

**THE EFFECTIVENESS OF AUDIT COMMITTEE IN
PROMOTING GOOD CORPORATE GOVERNANCE IN
PUBLIC ORGANIZATIONS: THE CASE OF MOROGORO
MUNICIPAL COUNCIL**

BY

FLAVIA JOHANSEN KYARUZI

The dissertation submitted in partial fulfillments of the requirement
for award of masters of business administration (MBA) of Mzumbe
University 2015

CERTIFICATION

We, undersigned certify that, we have read and hereby recommend for acceptance of Mzumbe university the dissertation entitled The effectiveness of audit committee in promoting good corporate governance in public organization; the case of Morogoro municipal council, in partial/fulfillment of requirement for award of masters of business administration of Mzumbe university.

.....

Major supervisor

.....

Internal examiner

Accepted for the board of school of business

.....

DEAN OF SCHOOL BOARD

DECLARATION

AND

COPYRIGHT

I Flavia J. Kyaruzi declare that this dissertation is my own work it has not been presented and will not be presented to any university for the similar or any other degree award.

Signature.....date.....

©

This dissertation is a copyright material protected under the Berne convention, the copyright act 1999 and other international and national enactments, in that behalf on intellectual property. It may not be reproduced by any means in part or full, except in short extracts in fair dealings for research or private study, critical scholarly review or discourse with an acknowledgement, without permission of Mzumbe university on behalf of the author.

ACKNOWLEDGEMENT

This work was not easy for me alone; a lot of assistance was made by different personnel whom I would like to grant my appreciation. Firstly I would like to thank my almighty God for this gift of life and mercy, which enabled me to accomplish my aspiration.

I wish to express my gratitude to my supervisor Dr.OmarySwallehefor his invaluable and insightful guidance towards the production of this work.I thank him for guiding and polishing my analytic skills in the subject matter. I am completely humbled by his contribution.I also owe intellectual debt to Management and staff of Morogoro municipal council for their time they spentin responding to my questionnaires and interview specifically the head of internal audit department,Mr.MujuneBikombo, legal officer, Advocate D.Bishwekoandall other head of departments and members of audit committee.

I wish to extend my thanks to the Management and staff from agricultural seed agency, as employer and my colleague they contributed to my success through challenges and encouragement especially my fellow accountants JaneKabage, Emmanuel Luogaand Derrick Tosiri. I am equally grateful to Johnson Tillya, JulikanaSanga, Mr.P.Kawamala,Dr.F.Mizambwa and all others in the head office and farm stations your concerns are highly appreciated.

Furthermore, I cannot forget to thank my fellow classmates Mrs. GloryAnesius, Mrs. NellyGondwe and all others. We always worked as a team and it is because of their endless contribution that I have been able to realize my goal.

My heartfelt thanks go toMr. P. Chihimba, for giving assistance on audit committee materials as my mentor for CPA practices you played more than your part, and all friends and others whom in one way or another contributed to completion of this dissertation.

Lastly, I would like to appreciate in a very special way, my family, mostly my lovely mum, Mrs. Odilia Kimasha for emotional, financial and psychological support she rendered to me. She always encouraged me when conditions turned to be tough; truly you were with me when I needed you, may God bless her forever.

DEDICATION

I would like to dedicate this research work to My lovely mother Mrs. Odilia Kimasha, as you are the best mother in the world, you gave me chance and support to attain my goals, your inspiration for the best achievement and determinations are spirits that guided me up to this level; my young brother Humphrey, I wish and expect you to achieve the best more than me.

LIST OF ABBREVIATIONS

AC	Audit committee
AICPA	American institute of certified public accountants
AMEX	American stock exchange
BOT	Bank of Tanzania
CAG	Controller and audit general
CFO	Chief financial officer
CEO	Chief executive officer
CMSA	Capital market securities authority
ECIIA	European confederation of institutes of internal auditing
GAAP	General acceptable accounting principles
INTOSAI	International organization of supreme audit institutions
MMC	Morogoro municipal council
NYSE	The New York stock exchange
NASD	National association of securities dealers
SEC	Securities and Exchange Commission
Sec	Section
SPSS	Statistical package of social science
URT	United republic of Tanzania
USA	United States of America

ABSTRACT

This study was aiming at assessing the effectiveness of AC (Audit committee) towards promoting good corporate governance in public organizations such as ministries, government departments, parastatals and agencies in Tanzania.

Although it is a statutory requirement that all listed companies, ministries, independent department and financial institutions in Tanzania to establish ACs but still some have not yet established ACs and those which have established ACs their ACs does not fulfill its various roles on promoting good corporate governance to meet expectations of the shareholders and stake holders.

The main objective of this study was to study the reasons why most ACs in Tanzania are ineffective in promoting good corporate governance of public organizations. Specific objectives were to identify the formalities required in establishing of AC, to establish criteria and nature used to select members of audit committees and to identify whether the audit committees have been promoted good governance or not.

On research methodology, the researcher used case study design where Morogoro municipal council was selected as a case of study, population included head of departments and AC members.

Findings showed that, Morogoro municipal council has established audit committee, formalities and criteria for establishing AC and selecting members has followed but AC at Morogoro municipal council is not effective due to the reason that independence is impaired,

It is concluded that the current ACs which follow Public Finance Act 2001 are ineffective to balance the operating challenges facing accounting officers and management of the public institutions.

It is recommended that the public finance act no.6 of 2001 revised 2004 and treasury circular 9 of 2003/04 need to be revised in relation to International best practice, capital market and securities Act of 2006 which requires AC to be committee of the board and members of the AC to be from outside the organization

Table of Contents

CERTIFICATION	ii
ACKNOWLEDGEMENT	iv
DEDICATION	vi
LIST OF ABBREVIATIONS.....	vii
ABSTRACT.....	viii
LIST OF TABLES	xiii
LIST OF FIGURES	xiv
CHAPTER ONE	1
INTRODUCTION AND BACKGROUD OF THE PROBLEM.....	1
1.1 INTRODUCTION	1
AUDIT COMMITTEE	1
1.1.2 BACKGROUND OF THE PROBLEM	3
1.2 STATEMENT OF THE RESEARCH PROBLEM	5
1.3 Objective of the study	7
1.3.1 General objective	7
1.4 Research questions.....	7
1.4.1 General research questions	7
1.4.2 Specific Research questions.....	8
1.5 Significance of the study.....	8
LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical review	9
Composition.....	10
Responsibilities	10
Oversight role of financial reporting and accounting	11
Oversight role of the external auditor	12
Role in oversight of regulatory compliance.....	12
Monitoring the effectiveness of the internal control process and internal audit.....	12
Role in oversight of risk management	13
Interaction with the Board, and with non-executive Board Members	13
Frequency of interaction with management.....	13

Executive sessions	14
Evaluation	14
AC functions	15
Power of the AC.....	15
AC charter	16
Purpose of AC.....	16
2.2.2. Corporate governance	16
Importance of good corporate governance	17
2.3. Empirical literature review.	17
2.3.1 Establishment of ACs	18
2.3.2. Criteria used in selecting AC members	19
2.3.2 Factors affecting AC in promoting good corporate governance.....	20
2.4.0 Introduction.....	23
2.4.1 Variables and concept	23
CHAPTER THREE	25
RESEARCH METHODOLOGY.....	25
3.1 Introduction.....	25
3.2 Research design	25
3.3 Data collection method	27
3.4 Sample and sampling plans.....	28
3.6 Limitations	28
3.7 conclusion	29
CHAPTER FOUR.....	30
DATA ANALYSIS AND INTERPRETATION	30
4.1 Introduction.....	30
4.2 Characteristics of respondents	30
4.2.1 Sex.....	30
4.2.2 Age of the respondents.....	31
4.2.3 Education level of respondents	31
4.2.4. Work experience of respondents.....	32
4.3. Formalities used in establishing AC	33
4.3.1. AC charter	33
4.4 Criteria and nature used to select members of AC	40

4.4.1. Appointing AC member's process.....	40
4.4.2. Competence of AC members in carrying out their duties.....	42
4.4.3 Composition of the AC is reasonable	43
4.4.4. AC has a member who is financial expert	44
4.4.5. Satisfaction with independence and integrity of AC members.....	45
4.4.6. Member from outside the organization.....	46
4.5 factors which affect the AC in fulfilling its roles in promoting good corporate governance	47
4.5.1 Idea about role of AC in promoting good governance to the organization	47
4.5.2. AC performance.....	47
4.5.3 AC meetings arrangements comply with the requirements	48
4.5.4. AC Members exercise their own judgments, opinions and act free from any conflict of interest.	49
4.5.5 Relationship between AC, accounting officer, internal audit, external audit and finance department.....	50
4.5.6. Qualification of an AC chairman.....	51
4.5.8. Risk management plan.....	54
4.5.9 Correspondence file between AC and management.	54
4.5.10. Action on financial report, risk management and internal control with focus to good corporate governance.	56
CHAPTER FIVE	59
SUMMARY, CONCLUSIONS AND RECOMMENDATION.....	60
5.1 Introduction.....	60
5.2 Summary of findings.....	60
5.3 Conclusion	62
5.4 Recommendations.....	63
5.4.1 Amendment on the Public Finance Act 2001 revised 2004.....	64
5.4.2 Meetings of the ACs	64
5.4.3 Establishment of ACs	64
5.4.4 Financial and Accounting Expert in ACs	64
5.4.5 Approval of Annual Internal Audit Plan.....	65
5.4.6 Risk management and review of financial reporting	65
5.4.7. Knowledge of AC to public staff.....	65
5.4.7. Financial capabilities	65

5.5 Further Research	66
REFERENCE;.....	67
QUESTIONNAIRE	70

LIST OF TABLES

Table.4. 1: Sex of respondents.....	30
Table 4.2: Age of respondents	31
Table 4.3: Education level of respondents	32
Table 4.4: Respondents' work experience in public organization	33
Table 4.5: Idea about AC	34
Table 4.6: Establishment of AC in the organization (MMC)	35
Table 4.7: Establishment of AC charter.....	36
Table 4.8: AC charter publicity to management and staff	36
Table 4.9: AC charter set objectives, roles and responsibilities to AC.....	37
Table 4.10: Charter set out composition, structure and membership requirement	38
Table 4.11: AC charter provides authority to access organization's information	39
Table 4.12: AC charter outlines confidentiality, independence, ethical issues and reporting requirement.	40
Table 4.13: Idea about criteria used for appointment of AC members.....	41
Table 4.14: Satisfaction with the process used to appoint members of AC	42
Table 4.15: Competence of members to carry out their duties	43
Table 4.16: Is the composition of AC reasonable	44
Table 4.17: Member who is financial expert	44
Table 4.18: Satisfaction with independence and integrity of AC	46
Table 4.19: Member in the committee from outside the organization.....	46
Table 4.20: Role of AC in promoting good governance in organization.....	47
Table 4.21: AC members undertake their role effectively.....	48
Table 4.22: AC meetings arrangements comply with the requirements	49
Table 4.23: AC exercise their own judgments, opinion and act free conflict of interest.....	50
Table 4.24: Relationship between AC, accounting officer, internal and external audit	51
Table 4.25: Chairman of AC qualifying for leadership	52
Table 4.26: AC members work as a team	53
Table 4.27: Plan for risk management	54
Table 4.28: Correspondence files useful between AC and management.....	55
Table 4.29: AC takes action on financial report, risk management and internal control with focus to good corporate governance.	57

LIST OF FIGURES

Figure 4.1: AC members work as a team.....	53
Figure 4.2: Plan for risk management.....	54
Figure 4.3: Correspondence files useful between AC and management	56
Figure 4: AC take action on financial report, risk management and control with focus	58

CHAPTER ONE

INTRODUCTION AND BACKGROUD OF THE PROBLEM

1.1 INTRODUCTION

AUDIT COMMITTEE

Wikipedia (2014),U.S.Publicly traded company, an **AC** 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.

