable them to resist any attempt by management to compromise financial reporting and other financial irregularities. Also they will be in the position to execute their responsibilities without much dependence from the Accounting Officer.

2.5.2.3 Financial expertise staff
Financial expert of audit committee member have direct impact in weighing the risk and increasing complexities of the financial reporting of the organisation. This is due to fact that, accounting transactions are becoming complex making it difficult to understand the proper accounting treatment or related financial risk.
2.5.2.4 Governing policies and political influence

The Government of Tanzania through PMO-RALG issued a circular No. CHA/3/215/01 of 27th November, 2007 to all Local Government Authorities (LGAs) to establish an effective Audit Committee. The main objective of audit committee is to ensure the audit results and any recommended actions are implemented by the management timely.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes how the study was conducted in data collection and analysis. It describes the research design, the area of study, the research approaches, the research sampling, the population of the study, the sample size, data collection methods, the data collection instruments and the analytical tools for data analysis. The methods and techniques chosen are considered appropriate and adequate given the time and funds available.

3.2 Research Design

A house without prior design may collapse before its completion. Likewise a good research design is essential for a successful research process. (Kamuzora and Adam. 2008:74).

A research design is a logical and systematic plan prepared for directing a research study. It specifies the objectives of the study, the methodology and techniques to be adopted for achieving the objectives (Krishna Swami, 1993).

Selltiz et al., (1962) in Kothari (2004) define research design as the arrangement of conditions for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

The research design is the case study design. A case study is an in-depth comprehensive study of a person, a social group, an episode, a situation, a programme, a community, an institution or any other social unit (Krishna Swami, 1993).
It is also defined as a strategy for doing research which involves the empirical investigations of a particular contemporary phenomenon within its real-life context, using multiple sources of evidence Robson (2002) in Saunders et al., (2009). Therefore, the case study was appropriate for descriptive purposes and determination of relationships between variables.

3.3 Area of the Study

The study was conducted in Bahi District Council in Dodoma region. The area selected for study was headquarter of the Audit Committee at Bahi District Council and departments which falls within the target area and group. Some of these departments are Personnel and Administration; Planning and Finance; Education and Culture; Trade and Economic affairs; Urban Planning; Health and Social Welfare; Cooperative, Agriculture and Livestock development; and Community Development.

3.4 Research Approach

This is about how research was conducted to get the findings and conclusions. The study used both quantitative and qualitative approach to analyze the data. The data for the study was collected from Bahi District Council. The sources of information were obtained from internal auditors, Committee Clerk, Legal Officer (Committee Secretary), and District Treasury (DT), members of the audit committee and honourable Counsellors of the Finance Committee. The reason behind their selection is the role they have in controlling the assets of the council, their wide knowledge and experience. Also some of these respondents have a direct or indirect relationship with the activities of the audit committee, hence their inclusion is relevant.
3.5 Population and unity of analysis

All the items under consideration in any field of inquiry constitute a ‘universe’ or ‘population’ Kothari, (2004:14). Population refers to the full set of cases from which a sample is taken (Saunders, 2009:212). The population of this study comprised internal auditors, Head of departments (HoD), members of the audit committee and Finance committee within the council. HoD referred to consists of District Treasurer (DT), District Water Engineer (DWE), District Engineer (DE), District Medical Officer (DMO), TASAF coordinator, District Human Resource Officer (DHRO), District Agricultural and Livestock Development Officer (DALDO), District Education Officer primary and secondary, District Planning Officer (DPLO), District Natural Resources Officer (DNRO), District Community Development Officer (DCDO) and District Land Officer (DLO)

Table 3.1: Target population

<table>
<thead>
<tr>
<th>S/N</th>
<th>Name of inquiry</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance committee members</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Audit committee members</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Internal Auditors</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Head of departments and other staffs</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>


3.6 Sample Design and Sampling Procedures.

A sample design is a definite plan determined before any data are actually collected for obtaining a sample from a given population Kothari, (2004:14). According to Krishnaswami, (2003) a sample is a small group of individuals that is observed and whose findings allow generalization about the population. Data sampling will involve use of random sample or purposive sample in a population.
From the target population in Table 3.1, sample size was supposed to be not less than twenty nine (29) respondents, but to avoiding some errors the sample was increased to thirty (30). This sample size was obtained from the following formula

\[ n = \frac{NC^2}{C^2 + (N-1) e^2} \]

\[ n = 40*0.1^2 + 0.1^2 + (40-1) 0.01^2 \]

\[ n = 29 \]

Where

- \( n \) = Sample size
- \( N \) = Population size (40)
- \( C \) = Coefficient of variation (0.1)
- \( e \) = Sampling error (0.01)

### Table 3.2: Sample size

<table>
<thead>
<tr>
<th>S/N</th>
<th>Name of inquiry</th>
<th>Planned sample</th>
<th>Actual sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance committee members</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Audit committee members</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Internal Auditors</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Head of departments and other staffs</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td><strong>Total sample size</strong></td>
<td><strong>30</strong></td>
<td><strong>26</strong></td>
</tr>
</tbody>
</table>

Source: Research data, 2013

### 3.7 Data collection Methods/Techniques

In this study, the main methods which were used in collecting data involved interviews and questionnaires for primary data and documentary sources for secondary data respectively.

#### 3.7.1 Interview

The researcher sought answers to a set of preconceived questions through personal interviews. This is a two-way systematic conversation between an investigator and
informants initiated for obtaining information relevant to a specific study (Krishnaswami, 1993).

To supplement questionnaire of individual respondents, the researcher also solicited views of internal auditor, management and members of the Audit Committee. The participants were chosen under purposeful sampling with particular interest in those whose routine work or nature of their activities involved handling Audit Committee matters, those who were knowledgeable and experienced in the phenomenon under study. It was easy to probe deep into respondents experience of Audit Committee by following up with questions to obtain more information and clarification of various issues that could not have been revealed using questionnaire.

