



**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**THE ATTRIBUTES OF AUDIT COMMITTEES IN SELECTED  
PUBLIC ENTERPRISES IN ETHIOPIA**

**A research project submitted for the partial fulfillment of the  
requirements of the Degree of Master of Science in Accounting  
and Auditing.**

**By: Fekadu Agonafer**

**MARCH, 2018  
ADDIS ABABA, ETHIOPIA**

**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
MSC PROGRAM IN ACCOUNTING & AUDITING**

**THE ARTRIBUTIES OF AUDIT COMMITTEES IN SELECTED PUBLIC  
ENTERPRISES IN ETHIOPIA**

**By: Fekadu Agonafer**

**Approved by: Board of examiners**

**1. Advisor**

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**2. Internal examiner**

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**3. Chairperson**

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**DECLARATION**

I undersigned declare that this research work is my original work and has Not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

Name: Fekadu Agonafer

Signature .....

Date: -----

This research project has been submitted for examination with my approval as the research advisor.

Advisor: Habtamu B. (PhD)

Signature .....

Date.....

## **Abstract**

*This project was done to assess what roles audit committees are playing in selected public enterprises. The study followed a descriptive research design and made use of probability sampling techniques to select the public enterprise which are under the umbrella of MOPE (Ministry of public Enterprise). As a result, primary data was collected from 60 respondents of 10 public enterprises using a structure questionnaire, interview for 2 regulatory agencies. Also, secondary data, relevant for the study, was collected. Descriptive statistics was used to analyse the collected data. The findings of the study indicated that audit committees of selected public enterprise failed to have the required competencies and as to their role in assessing financial reports, more over there is no clear understanding or procedure in the process of appointed and approval of external and internal auditors.*

## **Acknowledgement**

First and for most, I thank the almighty god for his wisdom and patience that gave me during my work. I would like to express my deepest thanks to my research advisor, Habtamu Berhanu (PhD) for his continues comments and supports to make this research project paper and for the information given that is very valuable for my study.

I would also like to give special credit to MOPE and all selected public enterprise for their invaluable information that has improved this study. My thanks also goes to my wife's who were with me throughout my research work.

## **List of acronyms and abbreviation:**

AC	-----	Audit committee
ACCA	-----	Association of chartered certified accountant
APBG	-----	Auditing Practices Board Auditing Guidelines
ASB	-----	Auditing Standards Board
BODs	-----	Board of Directors
CEO	-----	Chief of Executives Officer
CIPFA	-----	Chartered institute of public finance and accountancy
CPA	-----	Certified Public Accountant
IA:	-----	Internal Auditors
IIA:	-----	Institute of internal auditors
IPPF:	-----	International Professional Practices Framework
ISA	-----	International standard on Auditing
ISPPIA	-----	International Standards for Professional Practice of Internal Auditing
MoFEC	-----	Ministry of Finance and Economic cooperation
MOPE	-----	Ministry of public enterprises

## Table of contents

<b>Contents</b>	<b>page</b>
Abstract-----	i
Acknowledgment -----	ii
List of acronyms and abbreviations -----	iii
List of tables and figures -----	iv
<b>Chapter one Introduction</b>	
1.1. Back ground of the study -----	1
1.2. Statement of the problem -----	2
1.3. Objective of the study -----	4
1.4. Significant of the study-----	4
1.5. Scope of the study -----	4
1.6. Limitation of the study -----	5
1.7. Organization of the study -----	5
<b>Chapter two literature review</b>	
2. Introduction -----	6
2.1. Theoretical	
2.1.1. Purpose of Audit committee -----	7
2.1.2. Roles of Audit Committees -----	8
2.2. Empirical Evidence	
2.2.1. Attributes of Audit committee -----	10
2.2.2. Audit committee Independence -----	11
2.2.3. Committee members knowledge and experience -----	13
2.2.4. The size of committee -----	15
2.2.5. The Authority and resource of the committee -----	16
2.2.6. Diligence of the committee -----	17

2.2.7. Meetings of the committee -----	17
2.3. Attribute of Audit committees -----	
2.3.1. Role in financial reporting -----	19
2.3.2. Role in internal auditing -----	20
2.3.3. Role in external auditing -----	21
2.4. Audit committee Effectiveness -----	22
2.5. Significance of audit committee Effectiveness -----	24
2.6. Advantages of Audit Committees-----	26
2.7. Disadvantages of the Audit Committees -----	27
2.8. Knowledge gap identification -----	28

### **Chapter three Methodology**

3.1. Research design -----	30
3.2. Data sources -----	30
3.3. Population, sample size and sampling techniques -----	31
3.4. Data collection method -----	32
3.5. Data Analysis methods -----	32

### **Chapter 4. Data presentation, analysis and findings**

4.1. Data gathering -----	33
4.2. Demographic characteristics -----	33
4.3. Results and Discussion -----	33
4.3.1. Audit committee composition -----	37
4.3.2. Audit committee Authority and resources -----	40
4.3.3. Diligence-----	41
4.3.4. Audit committee meeting -----	43
4.3.5. Audit committee role in financing report -----	44
4.3.6. Audit committee role in external audit-----	46
4.3.7. Audit committee role in internal audit -----	48

4.3.8. Over practice of audit committee -----	50
4.4. Findings-----	52
<b>Chapter 5. Conclusion and recommendation</b>	
5.1. Introduction -----	54
5.2. Conclusion -----	54
5.3. Recommendation -----	56
Reference	58
Appendix: Questionnaires	60

<b>List of table and Charts</b>	<b>page</b>
Table 4.1 Gender profile	34
Table 4. 2 Educational background	34
Table 4.3 Respondents experience	35
Table 4.4 Composition	37
Table 4.5 Authority and Resources	40
Table 4.6 Diligence	42
Table4. 7 Meeting	43
Table4. 8 Roles in Financial Reporting	45
Table4. 9. Role in External Auditing	47
Table 4.10. Role in Internal Auditing	49
Table 4.11. Overall AC Practice	51
Chart 4.1 careers of the respondents	36
Chart 4.2 Respondents status	37

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the study

The audit committee is empowered to function on behalf of the board of directors by assuming an important oversight role in the corporate governance intended to protect investors and ensure corporate accountability. In addition, the audit committee has oversight responsibility over corporate governance, the financial reporting process, internal control structure, IAFs, and external audit activities (Hermanson & Rittenberg, 2003; Rezaee, *et al.*, 2003). Rezaee, *et al.* (2003) point out that the more effective approach is the audit committee work diligently with management and auditors to identify the most complex business activities; assess their relative risks, determine their accounting treatments and obtain complete understanding of their impacts on fair presentation of financial performance and conditions. The audit committee should obtain independent advice on these business activities and related transactions, associated risks and proper accounting treatments. Moreover, as Okeahalam and Akinboade (2003), Audit Committee plays a vital role in financial and operational controls in the whole system of corporate governance by making recommendations to the board concerning the appointment and remuneration of external auditors, reviewing auditors' evaluation of the system of internal control and accounting, and considering and making recommendations on the conduct of any aspect of the business of the company which should be brought to the notice of the board. I am going to review the experience of five countries that are: Canada, Germany, United Kingdom, South Africa, and Ethiopia respectively (Curtis C. Verschoor, 2001)

Canadian Securities Administrators issued rules to improve investor confidence in early 2004. The rules mandate independent audit committees, require written committee charters, authorize audit committees to communicate directly with internal auditing and accountable to the board. (Curtis C. Verschoor, 2001)

In Germany the Transparency and Disclosure Act was passed in July 2002 requiring companies' bylaw to publish an annual statement of compliance or noncompliance with the code's recommendations. The code recommends the establishment of audit committees that would be accountable to the board to deal with issues of accounting, auditing, and risk management. (Curtis C. Verschoor, 2001)

In United Kingdom Combined Code on Corporate Governance, issued in 2003, advise audit committees to monitor and review the effectiveness of the internal audit function including reviewing internal auditing remit, appointing or terminating the head of internal auditing, and meeting privately with the head of internal auditing at least annually. (Curtis C. Verschoor, 2001)

In South Africa a report on Corporate Governance, issued in 2002, focuses on board and audit committee practices and the conduct to improve governance. The role, function, and reporting requirements of internal auditing are specifically covered. Audit committees are required to concur in the appointment and dismissal of the internal audit head and accountable to the board. And, the report recommends that internal audit plans be based on risk assessment as well as on issues highlighted by the audit committee and senior management. (Curtis C. Verschoor, 2001)

In Ethiopia Public Enterprises Supervising Authority issued directive no 002/97 for the establishment audit committee that explains the accountability, responsibility and authority of audit committee, which are resolving conflicts between auditors (internal or/and external) with the management concerning the audit report; evaluate the objectivity and the independency of internal and/ or auditors when they execute their duty; the audit committee is accountable to Public Enterprises Supervisory Authority.(E.P.E.S.A., Audit committee directive, 2003).

## **1.2 Statement of the Problem**

The audit committee had been introduced to help management achieve the set goals of the organization, some of which includes ensuring that management fulfills its responsibilities in preparing financial reports and improvement in financial performance which is the set goal for this work. Moreover, the movement for audit

committee was mandated due to weakness in the internal control system, separation of ownership from management and fraudulent activities in public enterprise. Meanwhile, audit committee impacted enterprise's performance according to Nashwa (2005 ) by "ensuring integrity of financial reports, sound internal control and good communication link" etc. as Pomeranz (1977) asserted, "audit committee have become the guidance of corporate morality within the existing organizational framework". Audit committees oversee the organization's management, internal and external auditors to protect and preserve the shareholders' equity and interests. To ensure effective corporate governance, the audit committee report should be included annually in the organization's proxy statement, stating whether the audit committee has reviewed and discussed the financial statements with the management and the internal auditors. As a corporate governance monitor, the audit committee should provide the public with correct, accurate, complete and reliable information, and it should not leave a gap for predictions or uninformed expectations (BRC, 1999). The BRC report provides recommendations and guiding principles for improving the performance of audit committees that should ultimately result in better corporate governance. The importance of the audit function in terms of the audit committee and audit firm is further strengthened by the Sarbanes-Oxley Act of 2002. Corporate governance standards and principles are extracted from local and international laws, regulations, and rules, as well as from the organization's bylaws, codes of conduct, and resolutions. Corporate governance focuses on the control systems and structures by which managers are held accountable to the organization's legitimate stakeholders.

In view of the above, it is appropriate to undertake such an exercise with public enterprise of Ethiopia. But the Audit committees in public enterprise have not reviewed and discuss to protect and preserve public equity and interest. That's why the researcher's plan to assessing the attributes of audit committee in corporate governance and highlighting areas for improvement (if any) to ensure that the desired benefits are met particularly in quoted public Enterprise.

### **1.3. Objectives of the Study**

The main objective of this project was to assess the attributes of audit committees in selected public enterprises in Ethiopia.

### **Specific Objectives**

Particularly, the study would be able to address the following specific objectives:-

- ❖ To examine the audit committee composition.
- ❖ To examine the audit committee diligence.
- ❖ To assess the audit committee Role in Financial Reporting.
- ❖ To examine the audit committee Role in External Auditing.
- ❖ To examine the audit committee Role in Internal Auditing
- ❖ To assess the authority and resources of audit committee.
- ❖ To assess the practise of audit committee.

### **1.4. Significance of the Study**

The output of this study will have the following significance:

- The findings of this study enabled the public enterprises to revisit the role of audit committees;
- The results of this study will help as a reference for further research in the area.

### **1.5. The Scope of the Study**

The researcher mainly focuses on the assessment of attributes of audit committee corporate governance in ten selected public enterprise. Which are participating in Hotel, transport and manufacturing sectors having more financial transaction? And MOPE and Ministry of transport would also be included in the study because it has a regulatory role in public Enterprise. This study would be more successful if it would conduct on all federal and regional public Enterprise, public and private sectors of audit committee in the country. However, due to various reasons, including, time and financial constraints, it is out of the reach of the researcher to incorporate all in this study.

### **1.6. Limitation of the Study**

The research mainly focused on the study of the role of audit committee in ten selected public enterprise which are found in Addis Ababa and supervised by Ministry of public Enterprise and other supervisory agency. Which involve in service, construction and transport sectors?

### **1.7. Organization of the Study**

The study would include five chapters. The first chapter would deal with introduction (i.e. background of the study, statement of the problem with research questions, objective of the study, significance of the study, scope of the study, and limitation of the study and organization of the study). The second chapter would deal with related literature. The third chapter showed research design and methodology. The fourth chapter would have data analysis, interpretation and findings, and the last chapter was containing conclusion and recommendation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **1. Introduction**

Governance audit committees (GACs) are a well-established feature in private companies. They form a key element in the governance process by providing an independent expert assessment of the activities of top management, the quality of the risk management, financial reporting, financial management and internal audit, to the board of directors or a supervisory board. Another important role is to ensure that external audit recommendations are fully addressed, that the quality of internal audit is of an appropriate standard and that line management has full regard to internal audit recommendations. Properly exercised their role is vital in being the watchdog for the independence of internal audit and in ensuring that the information made available to the owners (the shareholders) is reliable thereby enabling them to make judgments about the quality of the management and the future prospects for the company.