A qualifying audit committee is required for a U.S. publicly traded company to be listed on a stock exchange.

Audit committees are typically empowered to acquire the consulting resources and expertise deemed necessary to perform their responsibilities. The role of audit committees continues to evolve as a result of the passage of the Sarbanes-Oxley Act of 2002. Many audit committees also have oversight of regulatory compliance and risk management activities.”

Internationally, the AC is “a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the board of directors fulfill its corporate governance and overseeing responsibilities in relation to an entity’s financial reporting, internal control system, risk management system and internal and external audit functions. Its role is to provide advice and recommendations to the board within the scope of its terms of reference / charter. Terms of reference and requirements for an audit committee vary by country, but may be influenced by economic and political unions capable of passing legislation. The European Union directives are applied across Europe through legislation at the country level. Although specific legal requirements may vary by country in Europe, the source of

legislation on corporate governance issues is often found at the European Union level and within the non-mandatory corporate governance codes that cross national boundaries.”

Institute of Internal Auditors definition: "The AC refers to the governance body that is charged with oversight of the organization's audit and control functions. Although these fiduciary duties are often delegated to an audit committee of the board of directors, the Practice Advisory is also intended to apply to other oversight groups with equivalent authority and responsibility, such as trustees, legislative bodies, owners of an owner-managed entity, internal control committees, or full boards of directors”.

In Nigeria, the AC is defined as a “Committee of Directors and the enterprises shareholders representatives whose specific responsibility is to review the annual financial statements before submission to the Board of Directors.

A similar definition has been developed by the government auditors in the INTOSAI's Internal Control Standards (2011): "A committee of the Board of Directors whose role typically focuses on aspects of financial reporting and on the entity's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements. The AC typically assists the Board with the oversight of (a) the integrity of the entity's financial statements, (b) the entity's compliance with legal and regulatory requirements, (c) the independent auditors' qualifications and independence, (d) the performance of the entity's internal audit function and that of the independent auditors and (e) compensation of company executives (in absence of a remuneration committee)."

Therefore, AC is a group of at least 3 individuals responsible for overseeing all internal and external audit functions of a company. In addition, at least one member must be a financial expert or have significant financial expertise. ACs are responsible for selecting and appraising independent and external firms to

provide audit functions. They also oversee the financial reporting process including (but not limited to) supervising internal auditors, monitoring internal controls, and ensuring adequate compliance with GAAP (General acceptable accounting principles) standards. According to Wikipedia the free encyclopedia staff on ACs report to the board of directors of a company, hence they should not have ties to the company's management team or be in a position where their independence can be questioned. ([www.wikipedia.org/wiki/Audit committee](http://www.wikipedia.org/wiki/Audit_committee))

1.1.2 .Background of the problem.

Wikipedia (2014) below are a few key milestones in the evolution of ACs

1939: The New York Stock Exchange (NYSE) first endorsed the audit committee concept.

1972: The U.S. Securities and Exchange Commission (SEC) first recommended that publicly held companies should establish ACs composed of outside (non-management) directors.

1977: NYSE adopted a listing requirement that ACs be composed entirely of independent directors.

1988: AICPA (American institute of certified public accountants) issued SAS 61 "Communication with Audit Committees" addressing communications between the external auditor, audit committee and management of SEC reporting companies.

1999: NYSE, NASD (National association of securities dealers), AMEX (American stock exchange), SEC (Securities and Exchange Commission) and AICPA finalized major rule changes based on Blue Ribbon Committee on Improving the Effectiveness of the Corporate AC.

In 2002: Sarbanes-Oxley Act was passed in the wake of corporate scandals and included whistleblower and financial expert for disclosure requirements for ACs. The Sarbanes-Oxley Act of 2002 increased ACs' responsibilities and authority. It raised membership requirements and committee composition to include more independent directors. Companies were required to disclose whether or not a financial expert is forming part of the Committee. Further, the Securities and Exchange Commission and the stock exchanges proposed new regulations and rules to strengthen audit committees

A 2009 study on 23 international organizations showed that 10 had an AC and 3 considered having one in future, with 8 reporting to the Governing Body level and 2 reporting to DG/Executive Director level. The sizes of all Audit Committees were between 3 and 9 members, with 5 committees having a mix of external expert members and internal members.

Further in a 2011 study, the Council of Europe concluded that: "11 out of 15 sampled international organization in Europe have ACs committee (of which the name may vary from AC, Advisory Committee on Audits, Audit Advisory Board, Audit Progress Committee, Finance and Audit Committee, Independent Advisory Oversight Committee, Independent Audit Advisory Committee of Experts) and in seven, the AC plays a role in the selection of the External Auditor

Also research done by various consulting and public accounting firms on ACs, provided benchmarking data, some identified below:

54% of committee members surveyed felt the AC was "very effective," while 38% indicated "somewhat effective." In addition Risk management, internal control, and accounting estimates and judgments were the top priority areas for 2007.

It was also found out that most ACs have 3-4 members, who devote 50–150 hours doing their responsibilities each year, usually chaired by persons with

experience such as a CFO (chief financial officer), external auditor, or CEO (chief executive officer). They meet 6-10 times per year, either face-to-face or via teleconference, with the former lasting from 1–4 hours and the latter 1–2 hours. Moreover, the percentage of ACs with oversight responsibility were reported as follows; IT compliance (66%), business continuity (50%), and information security (45%). Whereby 41% respondents were "very satisfied" with the internal audit function, while 52% were "somewhat satisfied."

Although, two-thirds of respondents felt that the Chief Internal Audit position was for a professional internal auditor, rather than as a "stepping stone" to other roles. 93% indicated that AC was "somewhat" or "much more" effective since the Sarbanes-Oxley Act was implemented in 2002 and 58% of committee members were "somewhat satisfied" that they understood management's processes to identify and assess significant business risks. Lastly, it was discovered that only 17% of ACs had primary responsibility for oversight of non-financial risk as opposed to the full board which had this responsibility in 56% of companies.

1.2 STATEMENT OF THE RESEARCH PROBLEM

For the first time in Tanzania, AC was introduced in 1997 by the capital market and securities authority (CMSA) which required all listed companies to have ACs. The public finance Act of 2001 (revised in 2004) and its regulations require accounting officer of ministries and independent department to establish and maintain ACs. Also, according to the bank of Tanzania (BOT) Act of 2006 requires all financial institutions in Tanzania to establish ACs.

The purposes of establishing AC were to improve the organization's overall governance framework., contributes to good governance within the organization by improving accountability and act as independent governing bodies, which improve corporate governance practices in the firms. Effective

functioning of the ACs is essential to mitigate the risk of corporate failures and to enhance public confidence. The effectiveness of ACs depends on its collective capability to meet its oversight objectives. With the support from boards along with the co-operation of employees and management teams of the firms, ACs can perform their assigned duties duly.

Minicamp (2002), mentioned ACs role are detecting errors, irregularities and fraudulent practices in the firm.

But according to controller and auditor general (CAG) report (2007/08), “Although it’s a statutory requirement that all listed companies, ministries, independent department and financial institutions in Tanzania to establish ACs, still some have not yet established them and those which have been established do not fulfill their various roles on promoting good corporate governance to meet expectations of the shareholders and stake holders”. Most of the reports of controller and auditor general (CAG) on review of ACs on ministries, departmental, executive agencies, regional administrative secretaries and public corporation maintain that in some places ACs have been established. And even those ACs that exist were reported to be weak due to lack charters, quarterly meetings and even composed of members who have no expertise on accounting and finance and no approved audit plan of the internal audit, fraud and mismanagement.

Given the weakness mentioned, it is undeniable fact that ACs are not doing the role of promoting good corporate governance on running day to day activities of the organization but factors which hinder ACs in promoting good governance are not mentioned nor known.

In that case, a study to identify factors which cause ineffectiveness of the ACs is paramount.

1.3 Objective of the study

The ACs are committees of the accounting officers such as chief executive directors which are given the responsibilities to oversee if the managements run the day to day activities of the organization according to rules and regulations and report to accounting officers.

1.3.1 General objective

The main objective of this study was to study the reasons why most ACs in Tanzania are ineffective in promoting good corporate governance of public organizations.

. 1.3.2 Specific objectives

- (i) To identify the formalities required in establishing of ACs.
- (ii) To establish criteria and nature used to select members of ACs.
- (iii) To identify factors that affects the AC in fulfilling its various activities.

1.4 Research questions

Since research problems are generally broad to be of any practical use, this study was narrowed into specific questions in order to simplify findings.

1.4.1 General research questions

The general questions of this study mainly covered the formalities required before establishing AC, factors promoting or hindering ACs in fulfilling its roles, nature and criteria used to select members of ACs and extent to which AC have been promoting good governance in running day to day activities of the organization.

1.4.2 Specific Research questions

The following questions were specifically looked at;

- (i) What are the formalities used in establishing AC?
- (ii) What are criteria used in selecting AC members?
- (iii) What are the factors affecting AC in fulfilling its role of promoting good governance?

1.5 Significance of the study

- (i) The findings obtained would help accounting officers of the public organizations to put much emphasis on establishing and maintaining a more effective ACs in their organizations.
- ii) The study would help stakeholders and shareholders in accessing the contributions of ACs in maintaining independence, quality of financial reporting and improvement in internal control system.
- iii) The findings of the study would assist regulators to set up guidelines that are more effective in establishing ACs and properly operating in effective and efficient manner.

1.6 Delimitation of the study

- i. The study was conducted at Morogoro municipal council found in railway street, Kingo ward where was easily accessible and become easier for the researcher to make follow up of responses at low cost.
- ii. The selected sample of twenty five personnel from audit members, senior staff, accounting staff, internal audit and management where the respondents were experienced, competent and professional therefore helped the researcher to get reliable and accurate.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The aim of this chapter is to give details of theoretical and empirical literature review on the topic (The impact of AC in promoting good governance in public organizations). This chapter mainly presents two parts; theoretical part which outlined the meaning of AC and corporate governance concept and empirical literature review which outlined what other researchers have done on the role of AC in promoting good corporate governance in public organizations.

2.2 Theoretical review

This part of literature review defines major concepts of the study. In studying the impact of AC in promoting good corporate governance in public organizations, AC and corporate governance are the concepts of high concern.

2.2.1. Establishment of AC

2.2.1.0 AC

In Tanzania, Public finance act (2001), an AC is a committee of accounting officer which is an integral part in the governance process of an entity designed to enhance the control framework of an organization. And according to the Finance Act 2001, sec.30-(1) and sec.31-(1-2) the AC shall be in each ministry, department, agency or region composed of senior members of the ministry, agency, department or region as the case may be nominated by the respective accounting officer and at least one member appointed by the permanent secretary from external sources. The total membership on an AC shall not be more than five nor shall less than three and at least one of the members have experience of accounting and auditing. In addition, the regulation of the public finance Act (2001) requires that the accounting officer

establish and maintain an AC. While the regulations stipulate and outline the role and functions of committees.