Many questions were asked in order to clarify points that needed to be made clear. It took much time and the questions were not structured to give room for a respondent to answer freely and with flexibility. The researcher visited Bahi several times to observe and interview respondents while noting down observations and responses. Alternatively the researcher switched to the use of phone conversation in order to minimize frequency of visit as the council is situated far from Dodoma town where the researcher resides. The researcher had opportunity to get insight of audit committee’s functions, working relations between internal audit and audit committee, challenges and measures to address the challenges. This has provided a researcher more reliable information and formed a basis of my discussion and conclusion on findings.

However, arranging interview was not that much easy to a researcher. Many respondents were not willing to be asked more questions and some feared to respond on the grounds that they are not spokesman of the council. Those who showed cooperation preferred to remain anonymous. On top of that it consumed much time of travel and associated cost of fare and phone.
3.7.2 Questionnaires

White, (2002) as quoted by Kamuzora and Adam, (2008), a questionnaire is regarded as a series of questions, each one providing a number of alternative answers from which the respondents can choose.

The researcher opted to use this method because he found it useful and less cost in administering. The questionnaire method was used to collect data which could provide answers to various research objectives raised in this study. In design of the questionnaire attention was paid particularly to number of questions, range of response categories, and the clarity of the instruction given. Thus in order to help the potential respondents to fill out the questionnaire without need for assistance, the questions were as easy as possible, short and precise.

A total of thirty (30) structured questionnaires were sent to various officials of Bahi DC, members of Audit Committee and finance committee respectively. Originally, the questionnaire was constructed in English, but because of the mix of respondents (especially hon. Counsellors) some questionnaires had to be translated into Kiswahili in order to permit respondents with little or no knowledge of English to participate in the survey without changing the meaning and context of the questionnaire. All questionnaires had a cover letter explaining the nature and objectives of the research and procedures that will be undertaken to ensure confidentiality. The structure of the questionnaires framed based on three types of answering techniques namely; rating-based, selective based (closed) and open-ended format.

Rating-based questions and selective-based questions required respondents to tick in the box or boxes as appropriate, for example, YES and NO or CONFORTABLE and NOT CONFORTABLE. The Open ended structured questionnaires were employed to gather more information on efficiency of Audit Committee in strengthening public finance management in LGAs. In this study, Audit Committee members, members of the finance committee, internal audit unit, management and other staff relating with this
subject matter were the key informants. The respondents were provided with questionnaire to freely respond their views on what has been asked. Respondents were free to fill in the questionnaires to the best of their knowledge without interference. The members of staff from the list of the selected workers used to respond to it at their own time agreed with the researcher.

The total number of returned questionnaires, which were received and duly completed, reached twenty six (26) copies. This represents approximately 87% response rate. Hence, the analysis was based on data generated from twenty six (26) respondents. The number of questionnaire distributed; the response rate and extent of the information collected through the questionnaire are shown in Table 3.1

However a number of problems confronted the researcher in a course of collecting data through questionnaire. Al Lehaidan (2006) quoting Matthews (2002) suggested that all surveys had weaknesses. For instance, respondents might lie or give the answers that they think are expected of them or which show themselves and their firms in the best light. This could be noted in the respondents’ answer for the level of satisfaction with the management and control public funds and the quality of financial reports after establishment of the Audit Committee in Bahi DC. Many responded to be highly satisfied contrary to CAGs observation; it is possible that the questionnaire may have lacked clarity in certain sections causing respondents to interpret questions differently. To overcome the above challenge researcher used interview to supplement questionnaire.
<table>
<thead>
<tr>
<th>S/N</th>
<th>Questionnaire</th>
<th>Number of Questionnaires distributed</th>
<th>Number of Questionnaires responded</th>
<th>% of Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Do you know what Audit Committee mean</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>2</td>
<td>Do you have Audit Committee in your council?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>3</td>
<td>Is it crucial to have Audit Committee in councils?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>4</td>
<td>When was it (Audit Committee) established?(Date)</td>
<td>30</td>
<td>17</td>
<td>57</td>
</tr>
<tr>
<td>5</td>
<td>How do you grade the overall efficiency of Audit Committee in your council?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>6</td>
<td>Do you have internal audit unit in your council?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>7</td>
<td>How do you grade the overall efficiency of internal audit unit in your council?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>8</td>
<td>Currently the Audit Committee composes of Executives from outside and non-executive</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>No.</td>
<td>Question</td>
<td>Response1</td>
<td>Response2</td>
<td>Response3</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>9</td>
<td>Officers...are you comfortable with the composition?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Does your council have any Audit Committee charter?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>11</td>
<td>Is there any relationship between Internal Audit and Audit</td>
<td>30</td>
<td>24</td>
<td>80</td>
</tr>
<tr>
<td>12</td>
<td>How often does Audit Committee meet per year?</td>
<td>30</td>
<td>21</td>
<td>70</td>
</tr>
<tr>
<td>13</td>
<td>Does the Audit Committee have power to enquire any officer for not performing his</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>14</td>
<td>Is there any improvement in management and control of public funds in your council after establishment of Audit Committee?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>15</td>
<td>Is there any improvement in quality of financial reports after establishment of Audit Committee?</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
<tr>
<td>16</td>
<td>Do you think the current set up of Audit</td>
<td>30</td>
<td>26</td>
<td>87</td>
</tr>
</tbody>
</table>
Committee suffices the objective?