GACs in the non-market public sector are much less common<sup>1</sup> (although in some countries they have been established in some public enterprises). They only exist where there is a strong focus on financial management and external reporting, where the influence of the accountancy profession is strong and the private sector is regarded as providing an appropriate model for the public sector. This tends to be the case in countries that have an Anglo-Saxon tradition and where the public administration is not so heavily geared to detailed compliance with the law and where the external audit focus is much more on ensuring that the accounts fairly present the financial position of the organization. Such committees exist at both central and local government levels. Audit committees in law-based countries and in developing and transition economy countries are rare, but there is an increasing interest in developing the concept. However, to be effective the right conditions should exist and without them this interest can lead to false expectations on the part of the authorities or to ineffective audit committees that would do more harm than good.

## **2.1. Theoretical**

### **2.1.1 Purposes of Audit Committees**

The need of auditing evolves mainly to ensure transparency and accountability in corporate affairs, where owners appoint a professional management to look after the business on their behalf. Normanton (1966) noted that: “Without audit, no accountability; without accountability, no control; and if there is no control, where is the seat of power?” This famous quotation crystallizes the idea that the audit is a necessary independent attestation of the accountability to the stakeholders by the stewards of the enterprise; that is, by the Board of Directors (BoDs).

The key purpose of establishing an AC is to focus on issues of control and accountability on the corporate affairs. This view of the AC role is confirmed by commentators such as Demb and Neubauer (1992), who described an AC as “*the personification of the board's stewardship responsibility*”. Cobb (1993) identified four main purposes of establishing ACs, namely:

- (i) Reduction of board liability;
- (ii) Establishing a link between the external auditor and the board;
- (iii) The reduction of illegal activity; and
- (iv) The prevention of fraudulent financial reporting.

The Tread way Report (Tread way Commission, 1987) firmly emphasized that the primary role of the AC is to oversee the financial reporting process of the company.

However, in considering the purpose for which the ACs are established, Bradbury's cautionary remarks on the impact of institutional arrangements which vary between countries are important, as confirmed by Guthrie and Turnbull (1995) who suggested that in Australia, the ACs as currently conceived are unable to meet their objectives, which are defined as: “Although many currently believe that audit committees were developed to protect investors...audit committees, in fact, were developed to protect non-executive directors from being misled by management”. Turnbull (1994) explained that all hierarchical management systems must condense information. The study also noted:

It is not in the self-interest of subordinates to provide information about shortcomings for which they are accountable. The result is that boards with outside

directors, and even those with executive directors, are at risk of being kept in the dark. Historically, this is why outside directors developed audit committees. Investor interests are incidental to the purpose of audit committees in protecting directors as becomes evident from reading the publications of the leading audit firms on this topic.

Some commentators (for example, Marrian, 1988) have observed that less explicit reasons for AC establishment may exist. Eichenseher and Shields (1985) linked the incidence of AC formation in the U.S.A.

The academic literature on ACs is thus inconclusive on the matter of their purpose. Nevertheless, the most extensive focus in this literature is on the effectiveness of ACs and how this may be achieved. The literature on CG has generally supported the notion that the presence of an effective AC complements good governance. Therefore, ACs should be formed in all organizations, in addition to having proper internal control systems in place, in order to ensure transparency and accountability in these organizations.

### **2.1.2. Roles of Audit Committees**

Although the ACs existed in practice for a long time, the perceptions on AC's role have evolved continuously. Before the 2000s there were varied views on the roles of ACs in the Western literature, but a relative consensus has emerged in recent years following the promotion of AC function in CG by market regulators and professional bodies. The early advocates argued that an AC mainly reviews the financial statements prepared by the management before being they are given to BoDs. The roles of ACs have expanded substantially in the last two decades. For instance, as required by the Tread Way Commission (1987), the ACs should oversee companies' internal control and co-ordinate the work of internal and external auditors (IIA, 1993; Guthrie and Turnbull, 1995; the BRC, 1999). Later, AC's roles were further expanded to include monitoring of the management's financial performance or accountability, and the internal controls, as well as to be a means to enable non-executive directors to oversee the ethical behaviors of the management in respect of compliance with regulations and the company's codes of conduct . The role of an AC was extended to enhance auditor

independence, or to ensure the quality of financial reporting and auditing process (Mautz and Neumann, 1970). In other words, the AC serves as a link between BoDs and the external auditor, and it mediates potential conflicts or disputes between the management and auditors, all of which ultimately facilitates auditors to perform their job more independently.

The ACs are traditionally responsible for oversight of auditing matters relating to the company's financial reporting (Brown et al., 2009). Lin et al. (2008) noted AC oversight roles and responsibilities for improving internal control, rules compliance, sound corporate financial reporting, and auditing processes. The key elements of an AC's oversight roles as mentioned in the BRC (1999) include:

Ensuring that quality accounting policies, internal controls, and independent and objective outside auditors are in place to accurate, high quality and timely disclosure of financial and other material information to the board, to the public markets, and to shareholders.

The following list is an attempt to summarize the key roles of ACs as noted in a number of studies: -

- To review the integrity of the company's financial statements;
- To advise the board on the reliability of financial and perhaps other information to be published in the name of the board;
- To oversee the financial reporting and disclosure process;
- To monitor the choice of accounting policies and principles;
- To provide recommendations to the BoDs on the appointment of the external auditors, the audit fee, and any matters of resignation or dismissal;
- To discuss the nature and scope of the audit with the external auditor;
- To review the management letter from the external auditor;
- To monitor the independent auditors' qualification and independence;
- To monitor the effectiveness of internal control process of the company;
- To review any significant findings of internal investigations;
- To review and advise on company's risk management strategies; and
- To oversee of regulatory compliance, ethics, and whistleblower hotlines.

Therefore, it is quite clear that in recent years the AC has become one of the main pillars of CG system in companies around the world. An AC is critical to the success of an organization, with the responsibilities to monitor the effectiveness of the internal audit function, and the internal control system, and review the financial statements and thereby have a more efficient vigilant internal control in the organization. Although an AC performs different types of Responsibilities, the key areas where an AC plays significant roles are discussed below

## **2.2. Empirical evidence**

### **2.2.1. Attributes of Audit committee**

There is empirical evidence (for example, Scarborough et al., 1998; and Raghunandan et al., 2001) to suggest that the composition of an AC greatly improves the level of interaction and reporting access of internal audit. Scarborough et al. (1998) examined the relationship between the AC and internal audit. They found that AC composition does influence the extent of interaction between the AC and internal audit. While limited to the examination of the AC role in internal control assessment, this study provided evidence that AC composition influences the effectiveness of the AC in relation to internal controls. Raghunandan et al. (2001) examined the association between AC composition and the committee's interaction with internal auditing. They found that AC composition influences the extent of committee interaction with internal auditing.

There are a growing number of studies on the attributes of ACs, mainly focusing on the significance of committee members' knowledge, experience, diligence, and independence. For example, Bedard and Gendron (2010) highlighted that AC members should possess certain personal characteristics in terms of qualification and competence. Hoitash et al. (2009) described positive association between AC attributes and internal control quality of the firm. Raghunandan et al. (2001; cited in Myers and Ziegenfuss, 2006) defined AC quality as independent and financially literate AC members. An AC cannot be effective if it does not have the right people as members (Sabia and Goodfellow, 2005). Sharma et al. (2009) noted that AC members' diligence is a key factor for an effective AC. Regulators recognize that some attributes are

important for AC membership, among which independence and financial competency are vital (Bedard et al., 2008). Much of the research on ACs examines the relation between: AC inputs (e.g. independence, expertise, or diligence) and financial reporting outputs (e.g. abnormal accruals) (Klein 2002; Bedard et al., 2004, 2008); restatements (Abbott et al., 2004; Agrawal and Chadha 2005); fraudulent financial reporting (Beasley et al., 2000); going-concern reports.

### **2.2.2 Audit Committee Independence**

The existence of an independent AC is a sign of the firm's commitment to good corporate governance (GCG) practice (Sommer, 1991). In this regard, many prior studies have pinpointed that AC composition is a vital factor and the committee's independence has been described as a pre-requisite of its effectiveness.

For instance, the utility of the auditing function depends upon the quality of the audit, which is determined by the independence and expertise of the auditor's. Hence, they say ACs should be independent of the organization's management in order to perform an oversight role and so protect the shareholders' interests. It may be argued that if the members of an AC are independent from management and owners of the organization, then they should be able to deter management from manipulating financial results.

Also, Beasley (1996) noted that the incidence of financial fraud is negatively associated with the independence of the BoDs. However, the persistence of accounting scandals has led to a profound reconsideration of the workings of ACs, with special attention being paid to their composition and independence from managerial teams. The Treadway Commission (1987), the Cadbury Report (1992), the American Law Institute (1994), and the BRC Report (1999) have all recommended that independent directors should be included in the ACs. Carcello and Neal (2000) concluded that the scope of demonstrating impartial view and fair judgment has a significant impact on the effectiveness of the AC. This scope varies depending on how the committee is composed and structured. The primary duty of an AC is to protect stakeholders' interest and in doing so it requires a conducive environment in the firm (Lee et al.,

2004). Bedard et al. (2004) argued that more objective oversight of financial reporting process can be ensured if the AC includes the more independent members. Furthermore, Garcia-Meca and Sanchez-Ballesta (2009) argued that an independent AC can potentially improve the quality and credibility of financial reporting. Cohen and Hanno (2000) highlighted the importance of AC independence for evaluating management actions in respect of risk assessment. The highly regarded BRC (1999) recommends that an AC should be composed only of directors who have no relationship with the firm that may interfere with its independence. The AC members should not have any sort of relation or connection with the firm that may hamper their professionalism and fairness.

However, one must also note the hindering factors for AC independence. As per Bedard and Gendron, there are three main categories of relationships that can hinder the independence of ACs as identified in the regulatory literature are: employment, personal relationship, and business relationship (Bedard and Gendron, 2010). The committee can be valuable informers to shareholders as its focus is on ensuring supply of reliable, sufficient and trustworthy information about business operation, control and management activities. The presence of inside executive directors in the committee may jeopardize the prime objective of forming the committee. If the majority of AC members are appointed from the internal management team, then it is obvious that the committee cannot achieve this objective independently. Studies by Dechow et al. (1996) and Klein (2002) have noted that the inclusion of more independent members in AC minimizes the likelihood of financial fraudulent activities. Gendron et al. (2004) mentioned that members who are willing to be active and effective in the AC should have a probing attitude which helps them assess the management's various decisions. However, this attitude is reflected, and can be demonstrated if, the majority of committee members are independent directors (McMullen and Raghunandan, 1996).

### **2.2.3 Committee Members' Knowledge and Experience**

Researchers (DeZoort and Salterio, 2001; McDaniels et al., 2002; Bedard et al., 2004; Bedard and Gendron, 2010) argue that members' knowledge/expertise or experience is directly associated with the effective functioning of an AC. Since the main task of an AC is to oversee corporate financial reporting and the auditing process, its members should possess sufficient expertise to understand the issues to be investigated or discussed by the committee (Lin et al, 2008). Positive relationship between members' financial knowledge and AC effectiveness has been found in many studies; for example, Tread way Commission (1987); Furthermore, POB (1993) mentioned that the lack of adequate knowledge and relevant experience causes an inability and failure of AC members to understand their roles and responsibilities in the firm. The absence of these qualities also affects the technical aspects of some of the committee's roles, particularly in case of internal control evaluation (2004; Haron et al., 2005). Knapp (1987) highlighted that there occur frequent disputes between external auditors and management about accounting estimations.

The ACs is responsible to resolve these disputes and to do so the committee members have to have adequate knowledge and expertise in a related. Area Furthermore, Pomeroy (2010) noted that the AC members with accounting experience are particularly thorough in their investigation and review of accounting decisions made in the company. Kirk (2000) concluded that a decision made without engaging competent members may impair the judgment made by an AC. Libby and Luft (1993) emphasized on the necessity of discrete measures which focus the effect of accounting related decisions making in the firm. This decision making sometimes becomes complex and requires special knowledge and skills. In this respect, the argument made by Kalbers and Fogarty (1993) is notable, that is, depending on the nature of their complexity, accounting tasks may require a certain level of ability, knowledge, and skills. In deciding on some of the complex accounting related issues, data and their literal interpretations alone are not enough; rather they require technical knowledge and wider experience.