Composition

Wikipedia (2014) In the USA, a qualifying AC composed of independent outside directors with at least one financial expert is required for listed publicly traded companies. And in European, 8th Directive on company law 2006/43/EC: each public-interest entity shall have an AC. Although, the decision on the composition remain on the Member State which determine whether ACs are to be composed of non-executive members of the administrative body and/or members of the supervisory body of the audited entity and/or members appointed by the general meeting of shareholders of the audited entity. At least one member of the AC shall be independent and competent in accounting and/or auditing.

Experience shows that membership of the Committee is subject to the maximum number of 6 persons. For example, the Institute of Internal Auditors best practices categorically states; “The AC will consist of at least three and no more than six members of the board of directors... Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation”.

Responsibilities

Wikipedia (2014), Board of Directors and their committees rely on management to run the daily business operations while the Board's role is better described as oversight or monitoring, rather than execution. AC's responsibilities typically include: overseeing the financial reporting and disclosure process; monitoring choice of accounting policies and principles; supervising hiring, performance and independence of the external auditors; Oversight of regulatory compliance, ethics, and whistleblower hotlines; Monitoring the internal control process; overseeing the performance of the

internal audit function and discussing risk management policies and practices with management.

The duties of an AC are typically described in a committee charter, often available on the entity's website. In European Union for example, directive 2006/43/EC, article 41.2:states that the AC shall, inter alia: (a) Monitor the financial reporting process; (b) Monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems; (c) Monitor the statutory audit of the annual and consolidated accounts; (d) Review and monitor the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity.

Oversight role of financial reporting and accounting

Public finance Act (2001), ACs typically review financial statements quarterly and annually in public companies. In addition, members often discuss complex accounting estimates and judgments made by management and the implementation of new accounting principles or regulations. AC interacts regularly with senior financial management such as the CA, treasurers and Controller and are in a position to comment on the capabilities of these managers. Should significant problems with accounting practices or personnel be identified or alleged, a special investigation may be directed by the AC, using outside consulting resources as deemed necessary.

Lyatuu (2007), External auditors are also required to report to the committee on 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 fraud or illegal acts.

Oversight role of the external auditor

Daniel (2002), ACs typically approves selection of the external auditor. The external auditor (also called a public accounting firm) reviews the entity's financial statements quarterly and issues an opinion on the accuracy of the entity's annual financial statements. Changing an external auditor typically also requires AC approval. ACs also help to ensure the external auditor is independent, meaning no conflicts of interest exist that might interfere with the auditor's ability to issue its opinion on the financial statements. Directive 2006/43/EC, article 41.3 and 41.4 of the European Union states.

Role in oversight of regulatory compliance

Defond (2002), discharging this role, ACs discuss litigation or regulatory compliance risks with management, generally via briefings or reports from the General Counsel, the top lawyer in the entity. Larger corporations may also have a Chief Compliance Officer or Ethics Officer that report incidents or risks related to the entity's code of conduct, monitoring the effectiveness of the internal control process and internal audit.

Internal control 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 report to the AC regarding the effectiveness and efficiency of internal control.

Monitoring the effectiveness of the internal control process and internal audit

According to Wikipedia (2004), internal control 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 report to the AC regarding the effectiveness and efficiency of internal control. IIA Practice Advisory: Cf. PA1110-1 paragraphs 2 and 3 (where the “board” means “an organization’s governing body, such as

a board of directors, supervisory board, any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report).

Role in oversight of risk management

BOT Act (2006), Organizations have a variety of functions that perform activities to understand and address risks that threaten the achievement of the organization's objectives. In that case, AC's responsibility in this is to discuss the policies and practices used by the entity to identify, prioritize, and respond to the risks (or opportunities). . Having such a discussion is required for listing on the Exchange. Many organizations are developing their practices towards a goal of a risk-based management approach called Enterprise risk management. AC involvement in non-financial risk topics varies significantly by entity.

Interaction with the Board, and with non-executive Board Members

According to the European Confederation of Institutes of Internal Auditing (ECIIA) best practice (2011),"The work of the AC can only be valuable if sufficient time is allotted on the board agenda for the AC to present the results of its work. The AC should also feel that the board is taking appropriate action on its report." They maintain that "Stresses that recent experience shows the need for frequent and high-quality interaction within ACs and between independent directors, supervisory boards and auditors; and that non-executive board members should consider carefully the possibility of having meetings without executive board members being present" (European Union best practice: Cf. European Parliament resolution of 10 March 2009 on implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (2008/2247(INI)))

Frequency of interaction with management

Wikipedia (2014), it is argued that for effectiveness many AC chairpersons should conduct interim calls with key members of management between quarterly meetings. Key contacts may include the CEO, CFO, Chief Auditor,

and external audit partner. Many boards also schedule dinners prior to formal meetings that allow informal interaction with management. This is a good practice as it forms a foundation for learning the operations as suggested by that their boards should spend a certain amount of time learning their operations beyond board meeting attendance.

Executive sessions

According to the European Confederation of Institutes of Internal Auditing (ECIIA) best practice (2011), these are formally scheduled private meetings between the AC and key members of management or the external auditor. These meetings typically are unstructured and provide the opportunity for the committee to obtain the feedback of these managers in private. A key question commonly asked by AC members in such sessions is: "Is there anything you would like to bring to our attention?"

Evaluation

CMSA (1967), It is a demand for ACs to complete a self-evaluation annually to identify improvement opportunities. This evaluation process involves comparing the committee's performance versus its charter, any formal guidelines and rules, and against best practices. Such a review is confidential and may or may not include evaluations of particular members.

TANZANIA- Public organizations

AC functions

As stated earlier, AC in Tanzania is a committee of accounting officer as an integral part in the governance process of an entity designed to enhance the control framework of an organization whose functions as stipulated in to the finance Act 2001 sec.32-(1) include; Meet at least quarterly, approve internal annual and strategic audit plans of the ministry, agency, department or region, review all internal and external audit reports involving matters of concern to senior management of the ministry, Agency, department or region including identification and dissemination of good practices.

.

It also provides advices to the accounting officer on action to be taken on matters raised in reports of the internal auditor or the controller and auditor general concerning the ministry, agency or department. Further it coordinates audit programs conducted by both the internal auditors and the controller and auditor general, provides advice to accounting officer on the preparation and review of financial statements of the ministry, Agency, department or Region and prepares annual report on its functions, copies of which shall be sent to the permanent secretary, the accountant general and the controller and auditor general.

Power of the AC

The power of the AC in Tanzania are clearly stated in sec.32-(2) of the Finance Act of 2001 that in order to discharge its responsibilities effectively, an accounting officer shall ensure that the committee has the access to him at all reasonable times and that it has the power to; call for independent advice on auditing, accounting and accountable issues, Call ad hoc meeting, require the attendance of any officer or employee of the ministry, agency or department at committee meeting.

AC charter

Charter in this context means terms of reference prepared by accounting officer to guide the behavior and activities of an AC on ongoing basis. A clear written charter sets out the relationship of the AC with the accounting officer, the internal audit function and the external auditors, states the composition structure and membership requirements of the AC, specifies the objectives, roles and responsibilities of the AC and clearly state the committee's relationship with other governance committees including the process for sharing of information. Moreover, the charter outlines confidentiality and independence requirements of committee members and their ethical and reporting and explicitly shows the authority for the committee to access firm's documents, records and personnel and the requirement that frank, truthful and meaningful answers be given to questions by the committee to any agency employee.

Purpose of AC

According to treasury circular no. 9 of 2003/04, an AC is a specialist, independent oversight body of an organization designed to improve the organization's overall governance framework. The AC contributes to good governance within the organization by promoting and improving accountability. The AC should be an integral part in the governance process of an entity, designed to enhance the control framework of an organization. An effective committee has the potential of strengthening the control of environment and consequently assisting the accounting officers to fulfill their stewardship, leadership and control responsibilities.

2.2.2. Corporate governance

According to Wikipedia, the free encyclopedia (2014), corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures identify the distribution of rights and responsibilities among different participants in the

corporation including the rules and procedures for making decisions in the corporate affairs.

Importance of good corporate governance

According to Wikipedia (2014), since corporate governance is a framework of policies and procedures that large organizations and public organizations use to protect the financial interest of stakeholders. Therefore, good corporate governance has the following importance; first to create a balance in the company where one group is unable to dominate the actions of the company. That is companies use corporate governance to outlines the roles, responsibilities and purpose of the job positions; where through segregation which corporate governance plays a role; power can be shifted from executives to shareholders.

The corporate government enhance internal controls in Organization, thus it is responsible with removing internal control guidance from the sole responsibility of executive managers to ensure they do not have ability to override the controls. Lastly it ensures high level of transparency and accountability in company's operations. In transparent organization, improprieties will quickly come to light and the company can rectify the issue before it becomes a major distraction for the company.

2.3. Empirical literature review.

This section presents the review of the already existing finding related to the study and establishes the gap for this study.

2.3.1 Establishment of ACs

A comprehensive charter enhances the effectiveness of the AC, serving as a roadmap for committee members. It is argued that a well AC charter should be tailor made for the firm, describe the committee's composition and specify access to appropriate resources. It should further organize committee members' responsibilities; provide systematic structure for discussions between the committee and management, the accountant, the internal auditor, external auditors and other stakeholders. In order to achieve this Braiotta (1999) argues that the board of directors should either pass a formal resolution or amend by-laws of the firm in order to document the establishing of the committees. Although it is a requirement, by capital market and securities authority (CMSA), BOT Act for 2006 and Public finance Act no.6 of 2001(URT) for all listed companies, ministries, independent department and financial institutions in Tanzania, to establish AC, Lyatuu (2007) noted that the establishment of AC remains voluntary and not mandatory in the ministries, department and executive agencies of Tanzania.

It was further found in the controller and audit general (CAG)'s report for financial year 2007/08 that most of central government, local government authorities, parastatal organizations, departments and agencies have not established such ACs and those claimed to exist were reflected in the organizations charter and they had no AC charter which hinder the performance of ACs. The report maintains that those ACs that existed experienced weaknesses which hinder the efficiency and effectiveness in the performance of promoting good corporate governance. Such weaknesses include: AC not being independent because poor composition. Members are appointed among officers of the organization responsible to accounting officers: the appointed members of the AC have no expertise on accounting and finance contrary to the requirement which need one or two members of the AC should be an expert on accounts or finance. Further apart from ACs not meeting regularly, it was reported that they do not approve the internal

audit plan or monitor the internal audit work to ascertain if the internal auditors effectively perform their duties. Lastly the report reveals that most of the established ACs do not work closely with external auditors and do not ensure managements discharge their duties according to the laid down procedure and rules.

2.3.2. Criteria used in selecting AC members

Treasury circular no.9 issued by Tanzania ministry of finance clearly states that members of the AC should be drawn from senior executives or managers from the organizations and the accounting officer should appoint an external member into the committee. In addition, regulation 31(2) requires that the membership of committee be kept to a minimum of three and maximum of five members. Though Idgbe (2007) outlined the qualifications for membership of AC, he maintains that the qualifications not necessarily be accounting. There should be a mechanism put in place for continuous education of members of AC in order that they may have sufficient literacy in financial matters and be able to monitor more effectively the management, thereby reduce risk of associated with dissociation of ownership rights and management rights in a company.

