

**ASSESSMENT OF THE PERFORMANCE OF AUDIT
COMMITTEE IN ENHANCING ACCOUNTABILITY OVER USE
OF PUBLIC FUND: A CASE OF MINISTRY OF INDUSTRY AND
TRADE**

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**A Dissertation Submitted to Mzumbe University in Partial/ Fulfillment of the
Award of Master of Science in Accounting and Finance (MSc. A&F) of the
Mzumbe University**

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “An assessment of the performance of audit committee in enhancing accountability over use of public fund” The case of the Ministry of Industry and Trade in partial fulfillment of the requirements for the award of the (Masters Degree of Science in Accounting and Finance of Mzumbe University.

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I do, however, take full responsibility for any mistakes or shortcomings pertaining to this work.

DEDICATION

To my loving mother (Nyamizi Washokera) and father (Wingi Mohamed) who brought me up and contributed a lot to my academic success. To my family for their endless encouragement during my studies and research.

Lastly, to my uncle Iddi Washokera who always encouraged me by words and prayers.

ABSTRACT

The Audit committee is responsible for the oversight of the quality and integrity of the organizations accounting and reporting practices, controls and financial statements, legal and regulatory compliance, the auditors' qualifications and independence.

The specific objectives of the study was to examine the members composition of audit committee of the Ministry of industry and trade, knowledge of members on financial matters and enhancing accountability on public funds, how the functions of the audit committee of the ministry being exercised to enhance accountability and the challenges facing audit committee in an organization.

The categories of respondents were the senior members who are the heads of departments and audit committee members of the Ministry, senior staffs who are not audit committee members and the staffs of internal audit within the Ministry. Data collection methods included personal interviews, questionnaires, observations and documentary review. The data collected was analyzed statistically by using descriptive statistical method such as frequency tables and measures of average.

The study revealed that the composition of the audit committee is good although the team lack independence on its operations. Also most of members of the team do not have sufficient knowledge on financial matters which weaken the performance of the committee. The committee also lacks enough institutional supports, sufficient budget and the updated audit committee charter.

The study recommends several measures based on observed and analyzed findings from the study. These include the audit committee to be composed of executives from outside the ministry and non executive members, the committee should have an up dated audit committee charter, members should have enough knowledge on financial matters and the need to restructure audit committee, restate its roles, responsibilities and its mandatory to make it cope with current requirements and overcome number of prevailing challenges. Finally, the researcher recommends further research to be conducted on assessment to establish the role of audit committees on the public financial management among government ministries in Tanzania.

ABBREVIATIONS AND ACRONYMS

AICPA -	A New Conceptual Framework for Auditor Independence
ANAO -	Australian National Audit Office
BRC -	Statistical package for Social Sciences
CAG -	Controller and Auditor General
(CFO) -	chief financial officer
CPA -	Certified Public accountant
(GAO)-	U.S Government Accountability Office
IFRS -	International Financial reporting standards
LGAs -	Local Government Authorities
MD&A-	Management Discussion and Analysis
MIT -	Ministry of Industry and Trade
SOX -	The Sarbanes Oxley
SPSS -	Statistical Package for Social Sciences

DEFINITIONS OF TERMS

Financial Year means twelve continuous months period, eg. 1st July and ending on 30th June.

Financial Regulations Set of rules, principles.

Efficiency is the ratio of outputs to inputs, or the amount of output per unit of input.

Effectiveness is determined by the relationship between a responsibility collection revenue rental's output and objectives.

System Is a prescribed and usually repetitions ways of carrying day to day set of activities.

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CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

This chapter gives the background of the study. It explains the importance of Audit committees, their roles in the Ministries included in the statement of the problem, contemplates on the research objectives, research questions, significance, limitation and delimitation of the study.

1.1 Background of the Problem

An audit committee is an operating committee of the Board of Directors charged with oversight of financial reporting and disclosure. Committee members are drawn from members of the company's board of directors, with a Chairperson selected from among the committee members by the U.S. publicly traded company (New York: AICPA, 1997).

Governments conduct their business on behalf of the people, all the citizens. It is assumed that there is a social contract between the government (state) and the people and that the former, i.e., government has to account for its actions (and inactions) to the people. It is also a fact that legitimacy of any government flows from the people for it is the people who give it authority through the electoral process. In that regard the people have the right to demand explanation from the government (ibid).

Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. In general an organization or institution is accountable to those who will be affected by its decisions or actions (ibid).

During the 1970s, the role and responsibilities of audit committees in the United States received a great deal of attention because of the post-Watergate discoveries of corporate slush funds, illegal political contributions, and overseas bribes. Thus the investing public demanded greater corporate accountability to increase the confidence in the quality of financial reporting. In view of the separation of

ownership and management, shareholders and other constituencies needed more assurance with respect to both the internal and external auditing processes and the financial reporting process. American Institute of Certified Public Accountants, *Serving the Public Interest: A New Conceptual Framework for Auditor Independence* (New York: AICPA, 1997).

Audit committee responsible for reviewing its own company's business activities to identify inefficiencies, reduce costs, and otherwise achieve organizational objectives. Audit committees may investigate potential theft or fraud and ensure compliance with applicable regulations and policies. They also assist in risk management. In a large company, especially a publicly traded one, the audit committee is independent from any management and is answerable only to the board of directors. See also: Internal audit (Farlex Financial Dictionary 2012).

People (i.e. the citizens) live by their duties and obligations including paying taxes, participating in elections and other civic duties. Regulations and guidelines have been formulated, disseminated and are in use. Observing the rule of law, transparency, responsiveness and equity. Staffs to conduct themselves in a manner that guarantees fairness, justice and at all times combat corruption (ibid).

A number of recently developed and mainstreamed management instruments can be used for (downward) accountability purposes by the Local Government, like: Citizens expect high quality service provision from public sector and all its agencies. Due to the expectation gap between the expected service and those services provided or delivered by public sector entities and government agencies, there is an increasing pressure for public officials to demonstrate a higher level of accountability over the use of public funds.

One means of demonstrating high quality of services is through the effective use of internal control, and more specific through an effective audit committee performance. Stricter standards of accountability can not be achieved without an effective internal and control structure. A critical element of the control environment

is an effective audit committee that provides oversight of matters of financial reporting, auditing and internal controls. An effective audit committee will provide important aspects of controls for the case of ensuring the independence of internal auditing function and assuring appropriate actions are taken on audit findings.

The issue of audit committees' members to be senior officers who are pointed by and reporting to the accounting officers is another thing that impairs the independency of committees in public sector, consequently failing to perform their roles effectively. For example in 2005 reports of the CAG reported that most audit committees are not functioning as effective as they are supposed to do. Due to lack of effective audit committees, there has been misuse of resources (funds and materials). Audit committees fail to hold management accountable to act on the findings of auditors due to the gap existing between auditors and audit committees against their employer the accounting officers.

1.2 Statement of the Problem

Most organizations are trying their utmost to optimize all their activities, including those performed by audit committees, and according to Abbott, Park and Parker (2000), it has become "important to develop more specific measures of audit committee effectiveness". For example in Controller and Auditor General (CAG), 2005 reported that most audit committees are not functioning as effective as they are supposed to do. Due to lack of effective audit committees, there has been misuse of resources (funds and materials).

Audit committees fail to hold management accountable to act on the findings of auditors due to the gap existing between auditors and audit committees against their employer accounting officers (National Audit Office, 2005).

However, numerous factors affecting the performance of audit committees need to be addressed in order to optimize their effectiveness and achieve their objectives.

This study did evaluate the factors influencing the effectiveness of audit committees in the public sector of Tanzania. In order to achieve this, the researcher used the case study design whereby the government ministries were used to represent the overall public sectors. In order to evaluate the factors influencing the effectiveness of audit committees in the public sector; the researcher used tools such as financial audit and performance audit, internal controls and risk management to analyze the effectiveness of the organization (Morgan, 2010). Also the member's composition of audit committees was examined to underpin the knowledge of the members on financial matters and enhancing public fund accountability.

Performance assessments were therefore carried out to determine the individual members' contributions, skills and knowledge. The effectiveness of audit committees could then be improved by benchmarking their performance against best practices of other audit committees (Morgan, 2010)

There were, however, a need to specifically identify the skills shortages and professional development requirements of audit committee members, which could only be determined by formally assessing the performance of the committee as a whole and of individual members in particular.

1.3 Objectives of the Study

The study assessed the audit committee performance in enhancing accountability over use of public funds.

1.3.1 Specific Objectives

- a) To examine members composition of audit committee.
- b) To assess knowledge of the members on financial matters and enhancing accountability on public funds.
- c) To assess whether functions of audit committee of the Industry and Trade being exercised to enhance accountability.
- d) To assess challenges facing audit committee in organization

1.3.2 Research Questions

General Question

- a) To what extent does audit Committee performance enhance accountability over use of public funds within the Ministries?

- b) Specific Questions
- c) What is the member's composition in audit committee at Ministry of Industry and Trade?
- d) Does the audit member have knowledge on financial matters?
- e) Does the audit committee in the Ministry of Industry and Trade perform its roles effectively?
- f) What are the challenges facing audit committee in organization?

1.4 Significance of the Study

The findings of this study expected to add value to the Government of the United Republic of Tanzania as well as to regulators and other researchers, through putting recommendations of the study in practice.

In turn the study was potential to assist regulators to set up guidelines that are more effective in ensuring that audit committees are properly operating in efficiency and effective manner.

Lastly the findings of this research study may be useful to others researchers /students who will decide to carry out a further research on the audit committee's concept.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explores some previous studies that relates to this study. It is divided in three sections namely; the first section gives general review studies on audit committee's functions, the second section describes a clear picture of audit committees' performance areas, while the third section deals with theoretical literature on audit committees roles.

Sawyer and Dittenhoffer, (1996) describes research as a form of education with many side benefits. According to this author, the researcher can become both student and a teacher, educating both self and other people in the department. He went further saying research can be original – the development of brand new idea-or it can constitute the accumulation and arraying of information to determine whether the old ways re still valid.