<table>
<thead>
<tr>
<th></th>
<th>Is your Audit Committee independent?</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>30</td>
<td>25</td>
<td>83</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Is the Audit Committee confronted with any challenges in your Council?</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>30</td>
<td>26</td>
<td>87</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysed data, 2013

3.7.3 Documentaries Review

Secondary data are data obtained from literature sources or data collected by other people for some other purposes Kamuzora and Adam (2008). Thus secondary data provide second hand information and include both raw data and published ones (Saunders et al 2009). Secondary data for this study were collected from different sources including audit committee minutes, different circulars issued by Prime Minister Office regional and local government (PMO - RALG). Mzumbe university library was also visited for further literatures.

3.8 Data Analysis and Processing

Processing implies editing, coding, classification and tabulation of collected data so that they are amenable to analysis. The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data-groups (Kothari, 2004:122)

All primary data collected were organized, summarized, coded and then analysed according to responses from the respondents of various cadres within the council. After successful completion of data collection, the questionnaires were edited furthermore to determine degree of response and number of questionnaires which have been received
from respondents. This approach was helpful in identifying the different opinions in the same group to identify similarities of the opinion about the specific aspect in the same group and to identify similarities between different groups that led to conclusion. Tables have been used to organize data which then has been summarized and presented in graphical forms. Collected data has been analysed using both qualitative and quantitative approaches between April 2013 and July 2013.
CHAPTER FOUR
PRESENTATION AND DISCUSSION OF THE RESEARCH FINDINGS

4.1 Introduction

This chapter presents the data collected and gives an explanation on how data were analysed and processed using various research instruments appropriate for the study. It aims at analysing data collected through questionnaire interview and observation. It is in this chapter that all the findings are discussed. Data collected during the study period were guided by some key research questions so as to achieve the study objective. The purpose of the research was to see if the audit committees in LGAs are effective with the following main objective.

i) To assess the impact of Audit Committee’s setup, composition and appointment in strengthening financial management and control.
ii) To assess the independence of Audit Committee in executing its functions
iii) To identify the relationship between Internal Audit, Accounting Officer and Audit Committee
iv) To establish factors affecting performance of Audit Committee

Thus, questionnaires have been analysed with the four above objectives in mind. All opinions have been analysed carefully to accommodate both positive and negative response from respondents in order to draw realistic and reliable conclusion and come up with recommendations.

4.2 General information of Respondents

A total of thirty (30) questionnaires were distributed to staff and finance committee of Bahi District Council, of which twenty six (26) questionnaires were completely filed
and returned making questionnaires return rate of 87%. Table 4.1 indicates the highest questionnaire return from respondents.

**Table 4.1: Narration of Responses**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Name of respondent</th>
<th>Questionnaire distributed</th>
<th>Questionnaires returned in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Audit committee members</td>
<td>5</td>
<td>5(19)</td>
</tr>
<tr>
<td>2</td>
<td>Heads of department and other staffs</td>
<td>18</td>
<td>14(54)</td>
</tr>
<tr>
<td>3</td>
<td>Finance committee members</td>
<td>7</td>
<td>7(27)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>30</td>
<td>26 (100)</td>
</tr>
</tbody>
</table>

Source: Analysed data, 2013

The study collected information from seven finance committee members who constitute 27% of all respondents, 5(19%) members of Audit Committee and eighteen members of staff who are heading various departments in the council, Accountants and Economists who in this study have been categorised as other staff. These constitute 54% of all respondents. Some of the staffs were not interviewed as it was planned before due to transfer of some of them, for instance Auditors. The Audit office remained with only one auditor (the head of the unit)

**4.3 Respondents’ perception of the questions**

**4.3.1 Awareness of Audit Committee**

From the findings (presented in Table 4.2) it can be revealed that majority 23(88%) of the respondents are aware with the meaning and function of audit committee. About 3(12%), two being finance committee and one from the category of HoD/other staff don’t know meaning of audit committee. Despite that 2(29%) finance committee members were not aware of the meaning and functions of the audit committee yet they responded positively that it is crucial to have audit committee in councils as shown in
Table 4.5. All seven finance committee members agreed that it crucial to have audit committee.

This shows that there is weakness in information sharing within the council. When approached for face to face discussion their main concern was that the council lacks the culture of orientation and system of information dissemination is poor. This renders difficult to audit committee members when they feel like getting secret information from the members/staff that seem not to be aware of the presence and responsibilities of the audit committee.

Table 4.2: Awareness of meaning of Audit Committee

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance committee members</td>
<td>5(71%)</td>
<td>2(29%)</td>
<td>7(100%)</td>
</tr>
<tr>
<td>Audit committee member</td>
<td>5(100%)</td>
<td>0</td>
<td>5(100%)</td>
</tr>
<tr>
<td>HoD/Other staff</td>
<td>13(93%)</td>
<td>1(7%)</td>
<td>14(100%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23(88%)</strong></td>
<td><strong>3(12%)</strong></td>
<td><strong>26(100%)</strong></td>
</tr>
</tbody>
</table>

Source: Field data, 2013

4.3.2 Presence of Audit Committee

Respondents were also asked about their awareness on existence of audit committee in Bahi district. All respondents 24(92%) except two equivalent to 8%, said that the council have the Audit committee as shown in Table 4.3. The reason for two members of finance committee and a member of staff not being aware of the existence of audit committee in their council was that the finance committee member was just elected to fill the vacancy and did not happen to witness or hear any meeting being held or any information about the audit committee; whereas member staff seem to be a new employee with the council. This is clear indication that channels of communications within the council seem to be weak otherwise one could have knowledge of the existence of audit committee during orientation. This is evident from comment of one member of the Finance Committee, who said:
Our people (I mean workers) are not committed to work for the community; everyone is busy with his personal affairs. A lot are being done without our knowledge...