According to Idgbe(2007) desired personal qualities of individual members include;

- An ability to ask relevant questions, evaluate answers and continue to probe for information until completely satisfied with the answers provided.

- The desire of encourage openness and transparency.

An ability to think independently, objectively and have an inquiring mind

Strong ethical values

A sense of integrity and an ability to give direct and honest opinions

A proven ability to be open to accept and foster change.

2.3.2 Factors affecting AC in promoting good corporate governance

The researchers have identified several factors that impact on the effectiveness of ACs. For example Carcello *et al.* (2002) enumerated these three following factors; composition, independence, authority, power, resources, diligence and expertise. McDaniel *et al.* (2002). Abbott *et al.* (2004) and Farber (2005) identified the principal goals of ACs as maintaining external auditor's independence and protecting investors by vetting the integrity of the financial report, this is according to evaluated AC effectiveness as ability to maintain the integrity of the financial statements. Klien (2002) similarly view AC effectiveness as an ability to vet the financial statements. Also Carcello *et al.* (2002) assess the effectiveness of AC as an ability to maintain external auditor's independence. The AC's ability to maintain external auditor's independence whether in appearance or facts is measured by ratio of non-audit to audit service fees.

2.3.2.1 External auditor independence

According to Defond *et al.* (2002), the effectiveness of an AC is undertaking its role of monitoring external auditor independence. It is considered important because independent auditors are more likely to discover and report a breach in the external financial statements. The complexity of the relationship between the auditor and the audit client is intensified when non-audit services are added to the responsibility of the auditor, particularly when non audit services generate approximately the revenues earned by the large audit firms (Levit, 2000). It is further argued that external audit firm

economically dependent on the audit client because non-audit service fees are considered to potentially impair external auditor independence as they increase the economic bond between the audit client and the external auditor. Thus non-audit fees are expected to reduce the willingness of external auditors to challenge executive and more likely to acquiesce to executive management pressure (Kinney *et al.*, 2004). However, Defond (2002) claim that external auditors may have incentives to maintain their own independence unrelated to the level of non-audit fee. These incentives include maintaining professional reputation and facing institutional pressures from peers. It was evidenced that relatively higher non audit fee result in biased external auditors. For example Franelet *al.* (2002) and Kinney *et al.* (2004) find a positive relationship between non-audit fees, earning management and financial restatements.

2.3.2.2 AC diligence

Diligence means desire of AC members to carry out their monitoring roles and includes number of AC meetings, behavior of each individual (Carcello *et al.*, 2002). Abbott *et al.* (2004) suggest that an increase in AC meetings may improve effectiveness of the AC. They also commented that committee size can proxy for AC diligence. While Abbott and Parkers (2000) observe that ACs that meet at least twice a year are more likely to select an industry specialist as an external auditor since an industry specialists are considered to provide a greater quality audit services which enhance the integrity of the external financial statements. Abbott *et al.* (2004) argue that ACs that meet at least four times a year have higher audit fees, where audit service fees represent the quality of the audit.

2.3.2.3 AC competence

The financial competency of AC members is analyzed in several prior studies. Abbott *et al.* (2004) reported that companies that experience restatements in their external financial statements had ACs with lower financial competency.

Financial literacy of an AC does indeed proxy for the effective monitoring over maintaining external auditor independence and vetting the integrity of the external annual financial statements. McDaniel *et al.* (2002) concluded that financial literacy is a primary in maintaining the integrity of the external financial statements; however financial expertise cannot be justified. AC should include members who are all financially literate able to read and understand financial statements. Therefore in the area of financial competency, coupled with industry competency, it is expected that ACs will be more effective in their monitoring roles.

2.3.2.4 AC independence

According to Carcello *et al.* (2002), the more independent ACs demand the higher quality of audit service where audit fees are considered to represent the quality of the audit. Abbott and Parker (2000) suggest that, more independent ACs are likely to select an industry specialist as an external auditor who is considered to provide a superior audit service. The integrity of the external financial statement is better maintained by such services. Generally it can be concluded from the above review that effectiveness of the ACs the three attributes of independence, competency and diligence are significant

2.4. CONCEPTUAL FRAME WORK

2.4.0 Introduction.

Conceptual Framework consists of concepts that are placed within a logical and sequential design, represents less formal structure and used for studies in which existing theory is inapplicable or insufficient, based on specific concepts and propositions, derived from empirical observation and intuition, may deduce theories from a conceptual framework. Purposes of Conceptual Framework are to clarify concepts and proposed relationships among the concepts in a study, to provide a context for interpreting the study findings, to explain observations, to encourage theory development that is useful to practice.

2.4.1 Variables and concept

From our review the main causes for effective AC is independence, competency and diligence. This means lack of these will lead to ineffectiveness of the AC. Therefore, the mentioned causes are independent variables, that means effectiveness/ineffectiveness of AC will depend on the these variables and effectiveness of AC lead to good corporate governance as described below;

Independence = AC = corporate governance

Independence means that someone stands on his/her own decision. If a member of AC is not independent will likely be difficult for him/her to make right decision or will not give appropriate results because of dependence hence poor performance. Therefore in this topic independence is independent variable, AC is a module and corporate governance is a depend ant variable

Competence =AC= Corporate governance

Wikipedia(2014), Competence means the state of being capable acknowledgeable and experienced. That is the possession of required skill, knowledge, qualification, or capacity. If an accounting officer appoints members who are competent, then it is likely to have an effective AC but if the appointed members are not competent, it will be difficult to them to perform effectively since they are not capable of what they supposed to do hence poor corporate governance.

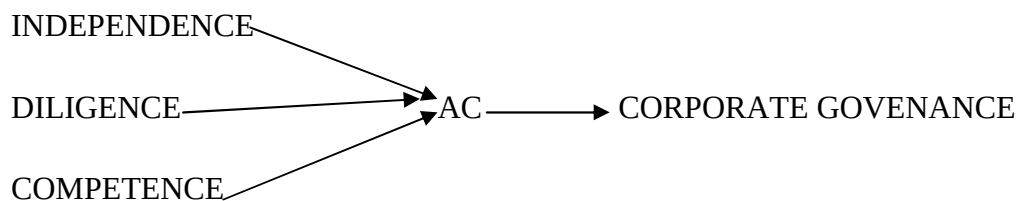
Diligence =AC=Corporate governance

Wikipedia (2014), diligence means the attention and care legally expected or required of a person (as a party to a contract) or it can be called an internal desire or commitment from a person. If an appointed member is committed to his/her duty it will be likely to perform effectively but if not committed the performance will be poor hence it will be difficult to promotegood corporategovernance.

CONCEPTUAL FRAME WORK

INDEPENDENT VARIABLES

DEPENDANT VARIABLE



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used in the study. It describes design, approach, sample and sampling techniques, instrument used to collect data and data analysis process.

3.2 Research design

The research used case study which was conducted in Morogoro municipal council (MMC). Although it was a case study research, it is argued use of case study design help to make some generalization since it provides more insights in depth and breadth information on several variables from within a single study unit. Also this study design accommodated almost all instruments of research such as interview, observation, questionnaire and documentary.

Hence, data obtained were reliable and relevant information that were used to give conclusive evidence.

Area of the study

The researcher decided to conduct the study at Morogoro municipal council because this is a public organization which is big and the AC which is found there could provide satisfactory information needed since the council is among the oldest serving council in the country. MMC has nineteen departments which include Legal, Internal audit, Public relations, information and technology, Procurement and supply, Election, Beekeeping, Administration and human resources, Planning, monitoring and statistics, Health, Finance and trade, Primary education, Secondary education, Water, Agriculture, irrigation and cooperation, Livestock and fishing, Land and town planning, Community development and social welfare, Works and lastly Environment and sanitation. It has an AC with five members, three from the organization

(MMC) and two from outside the organization. There are two invitees who normally attend AC meetings, the head of internal audit of MMC and external auditor from National audit of Tanzania (NAOT), Morogoro office. Therefore, getting all information needed for the study during assessing the impact of AC in promoting good governance in public organizations was easier and less cost. Familiarity with the study area also guided the selection as it reduced personal, financial and time expenses.

Target and sampled population of the study

The population included AC members, head of departments and other staff from major departments such as internal audit staff, accounts department and record management staff (administration and human resource department).

Research approach.

According to Singh and Bajpai, (2008), p.11, Research approach can be divided into two groups: [deductive](#) and [inductive](#). The relevance of hypotheses to the study is the main distinctive point between these two approaches. Deductive approach tests the validity of assumptions (or theories/hypotheses) in hand, whereas inductive approach contributes to the emergence of new theories and generalizations. Discussion of research approach is a vital part of any scientific study regardless of the research area.

I have decided to use inductive approach in my study due to the following reasons; the meaning of human attachment to events are aimed to be explored, qualitative type of data is collected, more flexible approach to research structure to ensure provisions for changes during the research and also researcher is perceived to be a part of the research process.

3.3 Data collection method

Both primary data and secondary data were collected. An interview and questionnaire were used to gather primary data while document review was the main method used to collect secondary data.

Interview

In this study, a face-to-face interview was used to collect data from internal auditor, chairman of AC, head of finance and trade and head of health department of MMC. The choice of this was based on the fact that, the respondents are people who have many responsibilities, so use of interview saved time.

Questionnaire

Close ended questionnaire were also used to collect data from the remaining respondents. The choice of closed questions was based on the understanding that respondents for this research were busy so they would not have good time to accurately respond to open ended questions. The questionnaires were distributed to AC members, accounting staff, internal audit staff and head of some departments such as administration and human resources, planning, monitoring and statistical, procurement and supply, legal, primary education, secondary education, community development and social welfare and public relations, information and technology, environment and sanitation and works.

Documentary review

The review of the documents aimed at soliciting related information for making inferences. Published and unpublished documents reviewed include: Tanzania Public finance Act of 2001 revised 2004, BOT Act of 2006 and capital market and securities act of 1996, government guidelines, audit reports, journals and circulars.

3.4 Sample and sampling plans

Judgmental sampling technique was used to obtain the sample. The reason behind it was that auditing is a field that is familiar to everyone hence not everyone in the targeted population would provide information on the effectiveness of the AC. Therefore, only those familiar with the subject were selected. These include senior officer, head of departments, treasurer, audit department, accounts and AC members.

3.5 Data processing and analysis

After collecting data from respective respondents, they were both qualitatively and quantitatively analyzed. Qualitative analysis was mainly done for the data collected through interview methods whereby it involved giving logical statements and explanations of the findings obtained. For the quantitative data, SPSS was used to code the data collected through questionnaire and interpretation was then done. Also the data from documentary review checked for reliability, suitability and adequacy and interpreted them in relation to the problem of the study. Tables and graph were used during interpretation in order to summarize and organize data collected so as they can be interpreted easily.

3.6 Limitations

The main limitations to the study were;

Failure in the returning of the questionnaire. Twenty five questionnaires were issued and only 21 were returned four respondents failed to return due different reasons such as negligence and others were out of reach during collection due to responsibilities.

Limited case of study, due to lack of time, limited fund the researcher used only case study and make generalization to other public organizations in

Tanzania but it is not necessary all public organizations to have the same results.

However it should be noted here that these challenges did not comprise the quality of the study.