Because the responsibilities of an AC include the assessment and evaluation of the corporate ethical environment, financial information, regulatory compliance, internal control and information systems; AC members should have the requisite qualification and expertise to discharge these responsibilities. Policy makers believe that financial expertise on ACs would enhance its effectiveness in carrying out its financial oversight responsibilities" (SEC, 1999; cited in Krishnan and Lee, 2009). The BRC (1999) recommends that at least one member should have accounting or related financial management expertise. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, which was passed by the U.S. Congress in response to the then savings and loan scandals, requires that ACs in banking institutions should include members with banking or related financial management expertise and have access to outside legal counsel (McMullen, 1996 cited in Alleyne, 2006). Archambeault and DeZoort (2001) found that companies that had suspicious switches of external auditors were those who had fewer AC members with experience in accounting, auditing, or finance. This might happen because external auditors feel comfortable to deal with someone who has experience or expertise in a similar area, and so they are more motivated in their works.

Some researchers have highlighted the need for relevant qualification, while others have emphasized on the need for relevant work experience. Again, many studies have argued that the AC members should have mixture of both qualification and work experience in this area. BRC (1999) defined financial experts as those who have work experience in the top level of accounting and finance and/or a CPA, or equivalent, qualification. They include CEOs and top level managers with financial oversight responsibilities. The accounting' financial expertise in Defond et al. (2005) is defined as directors with work experience as public accountants, auditors, principal accounting officers, and controllers. The non-accounting 'financial expertise includes all CEOs or presidents of for-profit corporations. Lee et al. (2004) defined financial experts as having a CPA qualification and/or work experience as any or more of the position of: investment bankers, venture capitalists, CEOs, Chief Financial Officers (CFOs), Vice President (VP) of Finance, controller, or treasurer. DeZoort et al. (2001) found that AC members with CG experience and/or financial reporting and audit

expertise, can deliver credible, reliable, and effective judgment when any dispute relating to a financial decision arises. McDaniel et al. (2002) examined the difference in quality judgment between two groups, namely financial literates and financial experts, and found the latter to be more effective in performing the responsibilities of an AC member. Both technical knowledge and work experience are found to have an impact on a committee's performance. McDaniel et al. (2002) also argued that the inclusion of financial experts in AC improves the quality of overall financial reporting.

There are a growing number of studies that address the benefits of inclusion of financial experts in the ACs. Using an event study methodology, Defond et al., (2005) found significant positive abnormal returns around the appointment of accounting financial experts to the AC, but not around the appointment of non-accounting financial experts and directors without any financial expertise. The firms with AC members who have financial expertise, are less likely to be subject to censure for poor financial reporting (Agrawal and Chadha, 2004; Farber, 2005; McMullen and Raghunandan, 1996), are more likely to have higher quality earnings (Qin, 2007), and also are more likely to reduce earnings management for firms with weaker CG mechanisms (Carcello et al., 2006). Further, the ACs with financial experts, are more likely to promote more conservative financial reporting when there exists strong CG practice (Krishnan and Visvanathan, 2008).

#### **2.2.4. The Size of the Committee**

Some researchers (e.g. Pincus et al., 1989) reported that the size of an AC is an influential factor for its effective functioning. Pucheta-Martinez and Fuentes (2007) documented a positive relationship between the size of an AC and the quality of financial reporting, which is also consistent with the findings of Felo et al. (2003). Although AC size is affected by the size of the BoDs and the company, a large AC may not necessarily result in more effective functioning because more members in an AC may lead to unnecessary debates and delay the decisions (Kalbers and Fogarty, 1996; Yermack, 1996; Scarbrough et al., 1998 cited in Lin et al., 2008). Therefore, the current requirement on AC size as laid down by the market regulators in the USA. and the UK. is a minimum of three members (NACD, 2002; ICAEW, 2001), while some

empirical studies have found that the normal AC size in the U.S.A. and the U.K. is three to five (Carcello and Neal, 2000; Raghunandan et al., 2001; Spira, 2002; Davidson et al., 2004). As per the new requirements, every firm listed under NYSE and NASDAQ must have an AC with a minimum of three members. Furthermore, the best practices suggest that the AC should include at least three members to provide the necessary expertise for the oversight function (Cadbury Committee, 1992; the BRC, 1999). However, some researchers (for example, Yermack, 1996; Scarbrough et al., 1998; Lin et al., 2008; and Bedard and Gendron, 2010) have argued that a large AC may not necessarily result in more effective functioning as more members in the AC may lead to unnecessary debates in the meeting and delay in taking decisions.

- The AC should delegated adequate authority to carry out their responsibilities;
- The AC should have ready access to relevant information if required;
- The AC should get prompt responses from management while carrying out its duties;
- The AC should be provided with sufficient resources including secretarial support to carry out its responsibilities; and,
- AC members are paid adequate remunerations and benefits for giving their time and effort to the company.

### **2.2.5 The Authority and Resources of the Committee**

Authority and resource are two vital factors for an effective AC. Most AC guidelines (for example, the Tread way Report, 1987; the Cadbury Committee, 1992; the BRC, 1999; the Sarbanes-Oxley Act, 2002; and, the Combined Code, 1999, 2003) recommend that the AC should be provided with sufficient authorities and resources for its effective functioning. The AC requires significant resources to perform effectively because of the wide scope of responsibilities (PricewaterhouseCoopers, 2005). Arthur Anderson (1994) noted that it is deemed extremely important that the ACs have unrestricted access to all relevant internal and external information to fulfill their oversight responsibilities.

### **2.2.6 Diligence of the Committee**

Members' diligence is very important in performing the responsibilities of an AC effectively and with integrity (Sharma et al., 2009). Kalbers and Fogarty (1993) also reported that AC members 'diligence is one of the main components of its effectiveness. Diligence simply means conscientiousness in paying proper attention to a task, giving the degree of care required in a given situation. The success of any committee largely depends on its members 'sense of responsibilities and willingness to devote adequate time for the committee's activities. The responsibilities of the AC should be specified in a charter, which should be reviewed from time to time (Mohamad and Sori, 2001). Lee and Stone (1997) explained diligence 'as willing to be effective'. Members' diligence is reflected by their willingness to undertake responsibilities and the time devoted for them. Gendron et al. (2004) mentioned that members who are willing to be active and effective in the AC should have a probing attitude in mind which helps in assessing various management decisions.

Because diligence is extremely subjective when observed directly, many researchers have used AC meeting frequency as a proxy of diligence (Raghunandan and Rama, 2007). The highlights regarding AC diligence noted in the above mentioned studies are summarized below:

- There should have a charter (terms of reference) for the AC stating its objectives, duties and responsibilities;
- The AC charter should be reviewed annually;
- AC members should have a clear understanding of their responsibilities;
- Members of the AC should willfully assume their responsibilities; and,

AC members should give sufficient time to devote in committee's affairs.

### **2.2.7. Meetings of the Committee**

The importance of AC meeting frequency has been recognized by many researchers including Spira (2002) and Anderson et al. (2004). The meetings are not mere rituals devoid of interest to managers and auditors (Gendron et al., 2004; Gendron and Bedard, 2006) instead meaningful and substantive meetings are consistent with an agency perspective (Beasley et al., 2009). In studying the collapse of Andersen, Chen and Zhou (2008) noted that the number AC meetings are an important mechanism of CG. However, authoritative statements on CG are silent on meeting frequency and

length of meeting, and this absence of regulatory guidelines affords ACs considerable discretion in this area (Sharma et al., 2009). A few studies (for example, McMullen, 1996; Collier and Gregory, 1998; ICAEW, 2001) have reported that ACs in companies in the U.S.A. and the U.K. held meetings on an average of four to six times per year, with an average duration of three to four hours per meeting. This might happen because an independent AC can perform freely as per its plan, and it does not have to meet for discussion frequently. The study further revealed that financial literacy of AC members, size of the AC, and board independence are all positively associated with AC meeting frequency. Bedard and Gendron (2010) noted that the number of meetings is not frequently associated with AC effectiveness; instead the AC should meet as often as its responsibilities require.

Nevertheless, the recommendations of a minimum number of meetings to guarantee effective AC control are supported by the empirical evidence of a positive relationship between meeting frequency and the quality of a firm's accounting information (Xie et al., 2003; Abbot et al., 2004). It is argued that effective control is unlikely to occur if an AC holds a single yearly meeting, or none at all (Menon and Williams, 1994; Deli and Gillan, 2000). The process of AC meetings is important for better outcomes from the meetings (Bedard and Gendron, 2010). Conducive environment in the meetings depends on the role of chairman, and he can make the meeting effective ensuring all participants can express their fair concerns freely (Raghunandan et al., 1998; the BRC, 1999; Sabia and Goodfellow, 2005). This requires an independent and congenial AC environment where members can discuss issues freely. Kirk and Siegel (1996) also mentioned that if members of the AC meet the chairman in advance of the meeting to talk about any issue in less pressured environment, it is beneficial for the members to clarify their objectives and also for the chairman to have the opportunity be prepared for a fruitful discussion.

Current best practices suggest that a meeting agenda is one of the key factors that make the ACs more effective and, therefore, the agenda of the meeting should also be carefully chosen (Sabia and Goodfellow, 2005).

The above discussion on AC attributes clearly states that the effective functioning of an AC is greatly influenced by some of its attributes, including: composition, diligent, authority and meeting process. While an AC is regarded as a key element in the CG process of companies, its attributes in fostering effective CG has been the subject of much debate (Sommer, 1991; Wolnizer, 1995; Chen et al., 2008). For example, scholars have argued that many AC members lack critical attributes including independence and expertise in oversight (Vicknair et al., 1993), and that whether ACs are discharging their important responsibilities is not sufficiently understood (Kalbers and Fogarty, 1993). Some studies (for example, Kalbers and Fogarty, 1998) have also argued that the adoption of an AC may be primarily symbolic and that the benefits associated with them are more rhetorical than substantive. Independent AC members with significant relevant knowledge and experience have been found to have a positive impact on AC diligence (Scarborough et al., 1998; Raghunandan et al., 2001, and Zain and Subramaniam, 2007). The Sarbanes-Oxley Act (2002) not only imposes the independence of members of ACs, but it also stipulates that at least one member of an AC should have far reaching experience in the field of finance. McHugh and Raghunandan (1994), Scarborough et al. (1998), Yeo (2001) and Christopher et al., (2009) went one step further to indicate that AC independence is further enhanced if the members, in addition to being independent, have the technical expertise to understand the work of the internal audit function.

## **2.3 Attribute of Audit Committees.**

### **2.3.1 Financial Reporting**

Ensuring reliable financial information is one of the most important functions of the AC (Rezaee and Farmer, 1994). There is pressure from the oversight role for the AC to get more involved to ensure the integrity of the financial reporting process. The establishment of AC improves the quality and accuracy of financial information, ensuring that the officers responsible for reporting and disclosure are more closely monitored and controlled. The role of an AC in overseeing financial reporting has been studied by a huge number of researchers (such as: Spira, 2002; Smith, 2003; Gendron et al., 2004; Gendron and Bedard, 2006). These studies have generally noted that ACs are expected to:

- Review all financial statements, whether interim or annual, before they are approved by the BoDs and publicly disseminated to ensure their objectiveness, accuracy, and timeliness;
- Review all existing accounting policies, and concentrate on the impact on the financial statements of any changes in accounting policies including the likely impact of any contemplated changes;
- Appraise key management estimates, judgments, and valuations where they are thought to be material to the financial statements; Evaluate the adequacy of financial statement disclosures;
- Review adequacy of organization's structure, including management's implementation of internal controls; and,
- Review all significant transactions, especially those that are non-routine and those that might be illegal, questionable, or unethical.

### **2.3.2. Internal Auditing**

The AC is responsible for monitoring the integrity and performance of a firm's internal audit functions (Laux and Laux, 2009). The role of an AC in monitoring and overseeing internal auditing activities has also been clearly discussed in EACLN (2008). The AC can strengthen the entity's internal audit function by ensuring that management has established, and is maintaining, an adequate and effective internal audit structure (Turley and Zaman, 2007; Rezaee and Farmer, 1994). AC oversight process within forty-two U.S. public companies, found that AC members largely depend on internal auditors in evaluating the effectiveness of internal control over financial reporting. The study also reported the necessity of frequent meetings between AC members and internal auditors, which supports the view of Braiotta (1990; 1999). Private meetings between the AC and the head of internal audit division serve the purpose of enhancing and protecting the independence of the internal audit function (Braiotta, 1999 cited in Christopher et al., 2009). Oliverio and Newman (1993 identified the interaction between the internal auditors and the AC is likely to enhance the effectiveness and objectivity of internal audit functions. Sharma et al. (2009) noted that the internal audit division acts as a comfort provider for the AC. A summary of the above studies in relation to AC's role in internal auditing can be found in Wolnizer (1995), who stated that ACs are expected to:

- Evaluate the independence and competence of internal audit function;
- Discuss with the chief of internal auditors about internal audit reports, effectiveness of internal controls and problems in performing the internal audit.
- Review the scope of internal audits planned for the year;
- Review management's response to internal auditors' recommendations;
- Review and approve the internal audit budget;
- Review the relationship between internal and external auditors and coordination of their work; and,
- Appoint and dismiss the head of internal audit.
- Review the engagement letter prepared for the independent auditors.