According to Kothari (2005), Research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing, and evaluating data, making deductions and determines whether they fit the formulated hypothesis.

In short, the search for knowledge through objective and systematic method of finding solution to a problem is research. According to (Saunders et al, 2003 and Kothari, 2003), there are two major reasons that exists for reviewing the literature. First, it is the preliminary search that helps to generate and refine the search ideas and the second is to develop the current awareness of the current state of knowledge in the topic, its limitations and the way it fits in the wider context. Therefore this chapter, present secondary data obtained from both the literature search on theoretical and empirical review.

Audit committee, in a larger or more sophisticated corporation, the board may find it useful to appoint an audit committee whose oversight extends not only to external

audits, but also to internal audits, internal controls, and external reporting. Ideally, an audit committee is composed of three to five non-management directors and, as needed, outsiders with accounting and financial expertise. In a smaller corporation the audit committee may be a single director with financial expertise and audit experience who takes the lead in exercising the boards audit oversight responsibility.

The Audit Committee is another statutory creation whose composition is determined by the Board. Established under the provisions of Section 12(1) of the Bank of Tanzania Act 2006, the Audit Committee is largely composed of Non-Executive Directors. This Committee is currently chaired by a Non-executive Director. The Deputy Governor-Administration and Internal Controls is the only Executive member of the Committee.

Audit committees maintain communication with the company's chief financial officer (CFO) and controller. Audit committees typically have the authority to initiate special investigations in cases where they determine accounting practices are problematic or suspect, or where problems exist with personnel. The audit committee's role includes the oversight of financial reporting, the monitoring of accounting policies, the oversight of any external auditors, regulatory compliance, and the discussion of risk management policies with management.

Audit committees have a valuable contribution to make in improving the governance, and so the performance and accountability, of public entities. They can play an important role in examining an organisation's policies, processes, systems, and controls. An effective audit committee shows that an organisation is committed to a culture of openness and continuous improvement.

An audit committee does not displace or change proper accountability arrangements. Accountability for good governance rests with the public entity's governing body or, in a government department, the chief executive.

In public entities with a governing body (for example, State-owned enterprises, Crown entities, and local authorities), an audit committee helps the governing body

to carry out its governance duties. In government departments, an audit committee provides the chief executive with independent advice on strategic, performance, assurance, and/or compliance matters.

Effective audit committees can provide objective advice and insights into the public entity's strategic and organisational risk management framework. In doing so, they can identify potential improvements to governance, risk management, and control practices.

The Terms of Reference for the Audit Committee cover Internal Control, Financial Reporting, Internal Audit and External Audit. Under Internal Control, the Committee evaluates the adequacy of the internal control systems and compliance with International Financial Reporting Standards in preparation of financial statements; the overall effectiveness of the internal control and risk management frameworks; and the effectiveness of the system for monitoring compliance with laws and regulations. The Committee's mandate on Financial Reporting requires it to review significant accounting and reporting issues and their impact on the financial reports.

The Committee's mandate on Internal Audit covers review of the activities and resources of the internal audit function; effectiveness, standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up of implementation of internal auditors' findings and recommendations.

The role of the Committee is one of stewardship and oversight. The Committee plays an important role within the control environment and monitoring components of internal control over financial reporting. Management is responsible for preparing the financial statements and financial reporting of the Corporation and for maintaining internal control and management information and risk management systems and procedures.

The external auditors are responsible for the integrated audit or review of the financial statements and the internal controls over financial reporting and other services they provide. With regard to External Audit, the Audit Committee reviews

the external auditors' proposed audit scope, approach and audit deliverables; and review draft accounts before submission to the External Auditors for audit. (webmaster@hq.bot-tz.bot)

The government through the Accountant General has also ensured that each MDAs has selected and appointed members to Audit Committees which are mandatory under Regulation 30 of the Public Finance Act, 2001. These committees are intended to ensure accountability of public funds by individual MDAs is achieved and seen to be so. The committees are staffed by appointees of the Accounting Officer with the exception of one member who is required to be appointed by the Accountant General.

The Audit Committees meet quarterly in a financial year and in a bid to ensure that Treasury is kept abreast of issues, MDAs have instructed or provide copies of minutes of committee's deliberations. (www.mof.go.tz). In relation to such financial statements and reporting, the committee shall review with management and the external auditors, and recommend to the Board for approval, the annual financial statements of the Corporation, the reports of the external auditors thereon and related financial reporting, including Management's Discussion and Analysis ("MD&A") and earnings press releases prior to the public disclosure of such information; review with management and the external auditors, the external auditors' interim review findings report and recommend to the Board for approval, the interim financial statements of the Corporation and related financial reporting, including MD&A and earnings press releases prior to the public disclosure of such information; review any news release, before being released to the public, that contains significant financial information or estimates or information regarding the Corporation's future financial performance or prospects; review with management and recommend to the Board for approval, the Corporation's Annual Information Forms; review with management and recommend to the Board for approval, any financial statements of the Corporation which have not previously been approved by the Board and which are to be included in a prospectus of the Corporation; review with management and the external auditors, and recommend to the Board for

approval, management's internal control reports of the Corporation, and the reports of the external auditors thereon and the related required disclosures in the MD&A, as required by applicable securities laws, rules and guidelines; consider and be satisfied that appropriate processes are in place with respect to applicable certification requirements regarding the Corporation's annual and interim financial statements and other disclosure; consider and be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements (other than disclosure referred to in clauses (a) and (b) above), and periodically assess the adequacy of such procedures; review with management, the external auditors and, if necessary, legal counsel (i) any legal matters, including litigation, claim or contingency and tax assessments, that could have a material effect upon the financial position of the Corporation and the manner in which these matters may be, or have been, disclosed in the financial statements; (ii) compliance policies; and (iii) any material reports or inquiries received from regulators, governmental agencies or employees that raise material issues regarding the Corporation's financial statements and accounting or compliance policies; and review accounting, tax and financial aspects of the operations of the Corporation as the Committee considers appropriate (ibid).

Ministry is the ultimate funds receiver from Ministries and Donors that are allotted much of the funds for development activities of the nation. Therefore the employees under MIT are responsible for supervision and monitoring of the funds and the projects in order to achieve the government objectives.

Internal audit unit in MIT is the one that oversee if the guidelines, procedures and needs of such funds are met and also advise the accounting officer on the appropriate and proper methods on how to utilize the resources available to accommodate goals and objectives of the government.

Audit committees is the engine that oversight matters by working on finding and advises of the internal auditors, reviewing audit reports and coordinating audit

programs. The problem arise to these committees meet the minimum requirements as per public finance act 2001.

2.2 Definitions of Terms

Financial Year: means twelve continuous months period, e.g. 1st July and ending on 30th June.

Financial Regulations: Set of rules, principles.

Efficiency: is the ratio of outputs to inputs, or the amount of output per unit of input.

Effectiveness: is determined by the relationship between a responsibility collection revenue rental's output and objectives.

System: Is a prescribed and usually repetitions ways of carrying day to day set of activities.

2.3 Theoretical Literature Review

2.3.1 Definitions of Terms

Audit Committee

Different authors defined audit committee in various ways: according to Maneno (2004), Audit Committee is a specialist, independent oversight body of an organization designed to improve the organization's overall governance framework. The audit committee contributes to good governance within organization framework by promoting and improving accountability. The audit committee should be an integral part in the governance. In another similar view, Porter wrote that audit committee affords a further suggested means of strengthening auditors' independence. An audit committee of the governing body has delegated responsibility from that body for interlia, to overseeing the external financial reporting process and internal controls of the entity (Porter, 1997).

Mhilu (2000), define audit committee as a committee established by a listed company which normally consists of non executive directors and in some cases representatives of management of the client company to strengthen external auditors

independence through regular discussion with directors in issues concerning audit of a given company/organizations affairs particularly on matters related as significant in audit reports. On the other hand treasury circular number 9 of 2003/2004 defines Audit Committee as a specialist, independent oversight body of an organizations' overall governance framework. The audit committee contributes to good governance within the organization by promoting and improving accountability.

2.4 Empirical Literature Review

2.4.1 Corporate Governance and Audit Committee

Corporate governance is defined by the main stream accounting and finance literature as 'the range of control mechanisms that protect and enhance the interests of shareholders of business Enterprises (Fama and Jensen, 1983). There is focus in this line of research on the structure and functioning of boards of directors and audit committee. It is argued that the role of audit committee should be increased to enhance control of corporations for the benefit of all stake holders and society generally.

Most of governance reports are based around the principles of integrity, accountability, independence and good management. Therefore corporate governance codes requires the audit committees to effectively perform their duties in order to minimize risk, to ensure adherence, clear accountability, maintain independence to those who work for and promote integrity or straight forward dealing and completeness. Corporate governance as a means of directing and controlling of the entity for the sake of utilizing at highest possible level public funds the following must be avoided;

Lack of involvement of audit committee's. i.e audit committees should meet regularly to review and oversee the work of internal audit units and its programs.

Lack of supervision, i.e employees who are not supervised properly the ones who creates gaps for misuse and reallocate funds through their own incompetence, negligence or fraudulent activity.

Lack of adequate control function. i.e this is a part of internal audit, if there is lack of adequate technical knowledge in their key roles

Lack of independent scrutiny. i.e internal auditors and the audit committees do not ask awkward questions because the accounting officer determines their employment prospects.

Corporate governance in public sector exists to meet social economic and other needs that government decided to meet. Christian (2004), defines Public sectors as those entities owned and/controlled by government as well as all other relationships that are funded, regulated or operated solely or in party by the government, Local Government Authorities in which the internal auditors are appointed by Ministry of Finance and the external audit functions are being carried out by the National Audit office headed by the CAG. For the purpose of this research the audit committees plays among the listed roles for enhancing effective accountability of public funds;

Review of statements and systems both quarterly and annual.

Liaison with external auditors through assisting them to resolve any problem encountered by them.

Review of internal audit looking on the objectivity, technical knowledge and professional standards of the internal auditors, review the scope and results of audit.