3.7 conclusion.

This chapter has presented the different methods used in data collection, study area which helped to provide natural setting for the data collection, sampling procedures and respondents. The methods discussed include questionnaire, interview and documentary review. Also it generally presented an overview of the usefulness of the methods which were used to analyze the data.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The main goal of this chapter is to present the findings of the study whose main objective of was to identify the factors affecting the ACs in promoting good governance. The chapter also presents respondents characteristics and discusses the presented findings.

4.2 Characteristics of respondents

This part presents respondent's general information which helped in the interpretation of the data. This information includes sex, age, highest education level and working experience with public organization.

4.2.1 Sex

As presented in table 4.1 below, this study had equal representation by sex as among the respondents 11(eleven) were male and 10(ten) were female.

Table.4. 1: Sex of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	11	52.4	52.4	52.4
	Female	10	47.6	47.6	100.0
	Total	21	100.0	100.0	

Source; field data 2015

4.2.2 Age of the respondents

This part is very important to know because maturity is one among the factors that guides someone in decision making. Hence this research wanted to get information from at least adult people with experience on the matter under study as they mostly provide reliable information. As show in table 4.2, majority of the respondents ranged between 31 and 60 which is almost 88% of the study size. Hence a conclusion made is that the study got response from mature persons. .

Table 4.2: Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30 years	2	9.5	9.5	9.5
	31-40 years	9	42.9	42.9	52.4
	41-50 years	5	23.8	23.8	76.2
	51-60 years	5	23.8	23.8	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.2.3 Education level of respondents

The researcher also had the interest of knowing the education level or profession of the respondents. This is crucial because it helps the researcher to get reliable information about the study. From the table below, the analysis shows that the big number of respondents about 85.8% had advanced diploma/bachelor degree and master degree. .This is the fact because most of the respondents were the head of departments or were at senior level. This

means the number of the personnel with degree/advanced diploma are nine or 42.9% of the total respondents as the same to the ones possessing masters while there is only one respondent with secondary education which is 4% of the total respondents and two personnel with certificate/diploma which is 9.5% of the total respondents and no one with PhD or professor level. Given the figure that majority of the respondents are educated it is quite obvious that the information provide were reliable and realist.

Table 4.3: Education level of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary school	1	4.8	4.8	4.8
	Certificate/diploma	2	9.5	9.5	14.3
	Bachelor degree/Adv. diploma	9	42.9	42.9	57.1
	Master degree	9	42.9	42.9	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.2.4. Work experience of respondents

In order to be satisfied with respondents' feedback the researcher wanted to know the experience of the respondents in public organization. This is very important because it assisted the researcher to validate the data since more experienced personnel have the higher the possibility of knowing much about the concerning the organization. It was found that 33.3% of the respondents have worked with public organization for about 5-10 years and 28.6% of the respondents have working experience with public organization for 11-20years.

As opposed to 23.8% of the total respondents who had less than five years of working experience as stipulated in table 4.4 below.

Table 4.4: Respondents' work experience in public organization

		Cumulative			
		Frequency	Percent	Valid Percent	Percent
Valid	Less than 5 years	5	23.8	23.8	23.8
	5-10 years	7	33.3	33.3	57.1
	11-20 years	6	28.6	28.6	85.7
	21-30 years	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source, field data, 2015

From the summary above the researcher concluded that majority of the respondents have work experience equivalent to five or more than five years. Therefore the higher the working experience the higher the insights into the study on investigation.

4.3. Formalities used in establishing AC

4.3.1. AC charter

As explained in literature review, the first step in establishing AC is to establish AC charter. The charter serves as a guide to the AC on carrying out responsibilities delegated. A well prepared charter should first set out the objectives, roles and responsibilities of an AC. It should also set out composition, structure and membership requirement. Third the charter should state the relationship of the AC with the accounting officer/board, internal

auditors and external auditor. Further, the charter should be published and well known by the management and staff and finally it should outline confidentiality, independence, ethical issues and reporting requirement to AC and authority to access organization's information.

Given those information, the study wanted to know if the respondent were aware of the existence of AC at first place and the findings show that 95.2% of the total respondents knew about AC, only 4.8% who have no idea about AC as in table 4.5 below

Table 4.5: Idea about AC

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	95.2	95.2	95.2
	No	1	4.8	4.8	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

Therefore, from the above summary backed up with face to face interviews the interpretation and conclusion is that AC is a known phenomenon among respondents.

Also the researcher wanted to know if there is the AC in MMC. Although 9.5% of the respondents seem not to know whether AC existed, majority, 90.5% confirmed the establishment and existence of AC in MMC. It is therefore undeniable fact that MMC has an AC.

Table 4.6: Establishment of AC in the organization (MMC)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	19	90.5	90.5	90.5
	I don't know	2	9.5	9.5	100.0
	Total	21	100.0	100.0	

Source: field data, 2015.

Establishment of AC charter

Braiotta (1999) states that the board of directors should either pass a formal resolution or amend by-laws of the firm in order to document the establishing of the committees. A comprehensive AC charter enhances the effectiveness of the committee, serving as a roadmap for committee members. A good AC charter should be tailor made for the firm, describe the committee's composition and specify access to appropriate resources. It organizes committee members' responsibilities, providing systematic structure for discussions between the committee and management, the accountant, the internal auditor, external auditors and other stakeholders. Based on these observation by Braiotta (1999), the study investigated among other things if the AC existed, was there a charter for its operation and functions. The findings, as shown in table 4.7, establish that there is AC charter since majority (81%) testified to have seen it, only 19% were uncertain if the know its existence. In addition, document review and interview conducted confirmed the availability of the AC charter at MMC.

Table 4.7: Establishment of AC charter

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	17	81.0	81.0	81.0
	I don't know	4	19.0	19.0	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.3.1.1. AC charter publicity to management and staff

The study found majority (66.7%) especially senior staff and management were aware of the pushing of the Ac Charter. However as shown in the table below, some staff about 32% seem not aware of AC charter being public. This was expected because in the first place these staff never knew the existence of the AC and its charter; it could be surprising that they are aware of the charter being public.

Table 4.8: AC charter publicity to management and staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	9	42.9	42.9	42.9
	Average	5	23.8	23.8	66.7
	No	2	9.5	9.5	76.2
	I don't know	5	23.8	23.8	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.3.1.2. AC's objectives, roles and responsibilities in the charter

As stated earlier, the charter is the roadmap for AC's operation and functions. A charter is expected to state clearly the objectives, roles and responsibilities of the AC. The study therefore seeks to know if the charter has clearly stated objectives, role and responsibilities. The findings from both the charter itself, as reviewed by the researcher, and the questionnaire reveal the clarity of the charter. For example 52.4% of the respondents seem to agree with the way the objectives, roles and responsibilities are stated in the charter. Although the charter is not known to some staff, the study concludes on the clarity of the set roles, objectives and responsibilities for the AC.

Table 4.9: AC charter set objectives, roles and responsibilities to AC

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	11	52.4	52.4	52.4
	Average	3	14.3	14.3	66.7
	I don't know	7	33.3	33.3	100.0
	Total	21	100.0	100.0	

Source; Field data, 2015

4.3.1.3 Charter set out the composition, structure and membership requirement

From the review, it was learned that composition, structure and membership requirement is very crucial for the AC to be effective. Also through the interview done with four senior staff at MMC, the study found out that AC is composed of five members but always with two invitees who attend AC's regular meetings. On the other hand, it was noted that other people are

invited is it deemed necessary. In addition, the review discovered that even membership requirement were clearly stated, and it was complimented by the response from the questionnaire whereby 52.4% which agreed that AC charter had set the composition structure and membership requirements.

Table 4.10: Charter set out composition, structure and membership requirement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	11	52.4	52.4	52.4
	Average	2	9.5	9.5	61.9
	I don't know	8	38.1	38.1	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

Therefore from the above analysis, the researcher concluded that the AC charter of Morogoro municipal council has set composition, structure and membership requirements as it required by Tanzania public finance Act 2001 revised 2004.

4.3.1.4 AC's authority on accessing organization information.

In order the AC to perform its activities effectively must have an access to organization information. The researcher therefore wanted to know if the AC charter in MMC has these guidelines. Though few respondents (9.5%) had the reservation that even though such provision is there, it is not practical, most of the respondents (52.4%) from the findings commented that the charter provide such access to organizational information to the AC,

Table 4.11: AC charter provides authority to access organization's information

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	11	52.4	52.4	52.4
	Average	2	9.5	9.5	61.9
	I don't know	8	38.1	38.1	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

In addition to the above analysis, also interview done to senior officers conforms that that the AC has authority to access the documents and can invite anyone to give clarifications on matters which are in question, for example in reviewing financial statements and management response to audit quarrel are discussed before submission. Categorically speaking, the Head of finance and trade who is responsible with all accounting, trade and finance issues admitted that AC has the mandate to access and get any information they want. Generally, it can be concluded that the AC charter provided the authority to access the organization's information.

4.3.1.5. AC charter outlines confidentiality, independence, ethical issues and reporting requirement to AC members

The researcher investigated on the above issues because they are very important for the effectiveness of AC. As presented earlier, AC normally discuss issues pertaining the organization performance and how things are controlled, therefore confidentiality is very crucial for the smooth running of an organization and avoiding conflicts. AS for confidentiality, AC with independent members provides good advice and better decision to the

management. It is equally important to mention that ethical issues help in fidelity and the trustworthiness of the AC and that why there must be a reporting system so as to avoid misallocation of report. .

The study, after the document review, found out that these components are clearly stated in the charter. The findings are supported by majority (57.1%) responses agreed that the charter outlines confidentiality, independence, ethical issues and reporting requirement as presented in table 4.12 below.

Table 4.12: AC charter outlines confidentiality, independence, ethical issues and reporting requirement.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	47.6	47.6	47.6
	Average	2	9.5	9.5	57.1
	No	1	4.8	4.8	61.9
	I don't know	8	38.1	38.1	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.4 Criteria and nature used to select members of AC

4.4.1. Appointing AC member's process

According to Finance Act (2001) the second step in establishing AC is to appoint AC members by considering criteria provided. The study was interested to know both the appointing authority and the criteria used to get AC member if they are in common agreement with what is stated in the Treasury circular no.9 issued by Tanzania ministry of finance and Idgbe (2007)'s qualifications for membership of AC, The findings show from both

respondents and the review of the documents reveal the following; first, as shown in table 4.13 and table 4.14 below, almost half of the respondents did not know about the criteria used for appointing the AC member, neither did they know the qualifications that an AC member should demonstrate. This resulted into dissatisfaction of the respondents on the entire process. Secondly the study noted, from face to face interview, that even though senior members knew the criteria for appoint the member were not certain if the criteria are observed. Thus the study summarizes that there is the need to publicize these acts and regulations so that they are clearly known to the staff and the management.