### **2.3.3 External Auditing**

The involvement of ACs in dealing with external auditor has been the subject of many studies (for example, Lennox and Park, 2007; and Beasley et al., 2009; Bedard and Gendron, 2010). The AC is a valuable instrument for initiating direct contact with the independent (external) auditor, participating in the selection of the external auditor, and promoting effective communication between the independent auditor and corporate directors (Rezaee and Farmer, 1994; Beasley et al. 2009). Lennox and Park (2007) claimed that the AC is responsible for hiring the external auditor and overseeing audit quality.

Meanwhile, Kirk and Siegel (1996) argued that external auditors need support of the BoDs in performing their duties objectively and with integrity. To work independently, the external auditors need to have access to some relevant resources of the firm. At the same time, their activities need to be monitored and evaluated in order to ensure their accountability. Beasley et al. (2009) also found AC members dependency on external auditors in performing their oversight responsibilities. In respect of the effective functioning of AC, Zain and Subramaniam (2007) emphasized the need for a good relationship between external auditors and AC through private meetings and informal communication. Therefore, an AC can play a significant role in dealing with

external auditors in terms of their appointment, resources, independence, monitoring and evaluation. In the case of annual audit and external auditors, Wolnizer (1995) mentioned that the ACs is expected to:

- Review the findings of the external audit;
- Determine the completeness and appropriateness of management's response to audit findings;
- Evaluate independence of external audit function;
- Review the reasonableness of the external audit fees;
- Arbitrate in disputes between management and auditors;
- Nominate external auditors; and

#### **2.4. Audit Committee Effectiveness**

The mere existence of an AC alone does not provide sufficient control, nor does it ensure that the company will maintain a high standard of financial reporting integrity (Rittenberg and Nair, 1994; Mendez and Garcia, 2007). It needs to perform effectively and care must be taken to structure, staff, and support the AC to ensure its effectiveness. With a number of recent high-profile financial fraud cases at the start of the new era, academic and industry now seek for effective ACs in order to provide sound monitoring (Chan and Li, 2008). Some questions remain about the effectiveness of these regulations (Romano, 2005). The AC is one of the key mechanisms of CG and its effectiveness is crucial for sound CG practices in the organization. Campbell (1990) reported that the lack of effective AC practice is a significant factor behind rigorous financial problems of companies. Effectiveness is an elusive concept that can be approached through several models, none of which is appropriate in all circumstances (Cameron, 1981). Furthermore, Spira (1998a) considered that: "there is no discussion of the meaning of effectiveness, resources, or independence within the literature and this assertion is unsupported". Similar limitations were identified by Cameron (1986) when he surveyed studies of organizational effectiveness. He observed that evaluations of effectiveness are problematic with regard to arbitrary selection of criteria, and confusion between determinants and indicators. Lewin and Minton (1986) noted that the multiplicity of means and the plethora of ends, as well as the many management philosophies and associated organization designs extant, have made the measurement of effectiveness into a very complex problem. It is complex because of the problems

inherent in specifying some joint preference function, or in attempting to specify the weights in some multi-attribute effectiveness measures.

Cameron (1981) noted that the words effectiveness and efficiency are often confused. A large number of studies (for example, Fogarty, 1993; Rittenberg and Nair, 1994; Porter and Gendall, 1998; Millstein, 1999; Smith, 2003) focused on AC effectiveness have used the word “effectiveness” “to mean the “carrying out or fulfilling its specific oversight responsibilities or duties”.

A well-functioning AC should have a greater likelihood of detecting problems than an inactive one (Choi et al., 2004). Finally, AC related disclosure and report in the annual report is a necessary element for assessing the effectiveness of AC function (Spira, 1998a; ICAEW, 2001; Ng and Tan, 2003; Lee et al., 2004). Relevant disclosures include a written charter or terms of reference specifying the AC responsibilities that have been endorsed or approved by BoDs, they also include AC reports demonstrating how an AC has fulfilled the described responsibilities during the year. The effectiveness of ACs depends, to a large extent, upon their diligence or activities; such as, the frequency, duration, and content of AC meetings (Teoh and Lim, 1996; Collier and Gregory,). In addition, some studies (for example, DeZoort, 1998; Scarbrough et al., 1998; Beattie et al., 2000;) contended that an effective AC should hold meetings with the management, and the internal and external auditors separately in order to exercise an effective oversight or monitoring role over the financial reporting and auditing processes.

It is clear from the above discussion that previous studies have discussed two different frameworks of AC effectiveness. For example empirical studies published between 1987 and 2002, and provided a framework with four fundamental determinants of AC effectiveness, namely: composition, authority, resources, and diligence. On the other hand, instead of focusing on the determinants of AC effectiveness, Turley and Zaman (2004) and Kalbers and Fogarty (1993) analyzed the effectiveness of ACs using a framework which focused on successfully performing AC’s roles. However, while having the right people’s AC members and providing them with concrete

responsibilities and resources are important inputs to AC effectiveness, they are not sufficient to ensure effectiveness (Bedard and Gendron, 2010). Instead the process by which AC members assess information and oversee activities is important in this respect. In fact, process is a very important mechanism of an AC that explains how characteristics are translated into organizational outcomes. Gendron et al. (2004) noted that the AC process is an important factor in developing a better understanding of AC effectiveness.

Bedard and Gendron (2010) explained that the dimensions of an AC process include: AC meeting, meeting agenda, questioning and leadership. However, performing AC roles successfully depends on the input factors (i.e. composition, authority, resource and diligence) and the processes by which an AC functions (e.g. meeting process). Therefore, it would be more comprehensive and accepted if AC effectiveness is evaluated considering its input (e.g. AC composition), process (e.g. AC meeting) and output (e.g. AC roles) dimensions. The current study aims to investigate AC effectiveness in considering all of these three dimensions as AC effectiveness criteria.

### **2.5. Significance of Audit Committee Effectiveness**

An effective AC is critical in enhancing the effective oversight of the financial reporting process and ensuring high quality financial reporting (Chen and Zhou, 2007). Empirical studies have revealed that the existence of effective AC is positively associated with the quality of financial reporting. For example, McMullen (1996) found that the presence of AC is negatively associated with financial restatements and sanctions by the U.S. SEC. Chambers (2005) noted that poor standards of CG (for instance, ineffective or non-existent ACs) facilitate abuses (such as, fraudulent financial reporting). The significance of AC effectiveness in preventing misstatement in financial reporting has been highlighted in many studies including Magee and Tseng (1990) and Dye (1991). An effective AC is now treated as a principal player in ensuring GCG and rebuilding public confidence in the financial reporting of a firm.

A well-functioning AC leads to the improvement of corporate financial reporting and the decrease of earnings management or financial frauds, as well as the increase of

unqualified auditor reports (Wild, 1996; Carcello and Neal, 2000; DeZoort and Salterio, 2001; Klein, 2002b; Sharma, 2004; Bedard et al., 2004). In their study, Bryan et al. (2004) found positive association between the AC effectiveness and firm's earning. An effective AC serves as important CG mechanism to boost investors 'confidence in GCG, to improve the trust in financial reporting processes, and it lends more credibility to the audited financial statements (McMullen, 1996; Urbancic, 1996; Spira, 1999b; the SEC, 1999, 2003; Rezaee et al., 2003). The significance of an effective AC is visible in enhancing the quality of statutory auditing, which ultimately leads to better financial reporting. For example, Kunitake (1983) studied 580 AMEX listed firms and concluded that the firms without ACs in place change external auditors more frequently than those firms with ACs. Garcia-Meca and Sanchez-Ballesta (2009) noted that the existence of AC reduces errors and irregularities in financial statements, and enhances the credibility of financial reporting; this result was consistent with the view of McMullen (1996).

In contrast, there are a number of studies which have found opposite results; for example, Beasley (1996) found that there was no significant relationship between presence of AC and the likelihood of fraud or error. Furthermore, Pucheta-Martinez and Fuentes (2007) revealed that presence of AC has little or no impact on quality of financial reporting. However, it is widely accepted that an AC plays an important role in assuring the quality of financial reporting and corporate accountability. As a liaison between the external auditor and the board, the AC minimizes information asymmetry between them, facilitates the monitoring process (Klein 1998b; Sori et al., 2007), and enhances the independence of the auditor (Mautz and Neumann, 1977). An effective AC also significantly contributes to the establishment of a rigorous internal control function in the company, which ultimately reduces irregularities and fraudulent activities in the company's affairs. Zain and Subramaniam (2007) highlighted the leadership role of AC in supporting and guiding internal auditors. They also argued that an AC is perceived to hold an authoritative position which helps it to question the decisions made by management. As already discussed, independence is a pre-requisite for an effective AC.

Therefore, it is clear from the above discussion that an effective AC contributes significantly in ensuring fair and sound practice of financial reporting, establishing rigorous internal control, and thus safeguarding stakeholders' interest. This ultimately leads to minimum irregularities, increased investors' trust, higher returns, and maximum wealth of the stakeholders.

## **2.6. Advantages of Audit Committees**

Several advantages of ACs are put forward by different researchers, such as: Kunitake (1983); McDonald Report (1988); Pincus et al. (1989); their arguments can be summarized as saying that an AC:

- Improves the quality of financial reporting, by reviewing the financial statements on behalf of the BoDs;
- Creates a climate of discipline and control which will reduce the opportunity for fraud;
- Enables the non-executive directors to contribute an independent judgment and play- a positive role;
- Strengthens the position of the external auditor by providing a channel of communication and forum for issues of concern to be raised;
- Provides a framework within which the external auditor can assert his independence in the event of a dispute with management;
- Strengthens the position of the internal audit function by providing a greater degree of independence from management; and,
- Increases public confidence in the credibility and objectivity of financial statements.

Guthrie and Turnbull (1995) argued that two general themes emerge concerning the advantages of ACs. The first theme is that ACs help the independence of non-executive directors, as well as that of the internal and external auditors. Secondly, ACs improves the quality of accounting financial reporting and auditing within the host organization. A great deal of research [for example, Public Oversight Board (POB), 1993; Turpin and DeZoort, 1998; Blue Ribbon Committee (BRC), 1999; McDaniel et al., 2002] has addressed the importance of the ACs in ensuring credibility of financial reporting and auditing process. Vinten (2003) argued that most AC chairpersons commend the

recommendations as having exerted a positive influence on corporate reporting and internal controls. Verschoor (1992) claimed that the establishment of standing ACs of the BoDs in public corporations, followed by their assumption of greater oversight responsibilities for matters of internal control, financial reporting, and auditing, has been recognized as the most significant development affecting CG.

## **2.7. Disadvantages of the Audit Committees**

Despite having numerous advantages, the ACs and their roles have been criticized by some researchers; for example, Rainsbury et al. (2008) noted that the AC sometimes limits the growth opportunity of a firm. McMullen (1996) claimed that ACs are considered as: “The creatures of the company's management rather than the watchdogs over shareholders' interests”. Critics also argue that many ACs hesitate to stop management misdeeds because they fear rocking the boat and lack access to knowledgeable lower level employees. The theoretical arguments against ACs were pointed out by: Marrian (1988); Bradbury (1990); Cadbury Committee (1992); Porter and Gendall (1993); Guthrie and Turnbull (1995); Collier (1992); Collier (1996); Pomeranz (1997); Barker (2002); and, Rainsbury et al. (2008). The disadvantages as highlighted in these studies can be summarized as follows:

- The AC sometimes may cause encroachment on the functions of the executive and dilution of executive authority, or may pre-empt management responsibility;
- The AC may cause the diversion of non-executive directors from their strategic and other roles into the routine matters of audit and financial reporting;
- The AC might reduce contact between the auditors and the board;
- Sometimes, the AC is used only as a rubber stamp to confirm management decisions; and,
- AC meetings sometimes simply become a waste of their members' time.