Review of internal control by playing a significant on the adequacy of the internal controls to enhance accountability of the funds.

Review of risk management by ensuring a formal policy in place and review the arrangements for risk management to avoid any misappropriation of fund by untruthful officers.

In interaction of ethics, the law, governance and social responsibility, corporate governance requirements may be viewed as additional rules to ministries and

individuals as they bridge the gap between what the law requires and what the society expects to enhance public funds accountability.

Elliot (2003) says that internal audit in public sector forms part of management's system of internal control and is prescribed by subsection 13(3) of Financial Administration Act of Canada. Unlike external auditors and special examiner the internal auditor is party of the management team.

Internal audit provide information and assessments to management, assess how well the financial and management control and information systems and the management practices, safeguard and control the corporation assets and provide reasonable assurance that the transactions of the corporation comply with the law, and the resources of the entity are managed economically and efficiently and that the operations of the entity are carried out effectively. The external auditor and the special examiner assess how the work of internal auditor can be relied upon.

In Tanzania Public Finance Regulation, 2001 insists on establishment of internal audit function in public sector as part of the framework for controls. Given political, economical, social technology changes, legal and environment perspective the importance of internal audit function cannot be over emphasized in public sector.

2.4.2 Good Governance

The process of decision-making and implementation in Local Government follow principles that are enshrined in various instruments including the constitution, laws derived from the Constitution and guidelines, manuals and other policy documents that are issued by either the Central Government, regional authorities, the Local Government Authorities themselves or advice from other actors. If and when these principles are observed and practiced, good governance is said to exist and hence accountability is therefore automatically exercised enhanced and in place all around LGAs.

Good governance encompasses the structures, rules, norms and practices related to each of the steps of policy or decision-making. If these steps are characterized by public participation, transparency, accountability, efficiency and effectiveness in service delivery and responsiveness in relation to popular, legitimate needs, then a situation of good governance prevails.

2.4.3 Principles of Good Governance

Good governance has several major principles or characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in the course of decision-making and implementation of the decisions. It is also responsive to the present and expected future needs of society.

The Board of Directors is responsible for the governance of the company. The term Corporate Governance refers to the system by which companies are directed and controlled. Over the last decade a number of reports have been commissioned into the subject of corporate governance and as a result a number of codes of best practice have emerged.

The purpose of these codes of best practice is to increase transparency and accountability in the manner in which companies are governed. Accordingly, these codes of best practice extend beyond the legal requirements set out in the Companies Acts. They are, however, set out here for users' information.

While these codes of best practice were drawn up specifically in the context of listed companies, many of their principles can equally be applied to non-listed companies in the interests of furthering best practice. Indeed, many of the principles set out in these codes (e.g. non-executive directors, audit committees, internal control and internal audit) have been embraced widely by non-listed companies, charities, State agencies etc

2.4.4 Objectives of Good Governance

The overall goal of good governance is improving service delivery and specific objectives include the following:

The strengthening of democracy by recognizing, among other things, the need to promote freedom of speech as the primary prerequisite for democracy and good governance; for Local Government to serve the best interests of all the citizens and consider itself responsible and accountable to those citizens.

The protection of human rights guaranteed by recognizing, among others, the need for Local Government to commit itself to uphold the rule of law; to guarantee access to legal and effective remedy to all, even the poorest citizens and to ensure that all men and women, rich and poor, citizens and non-citizens, majorities and minorities are equal before the law; the need to promote tolerance and fight discrimination; the need to protect life, liberty and property in order to guarantee freedom.

The development of civil society by, among other things, recognizing the role that civil society in general and the private sector in particular can play in service delivery; creating an enabling environment for the private sector to thrive and contribute to the provision of social services.

The end of corruption in public life. Corruption can be contained by recognizing, among other things, the following: dedicated staff that are impartial and unprejudiced, transparent, cost-effective, output oriented and accountable; staff who follow the highest benchmark of ethical behavior to ensure that principles of good governance are effectively applied; maintaining open lines of communication allowing free flow of information; remunerating staff adequately.

A free, fair and vibrant economy. This can be attained by recognizing the need to create an investor-friendly environment; the need to ensure (natural) resources are used in the most sustainable, cost-effective and transparent way possible; and the need to remove bureaucratic obstacles to private initiative and human creativity.

2.4.5 Purposes of Audit Committee

Australian national audit office guide (2005) mentioned audit committee as a crucial component of corporate governance in fundamental to assisting the chief executive to;

Ensure all key controls are operating effectively.

Ensure all key controls are appropriate for achieving corporate goals and objectives and meet their statutory and fiduciary duties.

An audit committee's strength is its demonstrated independence and power to seek explanations and formation, as well as understanding of the various accountability relationships and their impact, particularly in financial performance, risk and controls. ANAO (2005).

The audit committee should be an integral part in the governance process of an entity, designed to enhance the control framework of an organization. An effective audit committee has the potential of strengthening the control environment, and consequently assigning the accounting officers to fulfill their stewardship, leadership, and control responsibilities (circular no. 9 of 2004).

2.4.6 Global roles and application of audit committee

The primary role of audit committees has been to improve financial reporting by overseeing the financial reporting processes, audit function and internal controls. An effective audit committee represents an important communication link between external and internal audit and the management. According to Lewis (2003) the audit committee is appointed to support the Accounting Officer in monitoring the corporate governance and systems in the organization.

The objectivity of the advice given is enhanced if the audit committee is chaired by non-executive or independent external member. The audit committee supports the accounting officer by offering objective advice on issues concerning the risk control and governance of the organization. It should advise accounting officers on the adequacy, and appropriateness in light of both known and emerging risks of working

plans of those bodies, including internal audit which conducts audit assurance works. The considerations of audit committee are more likely to lead to objective advice if they are not being steered by somebody with executive authority in the organization or the person to whom the audit committee is to give advice, it is therefore preferable that the non-executive, not the accounting officer, should chair the audit committee.

This does not in anyway undermine either the authority or the accountability of the accounting officer for directing the organization. In any particular case in which the accounting officer does chair the audit committee it is suggested that this should be made clear in the organization's statement on internal control so that the nature of committee should be fully disclosed. This is better achieved if the audit committee is not steered in its considerations by the accounting officer.

This role of audit committee is one of adding value by helping the accounting officer to ensure that good judgment has been exercised. Members of the committee are expected to understand and observe the legal requirements of the CAC Act and regulations. Members are also expected to: act in the interests of the entity; apply good analytical skills, objectivity and good judgment; and express opinions constructively and openly, raise issues that relate to the committee's responsibilities and pursue independent lines of enquiry.

Reporting

The committee will as often as necessary, and at least once a year, report to the Board on its operation and activities during the year. The report should include: a summary of the work the committee performed to discharge its responsibilities during the preceding year; a summary of [the entity's] progress in addressing the findings and recommendations made in internal and external audit and parliamentary committee reports; an overall assessment of [the entity's] risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting [the entity]; and details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended. The committee may, at any time, report to the Board any

other matter it deems of sufficient importance to do so. In addition, at any time an individual committee member may request a meeting with the Chair of the Board.

An administrative arrangement includes Meetings in which the committee will meet at least four times per year. A special meeting may be held to review annual financial statements. The Chair is required to call a meeting if asked to do so by the Chair of the Board, and decide if a meeting is required if requested by another member.

Planning

The committee will develop a forward meeting schedule that includes the dates, location, and proposed agenda items for each meeting for the forthcoming year, that cover all the responsibilities outlined in this charter.

Attendance at meetings and quorums

The quorum for meetings of the committee is two persons or if the majority of the committee is greater than two persons, then that number of persons.

Secretariat

The Board, in consultation with the committee, will appoint a person to provide secretariat support to the committee. The secretariat will ensure: the agenda for each meeting is approved by the chair; the agenda and supporting papers are circulated, at least one week before the meeting; and the minutes of the meetings are prepared and maintained. Minutes must be reviewed by the Chair and circulated within two weeks of the meeting to each member and committee observers, as appropriate.

Conflicts of interest

Once each year, members of the Audit Committee will provide written declarations to the Chair for provision to the Board declaring any potential or actual conflicts of interest they may have in relation to their responsibilities. External members should consider past employment, consultancy arrangements and related party issues in making these declarations, and the Chair should be satisfied that there are sufficient processes in place to manage any real or perceived conflict.

At the beginning of each Audit Committee meeting, members are required to declare any potential or actual conflicts of interest that may apply to specific matters on the meeting agenda. Where required by the Chair, the member will be excused from the meeting or from the committee's consideration of the relevant agenda item(s). Details of potential or actual conflicts of interest declared by members and action taken will be appropriately minute.

Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

Assessment arrangements

The Chair of the Audit Committee, in consultation with the Chair of the Board, will initiate a review of the performance of the committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Board) with appropriate input sought from Board members, committee members, senior management, the internal and external auditors, Chief Financial Officer, and any other relevant stakeholders, as determined by the Chair of the Board. The Chair will provide advice to the Board on a member's performance where an extension of the member's tenure is being considered.

Any substantive changes to the charter will be recommended by the committee and formally approved by the Board. Woof (1997) noted that, since the form and function of audit committees are matters for continuing development, it would be misleading to attempt to close a definition and put the following activities which have, however, been associated with its appointment formerly and regularly to review financial results shown by both management accounts and those presented to shareholders, to make recommendations for the improvement of management control, to ensure that there are adequate procedure for reviewing "rights" circulars, interim statements, forecasts and other financial information before distribution to shareholders and facilitate satisfactory working relationship between the management and auditors, and between the internal and internal audit function.