<table>
<thead>
<tr>
<th>Name of respondent</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance committee member</td>
<td>6(86%)</td>
<td>1(14%)</td>
<td>7(100%)</td>
</tr>
<tr>
<td>Audit committee member</td>
<td>5(100%)</td>
<td>0</td>
<td>5(100%)</td>
</tr>
<tr>
<td>HoD/Other staff</td>
<td>13(93%)</td>
<td>1(7%)</td>
<td>14(100%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24(92%)</strong></td>
<td><strong>2(8%)</strong></td>
<td><strong>26(100%)</strong></td>
</tr>
</tbody>
</table>

Source: Field data, 2013

4.3.3 Presence of Internal Audit Unit

The study was able to find that there is internal audit unit in the council. This question was posed in order to get views on the presence, efficiency and effectiveness of the unit in all matters including that of creating channel of communication to Audit Committee. Half of the respondents (50%) graded the unit as efficient and moderate respectively as shown in Figure 4.1. The reasons for rating efficiency of internal audit unit as moderate were due to shortage of manpower in the Audit unit. Currently the unit which is supposed to accommodate four personnel has only one staff who heads the unit such that it cannot contain the current workload of the internal audit activities hence not efficient to undertake overall activities related with control environment, risk assessment, policies and procedures as well as monitoring. The reasons for under staffing were given to be caused by transfer of some audit personnel, presence of vacant posts which need to be filled and voluntary termination of services for search of good working environment and green pastures.
4.3.4 Establishment of Audit Committee

When respondents were asked about when the audit committee was established, different answers were given. 1(5.9%) said 2005, 11(64.7%) said 2007 and 5(29.4%) said 2008. From interview made with the internal auditor, the committee was established in 2008, thus only 5(29.4%) managed to respond correctly. However 12 (70.6%) respondents seem to have no correct information. This is because the council is still very young, it has just been established in 2007 from the former Dodoma Rural. Also there is always movement of staff from one council to another due to transfer and employment of new staffs to fill the vacant posts. The current Audit committee itself is very new and young due to transfer of the former non executive staff who formed the team. It is evident therefore that most of them (the respondents) are not well oriented and informed.

Source: Field Data, 2013
Table 4.4: Establishment of Audit Committee

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1</td>
<td>5.9</td>
</tr>
<tr>
<td>2007</td>
<td>11</td>
<td>64.7</td>
</tr>
<tr>
<td>2008</td>
<td>5</td>
<td>29.4</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

4.3.5 Importance of Audit Committee

When asked whether it is crucial to have the audit committee, all eight finance committee said that it is crucial. For the case of audit committee members, HoD and other staff majority (85%) said it is crucial and only 15% said it is not crucial. For audit committee members to say that the committee is not crucial probably it implies that there is something wrong. From the oral interview made with some of the respondents, showed their concern that due to nature of its appointment, set up and responsibilities expected to be conferred by the committee the objectives of its establishment cannot be made. The Audit Committee is seen as a rubber stamp and burden to the young council, thus not crucial as shown in Table 4.5.

Table 4.5: Importance of having Audit Committee

<table>
<thead>
<tr>
<th>Category</th>
<th>Crucial</th>
<th>Not crucial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance committee member</td>
<td>7(100%)</td>
<td>0</td>
<td>7(100%)</td>
</tr>
<tr>
<td>Audit committee member</td>
<td>2(40%)</td>
<td>3(60%)</td>
<td>5(100%)</td>
</tr>
<tr>
<td>HoD/Other staff</td>
<td>13(93%)</td>
<td>1(7%)</td>
<td>14(100%)</td>
</tr>
<tr>
<td>Total</td>
<td>22(85%)</td>
<td>4(15%)</td>
<td>26(100%)</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

4.4 Audit Committees’ Setup, Composition and Appointment

The aim of this was to evaluate objective one which used to assess the impact of audit committee setup; composition and appointment in strengthen financial management and
controls in local government authorities (LGAs) in the study area. In order to evaluate this objective, context of composition of audit committee, frequency of meetings of audit committee, improvement of control of public funds and quality of financial report were considered.

4.4.1 Level of Satisfaction of Audit Composition

When asked if the respondents were comfortable with the composition of the audit committee, majority of them 20(77%) were comfortable with the composition, among them 4(57%) were finance committee and 3(60%) were audit committee members, while 13(93%) were head of department (HoD) and other staff. However there was an adverse response from 6(23%) respondents who were not comfortable with the current composition of two executives from outside and three non-executive officers from within the council as summarised on Table 4.6. This implies that the current set up and composition need to be rectified to suit the working environment, needs and objective of establishing it.

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Comfortable</th>
<th>Not comfortable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance committee members</td>
<td>4(57%)</td>
<td>3(43%)</td>
<td>7(100%)</td>
</tr>
<tr>
<td>Audit committee members</td>
<td>3(60%)</td>
<td>2(40%)</td>
<td>5(100%)</td>
</tr>
<tr>
<td>HoD/Other staff</td>
<td>13(93%)</td>
<td>1(7%)</td>
<td>14(100%)</td>
</tr>
<tr>
<td>Total</td>
<td>20(77%)</td>
<td>6(23%)</td>
<td>26(100%)</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

These observations relates with the observation conducted on interview, where by one respondent from council staff said that;

_Bahi District council has audit committee member who appointed by Council Director as per regulation. Normally their appointment depends much on advice from internal audit staff._

45
From above statement implies that majority of respondent were satisfied with the composition of audit committee members. The composition of audit committee members comprises a total of five members of which three members are non executive members from within the council, while 2 members are from outside the council.

4.4.2 Frequency of Meetings

This question was raised in order to check consistence, timing and schedule of meetings of the committee. It is from regular meetings that a formalized reporting procedure can be adhered. Meetings will provide a reliable channel of communication to management, internal and external auditors and other parties. Frequency of meetings provides a clear picture of the existence, efficiency and effectiveness of the Audit Committee in executing its roles. The response of this question resulted into mixed views and answers. Of all twenty one respondents, 11(52.4%) said the Audit Committee meet four times whereas a total of 10 (47.6%) respondents said Audit Committee meet once, twice and thrice per year respectively. It is clear evidence that meetings are done as a matter of formality without observing best practice.