However, these disadvantages support the idea that establishing an AC is one thing, but establishing an effective AC is another. *Sommer (1991) noted that: "A corporation having an AC as part of its governance structure and having an effective AC are, of course, different matters".* It is an accepted truth that an AC is not, and cannot be, a panacea (Macdonald Commission, 1988; Porter and Gendall, 1998). Kalbers and

Fogarty (1993) claimed that any AC is more effective than no AC; however, the formation of an AC does not provide evidence about the actual levels of monitoring that will be performed.

### **2.8. Ethiopian context and Knowledge gap Identification**

Generally, the review of empirical studies reveals that almost all of the studies were outside Ethiopia, but there are few studies work on internal audit function and corporate governance in public enterprise and they were incorporate on the study about audit committee relation with internal audit department. The study was not cover all attributes of audit committee (zeleke 2009). For example, composition of AC, meetings of AC, financial reporting, external and internal audit.

It is clear from the above discussion that previous studies have discussed two different frameworks of AC effectiveness. For example empirical studies published between 1987 and 2002, and provided a framework with four fundamental determinants of AC effectiveness, namely: composition, authority, resources, and diligence. On the other hand, instead of focusing on the determinants of AC effectiveness, Turley and Zaman (2004) and Kalbers and Fogarty (1993) analyzed the effectiveness of ACs using a framework which focused on successfully performing AC's roles. However, while having the right people's AC members and providing them with concrete responsibilities and resources are important inputs to AC effectiveness, they are not sufficient to ensure effectiveness (Bedard and Gendron, 2010). Instead the process by which AC members assess information and oversee activities is important in this respect. In fact, process is a very important mechanism of an AC that explains how characteristics are translated into organizational outcomes. Gendron et al. (2004) noted that the AC process is an important factor in developing a better understanding of AC attributes.

Therefore this study uses questionnaire and interview research tools and plays a vital role for the following reason,

- ❖ There is no comprehensive study to examine current attributes of audit committee in public enterprise.

- ❖ It will pave the way forward for the public enterprise and regulatory body to understand the attributes of audit committee in public enterprise. Finally, this study advances the knowledge of audit committee public enterprises. The following chapter provides details of the research method in respect of the identified research problem.

## CHAPTER THREE

### RESEARCH DESIGN & METHODOLOGY

#### 3.1 Research design

Descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting. Thus, The main objectives of this study are to assess the attributes of audit committee in selected public enterprise in Ethiopia. The study would answer the following research question noted earlier.

What are the Attributes of audit committee in selected public enterprise?

In order to address the above research problem the researcher used different techniques. This chapter discuss on different procedures, data source, collection methods, instruments, sampling techniques, data analysis & presentation methods used. Thus, descriptive study is used to investigate the Attributes of audit committee in selected public enterprise in Ethiopia. Moreover, in order to achieve the intended objective, both quantitative and qualitative methods are applied. The analysis of quantitative data and interpretation of qualitative data was combined to seek convergence among the results ((Seiliger and Shohamy 1989; McDonough 1997).)

#### 3.2 Data sources

The primary and secondary sources of data were used in this study. The primary sources generate through both open-ended and structured questionnaires which had been distributed for MOPE, supervisory Agency, audit committee, internal audits section, finance department and some members of the CEO, personal interviews and discussions with some chair of AC and review of AC plans and reports.

In addition questionnaires are in the form of Likert-Scale type that shows respondents agreement or disagreements by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree. The questionnaires were adopted and modified from Ministry finance of Tanzania (2012) due to the fact that it meets the IPPF standards.

The secondary data sources are proclamations, articles, books, journals, current unpublished reports/documents and documents on websites and other related documents.

### **3.3 population, sample size and Sampling techniques**

Since this study mainly focused on Attributes of Audit Committee in ten selected public Enterprise located in Ethiopia which are supervised by Ministry of public Enterprise. In general there are four public enterprise sectors these are financial sector, transport and communication sector, constriction sector and manufacturing sectors which are accounted for different supervisory agency and the public enterprise also established based on proclamation no. 25/1992.

There are 16 public enterprises those who are accounted for Ministry of public enterprise. Which included in the study and random sampling are applied to select 10 public enterprises. The project not includes the bank sector because it is not regulated by MOPE. The respondents includes, AC chair, CEO, internal audit head, head of finance department and supervisory agency and these respondents was purposively select as the target groups for this study.

The use of purposive sampling enables generating meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants (Carver1978; Cohen 1990; Neuman 2006; Patton 1990). The randomly selected public Enterprises from the populations are:

1. Ethiopia Chemical and Industrial Corporation
2. Hilton Hotel
3. Gion hotel
4. Ethiopia Rail way corporation
5. Berhane Selma printing Agency
6. Filwuha Hotel
7. Ethiopia Constriction works corporation
8. Ethiopia sugar corporation
9. Ethiopia shipping and logistic service Enterprise
10. Ethiopia pulp and paper S.C

In addition, the MOPE and ministry of transport were included as a target group in the study because they are regulatory body of public enterprise.

### **3.4 Data Collection methods**

The survey using the questionnaires distribute for AC chairs CEO, internal audits, head of finance department, supervisory agency and to the regulatory body. Furthermore, interview and discussion will be conducted with AC chair CEO and the regulatory body.

### **3.5. Data Analysis Methods**

In view of the descriptive nature of this study, the raw data would collect through questionnaires carefully tabulate. Interviewing on the major issues the data presentation and analysis. Depending on the type of basic questions and nature of the data, a descriptive method of data analysis (descriptive statistics) such as mode , percentage and mean would be used.

Qualitative and Quantitative analysis are used as data analysis technique. Primarily the data was collected through the questionnaires & short interview analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, and analyzed to present the research findings

The data were then presented in the form of tables, charts, graphs and explanatory narrations. Tables of frequency distributions and cross tabulations were mainly used in helping the descriptive analysis. Frequency distribution tables were used for summarizing (e.g. counts, percentages etc) of data related a single variable or issue under consideration. For analyzing two or more variables or data classified with two or more characteristics cross tabulations were used which show frequency counts, percentages and summary for individual variables as well as for the variables as a whole. In addition to the tables, charts and graphs were also used for specific and general questions related to the study. Furthermore the use professional articles, auditing standards, principles, and other related issues were very much significant in analyzing the data.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS FINDINGS**

#### **4.1. Data gathering**

The survey had been carried out using the questionnaires, MOPE and supervisory agency CEO's from public enterprise interview, focus group discussion and review of code of corporate governance and Board directives which was prepared by Ministry of public enterprise. The goal of the project was to assessing the Attribute of audit committee in selected public enterprise located in Addis Ababa.

Questionnaires distributed for ten public Enterprise for 10 CEO, 10 AC chair 10 heads of internal audits and 10 finance heads in selected public enterprise as well as for 12 form Ministry of public enterprise and 8 supervisory agencies (Ministry of transport) which has regulatory role. The above group respondents were selected purposively because the audit committee directly works with target group. In addition, two State Minister and 10 CEO and 2 member's directors' supervisory agency participated in the interviewed and discussion their view on audit committee attributes. The study targeted a sample size of 60 respondents from which all of them (60) filled in and returned the questionnaires making a response rate of 100% based on this response rate made conclusions for the study.

The survey results summarized and tabulated in 11 Tables and 3 Figures that presented in this chapter.

#### **4.2 Demographic characteristic**

Below are the characteristics of the respondents presented in terms of Gender, Status, Level of Education, careers and Service years.

**Table 4.1 Gender profile**

Demographic questions		Response													
		MoPE		Supervisory agency		CEO		AC chair		Finance Head		Internal audit Head		Total	
		frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
Gender	Male	9	75	7	87.5	10	100	8	80	9	90	8	80	51	<b>85</b>
	Female	3	25	1	12.5	0	0	2	20	1	10	2	20	9	<b>15</b>
	<b>Total</b>	12	100%	8%	100%	10	100%	10	100%	10	100%	10	100%	60	<b>100%</b>

Source: survey data 2017

As shown from the above table-1 response table the number of male respondents (85%) was higher than that of female respondents (15%) although there are male dominations in such public enterprise both genders are involved in this study.

**Table 4. 2 Educational background**

Educational back ground		Number of respondents													
		MoPE		supervisory agency		CEO		AC chair		Finace head		internal audit head		frequency	%
		frequency	%	frequency	%	frequency	%	frequency	%			frequency	%		
Level of educa	Diploma	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	BA Degree	7	40	4	20	0	0	6	60	6	20	7	100	30	50
	Masters Degree	5	60	3	60	10	100	4	40	4	80	3	0	29	48.33
	PhD	0	0	1	20	0	0	0	0	0	0	0	0	1	1.67
	<b>Total</b>	12	100	8	100	10	100	10	100	10	100	10	100	60	100

Source: Survey data 2017

As a findings shown from the above table 2 regarding the level of educational back grounds, from the total number of respondents 30 (50%) have bachelor's degree

and 29(48.33%) have master’s degree and 1(1.67%) has doctrate degree there was no respondents for category who has diploma and There fore, this is an indication that majority of the respondents involved in this study had university degree as their highest level of education which can contributes more information on the intended work in this study.

while, from the audit committee category 6(60%) of the total audit committee chairs have bachelor’s degree holders and the remaining 4(40%) has masters degeree. and 7 (70%) of the total audit head have bachelor’s degree and three respondents(30%) has master’s degree. While from the total financial head 6(60%) have bachelor’s degree and 4 (40%) has master’s degree. This shows that majority of the respondents have bachelor’s degree which enables them to provide the available information for the study which made them to have an ideas regarding the role of audit committee.

On the other hand, from the super visory *agency and MOPE* categories, the majority of respondents have bachelor’s degree 4(50%) and 7(58.33%) respectively. All CEO’s has masters’ degree. only 1(20%) of supervisory respondates has docterate degree. Simillar the majority of the respondents which enable to provide sufficient and reliable information for the study.

Table 4.3 Respondents experience

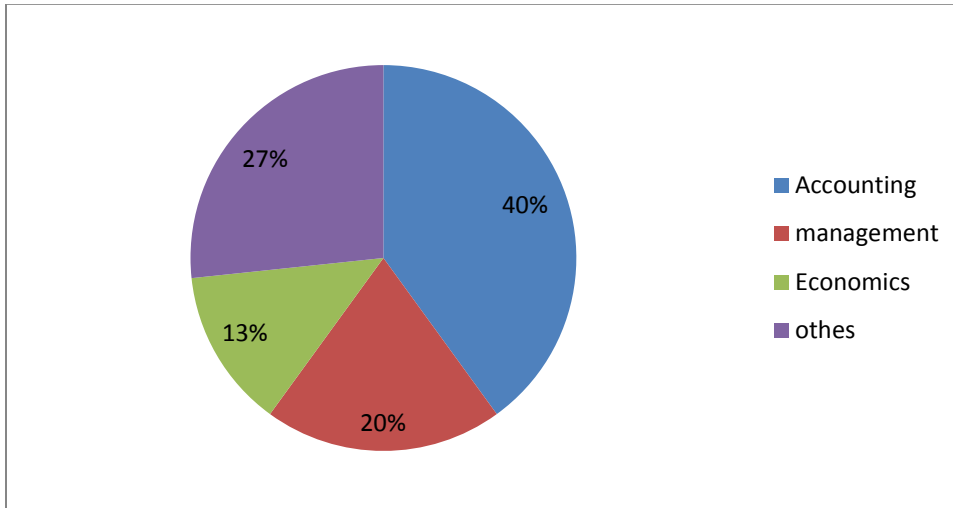
Experiece of respondent		Number of respondents													
		MoPE		Supervisory		CEO		AC chair		Finance head		internal audit		Total	
		frequency	%	frequency	%	requeunc	%	ferq.	%	frequency	%	frequency	%	freq.	%
Years of Experience	0-5	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	6-10	0	0	0	0	0	0	2	20	0	0	0	0	2	3.3
	11-15-	7	58.3	5	62.5	0	0	7	70	4	40	8	80	31	51.7
	16-20	5	41.7	2	25	7	70	1	10	6	60	1	10	22	36.7
	>20	0	0	1	12.5	3	30	0	0	0	0	1	10	5	8.3
total		12	100	8	100	10	100	10	100	10	100	10	100	60	100

Source: survey data 2017

The data concludes that, the distribution of years of experience that the respondents had with working all of the respondents have more than 10 years of experience

working in their profession from the total respondents only 3.3% of AC chair has below ten year experience and This shows that the respondents are well experienced on their profession which may make more effectives in performing their responsibility.