In Maneno (2004) has the following as role of audit committee; Reviewing independence of external auditor in connection with recommending the firm to retain as the entity's external auditor: Review the information provided by management and the external auditors relating to the independence of such firm including among other things information related to the non audit services provided by external auditors. The audit committee is responsible for;

Ensuring that the external auditors submit on periodic basis, and at least annually, to the audit committee a formal written statement dealing with all relationships between the auditor and the entity independence,

Activity engaging in dialogue with external auditor with respect to any disclosed relationships or service that may impact the objectivity and the independence of the external auditor, and

Recommending that the governing board/accounting officer take appropriate action in response to the external auditor's report to satisfy itself of external auditor independence. The study made by Nashwa (2005) on the role of audit committee in public sector in U.S evidenced that events in public sector and failures in the quality of government audit led the U.S Government Accountability Office (GAO) to recommend that public sector entities should consider the benefit of using audit committee.

In 2003, the GAO revised auditing standards to require that auditors communicate certain information to the audit committee or the individuals with whom they have contracted for audit. Each government entity must designate an audit committee or an equivalent body to fulfill the roles of financial oversight which include the following;

Review Audit Plan

Review with the external auditors their plans for, and the scope of, their annual audit and other examinations. Also review internal audit reports, review with the chief internal auditor and appropriate members of the staff of the internal auditing department the periodic reports of the audit activities, examinations and results of the internal auditing department.

Review Legal Matters

On periodic and at least annually, review legal matters that could have a material impact on the financial statements.

Annual Review of Charter.

The audit committee will review and reassess, with the assistance of the management including the legal officers and the chief internal auditors, the adequacy of audit committee's charter at least annually the audit committee will submit the charter to the governing body/accounting officer for approval.

Reviewing Annual Financial Statement and Audit results

Review with appropriate officers of the entity and the external auditors the annual audited financial statements to be included in the entity's annual audit, including matters relating to the conduct of the audit quality and the appropriateness of the entity's accounting principles as applied in its financial reporting upon the discussions and reviews, and its assessment of the independence of the external auditor, the audit committee will advise the governing board/accounting officer on proper and appropriate ways and procedure to carry out its activities professional to achieve efficiency.

Elliot (2003) on similar case, state that as a core committee of the board of directors, audit committee have a challenging set of responsibilities. Often audit committee also acts as the check and balance in relationship between management and auditors. In addition the audit committee is responsible for reporting to the board of directors on the committee's activities, findings, conclusions and recommendations related to

the responsibilities assigned it by the board. In practice, audit committee form their judgments based mainly on information obtained from management and the internal and external auditors. For this reason audit committees should carefully build productive and working relationships with each participant in this structure. Elliott (2003)

Nanyaro (2006) on her paper of Corporate Governance control said that the audit functions of a company is to assess and oversee the overall performance of the company. As such, it is the board's "eyes" and "ears" in monitoring compliance with board policies and applicable laws and regulations, and also ensuring full compliance with the laws, regulations and orders governing the activities of the company. The members of the audit committee should include a minimum of a chairman and two non-executive directors. Because it evaluates organization's operations, its best practice for all members of audit committee be non- executive directors and have a thorough knowledge of international accounting principals and standards; be a CPA or public accountant or otherwise have audit or financial reporting experience and therefore the Audit Committee should meet at least once every four months.

Audit Committee and Good Governance

Dascombe & Turner (2004) details contributions of audit committee to good governance as follows;

An audit committee is a cornerstone of good governance. The outcome of its work can demonstrate to stakeholders that the organization's affairs are being conducted in (an) environment of openness, honesty and integrity. While the primary responsibility for governance always rests with the Board.

The main objective of the audit committee is to independently contribute to the board's assurance that an effective internal control system is maintained.

Recently the focus has widen from historically related to internal financial control matters to encompass the whole of internal control environment in evaluation of

corporate governance agenda over the past decade so, in the work of various corporate and public sectors scandals, can be traced through succession of reports.

All of these to a greater or lesser extent have informed a regulatory requirements and good practice recommendation has implication for the audit committees changing and expanding role.

In audit committee hand book by Lewis (2003), An audit committee has to ensure that it takes an unbiased view of the whole range of risk, control and governance issues in the organization. For the incumbent of any particular executive post to serve for a long time can potentially generate an unwitting bias in the audit committee's view of organization.

Rotation of executive membership of the audit committee is a guard against this possibility. Further, within the need to actively control against any unwitting bias, there is also need to generate sufficient stability in the membership of the audit committee to ensure that there is consistency overtime in its considerations and that experience is undertaking the work of the audit committee built up.

2.4.7 Audit committee Mandate

Anderson and Lakes (2005), We will continue to respond publicly to the Auditor's recommendations and ensure that independent audit committees monitor the implementation of corrective action plans" the audit committee shall ensure that the accounting officer has independent, objective advice, guidance and assurance on the adequacy of the department's control and accountability in an integrated and systematic way".

Anderson and Lake continue saying that without direction, organization time and energy would be spent on providing information and guidance that does not have the most impact. Ultimately this could result in the value of the committee being called into doubt and stakeholders not being able to place integrity on the advice they are given. Audit policy and directive in organization audit committees is equally as

important as ensuring the department's goals for the independent audit align to those goals. It is important to understand that setting the mandate is not a one time activity. It is important to revisit the mandate on an annual basis, to make changes to the mandate in line with the expectations or directions from government and outline new goals for independent audit committee.

They concluded that establishing a strong and a clear set of the audit committee for the demand of the department performance from which the skills and knowledge of the independent audit committee will result in achievable activities being undertaken and the objectives of the department's stakeholders being met. Anderson and lake says that the appointment of suitably qualified members to the independent audit committee is a critical factor for committee's performance. External members can help the independent audit committee address its new roles and responsibilities.

The internal members can educate new members regarding the department and the unique role of independent audit committee in the MIT. As the independent audit committee will be responsible for providing oversight to the departments control and accountability process it will need to be challenged and take positions that may be contrary to those of management. In the oversight role, independence expresses opinions in a free unrestricted manner and unconstrained.

2.5 Audit committee member composition and its meetings

In Lewis (2003) he studied on size of audit committee and commented that the number of members on the audit committee should ideally be in the range of three to five members. The Accounting Officer or chief executive and the principal Finance officer should normally attend meetings, as should be head of Internal Audit respectively. Membership count should not include those who regularly attend but are not members of audit committee. The audit committee needs to have a sufficient number of members to ensure that appropriate skills set is corporately established amongst its number of members at the same time the committee needs to be small enough to ensure that all members can participate actively in discussions. The recommended size of the audit committee does not prohibit the committee from

seeking contributions from others when it considers that its work can be enhanced by seeking special support.

A second view of audit committee on qualities of members (ANAO 2005) guidelines of Australian asserts that the effectiveness of audit committee depends largely on its members' qualities, skills and independence of mind. In broad terms, committee members should display independence of thought, the desire and commitment to contribute constructively to meeting the entity's objectives and have the ability to ask questions and to probe and seek information relevant to committee's responsibility. Insisted in the guideline that the committee should consist of at least three and not more than five members appointed by the chief executive/Accounting Officer. At least one member of the committee will be an independent member. This member may be appointed for an initial period not exceeding three years which they will be eligible for extension or reappointment, after a formal review of their performance.

A third view on audit committee performance effectiveness in the MIT accountability drawn from the literature is the audit committee meetings (Elliott, 2003). Within this view, meetings are a main working forum of the committee, and members should expect to participate actively in the meeting providing an opportunity to review information, develop an understanding of important issues, and formed judgments. A representative from each of the MIT auditors and from senior management should normally attend each meeting. Audit committee, under the leadership of their chair, often prepare annual work agenda that allocate the year's work to schedule audit committee meetings for the year.

Fourthly, Aross (2004) on model audit committee charter insist that the meeting will be at least four times per year. A special meeting may be held to review the entity's annual financial statements. The chair is required to call meeting if requested to do so by the chief executive, or another committee member.

2.6 Benefits of an effective Audit Committee

Audit committee effectiveness has several benefits to public accountability which also is supported by different authors. Dascombe and Turner in their Good Practice Guideline included some benefits of audit committee as follows:

- a) Increase board member and stakeholder confidence in the objectivity and fairness of financial and other reporting.
- b) Help the organization aim assurance that the risks to achieving business objectives are controlled.
- c) Helps to foster more effective working relationship between “audit” and the board.
- d) Contribution to an effective process of challenge and review of executive management team performance, and reduces the risk of illegal or fraudulent.
- e) Helps management fulfill their role in accounting systems, internal control and reporting.
- f) Improve communication and promotes objectivity and independence of audit function both internal and external audit function.
- g) Strengthens the role of non-executive directors, increase their knowledge of the entity and hence their effectiveness.

2.7 Relationship between Audit Committee and Auditors

The audit committee should expect to devote time and efforts to the development and maintenance of its relationship with each of external auditors. Elliott (2003) on guideline for audit committees state that audit committee effectiveness depends on

having relationships characterized by free and open communication and mutual trust and respect for each other's role.

Demonstrating a keen interest in the auditor's report, responsibilities, plans, findings, views and advice will significantly add to the audit committee's performance effectiveness. Creating an environment of continuous open communication will of doing what is right, instead of one that is limited to doing what the roles require. An emphasis that in order to demonstrate to auditors that their work is valued; the audit committee should clearly express their intention to rely on the work of auditors. The audit committee should ensure that each of auditors is aware of its overall objectives. Involving the auditors in committee's work should include seeking suggestions on the way to improve its work. The audit committee should hold each of auditors accountable for not meeting the auditor's professional responsibilities. To do so the committee should evaluate the performance each auditor annually. The review should consider the auditor's actual performance against audit plans.

It also considers the auditors contribution to the audit committee work, the quality of information and advice received by the committee and the nature of auditor's working relationship with the audit committee work, the quality of information received by committee and the nature of auditors working relationship with the audit committee. On the other hand comments are given that the senior member of the external audit team should have right of access to audit committee.

The audit committee has to consider the planned activity and results of both internal and external audit work. Both the head of internal audit and the external audit representative should have free access to the chair of audit committee in order to raise such concerns which they may have. In this respect the audit committee adds value to the audit process by protecting the independence of the audit function and advising auditors on the way in which the committee interprets the particular results arising from audit work and the related advice which they would give to the accounting officer.