From the findings it was revealed that the council has scheduled the Audit Committee to have four meetings annually. This also contradicts with the oral interview made with some respondents who argued that there exists no proper timetable for meetings. They meet on demand by the DED, normally at the end of the accounting period, as a matter of formality and means of avoiding costs of the meetings. It is clear evidence that there were no improvement of the quality of audit and accounting functions of the council. Figure 4.2 below shows more of the findings.
4.4.3 Audit Committee versus Control of Public Fund and Quality Financial Report

These questions were posed in order to search for views from respondents’ about the impact after establishment of the audit committee. From the literature it is clear that having an effective, efficient, independent, competent and unbiased Audit Committee result into:

i) Improvement of the quality of management accounting,

ii) Facilitate communication between the directors, internal and external auditors and management

iii) Help minimize any conflict between management and the auditors, and

iv) It can facilitate the independence of the internal audit role if the internal auditors report to the audit committee directly.
Many respondents, 91.7%, said there is improvement in management and control of public funds whilst 8.3% who said there is no improvement. On the other hand 88% respondents argued that there is improvement in quality of financial reports after the establishment of Audit Committee in Bahi district council while 12% said there is no such improvement in the quality of financial reports. It is from the above findings that there is improvement in management and control of public funds as well as the quality of financial reports as indicated in Figure 4.3 below.

Figure 4.3:  Level of satisfaction on improvement

![Level of satisfaction on improvement](image)

Source: Field Data, 2013

4.4.4 Set up of Audit Committee

From the literature, the key objective associated with the setting up of Auditing committees, from the point of view of corporate Governance generally are to increase public confidence in the credibility and objectivity of financial information, to assist the directors in carrying out their responsibility for financial reporting and strengthen the position of the external auditors by providing a channel of communication at Board
level without the constraint of any executive bias. The general response to this questionnaire resulted into 50% respondents saying YES and rest 50% saying the current set up of Audit Committee does not suffice the objective. This is clear indication that the set up of audit committee need to be overhauled in order to meet the objectives of establishing it.

**Figure 4.4: Responses on Audit Committee sufficing the objectives**

Source: Field data, 2013

### 4.4.5 Efficiency of the Audit Committee in the study area

Survey question number five required respondents to grade efficiency of their Audit Committee. This was aimed at understanding the strength and efficiency of the Audit Committee as it has been established in literature that Audit Committee are designed to act as an independent voice on the Board of Directors with regard to audit and corporate Governance issues and is a valuable asset, particularly with respect to maintaining the independence and integrity of the internal audit functions but because of the set up and nature of its establishment many are seen to underperform in providing a proactive oversight functions.
From the study, it was observed that 50% commented that audit committee is efficient on performing their duties while other 50% said moderate. However, substantial difference was recorded when interviewed individually. They commended that in reality the committee does not perform effectively. Their comment relates with the comments raised when assessing the extent of their satisfaction with the efficiency of audit committee activities. From individual interview many disclosed that they are not comfortable. Therefore, it is clear indication that some improvements are needed from the management so as to ensure smooth execution of audit committees’ responsibilities.

Table 4.7: Grading of efficiency of Audit Committee

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td>Not Efficient</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Moderate</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field data, 2013

4.5 Assessment of the Independence of Audit Committee

Independence of audit committee was used to assess the objective two of which the issue of power to enquire the management for not performing their part was considered.

In this context as found in literature search Audit Committee is empowered to study or investigate any matter of interest or concern within the purpose of the Audit Committee that deems appropriate or necessary and shall have the sole authority to retain and mandate outside counsel or other experts for this purpose, including the approval of the fees payable to such counsel or experts and any other terms of retention.

Basing on the questionnaire distributed it was revealed that twenty six responded on the question out of which 20 (77%) respondents agreed that the Audit Committee have power to enquire, whereas 6 (23%) respondents said the Audit Committee cannot
enquire any officer for not performing his party. Table 4.8 summarised those observations.

### Table 4.8: Shows Audit Committee’s power to enquire

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>77</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research data, 2013

However, from the finding it was observed that independence of the audit committee is affected by many factors in the council. Those factors which affect the audit committee are due to lack of financial resources. In the study area it was revealed that audit committee member depend solely from management of which on the other side is the auditee. As it was revealed in literature search that independence pose a great challenge as the committee composes of the majority non executive officers from the management. Under normal circumstances it cannot be independent of management team. A best practice for Audit Committees is to ensure that the Audit Committee members are independent of management in order to be truly objective in the discharge of their duties. It is not always easy to resist strong management, or tell them what they don’t want to hear. Changing the balance is more important in order to ensure integrity of the team and allow oversight functions to be done effectively.

When question sixteen was asked to enquire if the Audit Committee is independent the response to the question was supported by 13(52%) while 12 (48%) said the Audit Committee is not independent as summarised on Table 4.9. It was interesting to note from the study that at least two (2) external members of the Audit Committee comprised of competent experienced executives with wide range of business and professional skills in accountancy. Thus it can carry out its role, be independent and free from bias.
Unfortunately the three non-executive members comprised of the staff that are heads of departments who are also part and parcel of the management team.

This observation is contrary to observation of the majority of staffs interviewed where by one of their comments said that;

*The audit committee members are not independent to management in the discharge of their duties. It is not always easy to tell the management what they don’t want to hear.*

<table>
<thead>
<tr>
<th>Table 4.9: Independence of Audit Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Field data, 2013

4.6 Relationship with Internal Audit Unit

This was used to identify objective three of this study. This question was asked in order to examine the working relationship between internal audit and audit committee where the two can capitalize on what they both bring to the LGAs governance arena. It is imperative that both should function as a working team in order to be effective.