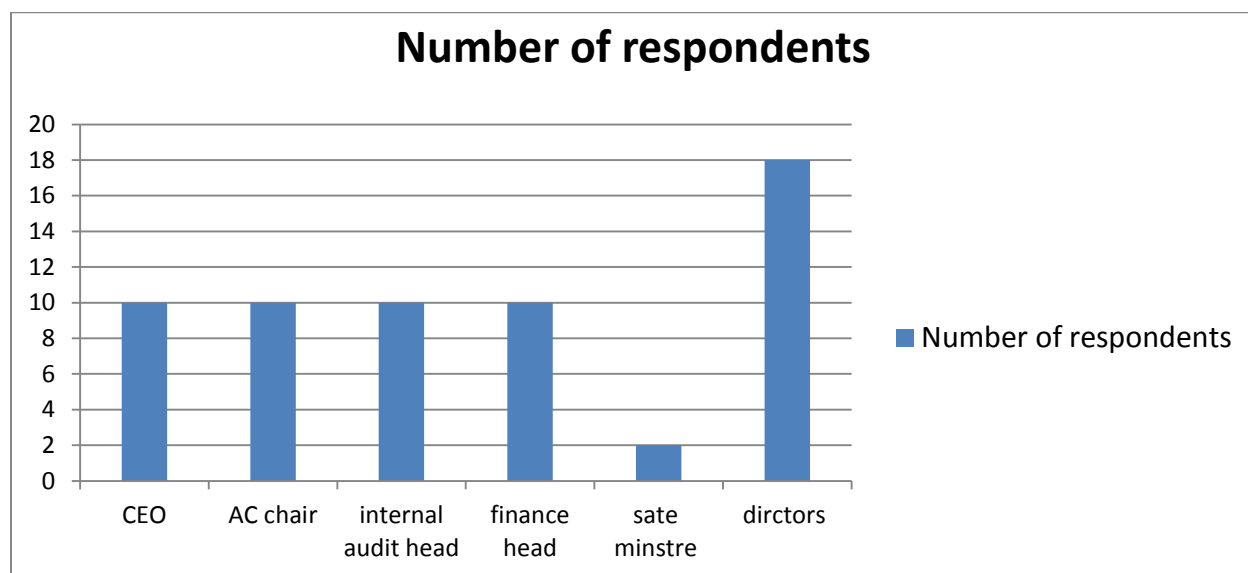
**Chart 4.1 career of the respondents**



Source: survey data 2017

As it is indicated the above chart, almost 40% of the respondents has accounting careers which is directly related to the accounting and auditing job. while 20% and 13% of respondents have management and Economics careers .and27% of respondents has other like civil engenner and cemical engeneering careers. 4(9%) are management and economics regarding audit committee who participate in the survey none of them has accounting and auditing.

**Chart 4.2 Respondents status**



Source: survey data 2017

As shown from chart 2 above, from the total respondents 8 directors in supervisory agency, 12 were from MOPE, 10 CEO, 10 AC chair, 10 Finance head and 10 Internal audit head from ten public enterprise.

### **4.3. Discussions**

To facilitate the reporting and analyses, the 'strongly disagree' and the 'disagree' columns had been merged to 'disagree' and similarly the 'strongly agree' and the 'agree' column had been merged to 'agree' in the table.

#### **4.3.1 Composition**

The key to an audit committee's effectiveness is having members with an appropriate mix of skills and experience relevant to the organization's responsibilities. The ideal composition of the audit committee and attributes of its members depends on a variety of factors such as the organization's size, complexity, and responsibilities.

As table 4.4 showed that the majority of respondents 55% (or 33 out of 60), 61.7 (or 37 out of 60) and 65 % (or 39 out of 60) in the survey AC members have respectively disagree for the following points:-

- Sufficient knowledge on the entity’s business.
- sufficient knowledge on Accounting and/or Auditing practices
- Sufficient experience in Accounting and/or Auditing. Respectively

But in other hand 28.3%, 31.66% and 26.67% of respondents are agree for the above three statements on AC composition. However 16.67%, 6.67% and 8.33% respondents are neutral regarding the above knowledge of the business, accounting and auditing and experience of accounting and auditing statements.

Concerning the appointment of the AC members in the audit committee almost all 93.3% (or 56 out of 60) respondents are disagreed that the AC members are appointed with consultation of AC chair.it should be noted that a few portion of respondents (6.67%) selected the ‘neutral’ option in responding to the statement relating to The AC members are appointed in consultation with the a AC chair person.

Table 4.4 Audit Committee Composition

No	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
	<b>1. Composition</b>							
1	The AC members have sufficient knowledge on the entity’s business.	33	55	10	16.7	17	28.3	2.5
2	The AC members have sufficient knowledge on Accounting and/or Auditing practices.	37	61.7	4	6.66	19	31.66	1.45
3	The AC members have sufficient experience in Accounting and/or Auditing.	39	65	5	8.33	16	26.66	2.5
4	The AC members are appointed in consultation with the a AC chair person	56	93.3	4	6.66	0	0	1.57
5	The AC members are capable of mitigating problems in performing their duties.	33	55	0	0	27	45	2.87
6	The majority of AC members are independent /non-executive directors.	0	0	7	11.7	53	88.33	4.1

7	The chairperson of the AC is an independent/non-executive director	0	0	7	11.7	53	88.3	4.27
8	The size of the AC is appropriate for carrying out its duties properly.	0	0	7	11.7	53	88.3	4.15

As can be seen from the Table 4.4 of item 6-8 , 88.33% (or 53 out of 60 ) the respondents agreed that the AC chair and AC members are independent /non-executive directors as well as the size of AC members are appropriate.

In relation to the statements of The Ac member's capability of mitigating problems shows that 55% respondents disagree the AC composition and 45% respondents are selected agree for the entire statement. Moreover the interview result had showed that in the composition of AC-members do not have sufficient qualification and experience in accounting and auditing and also the majority AC members are not executive of the enterprise but executive director of other government body, also in the discussion the AC members and the AC chairs are directly assigned by board not with consultation AC chair.

In addition to the percentage Table 4.4 also shows that the mean scores of the responses to the statements relation to the AC composition in public enterprises regarding the AC member's sufficient knowledge on entry's business (2.5) sufficient knowledge on According and/or Auditing (1.45) an sufficient experience in accounting and/or auditing (1.57) a lower means scores because most of the AC members are from public sectors.

However the statements relating to the appropriateness of AC size, AC is an independent/non-executive director and chairperson of the AC is an independent/non-executive director has been agree number of respondents so this is no major problem regarding size Ac is public enterprises.

### 4.3.2. Authority and Resources

Table 4.5 showed that the statements on authority and resources provided to the AC the mean scores of the respondents for the statement item 2 up to the last items are very similar (3.02, 3.38, 3.38 as 3.4) respectively the result is consistent with Bull Sharp (1989) as Rittenberg and Narm (1994) who reported the importance of open lines of communication that must exist between the ACs and those are the enterprises who can provide them required information. However, the low mean value (2.67) was observed in the case of the statement on adequate authority in order to carry out its responsibilities.

Regarding the statements on Authority and Resources provided to the ACs in public Enterprise, 58.3% (or 35 out of 60) of the respondents disagreed that the ACs are delegated adequate authority with which to perform their duties and 33.7% of the respondents agree about the adequacy of authority of AC. And that 50% of respondents agreed that ACs have ready access to the required information when they needed it and 45% are not.

Table 4.5. Authority and Resource of Audit Committees

No	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
1	The AC has adequate authority in order to carry out its responsibilities.	35	58.3	6	10	19	33.7	2.67
2	. The AC has ready access to relevant information if required.	27	45	3	5	30	50	3.02
3	The AC receives prompt responses from the management in carrying out its duties.	17	28.3	11	18.3	32	53.3	3.38
4	The AC is provided with sufficient resources including secretarial support to carry out its duties.	18	30	2	3.33	40	66.67	3.38

5	The non-executive AC members are adequately paid for their time and efforts.	0	0	38	63.3	22	36.67	3.4
---	------------------------------------------------------------------------------	---	---	----	------	----	-------	-----

More than 53% of the respondents also agreed that the ACs receive prompt responses to their queries from management and that ACs are provided with sufficient resources in queries to carry out their duties properly. Only 36.67% of the respondents agreed that the independent members are paid sufficient honorariums for their time devoted to the committee's but 66.67% (40 out of 60) respondents agree that public enterprise provide sufficient resources include secretaries support to AC. in addition of the above survey result short interview also made weather audit committee has adequate authority to carry out their responsibility. In most public enterprise The AC has not adequate authority because the enterprises were not understand the responsibilities AC and the AC directives which was prepared by MOPE not indicates clearly about the authority of AC and created awareness to the public enterprise society.

#### 4.3.3. Diligence

Overall table 4.6 showed that, 58.33% (or 35 out of 60) of the respondents agreed that the members readily assume the responsibilities of the ACs; 26.67% (or 16 out of 60) of the respondents agreed that the AC members have a clear understanding of their responsibilities in the committees; and, 25% (15 out of 60) of the respondents agreed that there is charter (terms of reference) for the ACs. However, only 18.33% 11 out of 60) of the respondents agreed that the AC charters were reviewed annually, and only 40% of the respondents agreed that the AC members devote enough time to the committees 'affairs but the majority of respondents that means 65% (39 out of 60) 71.7%(43 out of 60), 63.3%(38 out of 60) and 56.7% 34 out of 60) are disagree for the following statements respectively:-

- i. The AC has a charter which outlines its objectives, duties and responsibilities.
- ii. The AC charter is reviewed annually.
- iii. The AC members have a clear understanding of their responsibilities.
- iv. The AC members devote sufficient time to the committee's affairs.

Table 4.6. Diligence

No	Statements	Frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
<b>3. Diligence</b>								
1	The AC has a charter which outlines its objectives, duties and responsibilities.	39	65	6	10	15	25	2.57
2	The AC charter is reviewed annually.	43	71.7	6	10	11	18.33	2.48
3	The AC members have a clear understanding of their responsibilities.	38	63.3	16	26.7	16	26.67	2.38
4	Members of the AC readily assume their responsibilities.	12	20	13	21.7	35	58.33	3.52
5	The AC members devote sufficient time to the committee's affairs.	34	56.7	2	3.33	24	40	2.62

Since most respondents felt that the charters are not updated regularly, the researcher feels that the charters of the ACs are there only in spirit and are not being followed properly. The reasons behind the insufficient time given by the AC members may include: firstly, that most of the AC members are Minister or of top management of government body and also busy with their many other businesses; and secondly, the independent members are not adequately valued and paid for their efforts. Therefore, the findings suggest that AC diligence in public enterprise is not at a satisfactory level as required for the effective functioning of the ACs. This is inconsistent with the results of Kalbers and Fogarty (1993) who noted that AC diligence is one of the key components for its effectiveness. In general the interview result was not difference observed the survey result meant most of Audit committee had not charter even those who have charter also not reviewed periodically. So the AC has not a clear understanding about their role and responsibility also in the discussion most of AC members are form the government body they did not allocate sufficient time.

Relating to the statements on diligence of the ACs the mean values obtains the lowers mean value except for the statements that the AC members readily assume their responsible has achieved the highest mean value

#### 4.3.4. Meeting

As the table 4.7 shows that Most of (75%, 80% 96.67% and 96.67%) of the respondents participating in the survey agreed that:-

- i. The agenda and related materials are supplied to the AC members in advance;
  - ii. The AC members can express their views freely;
  - iii. The duration of the AC meeting is sufficient for a full discussion of the issues.
- And
- v. The frequency of the Ac meetings is sufficient to carry out its responsibility.

No	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
1	The agendas of the AC meetings are finalized by the chairperson.	27	45	3	5	30	50	3.13
2	The chairperson cooperates with other committee members before finalizing the agenda of the meetings.	33	55	1	1.67	26	43.33	2.82
3	The agenda and related materials are provided to members fairly ahead of the meetings.	12	20	3	5	45	75	3.7
4	All members can express their views freely and independently in the meetings.	7	11.67	5	8.33	48	80	4.02
5	The frequency of the AC meetings is sufficient to carry out its responsibilities.	2	3.33	0	0	58	96.67	4.4
6	The duration of the AC meetings is sufficient for a full discussion of important issues.	2	3.33	0	0	58	96.67	4.43
7	Non-members attend the AC meetings if required.	15	25	5	8.33	40	66.67	3.57

Overall, it is a good sign that all eight statements on AC meeting were agreed with by the majority of respondents except the Ac cooperation with other committees. while 50% of the respondents agreed that the agenda is finalized mainly by the chairperson of the committee. Furthermore, 43.33% of the respondents agreed that the minutes of AC meetings are circulated to the members of the BoDs, and 66.67% of the respondents agreed that non-members do attend the meetings if required. The frequency of AC meetings has been regarded as an important factor by some researchers (such as Spira, 2002 and Anderson et al., 2004) and a vast majority (3.33%) of respondents participating in the questionnaire survey disagreed that the frequency of AC meetings is adequate in order to carry out its responsibilities.