Focusing on the relationship with external auditors the committee shall review and evaluate the external auditors, including the lead partner's performance and make a recommendation to the Board as to the appointment or re-appointment of the external auditors, ensuring that such auditors are participants in good standing pursuant to applicable securities laws; consider and make a recommendation to the Board as to the compensation of the external auditors; review and approve the annual audit plan of the external auditors, including any material changes thereto; oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services, including the resolution of any disagreements between management and the external auditors; review and discuss with the external auditors all significant relationships that the external auditors and their affiliates have with the Corporation and their affiliates in order to determine the external auditors' independence, including, without limitation, (a) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation, (b) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, and (c) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence; monitor the rotation of partners on the audit engagement team in accordance with applicable law; as may be required by applicable securities laws, rules and guidelines, either: pre-approve all non-audit services to be provided by the external auditors to the Corporation (or their respective subsidiaries, if any), or, in the case of de minimus non-audit services, approve such non-audit services prior to the completion of the audit; or adopt specific policies and procedures for the engagement of the external auditors for the purpose of the provision of non-audit services; and review and approve the hiring policies of the Corporation regarding partners, former partners, employees and former employees of the present and former external auditors of the Corporation.

2.8 Roles of Accounting Officer on Audit Committee

The regulations do not preclude the Accounting Officer from being a member of audit committee however the accounting officer should appreciate the contradictions and risks of taking a position in their own committee. (Regulation 32(2) implies that the accounting officer from attending committee meetings) as if something is missing.

2.9 Support for Audit Committee in Public Sector

To perform its work, audit committee requires the full support and cooperation of management. The committee depends on management for information reports, knowledge, and insight about the cooperation's practices and the issues confronting it. Elliott (2003) wrote in guide line for audit committee that the support given to an audit committee cover a wide range of activities including provide basic administrative service, planning the committee's works and agenda, identifying issues, preparing reports, researching assigned topics, and liaising with management.

On some occasions, to ensure independence, an audit committee may require advice assistance from outside legal, accounting, or other advisors. In these cases, the audit committee should discuss its needs with management and then ask its hair to seek the support of the board of directors on the retention of consultants who will report directly to the audit committee.

In the public sector where members are drawn from the management team, the support of chief executive officer will be necessary. The effectiveness of audit committee depends on how it manages complex set of relationships with the board, the auditors, and the management. Audit committees should be assisted to build a strong, open, and positive working relationship with the chief executive officer, Chief financial officer/Treasurer and chief internal audit. Support of these senior managers for audit committee's work will help it earn the confidence and assist an in-depth understanding of the LGA's business and the challenges facing it. Ibid.

2.10 Empirical Review

The research and report of Australian National Audit Office on Audit Committee (1997) has some recommendation on audit committees on various areas;

2.10.1 Conformance with Better Practice

ANAO (1997) report on audit committee conformance with better practice indicated those factors such as the size and structure of the entity, the complexity of its operations, and the governance framework within which the LGA operates all impact committee operations. This makes it difficult to directly compare between entities and models of better practice. With regard to such indicators, the audit found some of the more positive aspects of public sector audit committee performance, were as follows;

The majority of entities had audit committees of size considered to be appropriate that is between 3 to 5 members.

Just over half of all entities had at least one external or independent member on the audit committee.

Most audit committees had at least one member with skills and qualifications relevant to accounting and auditing function.

Most audit committees held regular meeting and maintained formal records of these meetings.

Almost all committees indicated they operate with formal charter (or term of reference). However about half indicated that the charter had not been reviewed in the past years.

On balance, the above findings suggest those public sector audit committees are moving toward better practice in certain key areas. However the finding summarized below indicate that the gap remains between current and better practice. The principal areas where improvement can be made are;

The majority of entities indicated that they had no formal plan for the orderly rotation of committee members.

A significant proportion of entities indicated that the head or internal audit and the head of finance were fully committee member. This considered undesirable from independence perspective.

Only a minority of committees dealt with all potentially significant aspects of their relationship with internal and external audit.

2.10.2 External Representative in Committee and Committee Independence

The research conducted by ANAO (1997) observed that the majority of audit committees are comprised of executive management of the entity. As such and by definition, they are not and cannot be truly independent. It has been argued in other jurisdictions that public sector audit committees should be independent. That is, they should consist of majority of members who as such, have no direct involvement in operation on management of the entity. While appreciating the rationale behind this argument the view of ANAO is that the composition of audit committee and the status of its members are largely evolved by the governance framework within which it operates. Nonetheless, a management can still have a role to play in enhancing financial reporting and in improving control and accountability.

However, even for such committee some level of Independent membership is considered to be desirable. This could provide an effective external check on internally focused views and perceptions. The ANAO view is that all committee should have at least one external member and recommended that the better practice model contained in the study to be used as the basis for any review of the audit committees.

Auditor independence can be related to the disclosure of a firm's internal control problems. When there is a strong economic bond between an auditor and a client firm, the auditor has an incentive to ignore potential problems and issue a clean opinion on the client firm's internal controls. While some studies (DeFond et al.,

2002; Ashbaugh et al., 2003; Chung and Kallapur, 2003; Reynolds et al., 2002; Francis and Ke, 2003) find no relation between non-audit fees and auditor independence and argue that an auditor's concern with maintaining its reputation for providing high quality audits could restrain it from undertaking activities that jeopardize independence, since the revenue from each client will be a small percentage of the auditor's total revenue, other studies suggest that the provision of non-audit services compromises auditor independence.

For example, Frankel et al. (2002) find that non-audit services are associated with increased discretionary accruals and the achievement of certain earnings benchmarks and Krishnamurthy et al.(2006) document that the abnormal returns for Andersen's clients around Andersen's indictment are significantly more negative, when the market perceived the auditor's independence to be compromised. Given these mixed empirical findings, we measure auditor independence (RATIO) as the ratio of the audit fee to the total fee, and propose the non-directional null hypothesis, as follows.

In addition to audit committee financial expertise, other attributes of an audit committee has been found to be important factors in effective monitoring. Specifically, the control for audit committee independence, since Krishnan (2005) finds that there is a positive relation between audit committee independence and the quality of internal control prior to the enactment of SOX. While SOX requires that audit committees be composed of all independent directors for firms traded on an organized stock exchange (e.g., NYSE, AMEX) or a recognized dealer quotation system (e.g., NASDAQ), exemptions may be given by the SEC, if it determines that it is appropriate under certain circumstances. We thus still control for audit committee independence (ACIND), defined as the percentage of independent directors on the audit committee.

On the other hand the study by NAOT (2005) on internal control environment revealed that existence of effective audit committee performance helps in controlling and monitoring the operation of the organization. The report mentioned some advantages of such committees as follows:

Checking on effectiveness of internal control mechanisms over finances and procurements,

Discuss in detail the audit reports and procurement proceedings, from an independent point of view,

Advice accounting officers on approvals of procurements contracts, on financial controls issues ensuring that proper documentation are maintained for both procurement and finances of the LGAs, as well as helps in proper segregation of duties.

Specifically in the report comment that it has been found that most audit committee are not functioning as required by the laws, as evidenced by lack of minutes of meetings.

2.11 Best Practice of Audit Committee in the Public

The legal requirements with regard to audit committees are contained in the Regulations and are a manifestation of the best practice for public sector audit committees. The following requirements should be noted and complied with;

The accounting officer is responsible and accountable under regulation 31(1) for establishing the audit committee and for appointing its members. The Sarbanes Oxley Act applies tough new standards for financial accountability and transparency on boards of corporations that issue public securities. Although the so-called SOX Act doesn't apply to most not for- profit organizations, many believe it's only a matter of time before states or the Internal Revenue Service adopt similar rules for tax-exempt organizations.

In any event, many hospital and health system boards are using the SOX requirements as a framework to examine and improve their financial Oversight, beginning with the board's audit committee. While no two boards or organizations are exactly alike, these best practices are worth strong consideration. Since an entity's internal control is under the purview of its audit committee (Krishnan, 2005), we investigate the relation between audit committee quality and internal control weaknesses.

The audit committee not only plays an important monitoring role to assure the quality of financial reporting and corporate accountability. (Carcello and Neal, 2000), but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively. We thus expect that firms with high-quality audit committees are less likely to have internal control weaknesses than firms with low-quality audit committees.

On measuring audit committee quality, we focus on the financial expertise in these committees. The Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC)'s (1999) recommends that each audit committee should have at least one financial expert highlights the importance of the financial literacy and expertise of audit committee members.⁵ Section 407 of the SOX incorporates the above suggestion and requires firms to disclose in periodic reports, whether a financial expert serves on a firm's audit committee and, if not, why not.

Such financial expertise of audit committee members has been shown to be important for dealing with the complexities of financial reporting (Kalbers and Fogarty, 1993) and for reducing the occurrence of financial restatements (Abbott et al., 2004). In addition, DeZoort and Salterio (2001) find that audit committee members with financial reporting and auditing knowledge is more likely to understand auditor judgments and support the auditor in auditor-management disputes than members without such knowledge.

Moreover, financially knowledgeable members are more likely to address and detect material misstatements. Audit committee members with financial expertise can also perform their oversight roles in the financial reporting process more effectively, such as detecting material misstatements (Scarborough et al., 1998; Raghunandan et al., 2001).

Indeed, Abbott et al. (2004) find a significantly negative association between an audit committee having at least one member with financial expertise and the incidence of financial restatement. Krishnan (2005) present's evidence that audit

committees with financial expertise are less likely to be associated with the incidence of internal control problems. Therefore, we have the following directional prediction.

Members of audit committee are drawn from senior executives' or managers from within the ministry. Also the treasury appoints an external member into the committee. The membership of committee is kept to a minimum of three (3) and a maximum of five (5) members. The essence of the requirement is to enable the ministries to have a committee with sufficient balance of knowledge and experience. Audit committee must have terms of reference that clearly spell out the membership, authority, and duties. As such the committee should have explicitly authority to investigate any matters within its terms of reference. Meeting and processes of audit committee should be formalized. Though the audit committee will regularly review internal audit reports, the internal audit is accountable to the Accounting Officer.