Audit Committee have a role to assess the performance of the internal audit function, support and promote the audit function within the organisation. Ideally, Internal Audit serves as the eyes and ears of the management and Audit Committee, essential component in the systems of checks and balances.

A total of twenty four respondents answered this question. Many, 23 (95.8%) respondents strongly commented the existence of relationship between internal audit and Audit Committee. Having such relation under normal circumstances is an indication
of existence of effective audit committee capable of working with internal audit function which will then promote sound corporate governance and a sound financial management in the council. However from the interview made directly with some respondents, from reports of CAG the opposite was true.

Table 4.10: Relationship between internal audit and audit committee

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>95.8</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>4.2</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field data, 2013

4.7 Factors Affecting Performance of Audit Committee

This is used to evaluate objective four of this study. The quality of financial reporting has to be maintained in order to ensure some measure of credibility on the information contained in it. Some of the factors affecting performance of audit Committee according to the response include financial literacy of audit committee members; frequency of audit committee meetings; multiple directorships of audit committee members; independence of audit committee members; external auditors’ quality; and interaction between independence of audit committee and external audit.

From the literature, corporate governance and the Audit Committee, like any other organizational structure, are significantly affected by the legal, institutional, financial, cultural and political circumstances in each country. The intention of the questionnaire was to establish reasons which appear to hinder performance of the Audit Committee in the council.
4.8 Performance of the Audit committee

When the issues of performance were asked from the respondent, more respondents were not satisfied with the performance of audit committee. In order to have an understanding of weakness in performance of the audit committee, this statement, from one of the interviewee is crucial:

\[ \text{Audit committee has not effectively carried out its responsibility. It is just working as a management committee rather than advisory committee for the future of the organisation; ....you will never know what they do; ....and what becomes critical for the organisation.} \]

This is an important statement that opens eyes to the different aspects of audit committee, which is weakness in performance of the audit committee. Table 4.10 noted weakness of the audit committee in study area.

<table>
<thead>
<tr>
<th>No</th>
<th>Performance gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>There is no audit committee charter</td>
</tr>
<tr>
<td>2</td>
<td>No proof was obtained to justify that duties were carried out as required</td>
</tr>
<tr>
<td>3</td>
<td>No proof was obtained relating to the review of the annual internal audit plan</td>
</tr>
<tr>
<td>4</td>
<td>Audit committee did not meet with external auditors to discuss unresolved issues</td>
</tr>
<tr>
<td>5</td>
<td>Lack of funds to facilitate the works</td>
</tr>
<tr>
<td>6</td>
<td>Accountability on the part of management is impairing their responsibilities</td>
</tr>
<tr>
<td>7</td>
<td>Audit committee did not make the assessment of the overall risk environment of the Council</td>
</tr>
</tbody>
</table>

Source: Analysed data, 2013
Given the interviews, it is clearly shown that the audit committee at the study area does not function well according to the regulations so as to be able to exercise better financial controls.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the discussion of the findings and conclusions derived from the study, recommendations and specific recommendations for future research are presented. It takes into consideration the results obtained in the literature search and empirical research in relation to research objectives and questionnaire set out in previous chapters.

5.2 Summary of the Research Findings

The study aimed at assessing efficiency of audit committee in strengthening public finance management in local government authorities. A study made to Bahi District Council revealed divergent views on various issues raised from the questionnaire as evidenced from the response analysis presented in various figures and tables.

It was noted from the study that although there exists Audit Committee in the council, each operates in its own manner. So far there are no performance standards, directives and guidelines set out by the responsible authorities. The study further noted absence of formal written Audit Committee charter for the committee to work on it annually. The prevailing structure is that the internal audit unit is reporting directly to the DED who is solely the Accounting Officer as far as administration of the council is concerned. In principal the internal audit unit activities are supposed to be communicated directly to Audit Committee which is being appointed by the same Accounting Officer. This creates much confusion in execution of one’s responsibilities.

Also the study noticed weakness on efficiency of Audit Committee. Audit committees are significant help to governing boards in effectively performing their fiduciary and
oversight roles in ensuring reliable financial reporting, reducing risk, and maintaining donor and public confidence (for example avoiding legal problems and preventing the negative consequences that inevitably result from financial fraud or irregularities).

A description of how the audit committee deals with issues would provide greater insight into the efficiency and effectiveness of the audit committee and greater comfort over the company’s governance. Formation of the committee is seen as a matter of formality required by the Public Finance Regulations of 2001. Furthermore, the Audit Committee meetings are held once per year on discretion of the Executive Officer contrary to the four scheduled meetings per annum.

This implies those overall objectives of establishing the committee can never be met; thus weakness in financial management. The ability of Audit Committee, Internal Audit unit and Accounting Officer working together and maintains a direct line of communication has a significant impact on how well the Audit Committee can fulfil its mandated responsibilities. The study revealed that neither the Audit Committee of Bahi nor the Internal Audit and Accounting Officer (DED) play this role actively. The Audit Committee reports to management and in some cases there was no evidence of the internal audit report to pass through the Audit Committee. Moreover, the study noticed the internal audit unit is not free to report control weaknesses (particularly those resisted by management) to the audit committee on a confidential basis for fear of reprisal. In principal auditors are required to report all significant deficiencies and material weaknesses, in writing, to the Audit Committee. Further it was noted that Audit Committee was not undertaking its common functions of reviewing and consideration of internal audits and management responses to the reports, follow up of recommendations from internal Auditors findings as well as review of annual audit work plans.

From the findings, the Audit Committee was seen to have no power against the management in situation where the management happens to fail to take proper actions
on findings and recommendations reported by external or internal auditors. Even the Public Finance Act 2001 as revised in 2004 does not confer such power. This in totality implies that the committee is not efficient as it lacks independence and power to execute oversight functions.