Furthermore, 3.33% (or 2 out of 60) of the respondents disagreed that the duration of the AC meetings is long enough to discuss and decide on the committees' affairs. Overall, the responses reflect the view that the ACs in public Enterprise generates a friendly environment in which to conduct effective meetings. Also the highest number of respondent who participate in the interviews the duration of meeting was sufficient but most of the AC members are from the government higher officials so they didn't participated in the meeting continuously.

Out of the eight statements the highest overall mean value (4.4) duration of AC meeting, (4) all AC members can expenses their view freely and (4) the frequency of meeting is sufficient (3.7) agenda and related materials are provided to members fairly),(3.57 Non-members attend the AC meetings if required.).However the lowest mean value (3.1) and (2.82) obtains respective the finalized agedness and the AC chairperson discusses with one members before finalizing the agenda for the meeting.

#### **4.3.5 Role in Financial Reporting**

Privatization and public enterprise agency formally know MOPE code of corporate government which was designed 2009. And the revised directives also prepared in 2012 the directives incorporated the audit committee should have responsibility to review the accounting policy but that table 4.8 In relation to the statements on AC's role in financial reporting, most of the participants were disagreeing in the survey that

the Ac's reviews also the mean score of the responses for all statement lowest mean score in the following cases:-

- i. The integrity of enterprise financial statements
- ii. Accounting policies and any changes made there in
- iii. Accounting estimates and judgments done in preparing financial statements
- iv. The compliance of the accounting standard
- v. The clarity and completeness of disclosure in financial statements
- vi. Other information (e.g. the auditor report, financial highlights etc.) presented in the annual report.
- vii. Government so they would not attend the meeting regularly.

Table 4.8. Financial Reporting

No	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
1	The AC reviews the integrity of enterprises' financial statements.	48	80	2	3.33	10	16.67	2.03
2	The AC reviews accounting policies and any changes made therein.	49	81.7	2	3.33	9	15	2.07
3	. The AC reviews accounting estimates and judgments done in preparing financial statements.	54	90	0	0	6	10	1.97
4	The AC reviews the compliance of the Accounting Standards (e.g. IAS, BAS etc.) in preparing financial statements	54	90	0	0	6	10	1.88
5	The AC reviews the clarity and completeness of disclosures in financial statements.	53	88.3	1	1.67	6	10	1.88
6	The AC reviews other information (e.g. the auditors' report, financial highlights etc.) presented in the annual report.	37	61.7	3	5	20	33.3	2.68

But 10% of the respondents for statements review accounting estimates and judgments, the compliance of the Accounting Standards and the clarity and completeness of disclosures in financial statements was agreed and 33.3% of participated was agree the AC reviews other information presented in the annual report.

The AC's considerable role in financial reporting is documented by a great deal of research, including: Urbancic (1996); Spira (1999b); Rezaee et al. (2003); Gendron and Bedard (2006); and Turley and Zaman (2007). The responses generally indicate that the ACs in public enterprise definitely play some role in the financial reporting of the company, but that there are some areas where the ACs can enhance their involvement in order to enhance the integrity in company's financial reporting.

A very insignificant involvement of the audit committee is seen in reviewing the overall quality for financial reporting. Sometimes, it reviews some accounting disclosures, estimates and judgments done by accountants. But in general, they do not play the sufficient roles which are expected. The reason for this minimum involvement is mainly the fact that they are incapable of doing such a job, and in some cases they lack the scope to do what they should.

#### **4.3.6. Role in External Auditing**

Form Table 4.9 can be seen from the responses of the 60 respondents from one out of eight statements the majority (78.33%) of the respondents agreed that the AC reviews the findings of the external auditors, while only 26.67% of the respondents agreed that the AC reviews the management's responsiveness to the external auditors' findings.

As table 4.9 shows the majority of respondents that means 85%, 90%, 91.7%, 61.7%, 78.3% and 91.7% disagree for the following role of external auditor statements accordingly

- i. External auditors are appointed with recommendation of AC.
- ii. The AC assesses and reviews the expertise and resources of the external auditors.

- iii. The AC reviews and approves the terms of the Engagement Letter (EL) prepared for the external auditors.
- iv. The AC reviews the management's responsiveness to the external auditors' findings.
- v. The AC meets with the external auditors without the presence of the management to discuss any issues, problems or reservations arising from the audit.
- vi. The AC reviews and monitors the independence and effectiveness of the external auditing process.

Table 4.9. External Auditing

No	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
1	External auditors are appointed and/or removed up on the recommendation of the AC.	51	85	9	15	0	0	1.97
2	The AC assesses and reviews the expertise and resources of the external auditors.	54	90	6	10	0	0	1.87
3	The AC reviews and approves the terms of the Engagement Letter (EL) prepared for the external auditors.	55	91.7	2	3.3 3	3	5	2.00
4	The AC reviews the findings of the annual audit obtained by the external auditors.	13	21.7	0	0	47	78.33	3.63
5	The AC reviews the management's responsiveness to the external auditors' findings.	37	61.7	7	11.7	16	26.67	2.63
6	The AC meets with the external auditors without the presence of the management to discuss any issues, problems or reservations arising from the audit.	47	78.3	13	21.7	0	0	1.98
7	The AC reviews and monitors the independence and effectiveness of the external auditing process.	55	91.7	5	8.3 3	0	0	1.83

Of the external auditors. Overall, the responses reflect the fact that the ACs in public enterprise are still not yet able to perform their role in dealing with external auditing, as suggested by many prior researchers including Wolnizer (1995) and Lambe (2005). The majority interview responders' noted that AC in public enterprise not play a significant role in appointing external auditors or approving the management Engagement letter prepared for external auditors even the corporate code of ethics and directives not incorporate regarding the external audit appointed and approved.

The significant role of ACs in the case of external auditing has been documented by a large amount of the prior research (such as: Rezacc and Farmer, 1994,) However the response indicate that the ACs in public enterprises cannot satisfactory perform their role in this area. The mean value of responses to seven statements on this aspersion are lower mean score.

#### **4.3.7. Role in Internal Auditing**

The statements regarding Ac's role in evaluating the effectiveness of internal audit function on table 4.10. The majority of respondents That means 65%, 71.7%,55%,50%,65% and 65% of respondents disagreed with six statements which relate to respectively the percentage:-

- i. AC's role in the appointment or removal of the head of the internal audit division;
- ii. AC's role in reviewing the charter of the internal auditor; and,
- iii. The AC assesses and reviews the annual internal audit work plan.
- iv. AC's role in reviewing internal auditor's report and findings;
- v. AC's role in enhancing the independence of internal auditors; and,
- vi. AC's role in monitoring the effectiveness of internal auditing.

Table 4. 10 Internal Auditing

No	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
1	The AC recommends and approves the appointment or termination of the heads of the internal audit division.	39	65	4	6.67	17	28.33	2.6
2	The AC approves and reviews the charter of the internal auditors.	43	71.7	1	1.67	16	26.67	2.52
3	The AC assesses and reviews the annual internal audit work plan.	33	55	3	5	26	43.33	2.85
4	The AC reviews the annual internal audit reports, budget and other findings.	19	31.7	4	6.67	37	61.67	3.3
5	The AC reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations.	30	50	2	3.33	28	46.67	2.93
6	The AC meets with the head of the internal audit function without the presence of the management.	13	21.7	0	0	47	78.33	3.58
7	The AC enhances the independence of the internal auditors of the public enterprise.	39	65	3	5	18	30	2.47
8	The AC monitors and evaluates the effectiveness of the internal audit function.	39	65	0	0	21	35	2.58

Similarly, the majority of 61.67% (or 37 out of 60) and 78.33%(47 out of 60) of the respondents was agree that The AC reviews the annual internal audit reports, budget and other findings and AC's meeting with the internal audit team without presence of the top management respectively.

These findings indicate that AC's role in internal auditing is not as significant as expected. One reason for this might be that the AC members have neither the required expertise nor can they give much time to the committee's affairs.

In the case of the statements on ACs role relating to internal auditing the mean score obtained from the response on the respondents the lower mean score. This reflects the view that AC in public enterprises do not play an important role in ensuring effective

internal auditing functions and this result is consistent with Dezoort (1997) who highlighted the role of Ac's in encouraging the internal audit division to work independently and effectively.

#### **4.3.8. Overall AC Practice**

Two general statements were aimed at investigating the overall independence and effectiveness of ACs in public enterprise. The statement that the ACs can work independently was agreed with by the majority of respondents of 58.33% and 36.7% the respondents was disagreeing that Ac can work independently. Regarding the overall effectiveness of the ACs in public enterprise, 60% (or 36 out of 60) of the respondents felt that the ACs is not working effectively. This result indicates that the ACs in public enterprise is somewhat ineffective. 20 (or 12 out of 60) of respondents was neither agreed nor disagreed when responding to the overall effectiveness of the ACs but 20% of the respondents was agree. But that the level of effectiveness is not up to the mark. Davidson and Ebersole (2002) pointed out their independence from management is widely recognized as an important characteristics of an effective AC. The last two statements that aimed to measures the general scenario of the AC's independence and effectiveness obtained different mean values the mean score of the statement regarding AC independence is 3.13 where the statements on the overall effectiveness of the ACs obtained a lower mean value 2.42. The difference in means score in case of these two statements can be interpreted by the fact that two respondents have evaluates the ACs as independent but they still think that AC are not yet able to fulfill their duties effectively.

The interview responses indicate that the overall AC effectiveness is not currently at a satisfactory level. However, the scenario is gradually improving. Furthermore, many of AC chairpersons noted that the issue of AC in public enterprise is still in its early stage. It should be re-stated that the guidelines by MOPE in 2009 Etc. but still the guidelines were not based on international practice.

Table 4. 11 Over all Practices

No.	Statements	frequency						mean
		disagree	percentage in disagree	Neutral	Percentage in neutral	agree	Percentage in agree	
<b>8. Overall Practice</b>								
1	The AC can work independently.	22	36.7	3	5	35	58.33	3.13
2	The AC is effective.	36	60	12	20	12	20	2.47

#### 4.4. Finding

Based on the review conducted on related literature, analysis and interpretation of data made, and then followings are the major findings of the research work:

- Regarding the composition of Audit committee in Public Enterprise' Audit committee members lack sufficient knowledge and experience in accounting and auditing. In addition to the above the member of audit committee is non-executive but they are assigned from government without clear criteria. And also the audit committee members are assigned without consultation of Ac. Chair.
- As a whole, audit committee does not have adequate delegated authority with which to perform their duties.
- This study found that AC diligence in public enterprise is not at a satisfactory level as required for the effective functioning of the ACs.
- In each public enterprise there are three audit committees which are sub-Committee of the board. The Audit committee was assigned by board not with consultation of AC. Chair.
- Meeting was going well but in the board there are different committee the AC chairperson was not cooperates with other committee members before finalizing the agenda of the meetings.
- The AC's considerable role in financial reporting is documented by a great deal of research, including The responses generally indicate that the ACs in public enterprise definitely play some role in the financial reporting of the company, but that there are some areas where the ACs can enhance their involvement in order to enhance the integrity in company's financial reporting.
- Overall, the responses reflect the fact that the ACs in public enterprise are still not yet able to perform their role in dealing with external auditing, as suggested by many prior researchers including

- These findings indicate that AC's role in internal auditing is not as significant as expected. One reason for this might be that the AC members have neither the required expertise nor can they give much time to the committee's affairs.

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

This chapter deals with the summary of the findings, conclusions, and recommendations.

#### **5.1. Introduction**

This chapter presents conclusions to the main issues of the study and recommendations are also provided. The purpose of this study is to assess the role of the audit committee in public Enterprise. In recent times, there has been an increased interest in the Audit committee function in the public enterprise to oversee the internal control system and to maximize the efficiency of the public enterprise.

This project was carried out in the 10 public Enterprises and one Ministry which has regulatory role. The data were collected through the use of questionnaires and the research paper used descriptive survey. Eight open end questions, 10 closed questions and 49 Likert scale research questions were developed to guide the study. All questions were analyzed using percentages and frequency.

#### **5.2. Conclusion**

This project deals with the perceived role of audit committee in public enterprise. Based on the summary of major findings of the study, the following conclusions are drawn.

- In the public enterprise under study, lack of well-designed and documented governance frameworks, interrelated role Audit committee and profiles have been observed even in supervisory agency and Ministry of public enterprise. Several observations can be made from the results presented in this project.
  - Firstly, it reflects the fact that the majority AC composition the audit committee members do not have sufficient knowledge about the

enterprise business they were appointed, accounting and auditing practice and appropriate experience and also the member of audit committee were not appointed with consultation AC Chair.

- Second, audit committees don't have ability of mitigating problems. AC appointed from non-executive directors of the other government body and the majority members of the AC are also executive directors of the enterprise.