2.12 Challenges

Professional Practice Director of national audits at Ernst & Young contends that it is difficult to find people with the required skills, experience and time to make audit committees work effectively. This challenging situation is exacerbated by the fact that the more experienced audit committee members tend to serve on too many audit committees, which could affect their time commitment and their contribution.

The results of the survey conducted by Ernst & Young in 2005 suggest that continuing education for audit committee members in South Africa "is an area that needs significant improvement if they are to stay in line with best practice and keep up-to-date with technical developments". Another significant concern raised from this research was that audit committees might not have had recent education with regard to International Financial Reporting Standards (IFRS) or the Companies Act (Ernst & Young 2005).

Selection of audit committee members should base on the knowledge of financial matters thus enhance public funds accountability. This factors ultimately impact on the performance of audit committees because new members, in particular, have not

yet acquired the necessary skills and experience to make a valuable contribution from the early stages of the discharge of their responsibilities to the committee. It is understandably difficult to meet all the requirements, adhere to regulations and governance principles and at the same time be able to fill the required vacant positions on audit committees. Some organizations often use representatives from stakeholders such as labor unions to be appointed as audit committee members. However, these members might not have received any financial or organizational management training prior to their appointment as audit committee members. Furthermore, they are often regarded as only “part-time participants (Morgan,2010)

2.13 Literature Review Summary

The above literature did suggest that audit committee function is important for the performance in ministries or in general public sector financial operation. As party of accountability arrangement for government in particularly the raising and spending of taxes revenues, the MIT is advised to see the audit committee as an opportunity for them to enhance their internal controls in financial operation and build a culture of accountability on use of public resources.

Audit committee should assist auditor general and internal auditors play effectively their roles and purpose as founded upon fundamental constitutional principals and Public Finance Act, 2001 also the literatures show that the role of an audit committee is mainly to provide effective, informed and independent oversight of the management of the organization and to reassure the stakeholders that the organization is being managed properly. An audit committee provide forum whereby key players in the ministries, namely the management internal audit, and external audit can interact and have issues of concern discussed and sorted out.

Having reviewed various literatures on audit committee it is obviously that gap still exists if not widening on the audit committee efficiency in public sector financial operations. An effective audit committee can increase the integrity, efficiency of the audit process as well as the system of internal controls and financial reporting. Therefore the study attempt to find out if public sector in Tanzania is having an

effective audit committee through assessing the performance and thus enhance controls in financial operation and build a culture of accountability on use of public resources.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the techniques that were used to collect and analyze data from the field about the assessment of audit committee performance in enhancing accountability in the MIT. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher in studying his/her research along with the logic behind them (Kothari, 2002). The chapter did provide detailed explanations concerning the area which study was conducted, methods and instruments the researcher used in data collection and the techniques for data analysis and data presentation. The MIT had been selected as the focus of the study. The findings obtained from this study will be inferred to the ministry. The study employed descriptive approach to analyze both primary and secondary data.

3.2 The Study Design

This study used a case study approach to assess the audit committee's performance in enhancing accountability in the MIT because it involves a careful and complete observation of a social unit, be that unit a person, family, an institution, a cultural group or the entire community. (Kothari 2004)

A research design is the logic that links the data collected and the conclusion to be drawn to the initial question of the study. Orodho (2003) for example, defines it as the scheme, outline or plan that used to generate answers to research problems. Also Macmillan and Schumacher (1984) required it to be the way of study planned and conducted, the procedures and techniques employed to answer the research problem or question. Therefore it is an arrangement for data collection and analysis in the manner that aims to combine relevance findings with the research proposal. It constitutes the blueprint for collection, measurement and analysis of data (Kothari, 2003).

According to Ndunguru (2007), case study design is preferred when an investigator has little control over events and when the relevant behaviors cannot be manipulated. Case study design is flexible in terms of data collection methods and analysis and is characterized by the thorough study of a unit over a range of activities. Case study design is convenient to use, it is limited to a specific area and it is less costly in terms of funds.

Further, it assists the researcher to probe deeply and analyze intensively the events under the study. As for disadvantages of the case study (if any), researcher was expecting to minimize them through findings and recommendations of the study.

With regards to this, the Ministry of Industry and Trade was chosen as a case study. For the purpose of this study, a case study design was adopted to get the required information. The case study design was selected due to its expected ability to provide in depth insight of the issues under the study or investigation.

3.3 Area of Study

This research was carried out in the MIT since it enabled researcher to collect reliable data within a reasonable time and cost.

3.4 Target population

The population of the study included staff of the MIT staff of residential auditor of ministry internal auditors, members of audit committee and stake holders. These staff included staff of different ranks such as senior auditors, principal auditors and other staff who are employed on permanent terms.

3.5 Sample and Sample Selection

A sample is a small group of respondents drawn from a population in which the researcher is interested in gaining information and drawing conclusion about the universe (Kothari, 1990). Also Leedy (1980) argues that, in selecting a sample size, one outlines factors that should be considered such as availability of population, methods of sampling, audit committee members assessing, availability of time and financial resources to undertake an academically satisfactory study.

A purposive sampling was used to have respondents from the management team because by virtue of their position they were directly or indirectly involved in the audit committee. The sample did constitute about 40 respondents, responded positively to the study as it was expected otherwise the number may increase or decrease accordingly. Of these, 15 respondents were drawn from audit committee's members and resident auditor's team and the remaining were audit staff mostly in the audit section from the MIT.

According to Kothari (2005), Research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing, and evaluating data, making deductions and determines whether they fit to formulate hypothesis. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research. Therefore this chapter, present secondary data obtained from both the literature search on theoretical and empirical review.

Table 1.1 Populations and Sample Size

Category	Population	Sample size	Percentage
Audit committee members and resident auditor team	25	10	40
Audit Sections Team and others	50	30	60
Total	75	40	100

Source: Researcher, 2013

3.6 Data Collection Techniques

This study used questionnaire, interviews and documentary reviews to tap information on the assessment of audit committee's performance in enhancing accountability in the MIT. According to Leedy (1989), a questionnaire consists of printed questions to elicit information from respondents on their attitudes, feeling or reactions about a problem or issue under study. The main advantage of using a questionnaire is the possibility to collect information from many respondents within a short time.

3.7 Data Analysis Plan

According to Kothari (1990) data analysis is a process, which implies editing, coding, classification and tabulation of collected data. In this study data collected will be analyzed using the Statistical package for social Sciences (SPSS) to determine frequencies and percent. Statistical Package for Social Sciences (SPSS) is one of the most widely available and powerful statistical software packages. Information elicited from questionnaires, interviews and documentary reviews were subjected to content analysis.

CHAPTER FOUR

PRESENTATION AND DISCUSION OF FINDINGS

4.1 Introduction

This chapter covers the following issues; the factors influencing the effectiveness of audit committees in the public sector of Tanzania. Also the examination on member's composition of audit committees to underpin the knowledge of the members on financial matters and enhancing public fund accountability, the skills shortages and professional development requirements of audit committee members. The findings presented and discussed on this chapter pertain to the major objective of the research that focus on assessment of the performance of audit committee in enhancing accountability over the use of public fund, a case study of the MIT.

4.2 Members composition of Audit committee

The study examined the composition of the audit committee of the MIT while focusing on the role it takes, how important it is within the ministry, to see if it is formally developed and the need of whether to comprise the executive members from outside the ministry or not.

Also if audit committee would consist of at least three and not more than six members of the Ministry. And each committee member would be independent and at least one member should be designated as the "financial expert," as defined in the Public finance Act of 2001 as revised in 2004. Audit committee members should have good communication skills and the ability to work with others, knowledge of the needs, interests, and concerns of the constituency, accounting and auditing expertise and experience, and a willingness to ask hard questions and deal with controversial matters. Basing on the above focus researcher obtained the following results from questionnaires,

4.2.1 The audit committee and their roles in the MIT

The audit committee is an integral element of public accountability and governance. It plays a key role with respect to the integrity of the entity's financial information, its system of internal controls, and the legal and ethical conduct of management and employees. An audit committee's responsibility vary depending upon the entity's complexity, size, and requirements. Typical audit committee responsibilities include approving the overall audit scope, recommending the appointment of the external auditor, overseeing the entity's financial statement and internal controls, helping to ensure that the audit is conducted in a cost-effective manner, and risk management oversight. Under this area of the study, respondents were supposed to say "Yes" or "No" in relation to their awareness on the committee. About twenty respondents brought the following results;

Table 4.1 Awareness of Audit committee and their roles within the ministry [MIT]

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
19	95	01	05	20	100

Source, research study 2013

From the above table, 19 respondents who count about 95% of total respondents showed that they are aware of existence of Audit committee and the roles they play within the MIT. On the other hands, only one (1) respondent equals to 05% was not aware of such existence and roles. The respondents comprised of directors from different departments, staffs from internal audit of the ministry, staff of external audit and some senior staffs of the ministry.

4.2.2 The importance of MIT to have the Audit committee

Audit committees are an increasingly important component of effective accountability and governance. An audit committee must have three important qualities in order to fulfill its duties: independence, communication, and

accountability. Having an audit committee does not relieve governing bodies of responsibility for the matters considered by the committee. An audit committee should have a charter that states its mission, objectives, authority, organization, and methodology. In addition, the charter should establish voting requirements, the liability of members, and their method of appointment. Under this area of study, researcher was able to examine how important it is for the MIT to have audit committee by collecting views of different respondents who responded as per the following table;

Table 4.2 Importance of MIT to have the audit committee

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
21	100	0	0	21	100

Source, research study 2013

From the above table 4.2, all 21 examined respondents agreed that it is of very important to the MIT to have the audit committee. This is equal to 100% of the total response from the administered respondents. Again the respondent's composition was Head of departments, staffs from internal audit unit and senior staffs of the MIT.