5.3 Conclusion on the Research Findings

The study assessed efficiency of Audit Committee in strengthening Public Finance Management in LGAs. It highlighted the roles that Audit Committee have to play in order to form and maintain an effective and independent oversight committee capable of providing assurance as to the reliability of the financial statements prepared by the management. Audit Committee is viewed as one of the core elements in enhancing good governance.

In order to protect the public in general and those using the services of accountants in particular from unscrupulous operators in the accountancy profession, the need for audit committee arises. The concept of audit committee as initially introduced in the United States and United Kingdom is a composition of non-executive directors which is able to view a company’s financial position in an independent manner. But the concept was introduced in Tanzania with certain modifications. The idea of non-executive independent directors was substituted by including executive directors representatives as members of the committee. In general terms, audit committee enhances and improves the effectiveness of both the internal and external auditors as it adds credibility to financial reporting and improves the quality audit and accounting functions. Though audit committee makes auditing easier for the auditors and the council, certain factors hinder its effectiveness as discussed below.

The first objective of the study was to assess the impact of audit committee setup, composition and appointment in strengthening financial management in study area. The finding of the study revealed that number of executive members from outside be
increased to give them a voting power. Currently as we have seen in the study the number of executive member from outside are only two while from the within the council are three. For the case of composition and appointment they suggest that accounting office should not appoint member of audit committee because he is an auditee who is supposed to respond to the recommendation from the committee.

The second objective is to evaluate independent of audit committee in executing its function. Observation from respondent noted that the committee needs to be fully independent so as to fulfil a vital role in quality reporting and controls as well as the proper identification and management of financial risk. It was seen that the independent of audit committee was affected by the appointment procedures from management itself and well as depending on financial resources from the management.

The third objectives objective was to identify relationship between audit committee and internal auditor. Through observation obtained from questionnaires majority commented that there is high relationship between the audit committee and internal auditors. These observations contradict with personal interview where majority said there is low relationship. This is due to the fact that there is no proof of any regular meeting between internal audit unit staff and audit committee rather than meeting on a regular quarterly meeting which are not consistent with the plan. Interview with the key informants in the study area revealed that meetings are done as a matter of formality, usually at year end. This results into poor performance of internal audit unit within the council.

The fourth objective was to establish factors affecting performance of audit committee. It was observed that majority commented on the lack of transparency of audit committee activities following with lack of adequate knowledge on financial expertise among audit committee members.
5.4 **Recommendations**

Based with the literature review of this research, oral and written responses from various respondents and the findings observed in the study area, the following are proposed recommendations which, if implemented or adapted may improve efficiency of the audit committee in local government authorities.

**5.4.1 The audit committee should review the financial statement and reports of the council so as to ensure all financial standards are adhered.**

This can be evidenced from the order No. 12 (5) of the LAFM 2009 which has stipulated various responsibilities of the audit committee to include review of all internal and external audit reports involving matters of concern to senior management of the entity and identification and dissemination of good practices. This is possible only after having independent external auditors who play a vital role in providing assurance as to the reliability of the financial statements prepared by the management. This also will depend with ability, independence and the experience of the committee members. However, experience in accounting matters and the propensity to remain current in the increasingly complex mounting accounting technical literature are attributes that are expected to be possessed by some of the committee members to accomplish the above task.

**5.4.2 The annual committee reports should be prepared and submitted to the accounting officer for taking appropriate actions on committee’s recommendations for improving controls as well as management’s responses and follow up to those recommendations.**

Understanding management’s actions and attitudes toward improving controls procedures enables the audit committee to better understand management’s tone at the top. In case of management’s failure to respond to audit committee’s recommendations
on agreed time, the committee Chairman should have power to communicate the matter to higher levels, preferably PMO-RALG, for further actions.

5.4.3 To increase a number of financial expertise staffs among audit committee members so as to cover the gap of all financial irregularities on the financial reports submitted by the management.

The following are suggested attributes which audit committee member need to possess: Education and experience as a chief or principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions or other relevant experience such as service on other boards or audit committees or one’s expertise within a certain industry.

5.4.4 Management of the council as well as government as a whole should ensure there is enough resources and adequate financial support so that they carry out their duties effectively.

Currently the audit committees’ fate in terms of financial and other resources rests in the hands of the Accounting Officer who is the auditee.

5.4.5 Management and/or Audit Committee members should arrange to ensure that Orientation training for new members and on-going development for all members are conducted in time.

These are essential, particularly given the velocity of changes to financial reporting taking place worldwide and governance standards.

5.4.6 Audit committees should have the authority to engage independent counsel and other consultants as they deem necessary to carry out their duties.

While one cannot predict all of the scenarios in which the audit committee may need to engage third parties, it is highly advisable to develop these third party relationships
early on and, if possible, before their services are needed to conduct an internal investigation in conjunction with significant business transactions or any other matter. Members should be facilitated with resources to enable it to hire/engage external expert to oversee the matters that needs immediate response from the members.

5.4.7 Equally important, it is recommended that audit committees adopt a formal whistle blower policy that includes the following:

i) Responsibilities of the audit committee
ii) Procedures for receiving and investigating complains
iii) Policy for protecting whistle blowers, and
iv) Confidentiality policies for whistle blowers.

5.4.8 Fraud continues to be a hot topic and a focus in the area of risk Management for LGAs.

The effectiveness of internal audit and audit committee oversight is a key element in significantly reducing the risk of fraud in the council and increasing the likelihood that, if fraud does occur, it will be detected at an early stage. To achieve this, audit committees may consider employing best practices such as understanding significant fraud risks that the council is facing via fraud risk assessment and education, be aware of the programs and controls that management has developed for managing fraud risks, including relevant policies and procedures etc. I therefore recommend audit committees to remain vigilant-be mindful of fraud risk factors, financial stress/pressures and other motivators of fraud, management’s tone at the top, and so on and be willing to challenge management with respect to fraud or any other irregularity within the council.
5.4.8 The audit committee should review the degree of coordination between the activities of the external and internal auditors.