Table 4.13: Idea about criteria used for appointment of AC members

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	47.6	47.6	47.6
	Average	1	4.8	4.8	52.4
	No	9	42.9	42.9	95.2
	I don't know	1	4.8	4.8	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

Table 4.14: Satisfaction with the process used to appoint members of AC

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	1	4.8	4.8	4.8
	Average	11	52.4	52.4	57.1
	No	3	14.3	14.3	71.4
	I don't know	6	28.6	28.6	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.4.2. Competence of AC members in carrying out their duties

Under this concept of competence, the researcher wanted to know skills and experience possessed by AC members of MMC. Although 19% as show in the table below did not know the skills and experienced demonstrated by the members, the study ruled out that the AC was composed by competent people as from the interview, it was revealed that most of the members were selected from senior officers such as head of departments. For example the chairman is the head of land and town planning, secretary is the head of legal office. Researcher's judgment agrees with McDaniel *et al.* (2002) who argue that for effective ACs member must financial literacy so that to maintaining the integrity of the external financial statements.

Table 4.15: Competence of members to carry out their duties

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	8	38.1	38.1	38.1
	Average	9	42.9	42.9	81.0
	I don't know	4	19.0	19.0	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.4.3 Composition of the AC is reasonable

In order to be sure if criteria are followed, the researcher decided to investigate on the composition of AC. According to regulation 31(2), the membership of committee must be kept to a minimum of three and maximum of five members. The findings revealed that MMC observed the regulation in the creating of the AC as it is composed of five members; four of them are senior staff at MMC and one from outside the organization. This is justified further by 52.4% of the respondents as shown in table 4.16 who believe that the composition is reasonable as opposed to 9.5% who said it is not reasonable. Based on the two aspects the research concluded that MMC's AC is composition reasonable.

Table 4.16: Is the composition of AC reasonable

		Cumulative			
		Frequency	Percent	Valid Percent	Percent
Valid	Yes	11	52.4	52.4	52.4
	Average	5	23.8	23.8	76.2
	No	2	9.5	9.5	85.7
	I don't know	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.4.4. AC has a member who is financial expert

The researcher investigated if the AC of MMC has any member who is a financial expert which is an important requirement in the establishing of AC. The regulation clearly states that the AC must include at least one member who is financial or accounting expert since the AC deal with issues of financial reporting, risk management and internal control of the organization. The Findings show that; 85.7% of the respondents are certain that there is a member who is financial expert only 14.3% seem not aware of the presence of the financial expert in the committee.

Table 4.17: Member who is financial expert

					Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	Yes	18	85.7	85.7	85.7
	I don't know	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

In addition to the above, formal interview also shows head of finance and trade at MMC who is financial expert serves as a member of AC, let alone internal auditor and external auditor who are also experts finance and accounting. Therefore the researcher concluded that the AC of MMC has financial experts.

4.4.5. Satisfaction with independence and integrity of AC members

Here the researcher wanted to understand if members appointed can manage to carry their responsibilities independently with high integrity to achieve AC objectives. This is very important because an effective AC must have members who are both independent and objective. Independent members review reports without interference with management. Although 52.4% as in table 4.18 of respondents do agree that the AC is composed of independent members, the finding from formal interview and document review reveals that the members are not independent since AC members are among the staff as opposed to Tanzania Public Finance Act of 2001 and Treasury circular no.9 of 2003/04. For that matter, it becomes difficult to carry out their responsibility effectively as they cannot audit themselves or their management. Hence biasness arises because of unclear report due to conflict of interest. It was therefore established that this is one among the reasons that lead to ineffectiveness of the ACs in most governmental organizations.

Table 4.18: Satisfaction with independence and integrity of AC

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	3	14.3	14.3	14.3
	Average	11	52.4	52.4	66.7
	No	4	19.0	19.0	85.7
	I don't know	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.4.6. Member from outside the organization

The researcher investigated if the AC of MMC has at least one member from outside the organization as required by law .The study found out that the composition of the AC at MMC abides by the law by having at least one member from outside the organization. For example, in the below table 85.7% of the respondents agree that the AC has an external member.

Table 4.19: Member in the committee from outside the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	85.7	85.7	85.7
	I don't know	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; Researcher, 2015

4.5 factors which affect the AC in fulfilling its roles in promoting good corporate governance

The researcher investigated on factors affecting AC in promoting good corporate governance at MMC. the findings identified the following factors; lack of independence due to the reason that AC in MMC a is responsible to an accounting officer, insufficient fund to facilitate AC meetings, lack of response from other staff who lack knowledge about the role and presence of AC and delay in responding on issue raised by AC to the management as presented in the following sections

4.5.1 Idea about role of AC in promoting good governance to the organization

Firstly, the researcher wanted to understand if the respondents have an idea about roles of AC in promoting good governance. Responses show that majority 66.7% of the respondents are aware of the role of audit committee in promoting good corporate governance. However, 14% seem not totally exposed to the AC and its roles.

Table 4.20: Role of AC in promoting good governance in organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	14	66.7	66.7	66.7
	Average	4	19.0	19.0	85.7
	No	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.5.2. AC performance

The study also went further and explored how effectively the AC in MMC undertaking its roles. It was however confirmed that the AC performance was

not such effective as only 14.3% thought the committee was discharging its role effectively. This is obvious given the reasons mentioned earlier being the limitation to AC's perfection.

Table 4.21: AC members undertake their role effectively

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	3	14.3	14.3	14.3
	Average	13	61.9	61.9	76.2
	No	1	4.8	4.8	81.0
	I don't know	4	19.0	19.0	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.5.3 AC meetings arrangements comply with the requirements

It is the requirement by the law that AC meetings need to be held at least quarterly (four times per year), Also Abbott *et al.* (2004) observe that ACs that meet at least four times a year have higher quality audit even though it demands higher audit service fees. The findings are in harmony with Abbott *et al.* (2004) and Abbott and Parker (2000) observation that in MMC the Ac meet quarterly as confirmed by both interview and questionnaire whereby majority as show in table 4.22 agree that there are regular meeting conducted. It was though noted that even if there were regular meetings as required, the fund for paying members remained a challenge for its effectiveness.

;

Table 4.22: AC meetings arrangements comply with the requirements

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	12	57.1	57.1	57.1
	Average	5	23.8	23.8	81.0
	I don't know	4	19.0	19.0	100.0
	Total	21	100.0	100.0	

Source; Researcher, 2015

4.5.4. AC Members exercise their own judgments, opinions and act free from any conflict of interest.

According to Carcello *et al.* (2002) and Abbott and Parker (2000), the more independent ACs are, the higher quality audit service. In other words if an AC is independent is likely to give free and unbiased judgments as opposed to a dependent AC where the judgment avoid to compromise the interest of the members. Although most respondents thought that an AC in MMC exercises its duty fairly by average, it was not that the AC is not solely independent as it is responsible to an accounting officer. That means the report is submitted to the same management they audit. Interestingly was that some AC members are the part of the staff who are supposed to be audited hence results in conflict of interest.

Table 4.23: AC exercise their own judgments, opinion and act free conflict of interest

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	4	19.0	19.0	19.0
	Average	9	42.9	42.9	61.9
	No	3	14.3	14.3	76.2
	I don't know	5	23.8	23.8	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

4.5.5 Relationship between AC, accounting officer, internal audit, external audit and finance department.

The researcher investigated on relationship between key stakeholders of the organization, since maintain good relationship is a vital tool. The responses was as follows; 42.9% of the total respondents said its average, this means not much satisfactory, 33.3% said yes, it's satisfactory, 19% said they don't know while 4.8% said no, relationship is not satisfactory.

Table 4.24: Relationship between AC, accounting officer, internal and external audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	7	33.3	33.3	33.3
	Average	9	42.9	42.9	76.2
	No	1	4.8	4.8	81.0
	I don't know	4	19.0	19.0	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

European Union: Directive 2006/43/EC, article 41.2: tells thither audit committee shall; (a) Monitor the financial reporting process; (b) Monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems; (c) Monitor the statutory audit of the annual and consolidated accounts; (d) Review and monitor the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity. And by doing so the AC is interacting with accounting officer, finance department, internal and external auditors. Although those facts are known to MMC, the study found that there is partial relationship as majority 42.9% say there is an average relationship. This is so because the AC at MMC is composed of members from four departments mentioned are the top department having the mandate to control the activities of the other departments.

4.5.6. Qualification of an AC chairman

The researcher was interested to the position of a chairman. The focus was to look at if s/he qualifies for leadership as an important trait for effectiveness of

the committee. It was found that the current AC chairperson is qualified for the position as majority of the respondents (61.9% of) thought he has an average

Table 4.25: Chairman of AC qualifying for leadership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	4	19.0	19.0	19.0
	Average	13	61.9	61.9	81.0
	No	1	4.8	4.8	85.7
	I don't know	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; field work, 2015

4.5.7 Team work of AC members

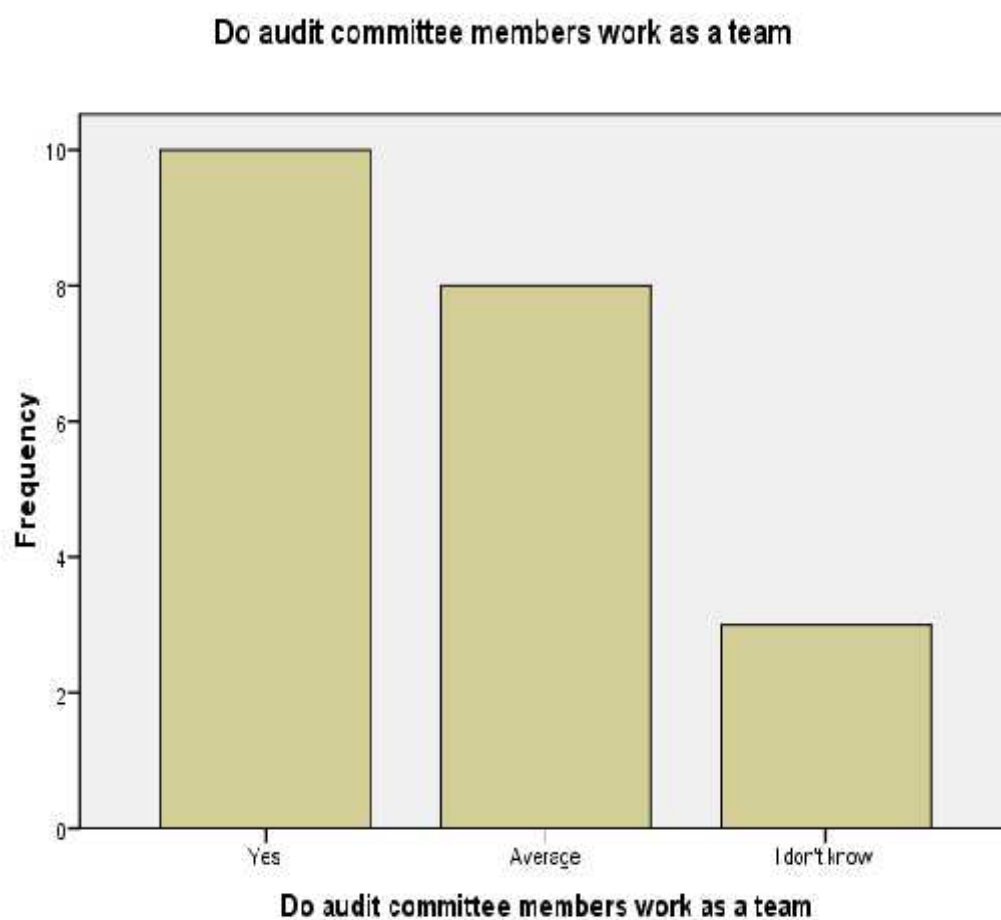
Team work in an AC is very important for it to perform its activities accordingly. Therefore the researcher wanted to understand if an AC work as a team or not. The findings show that the committee work as a team since most of the respondents 47.6% of the total respondents said yes there is team work between AC members which is supported lack of response which confirms poor team work among members.