4.2.3 Existence of formal Audit committee in the MIT

The study was focusing on examining on whether the Audit committee which exists within the ministry is formally formed or not. To operate effectively, an Audit Committee requires the cooperation and support of the executive management in providing information and resources, and in implementing and carrying out the committee's requests and recommendations. Members of the Committee, as non-executive directors, are an integral part of the Board, with the same legal responsibilities as any other directors. It is, therefore, in their best interests as Committee members to insist on adequate information being supplied to them by the executive management. Non-cooperation of the executive management can undermine the effectiveness of the Audit Committee. Under this the researcher examined 21 respondents from whom the results was as follows;

Table 4.3 Existence of formal Audit committee in the MIT

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
19	90.5	02	09.5	21	100

Source, research study 2013

From the above table, 19 respondent's equals to 90.5% of the total respondents agreed that the existing audit committee within the ministry is formally formed. However, 2 of them equals to 9.5% said it is not formally formed.

4.2.4 Audit committee of MIT to be composed of executives from outside the Ministry and non executive officers.

The study under this area was trying to find out the way respondents recommend on the composition of the committee. A typical Committee comprises between three and five members, depending on the size of the company and the range and complexity of the issues arising. A membership of three or more, with a quorum of two independent non-executive directors, is considered desirable by the PFA Act to enhance efficiency in decision making and make the best use of the mix of available skills and experience.

Due to the long-term nature of the Audit Committee's activities, membership continuity is important, although this is offset by the need to keep a fresh and independent approach that may require some rotation of members. Re-appointment and terms that end in different years will help to achieve this objective and avoid the disadvantages of replacing all the experienced members at one time. In relation to independence, it is equally important to observe the spirit of the law as to stick to the letter. The major concern was to see what if the committee will be made with the executives from outside the ministry together with the non executive's members. Responses of them were as follows;

Table 4.4 Audit committee of MIT to be composed of executives from outside the Ministry and non executive officers

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
17	77.3	05	22.7	22	100

Source, research study 2013

From the above table, 17 respondent's equals to 77.3% of all agreed that it will be better if the audit committee will be comprised with executives from outside the ministry together with non executive officers. According to them, this will ensure accountability as well as independence of the committee hence to become effective on its performance. On the other way, 5 of the respondents equals to 22.7% said there is no need to have such composition of the Audit committee. It seems they are very much satisfied with the way it is now.

4.3 The knowledge of the Audit members on financial matters

The specific objective of the study under this area was to find out the views of the respondents on the need of audit committee members to have knowledge on financial matters. Researcher believed that such knowledge will bring about the effectiveness on the committee performance in enhancing accountability over the use of public funds. On achieving the objective mentioned, researcher examined the respondents under the following grounds;

4.3.1 Divergent views of the proper structure, roles, responsibility and mandatory of audit committee in MIT

The primary purpose of the Audit Committee is to assist the MIT discharge its responsibility in ensuring the MIT adopts, maintains and applies appropriate accounting and financial reporting processes and procedures, facilitating the independence of the external audit process and addressing issues arising from the audit process and ensuring the Ministry maintains effective risk management and internal control systems. The Audit Committee has no executive powers with regards to its findings and recommendations.

The study here was trying to find out from the views of respondents to see if there is more than one way of looking at a particular point of view especially the current MIT audit committee structure, roles, responsibility and its mandatory. 22 respondents were examined and the following were the results of their response;

Table 4.5 Divergent views of the proper structure, roles, responsibility and mandatory of audit committee in MIT

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
12	60	08	40	22	100

Source, research study 2013

From the above table, 12 respondents agreed that there is a need to have more than one way of looking on available MIT audit committee structure, roles, responsibilities and the mandatory of the committee. This was equal to 60% of the total respondents under examination. However, 8 of them equals to 40% of them said there is no need of having such divergent views.

4.3.2 Grading the overall performance of Audit committee in MIT

The Performance and Audit Committee advises MIT and the Accounting Officer on matters relating to risk, internal control, governance and performance management. It is responsible for reviewing the comprehensiveness and reliability of assurances on governance, risk management, performance management, the control environment and the integrity of financial statements and the annual report.

The committee provides advice on the accounts and annual report to ensure they reflect best practice. It reviews and comments on reports by the National Audit Office, or the appointed external auditor. Researcher under this ground was trying to find out how the respondents grade the performance of MIT audit committee basing on their observations and participation in the committee. The findings were as follows;

Table 4.6 Grading the overall performance of Audit committee in MIT

Respondents		Respondents		Respondents		Total	
Very effective	%	Somehow effective	%	Need improvement	%	Number	%
09	41	07	32	06	27	22	100

Source, research study 2013

From the table above, 9 respondent's equals to 41% said the MIT audit committee is very effective on its performance. This means, they are very much satisfied with the performance of the committee on its operations. On the other side, 7 of the respondents said the performance of the committee is somehow effective. This was equal to 32% and the remaining 6 respondent's equals to 27% said the performance of the committee need improvement.

4.3.3 Audit committee receiving appropriate written report from the Internal Audit unit.

The researcher under this area was trying to find out if the audit committee of the MIT receives appropriate written report from the Internal Audit unit of the ministry and how often. Respondents brought down the following findings;

Table 4.7 Audit committee receiving appropriate written report from the Internal Audit unit

Respondents		Respondents		Respondents		Total	
Frequently	%	Occasionally	%	Almost never	%	Number	%
18	82	04	18	00	00	22	100

Source, research study 2013

From the table above, about 82% which is the result of 18 respondents said the Audit committee of the MIT has been frequently receiving the appropriate written report from the Internal Audit Unit. On the other hands, 4 of respondents equals to 18% said the committee has been receiving such written report from internal unit just occasionally.

4.3.4 Audit committee of MIT having the updated Audit committee charter

The specific objective of the study here was to find out if the Audit committee of the MIT has the updated audit committee charter. It also aimed at looking on whether the said charter does not exist within the committee at all. Basing on those objectives, the following were the findings from the respondents;

Table 4.8 Audit committee of MIT having the updated Audit committee charter

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
14	70	06	30	20	100

Source, research study 2013

From the above table, 14 respondents said there is audit committee charter within the MIT and according to them, such audit committee charter is up to date one. These were counting to 70% of the total respondents. However, 6 of them equals to 30% said there is no such audit committee charter within the MIT audit committee.

4.3.5 Satisfactions on the MIT audit committee’s oversight of internal control over financial reporting

The audit committee can help in overseeing the prevention and detection of financial statement fraud by monitoring management’s assessment of internal control over financial reporting. To oversee successfully, the audit committee is familiar with the processes and controls management has put in place and understands whether they were designed effectively.

The audit committee should work with management, the internal auditors, and the independent auditor to gain the knowledge needed to provide appropriate oversight. Includes the policies and practices used to control the operations, accounting, and regulatory compliance of the entity. Management and both the internal auditing function and external auditors provide reporting to the audit committee regarding the effectiveness and efficiency of internal control.

The study was trying to find out how satisfied the people are within the Ministry about the audit committees oversight of internal control over the financial reporting. The findings were as follows;

Table 4.9 Satisfaction on the MIT audit committee’s oversight of internal control over financial reporting

Respondents		Respondents		Respondents		Total	
Very satisfied	%	Somehow satisfied	%	Need improvements	%	Number	%
08	36	08	36	06	28	22	100

Source, research study 2013

From the above table, 8 respondent’s equals to 36% were very much satisfied with the MIT audit committee’s oversight of internal control over financial reporting. The number and percentage were the same to those who were somehow satisfied. On the other hands, 6 of them equals to 28% said the committee’s oversight of internal control over financial reporting.

4.4 Effective performance of Audit committee’s roles within the Ministry of Industry and trade

Audit committees typically review financial reports quarterly and annually in publicly traded companies. In addition, members often discuss complex accounting

estimates and judgments made by management and the implementation of new accounting circulars or regulations. Audit committees interact regularly with chief accountant. External auditors are also required to report to the committee on a variety of matters, such as their views on management's selection of accounting principles, accounting adjustments arising from their audits, any disagreement or difficulties encountered in working with management, and any identified illegal acts. Under this area of the study, the specific objective was to assess whether the functions of Audit committee of the MIT have been exercised to enhance the accountability particularly over the use of the public funds. In order to achieve the objective, researcher examined the respondents under the following grounds;

4.4.1 Audit committee of MIT to approve and coordinate action plans for auditors

The study was trying to find out if the audit committee of the MIT does approve and coordinate the action plans for the auditor's especially internal auditors. The following were the results of the examination done to the respondents;

Table 4.10 Audit committee of MIT to approve and coordinate action plans for auditors

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
18	82	04	18	22	100

Source, research study 2013

From the above table 18 respondents agreed that the audit committee of that the MIT has been approving and coordinating the action plans of the auditors. These were equal to 82% of the total respondents. On the other hands, other 4 of the examined respondents equals to 18% said the audit committee does not approve and coordinate the action plans for auditors.

4.4.2 Audit committee of MIT to prepare annual report on its functions

The study under this consideration was trying to find out whether the audit committee of the MIT prepares the annual report on its functions. An important component of monitoring the execution of the audit plan is assessing the communication of audit findings to management and the audit committee. This includes assessing the timeliness of both formal and informal communications and how issues the auditors have raised are addressed.

Management and the auditors must ensure that all significant issues are communicated promptly to the audit committee and in a manner that is complete, fair and balanced. Where accounting issues are raised, the communication must fully articulate the accounting options available, the impacts of those options and the reasons for adopting the selected option. When issues arise, management is responsible for making any necessary corrections and the audit committee is responsible for overseeing that management has done so. Again researcher examined number of respondents and obtained the following findings;

Table 4.11 Audit committee of MIT to prepare annual report on its functions

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
12	55	10	45	22	100

Source, research study 2013

From the above table, 12 respondents said YES that the audit committee of the MIT does prepare annual report on its functions. These were equal to the 55% of the total respondents. On the other hands, 10 respondent's equals to 45% of the respondents said NO, meaning that the audit committee of the MIT does not prepare the annual report on its functions. Small difference between the respondent's view shows that there might be weakness on such crucial responsibility of the Audit committee within the ministry.