The audit committee should feel confident that the combined audit scope can be relied on to identify weaknesses in internal controls that could expose the council to fraud or material financial reporting errors. Moreover, the committee should encourage open and direct communications with the auditors, must feel free to report control weaknesses (particularly those resisted by management) to the audit committee on a confidential basis without fear of reprisal.

5.4.9 Lastly based upon the study’s conclusion, the following policy recommendations are proposed to strengthen audit committee activities and financial management in LGAs: PMO RALG to work deliberately to ensure that all council establish independent audit committees vested with powers and resources.

Also to overhaul the current set up, composition and appointment of the audit committee in order to make it objective and impartial to undertake the oversight roles contrary to the current situation where the accounting officer has been vested with all responsibilities of appointment and deciding the number of members. For the sake of maintaining uniformity and balancing experience and profession, the size of audit committee members should be fixed to a specified number all over LGAs. To design a mechanism of ensuring all scheduled meetings of the audit committee are conducted as required and provide evidence of minutes and management’s response on recommendations, otherwise audit committee will remain to be perceived as a rubber stamp.
5.4.10 It is strongly recommended that, LGAs’ management in collaboration with the PMO-RALG and the Internal Auditor General Department under the Ministry of Finance should strengthen the internal audit functions through increased financial and human resources in Internal Audit Department.

In addition, internal auditors should be equipped with knowledge and skills to enable them increase the scope of audit and enhance their performance. Furthermore, the accountability framework should be revised so that the internal auditor should be accountable to the Council Director on the Administrative matters and to the audit committee on the core activity matters.

5.5 Areas for further studies

In this study we attempted to determine efficiency of audit committee in strengthening financial management in local government authorities (LGAs). The research design therefore was specifically focused to address this at Bahi District council in Dodoma Region. Therefore the areas not covered in study are good for further studies.

First, my research was confined to Bahi district council which is still very young, situated some kilometres from Dodoma town. And taking into consideration the scope and limitations to this study as pointed out in chapter one (1.8), there is a room to conduct similar research in Municipal and City councils where it is expected to have different working environment, culture and good staffing.

Second, assessment of efficiency of Audit Committee from members of Audit Committees in categorised councils and municipals having similar characteristics such as resource bases, location (rural-urban) and degree of donor presence may come up with a different scenario on findings for the benefit of policy makers and all interested parties in LGAs.
Third, in this study the researcher assessed only Audit Committees efficiency in strengthening public finance management. Future studies may examine some Audit Committee characteristics such as audit committee size, charter, expertise and literacy and their relationship to audit quality.

Fourth, it is of equal importance for further research to look on efficiency of Audit committee in LGAs by enquiring only members of the Audit Committee countrywide in order to get their response on the subject matter. This also will result into engaging large sample size which will simplify running of logistic regressions on such sample. In my research even the members of the Finance Committee who are councillors were included.

Last, further studies may assess the relationship between LGAs performance and the different audit committee characteristics mentioned above by using all parties which represent the whole population. This will avoid any sample selection biasness.
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APPENDICES

INTRODUCTION

My name is GIDEON CHARLES MHAGAMA. I am a student from Mzumbe University, pursuing Master of Science in Accounting and Finance. I have completed coursework and now as part of curriculum of my course I am required to conduct a research. This questionnaire is aimed at collecting information for that specific purpose.

In order to obtain data for my Research titled, “ASSESSMENT OF EFFICIENCY OF AUDIT COMMITTEE IN STRENGTHENING PUBLIC FINANCE MANAGEMENT IN LOCAL GOVERNMENT AUTHORITIES” I am hereby requesting your response to this questionnaire. As stated above, this data will assist in preparing the Research Paper for submission to MZUMBE UNIVERSITY GOVERNING COUNCIL for the award of MSc. A & F degree.

All information provided will be treated as confidential and will be used for academic purpose only.

Thanking you in advance.

GIDEON CHARLES MHAGAMA
APPENDIX 1

RESEARCH QUESTIONS

Name of district …………………………..

Date……………………………...

Please fill the appropriate answer in the space provided.

1. Do you know what Audit Committee mean? YES/NO…………………………
2. Do you have Audit Committee in your council? YES/NO…………………………
3. Is it crucial to have Audit Committee in councils? CRUCIAL/NOT CRUCIAL….
4. When was it (Audit Committee) established?(Date)…………………………
5. How do you grade the overall efficiency of Audit Committee in your council? EFFICIENT/MODERATE/NOT EFFICIENT…………………………
6. Do you have internal audit unit in your council? YES/NO………………
7. How do you grade the overall efficiency of internal audit unit in your council? EFFICIENT/MODERATE/NOT EFFICIENT…………………………
8. Currently the Audit Committee composes of Executives from outside and non-executive officers...are you comfortable with the composition? CONFORTABLE/NOT CONFORTABLE…………………………
9. Does your council have any Audit Committee charter? YES/NO………………
10. Is there any relationship between Internal Audit and Audit Committee? YES/NO………………
11. How often does Audit Committee meet per year? Once/Twice/Thrice………………
12. Does the Audit Committee have power to enquire any officer for not performing his party? YES/NO………………

13. Is there any improvement in management and control of public funds in your council after establishment of Audit Committee? YES/NO……………………

14. Is there any improvement in quality of financial reports after establishment of Audit Committee? YES/NO…………………………

15. Do you think the current set up of Audit Committee suffices the objective? YES/NO…………………………

16. Is your Audit Committee independent? YES/NO…………………………

17. Is the Audit Committee confronted with any challenges in your Council? YES/NO…………………………

18. If “yes” mention them

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