Table 4.26: AC members work as a team

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	47.6	47.6	47.6
	Average	8	38.1	38.1	85.7
	I don't know	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

Source; field data, 2015

Figure 4.1: AC members work as a team



4.5.8. Risk management plan.

An investigation on where the AC at MMC has a plan about risk management revealed that a plan exist. Let the 14.3% of those who are not informed of the plan the rest confirms it existence as show in the figure below.

Table 4.27: Plan for risk management

		Frequency		Percent	Valid Percent	Cumulative Percent
Valid	Yes	14		66.7	66.7	66.7
	Average	4		19.0	19.0	85.7
	I don't know	3		14.3	14.3	100.0
	Total	21		100.0	100.0	

Source; field data, 2015

Figure4.2: Plan for risk management

From the interpretation above, it is observed that, AC has a plan for risk management this is in relation to Wikipedia (2014) where it is described in the role of AC, as AC has a role of planning for risk management.

4.5.9 Correspondence file between AC and management.

The researcher also wanted to know if there is a correspondence file between management and AC as the file is a gear for both Ac and management in discharging it activities, such as addressing issues raised by AC to management and providing feedback to the issues concerned. The findings

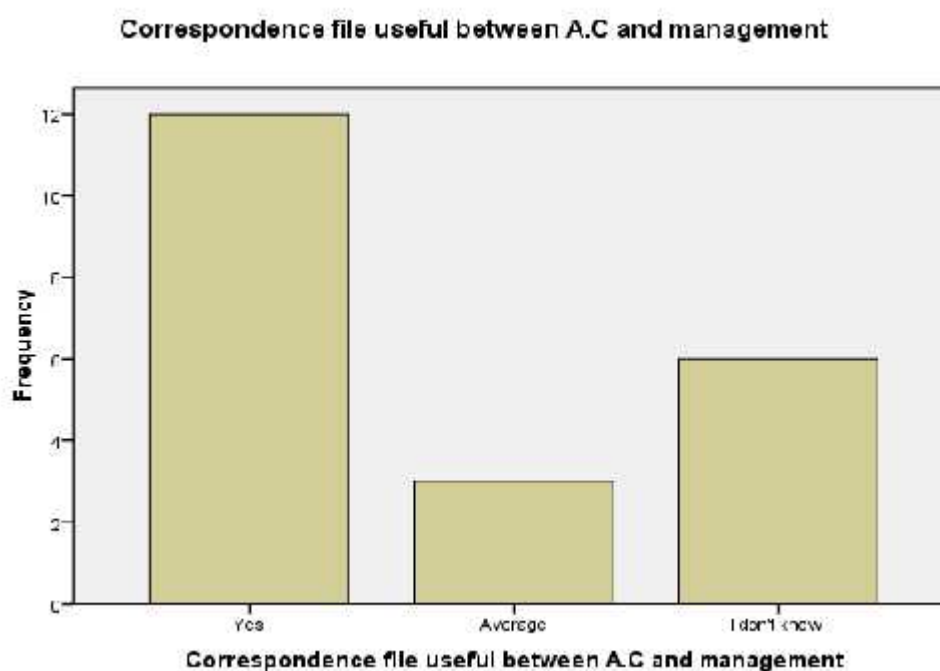
confirm the existence of corresponding file between the two organs as 57% of the respondents agreed to have seen the file

Table 4.28: Correspondence files useful between AC and management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	12	57.1	57.1	57.1
	Average	3	14.3	14.3	71.4
	I don't know	6	28.6	28.6	100.0
	Total	21	100.0	100.0	

Source; Field data, 2015

Figure 4.3: Correspondence files useful between AC and management



4.5.10. Action on financial report, risk management and internal control with focus to good corporate governance.

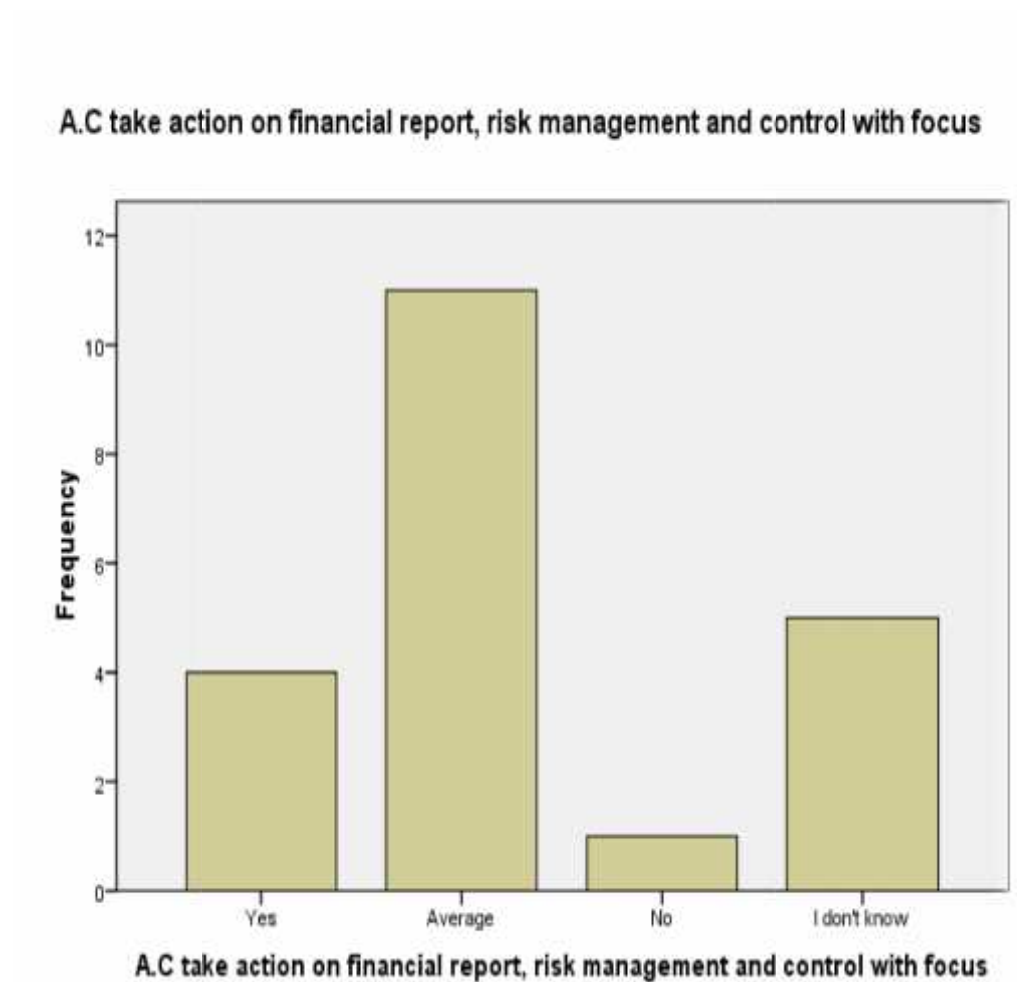
The researcher had the interest of investigating on action about financial report, risk management and internal control with the focus to good corporate governance. This was guided by the conclusion made in report from controller and audit general (CAG) for financial year 2007/08 that in ACs government have many weaknesses that hinder the efficiency and effectiveness in the performance of promoting good corporate governance. Among the weaknesses are poor actions on financial reports, risk management and internal control. Although the table below shows that there are proper action plans as almost 71% are satisfied with it, the study noted that there are still some hindering factors as mention by CAG's report and in previous section of this study such as lack of independence of the AC.

Table 4.29: AC takes action on financial report, risk management and internal control with focus to good corporate governance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	4	19.0	19.0	19.0
	Average	11	52.4	52.4	71.4
	No	1	4.8	4.8	76.2
	I don't know	5	23.8	23.8	100.0
	Total	21	100.0	100.0	

Source; Field data, 2015

Figure 4: AC take action on financial report, risk management and control with focus



Therefore the above findings based mostly on questionnaires, other findings from interview are such as follow;

i) Formalities used in establishing AC

Interviewed responded that, it is true formalities as indicated in Public finance Act of 2001 such as establishing AC charter and selecting members of AC are done by accounting officer.

ii) Criteria and nature used to select AC members.

Interviewed respondents, includes internal auditor, treasurer and head of health department said that , members of AC are selected by accounting officer as directed in public finance act of 2001.

iii) Factors affecting effectiveness of AC

Interviewed respondents declared that their AC is not effective and on that case does not contribute to promote good corporate governance due to the reason that, their AC report to their accounting officer who is a part of management therefore accountability become a problem, also they added that, members of AC are appointed from within the organization bad enough even a chairman and secretary are staff of MMC, as the result familiarity impair independence. Things are done just to meet formalities and not performance.

Other reasons mentioned which seems to contribute to AC ineffectiveness are such as; accounting officer did not consider qualities and skills during selecting members, AC plan does not approve auditor's annual plan also meetings are not done regularly as directed in Public finance Act of 2001 which required at least the meetings must be done at least quarterly.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter provides overall summary of the findings and conclusion on effectiveness of AC in promoting corporate governance.

5.2 Summary of findings

The document review on the effectiveness of AC in promoting corporate governance in public organizations such as Central Government, Government Ministries, Local Government Authorities, Parastatal Organizations, Government Departments, and Government Agencies found that ACs have been established to most of these organizations. Although the ACs were formed on the guidelines from Public Finance Act 2001 amended 2004 and Treasury Circular No. 9 of 2003/2004, it was found that most of them are ineffective because they were not independent as they were appointed and report to the accounting officer. For the accounting officer to establish AC, approve AC charter, appointing AC members who also are supposed to report to them is contravene international best practice. The study observes that unless this situation is addressed to follow the international best practice which requires the power of establishing AC, appointment of AC members and approves AC terms of reference to be vested to the board of directors

otherwise ACSs will not be able to effectively promoting corporate governance.

Therefore the researcher can summarize the study basing on the objectives of the study as follows;

i) Formalities used in establishing AC

It was observed from the study that formalities needed to establish AC was followed.

ii) Criteria and nature used to select AC members

It was observed that process used to select members, competence, composition, experience and expatriations was followed during selecting AC members.

ii) Factors affecting effectiveness of AC

The researcher observed that factors that affect effectiveness of AC are commitment of members and management, competence and independence, all three attributes to effectiveness in multiple roles of the AC.

Further the study noted the following weakness in the government institutions' ACs

- i. The Accounting Officer has not considered the qualities and skills of the members of the AC.
- ii. Some of institutions their accounting officers are members of the AC.
- iii. AC has not included at least one member with accounting or finance expertise
- iv. .AC has not included at least one member from outside the organization and with experience of the organization's operations.

- v. AC does not meet regularly as required by best practice at least four times a year.
- vi. The AC does not approve the internal auditor's annual plan as required by best practice.
- vii. AC does not review financial reporting, risks and operations.

Also it was found from the documentary review that other public institutions drew the mandate of establishing AC from Capital and Security Market Act of 1996 for listed companies and Bank of Tanzania Act of 2006 for financial institutions. These acts are similar to the international best requirements for establishing AC. Their committees are the instruments of the board of directors and committee members are from outside the institutions. The institutions that followed the above two acts had very effective ACs in promoting corporate governance.