These two factors relating to independent directors in the AC were also viewed as the two key factors that affect AC effectiveness in. Secondly, it appears that the AC members do not have adequate authority in order to carry out its responsibilities. Qualification and experience. Thirdly, AC diligence in public enterprise is not at a satisfactory level as required for the effective functioning of the AC because the AC member's responsibility and duties are not supported with clear charter. There is pressure from the oversight role for the AC to get more involved to ensure the integrity of the financial reporting process. The establishment of AC improves the quality and accuracy of financial information, ensuring that the officers responsible for reporting and disclosure are more closely monitored and controlled. The role of an AC in overseeing financial reporting has been studied by a huge number of researchers but most AC member do not support role in financial aspects the public enterprise. The AC is a valuable instrument for initiating direct contact with the independent (external) auditor, participating in the selection of the external auditor, and promoting effective communication between the independent auditor and corporate directors (Rezaee and Farmer, 1994; Beasley et al. 2009). Lennox and Park (2007) claimed that the AC is responsible for hiring the external auditor and overseeing audit quality but AC in public enterprise has insignificant role. The AC can strengthen the entity's internal audit function by ensuring that management has established, and is maintaining, an adequate and effective internal audit structure, AC members largely depend on internal auditors in evaluating the effectiveness of internal control over financial reporting. The study

also identified that Ac has not significant role in public enterprise internal audit like recruitment, protecting the independency of internal auditor reviewing audit report the necessity of frequent meetings between AC members and internal auditors, which supports the view of Braiotta (1990; 1999). The agreement level towards the statements in the questionnaire viewed. The results of shows that there is no significant role regarding in the role of internal auditors.

Audit committee require specific capabilities (i.e., the professional knowledge, professional skills and experience) to carry out their work as competent audit professionals. An audit committee activity need of organizational independence which can allow the audit activity to conduct work without interference by any party for the audit task.

### **5.3. Recommendations**

The main intentions of this project paper are to assess the role of audit committee in public enterprise, and suggest possible recommendations to overcome such problems. Therefore, based on the findings, the following recommendations are suggested to the role of audit committee in public enterprise that should be considered by MOPE.

- ✓ The study recommends that there should be to be effective an audit committee needs to be well prepared set up guide and a clearly written charter helps the audit committee and others to understand its role and responsibility and is an essential staring point.
- As the research proved that, Audit committee members are usually board members, so they will already have qualities relevant to the enterprise audits business. However, for the specific audit committee work additional skills and attributes are required, such as independency from managements, appropriate financial experts or knowledge as questing altitude.
- The Ac clear has specific responsibility in relation to setting agendas and ensuring the effective operation of the audit committee. This done by ensuring

that agenda papers provide and cosine and clear direction to assist members' deliberations, and by managing the members' interaction.

- It is the Ac chair role to ensure that meeting are properly planned and run. This means holding regular meeting and ensuring the timetable and agenda are carefully planned and participates are briefed on their responsibilities.
- The audit committee is appointed by the board of directors ( or supervisory board) to assist the board in discharging its oversight are audit committee will oversee the financial reporting process ensure the balance, transparency and integrity of published financial information.
- Audit committee has an essential role to play in ensuring the integrity and transparency of corporate reporting.
- Every public enterprise should establish audit committees which are made up of experts from different field that are independent from the management (government body) of the public enterprise. The existence of audit committee enhances the independences of the internal audit unit to report on frauds without fear. The current reporting relationship of internal auditors to top management does not make internal auditors to enjoy some level of independence. For the purpose of improving the independence of the internal auditors, they should rather report to audit committee.

## REFERENCE

- Adams, M. (1997). Determinants of Audit Committee Formation in Life Insurance Industry: New Zealand Evidence. *Journal of Business Research*.
- Alleyne, P., Howard, M. and Greenidge, D. (2006). The Role of Audit Committee in Barbados, *Corporate Governance*, 6(5): 567-581.
- American Institute of Certified Public Accountants, (2004), The AICPA Audit.
- Bedard, J., Coulombe, D. and Courteau, L. (2008). Audit Committee, Underpricing of IPOs, and Accuracy of Management Earnings Forecasts, 16(6): 519-535.
- Cadbury Committee (1992). Report of the Committee on Financial Aspects of Corporate Governance, HMSO, London.
- Cameron, W (2004). Role of the Audit Committee in Local Government, viewed 14Nov2010, <<http://download.audit.vic.gov.au>>.
- Cuervo, A. (2002). —Corporate Governance Mechanisms: A Plea for Less Code of Good Corporate Governance and More Market Control, *Corporate Governance: An International Review*, 10 (2), 84-93.
- Curtis C. Verschoor ( 2001). Audit Committee Briefing, IIARF Florida America.
- Deloitte & Touche (2003). Public Sector Audit Committees Resource Guide.
- Demb, A. and Neubauer, F. (1992). The Corporate Board: Confronting the Paradoxes, Oxford University Press: Oxford.
- Geoffrey Wong (2012). An analysis of the role and performance of Audit committees in the Victorian Government Public Sector in providing Assurance and Governance. This thesis is presented for the fulfillment of the requirement of the degree of Doctor of Business Administration .VICTORIAN Law School.
- IFAC Public Sector Committee (2001). Governance in the Public Sector: A Governing Body Perspective Study 13, International Federation of Accountants, USA.
- Klein, A (2002). Audit Committee, Board of Director Characteristics and

Earning Management. *Journal of Accounting and Economics* 33(3), 375-400.

Normanton, E. L. (1966). *The Accountability and Audit of Governments* foreword by Professor W. J. M. Mackenzie, p. vii. Manchester: Manchester University Press.

Marrian, I. (1988). *Audit Committees*, Institute of Chartered Accountants. Edinburgh: Scotland

Mihret A. and Yismaw W, (2007). "Internal audit effectiveness: an Ethiopian public sector case study". *Managerial Auditing Journal* Vol. 22 Iss 5 pp. 470 – 484.

Ministry of Finance and Economic Development (2005). *Internal Audit Training Module*.

Rittenberg, L. E. and Nair, R. D. (1994). *Improving the Effectiveness of Audit Committees*, Institute of Management Accountants: USA.

Sabia, M. J. and Goodfellow, J. L. (2005). *Integrity in the Spotlight* (2nd Ed.) Toronto: The Canadian Institute of Chartered Accountants.

Sharma, V.D. (2004). Board of Director Characteristics, Institutional Ownership and Fraud: Evidence From Australia, *Auditing: A Journal of Practice & Theory*, 23(2), 105-18.

Samuale Mulugeta (2008). *Internal Audit: Reporting Relationship in Ethiopian Public Enterprises For The Partial Fulfillment Of MSC*. In *Accounting and Finance AAU*.

Zelege B (2007). *A Study on Effective Implementation of Internal Audit Function to Promote Good Governance in the Public Sector Ethiopian Civil Service College* Research, Publication and Consultancy Coordination Office.

## **APPENDIX I: QUESTIONNAIRE**

**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE  
MSc PROJECT IN ACCOUNTING AND AUDITING**

### **A LETTER OF INTRODUCTION**

Dear respondent,

The objective of this questionnaire is to gather firsthand information that will help in Audit Committee Functions and its Impact in selected public Enterprise located in Addis Ababa. This Project is undertaken as a partial requirement for the completion of MSc degree in Accounting and Auditing.

All data and information that will be gathered through this questionnaire will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge.

Thank you in advance for your time and kind cooperation!

#### **Researchers address:**

Fekadu Agonafer

Mobile: 0911143330

Email: [enaseble@yahoo.com](mailto:enaseble@yahoo.com)

Addis Ababa/Ethiopia

## I. General information

The following questions concern about your personal information. Completion of this information is voluntary and its confidentiality is assured.

Indicate your answer by circling on the option provided below.

1. Your sex,                      A/ Male    B/ Female
2. Your marital status,    A/ married    B/ single    C/ other \_\_\_\_\_
3. Your age,                      A/ under 30    B/ 30-45    C/ 45-60
4. Qualifications,            A/ diploma    B/ BA degree    C/ MA/ MSC degree    D/  
PhD
5. Profession of your education,    A/ Accounting    B/ Business management    C/  
Economics    D/ Statistics    E/ others \_\_\_\_\_
6. Experience as internal auditors,    A/ 1-3 years    B/ b/n 3-5 years  
C/ b/n 5-10 years    D/ b/n 10-20 years    E/ above  
20years
7. How many Number of Audit committees in your enterprise? -----
8. Who appointed audit committee members and the chairperson? -----  
-----

**Part II: Responses about Audit Committee role in the public enterprise**

**Instructions:** The following set of statements deal with your perception towards some issues that relate to audit committees (ACS) in your enterprise Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4=Agree, and 5=Strongly Agree.

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>A. Composition</b>					
1. The AC members have sufficient knowledge on the entity’s business.					
2. The AC members have sufficient knowledge on Accounting and/or Auditing practices.					
3. The AC members have sufficient experience in Accounting and/or Auditing.					
4. The AC members are capable of refereeing problems in performing their duties.					
5. The majority of AC members are independent /non-executive directors.					
6. The chairperson of the AC is an independent/non-executive director					
7. The size of the AC is appropriate for carrying out its duties properly.					

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>B, Authority and Resources</b>					
8. The AC has adequate authority in order to carry out its responsibilities.					
9. The AC has ready access to relevant information if required.					
10. The AC receives prompt responses from the management in carrying out its duties.					
11. The AC is provided with sufficient resources including secretarial support to carry out its duties.					
12. The non-executive AC members are adequately paid for their time and efforts.					
<b>C. Diligence</b>					
13. The AC has a charter which outlines its objectives, duties and responsibilities.					
14. The AC charter is reviewed annually.					
15. The AC members have a clear understanding of their responsibilities.					
16. Members of the AC readily assume their responsibilities.					
17. The AC members devote sufficient time to the committee's affairs.					
<b>D. Meeting</b>					
18. The agendas of the AC meetings are finalized by the chairperson.					
19. The chairperson cooperates with other committee members before finalizing the agenda of the meetings.					
20. The agenda and related materials are provided to members fairly ahead of the meetings.					
21. All members can express their views freely and independently in the meetings.					
22. The frequency of the AC meetings is sufficient to carry out its responsibilities.					
23. The duration of the AC meetings is sufficient for a full discussion of important issues.					
24. Non-members attend the AC meetings if required.					
25. The minutes of the AC meetings are circulated to all members of the Board of Directors (BODs).					

<b>E. Role in Financial Reporting</b>					
26. The AC reviews the integrity of enterprises' financial statements.					
27. The AC reviews accounting policies and any changes made therein.					
28. The AC reviews accounting estimates and judgments done in preparing financial statements.					
29. The AC reviews the compliance of the Accounting Standards (e.g IAS, ) in preparing financial statements					

<b>Statements</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
30. The AC reviews the clarity and completeness of disclosures in financial statements.					
31. The AC reviews other information (e.g the auditors' report, financial highlights etc.) presented in the annual report.					
<b>F. Role in External Auditing</b>					
32. External auditors are appointed and/or removed up on the recommendation of the AC.					
33. The AC assesses and reviews the expertise and resources of the external auditors.					
34. The AC reviews and approves the terms of the Engagement Letter (EL) prepared for the external auditors.					
35. The AC monitors the external audit firm's compliance with the existing ethical and regulatory requirements.					
36. The AC reviews the findings of the annual audit obtained by the external auditors.					
37. The AC reviews the management's responsiveness to the external auditors' findings.					
38. The AC meets with the external auditors without the presence of the management to discuss any issues, problems or reservations arising from the audit.					
39. The AC reviews and monitors the independence and effectiveness of the external auditing process.					

<b>G. Role in Internal Auditing</b>					
40. The AC recommends and approves the appointment or termination of the heads of the internal audit division.					
41. The AC approves and reviews the charter of the internal auditors.					
42. The AC assesses and reviews the annual internal audit work plan.					
43. The AC reviews the annual internal audit reports, budget and other findings.					
44. The AC reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations.					
45. The AC meets with the head of the internal audit function without the presence of the management.					
46. The AC enhances the independence of the internal auditors of the company.					
47. The AC monitors and evaluates the effectiveness of the internal audit function.					
<b>H. Overall Practice</b>					
48. The AC can work independently.					
49. The AC is effective.					

**Annex 2**

**INTERVIEW QUESTIONS**

1. What is your role in the audit committee?-----

-----  
-----  
-----

2. Is the audit committee member composition relevant? If not what is your committee?

-----  
-----  
-----  
-----

3. According to your perception what are the factors that affect the existing practice of audit committees (ACs) in the public enterprise?

-----  
-----  
-----  
-----

4. How AC effectiveness can be enhanced in public enterprise?

-----  
-----  
-----  
-----