4.4.3 Establishment of audit committee in MIT as a matter of best practice rather than mandatory

The auditor must be independent of the issuer and in the case of mutual funds, independent of the investment company complex. Audit committees should be familiar with the statutory and regulatory independence requirements for auditors, including requirements that the auditor advise the audit committee of any services or relationships that reasonably can be thought to bear on the firm’s independence.

The specific objective here was to find out if the audit committee of the MIT is formed as a matter of the best practice or just because it is a mandatory. Again researcher administered the examination to the respondents and obtained the following results;

Table 4.12 Establishment of audit committee in MIT as a matter of best practice rather than mandatory

Respondents		Respondents		Respondents		Respondents		Total	
Agree strongly	%	Agree	%	Disagree	%	Disagree strongly	%	Number	%
08	34	05	22	05	22	05	22	22	100

Source, research study 2013

From the table above 8 respondents equals to 34% of the total respondent, agreed strongly that establishment of audit committee in MIT as a matter of best practice rather than mandatory. On top from that 5 respondent’s equals to 22% agreed on the matter, 5 other equals to 22% disagreed and the last 5 respondents disagreed strongly.

4.5 Challenges facing audit committee in an organization

The study under this area was focusing on finding out the challenges which the audit committees of the MIT face on implementing its responsibilities. Again researcher

was able to examine some respondents basing on the guidelines available through the questionnaire as described below.

4.5.1 Mandate of audit committee of MIT to take action against executives for not acting on reports and recommendations from auditors

The study was trying to find out if the audit committee of the MIT has a mandate to take action against executives for not been able to act on reports and recommendations from auditors. The researcher believed that if the audit committee will be able to do so, it will help a lot on strengthening the internal control of the Ministry as well as to ensure the accountability over the use of public funds.

An audit committee must be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the issuer, including the resolution of disagreements between management and the external auditor regarding financial reporting. The following were the findings obtained from respondents;

Table 4.13 Mandate of audit committee of MIT to take action against executives for not acting on reports and recommendations from auditors

Respondents		Respondents		Total	
YES	%	NO	%	Number	%
10	48	11	52	21	100

Source, research study 2013

From the above table 10 respondents equals to 48% of the total respondents said YES meaning that, the audit committee of the MIT does take action(s) against the executives who fails to act on reports and recommendations from auditors. However, 11 respondents’ equals to 52% of the total respondents under examination said NO to the question. This means, the audit committee does not take any action against the

executive(s) who happen to fail to act on reports and recommendations from auditors.

4.5.2 Opinions on challenges facing the audit committee within MIT

The objective of the study under this ground was to find out the challenges which audit committee of the MIT face when implementing its responsibilities. Researcher collected the views of respondents through administered questionnaires. The findings were included on recommendations after being analyzed.

CHAPTER FIVE
SUMMARY, CONCLUSION, POLICY IMPLICATION AND
RECOMMENDATIONS

5.1 Summary of findings

In a study to assess the performance of audit committee in enhancing accountability over the use of public fund, the researcher found that the audit committee of the MIT is very much known by almost all executives, senior staffs and intermediary staffs of the ministry. The researcher also found out that most of the population sample involved in the study, knows how important it is for the ministry to have the audit committee. According to one of the specific objectives of the study, the member's composition in the audit committee at the MIT is good and meet the standards of the effective audit committee.

Researcher also find out that in order to have most effective audit committee to enhance accountability over the use of the public funds within the ministry, there is still a need to have a second or alternative thoughts regarding the proper structure, roles, responsibility and mandatory of audit committee. So far, the performance of such audit committee is somehow effective although it still need some improvements especially on making sure that all members have sufficient accounting knowledge.

Furthermore, the audit committee of the MIT tends to receive frequently the appropriate written report from the Internal Audit unit of the ministry and most of the interested parties to the audit committee activities are satisfied with its performance. However, most of those interested parties does not know if such committee have and use the updated audit committee charter. On top from all that, the general findings shows that most of the members of audit committee of the MIT does not have knowledge on financial matters.

Furthermore, researcher found out that the audit committee of the MIT performances on its roles is still not well known because most of the respondents were not sure if the audit committee performs one of its responsibilities of approving and

coordinating the action plans for the auditors. The exercise was like not applicable within the ministry. In addition to that, it was not well known if the audit committee of the ministry prepares its annual reports on its functions accordingly and its establishment was not clearly seen if it was the matter of best practice or rather mandatory.

To wind up, the audit committee of the MIT face some challenges on its operations including lack of knowledge on financial matters to the most of its members, lack of training to the audit committee members which might end up help the members to know their collective responsibilities, insufficient funding to support the committees functions, lack of independence to the committee when performing its responsibilities since there are number of interference including political and as a result it fails to take action on matters raised on various audit reports and limited institutional support and an outdated focus on pre-audit activities.

5.2 Policy Implication

The study to assess the performance of audit committee in enhancing accountability over the use of public fund within the MIT adopted case study design. According to Ndunguru (2007) case study design is preferred when an investigator has little control over events and when the relevant behaviors cannot be manipulated. In this study, the researcher used cross sectional data to furnish the purpose of the study. By using cross sectional data, researcher could not observe the effect of time on variables of interest. Therefore in order to avoid weakness associated with cross sectional data, future research can be conducted by using panel data or time series data that can give opportunity to observe the performance of audit committee in enhancing accountability over the use of public fund over area under considerate.

5.3 Conclusion

A successful, effective and efficient audit committee should always comprise the right people as members and these are the one with sufficient knowledge over financial matters. Such committee should be working independently under the

updated guidelines including audit committee charter. Furthermore, the audit committee should always take relevant actions on different matters raised on various audit reports. All these will easily improve the committee's performance, strengthen the internal control of the ministry enhance accountability over the use of public fund. To support all these, the MIT should always locate sufficient budget for the committee and ensure the availability of frequent training to the members so as to create the awareness of the collective responsibilities to them.

5.4 Recommendations

The following are proposed recommendations based on the observed and analyzed findings from the study. They focus on current situation of the audit committee of the MIT and the intention to improve the performance of the audit committee in enhancing accountability over the use of public fund in a near future. These recommendations require remedial actions so that the challenges discussed are taken care of.

5.4.1 Audit committee to compose of executives from outside the Ministry and non executive officers

The current composition of audit committee which comprise of senior members who are the Heads of departments does not meet the effectiveness and efficiency of the audit committee performance. This is because auditors queerer normally are concerning their departments therefore they cannot perform their responsibilities as committee members effectively while they are responsible for number of issues raised by internal auditors on their reports. This is also the fact to why the committee cannot work independently with less or no interference.

5.4.2 There should be up to date audit committee charter

The audit committee of the ministry should have up to date audit committee charter to guide its everyday operations. The charter will spell out the roles to be played by the committee as well as responsibilities of the whole audit committee. This will

simplify the working of the committee and bring about the reliable source of reference to the responsibilities of the audit committee.

5.4.3 Audit committee members should have sufficient knowledge on financial matters

Enough knowledge on financial matters will enable the members of audit committee to deal with issues of finance, control and risk in greater depth than the main body. The performance of the team will also be improved and as the result the possibility of the committee to enhance accountability over the use of public funds will be great.

5.4.4 To restructure the audit committee, restate its roles, responsibilities and its mandatory

There is a need to see on how the audit committee can be restructured, its roles being restated so as its responsibilities and it's mandatory. All these should be reformed so that the performance of the audit committee to cope with current requirements of the ministry, the government and the public in general. In additional to that, restructured audit committee should be able to overcome the challenges associated with the current performance of the existing audit committee.

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QUESTIONNAIRES

MZUMBE UNIVERSITY: MSc. IN ACCOUNTING AND FINANCE

RETURN TO FATUMA E. OLOO BOX 63287, DAR ES SALAAM

Research Questionnaire for Academic Purposes- Strictly Private and Confidential

Please put a tick the answer you deem fit and where you think appropriate write your own response and you can use the back of this paper for more elaboration/comments.

Specific Question

What is the member's composition in audit committee at Ministry of Industry and Trade?

Questionnaires

Do you know audit committee and their roles in Ministry of Industry and Trade (MIT)? (a) Yes (b) No.....

Do you think it is important for MIT to have audit committee

(a) Yes (b) No....

Do you have a formal Audit Committee in MIT?

Yes (b) No.....

Do you recommend the members of Audit committees in MIT to be composed of executives outside MIT and non executive officers?

(a) Yes (b) No

Specific Questions

Does the audit member have knowledge on financial matters?

Questionnaires

Are there any divergent views of the “proper” structure, roles, responsibility and mandatory of audit committees in MIT.

(a) Yes(b) No

How would you grade the overall performance of Audit committees in MIT

(a) Very effective ... (b) somehow effective (c) Need improvement

Does the audit committee in your MIT receive appropriate written report from the internal Audit unit?

(a) Frequently (b) Occasionally(c) almost never

Does Audit Committee in your MIT have updated Audit committee charter? (a) Yes (b) No

How satisfied are you with the audit committee’s oversight of internal control over financial reporting? (a) Very Satisfied (b) Somehow satisfied (c) Need improvement

Specific Questions

Does audit committee in the Ministry of Industry Trade perform its roles effectively?

Questionnaires

10) One of the responsibilities of Audit Committees is to approve and coordinate action plans for auditors. For the case of your MIT is this applicable?

(a) Yes (b) No

Does audit committee in MIT prepare annul report on its functions?

(a) Yes (b) No

The establishment of audit committees in MIT is a matter of best practice rather than mandatory? (a) Agree strongly (b) Agree (c) Disagree (d) Disagree strongly

Specific Questions

What are the challenges facing audit committee in organization?

Within your MIT, does audit committee has a mandate to take action against executives for not acting on reports and recommendations from auditors?

(a) Yes (b) No

In your opinions what other challenges facing the audit committee within MIT?

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Use this space for additional comments

Position.....

Name of Department.....

Thank you for your cooperation.