Generally, it was observed that, for the public institutions which follow international best practice such as Capital Market and Security Act of 1996 and Bank of Tanzania Act of 2006 to established committee of the boards. The ACs are effective hence promotes good corporate governance on managing the organizations. The boards are responsible in establishing and appointing committee members. The public institutions which follow Public Finance Act 2001 revised 2004 and Treasury Circular No.9 of 2003/2004 their ACs are ineffective because the committee are the instrument of the accounting officers, and the accounting officers were responsible in establishing AC and appointing AC members. Most of the AC members are the officers of the organization, hence impair the independence of AC members.

5.3 Conclusion

The research highlighted the importance of the effectiveness of an AC in Ministries, Local Government Authorities, Parastatal Organizations, Government Departments and Agencies in promoting corporate governance. It is concluded that the current ACs which follow Public Finance Act 2001 are

ineffective to balance the operating challenges facing accounting officers and management of the public institutions.

Best practice requires an AC to assess the key areas currently affecting the organizations and for the AC to focus on those areas for effectiveness. The role undertaken by an AC will vary between organization depending upon the risks and complexities affecting each organization. The accounting officers or board of directors should ensure that the AC has capacity to undertake its responsibilities effectively and efficiently. Depending upon circumstances affecting an organization, the functions undertaken by an AC will generally encompass the following areas:

To evaluate the processes which are in place so as to identify key roles and responsibilities, in relation to risk management of the organizations.

To evaluate the adequacy control of environment in order to provide reasonable assurance that the systems of internal control are of a high standard and functioning as intended. Perform an independent review of the financial statements to ensure the integrity and transparency of the financial reporting.

Monitor the effectiveness of an organization's performance information and compliance with the performance management framework and performance reporting requirements. To evaluate the quality of the internal audit functions, particularly in the areas of planning, monitoring and reporting. Engaging with external audit and assessing the adequacy of management response to issues identified by audit. Reviewing the effectiveness of how the organization monitors compliance with relevant legislative and regulatory requirements and promotes a culture committed to lawful and ethical behavior.

5.4 Recommendations

Based to the literature review and responses from respondents on effectiveness of AC of public institutions the researcher has recommended the following:

5.4.1 Amendment on the Public Finance Act 2001 revised 2004

It is recommended that the Public Finance Act 2001 revised on 2004 and Treasury Circular No. 9 of 2003/2004 on establishment of AC, should be revised and modified in relation to the International best practice of operating an independent AC. The boards should be responsible for establishing and maintain ACs and appointing committee members. Also AC should report to the board of directors instead of the current practice where it reports to the accounting officers.

5.4.2 Meetings of the ACs

It is recommended that AC meetings should be held on a timely and regular basis and their proceedings, recommendations and discussions formally minted. A meeting agenda should be prepared and distributed sufficiently in advance to enable adequate evaluation by committee members. A detailed agenda and strong chairing is vital in order that committee meetings remain focused.

5.4.3 Establishment of ACs

It is recommended that public institutions which are yet to establish AC should do so. Operating without AC has a negative impact to the authorities because lack of mechanism for checking organizations controls. AC is an instrument of the Board of Directors responsible in formulating internal controls of the authority and assisting the Board in scrutinizing the audited financial statements before the same are adopted by the Board of Directors.

5.4.4 Financial and Accounting Expert in ACs

It is recommended that AC members should constitute at least one member with finance or accounting expertise who are supposed to assist the committee to interpret some technical issues in finance and or accounting for the purpose of issuing constructive decisions pertaining to the institution operations. It is insisted on the best practice that Public Institution should constitute ACs in

such a way that at least one of its members is an expert in finance and/or accounting field. If the composition of the Board of Directors does not have a member with such qualification, then they should be outsourced.

5.4.5 Approval of Annual Internal Audit Plan

It was noted that some of ACs do not approve internal audit plan of internal auditors. It is best practice that, internal audit unit prepares an annual audit plan and submits the same to the AC which is finally be forwarded to the Board of Directors for consideration and approval. This practice is recommended for ensuring that, the annual audit plan covers all the risk areas of the authority which are to be reviewed by the internal auditors.

5.4.6 Risk management and review of financial reporting

It is recommended that the AC should enhance risk management to mitigate risk to organization from unacceptable costs or losses associated with the operations of the organization and managing the risks that may affect the ability to continue to provide services/produce goods. Also it is recommended that an AC should perform an independent review of the financial statements to ensure the integrity and transparency of the financial reporting process.

5.4.7. Knowledge of AC to public staff

Most of workers at middle/ senior and technical staff are not aware about AC as well as its role and criteria for appointing members. Therefore the researcher recommended the training need to be provided to all staff so as to have idea about AC.

5.4.7. Financial capabilities

Board of directors and management need to ensure that AC meetings are facilitated and expenses must paid in time. This is very crucial because AC members includes members who are out of the organization, who supposed to

be facilitated on travelling expenses and per diem allowances, therefore if the organization is not paying these expenses on time it is discouraging to members and their independence can be affected.

5.5 Further Research

The research on the effectiveness of AC in promoting good corporate governance is still researchable. Due to time factor and lack of fund this research was limited to one organization in which the conclusion was arrived. However, more researches are needed to cover many central government offices, government agencies and parastatal organizations as well as private sectors in order to highlight the importance of well AC and how can effectively promote good corporate governance

REFERENCE;

Abbott, L. and Parker, S (2000) “Audit committee characteristics and auditor selection “ A journal of practice & theory, Vol.19 (2)

Abbott, L, Parker, S and Peters, GF (2004), Audit committee characteristics and restatements, A journal of practice and theory, Vol.23.

Carcello, JV and Neal, T.L. (2002), Audit committee independence and disclosure; Choice for financially distressed companies; corporate governance and international review.

Defond, M.L. K. Raghunandan and K.R. Subramanyam (2002). Do non audit service fees impair auditor independence? Evidence from going concern audit opinion.

Farber, D.B. (2005) “Restoring trust after fraud; does corporate governance matter?

Franel, R,M.Johnson and K.Nelson. 2002. The relation between auditors’ fees for non-audit services and earning management.

Kinney Jr. W.R.Z Palm rose&S.Scholz. 2004. **Auditor independence, non-auditor services and restatements. Journal of accounting research.**

Klein, A.(2002) **“Economic determinants of audit committee independence, the accounting review.**

Levitt,A. (2000), **A profession at the crossroads. SEC chairman speech, Boston;Massachusetts.The former securities and exchange commission chairman**

LyatuuElibariki L (2007) **An assessment of the role and application of audit committees on financial operations in public sector- A survey study of ministries departments and Executive agencies (MDAs) of Tanzania.**

McDaniel, L.Martin, RD and Maines, LA. (2002), **Evaluating financial Reporting 12. The effect of financial expertise vs. financial literacy.**

Milicamp, A.H (2002), **Auditing , 8thed, continuum; London;New york.**

National audit office of Tanzania (2008)-**Report of the controller and auditor General for the financial year 2007/08.**

URT public finance Act of 2001 revised 2004.

URT Bank of Tanzania(BOT) ACT of 2006.

Singh and Bajpai, (2008), **Research methodology. p.11**

Wikipedia, the free encyclopedia web site <http://www.wikipedia.org/wiki/Auditcommittee> retrieved on 25th.October.2014.

•
•

QUESTIONNAIRE

\

Dear sir/madam

This questionnaire is based on the research topic titled “**EFFECTIVENESS OF AUDIT COMMITTEE IN PROMOTING GOOD CORPORATE GOVERNANCE IN PUBLIC ORGANIZATION.** Case study; **MOROGORO MUNICIPAL COUNCIL.** Please I request you to respond to the questions in this questionnaire.

I would like to assure you that the data that will be provided to this study will be used only for academic purpose with high level of confidentiality.

Researcher's name; FLAVIA J. KYARUZI

Mobile; 0766195698

Email;Flaviakyaruzi@yahoo.com

Mzumbe University

Faculty - School of business

Masters of business administration-Corporate management

1. GENERAL BACKGROUND OF THE RENSpondant

Please tick(✓) the most appropriate alternative

i.What is your gender/sex?

a.Male ()

b.Female ()

ii.Your age range between

a.18-20 years()

b.21-30 years()

c.31-40years()

d.41-50 years()

e.51-60years ()

ii.What is your highest education level?

- a. Primary school ()
- b. Secondary school ()
- c.Certificate/diploma ()
- d.Bachelor degree/ Adv. Diploma ()
- e. Master degree ()
- f.PHD ()
- g. Others- Specify

iv. Experience with the public organization

- a. Less than 5 years ()
- b.5-10 years ()
- c.11-20 years ()
- d. 21-30 years ()
- e. More than 30 years ()

II.KNOWLEDGE ABOUT AUDIT COMMITTEE AND ITS FORMALITIES

Please write number of the most appropriate alternative where 1= Yes, 2. =Average 3. =No and leave blank if you don't know the answer

1	Do you have any idea about audit committee?	
2.	Has audit committee established in your organization?	
3.	Your organization has an audit committee charter?	
4	Are the audit committee charter published and well known by management and members of your organization?	

5	Are the charter set out the objectives, roles and responsibilities of the audit committee?	
6	Is the charter set out the composition, structure and membership requirements of the audit committee?	
7	Does the audit committee charter provide authority to access of organization's information?	
8	Does audit committee outlines confidentiality, independence, ethical issues and reporting requirements to committee members?	

III. CRITERIA USED FOR APPOINTMENT OF AUDIT COMMITTEE MEMBERS

Please write number of the most appropriate alternative where 1= Yes, 2. =Average 3. =No and leave blank if you don't know the answer

1	Do you have any idea about criteria used for appointment of audit committee members?	
2.	Are you satisfied with the process used to appoint members of audit committee?	
3.	Does members of audit committee in your organization competent enough to carry out their duties?	
4	Is the composition of audit committee reasonable?	
5	Is there any member in audit committee who is financial expert?	
6	Is there any member in the committee who is from outside the organization?	
7	Are you satisfied with the independence and integrity of audit committee members?	

IV THE ROLE OF AUDIT COMMITTEE IN PROMOTING GOOD CORPORATE GOVERNANCE.

Please write number of the most appropriate alternative where 1= yes, 2. =Average 3. =No and leave blank if you don't know the answer.

1	Do you know the role of audit committee in promoting good governance to the organization?	
2.	Does audit committee members undertake their role effectively?	
3.	Are you satisfied with the steps undertaken by accounting officer to approve audit committee charter?	
4	Do the audit committee meetings arrangements comply with the requirements (at least to meet quarterly)?	
5	Does audit committee members exercise their own judgments, opinions and act free from any conflict of interest?	
6	Is the relationship between audit committee, accounting officer, internal audit, external audit and finance department satisfactory?	
7	Is the chairman of audit committee qualifying for leadership?	
8	Is there any plan for risk management?	
9	Do audit committee members work as a team?	
10	Is the correspondence file useful between audit committee and management?	
11	Does audit committee take action on financial report, risk management and control with focus to good corporate governance?	

INTERVIEW QUESTIONS;

- 1.What are formalities used in establishing AC at your organization?
- 2.What are criteria used in selecting AC members?
- 3.What are the factors affecting AC in fulfilling its role of promoting good corporate governance?