STAKEHOLDERS PERSPECTIVES ON THE EFFECTIVENESS OF LOCAL GOVERNMENT AUTHORITIES AUDIT COMMITTEES

Cosmas Renatus Masanja[4]

Abstract

The study examined effectiveness of Tanzanian Local Government Authorities' (LGAs') audit committees in overseeing financial reporting using Dar es Salaam based on LGAs' audit committees as the case. The study was cross-sectional and descriptive. Data were collected through questionnaire and in-depth interviews from audit committees' key stakeholders, audit committee members inclusive. Both quantitative and qualitative data were analysed descriptively. Overall, findings revealed that Dar es Salaam based LGAs' audit committees were less effective than anticipated. The committees under consideration were characterised by limited independence, financial literacy, diligence and inadequate performance of activities considered necessary for effective oversight of financial reporting. The study findings suggest that there should be deliberate efforts to improve effectiveness of these committees. Such efforts should focus at enhancing independence, financial literacy and diligence for each member and the committee as a whole.

Keywords: Tanzania, Audit committees, audit committee effectiveness, financial reporting oversight

Introduction

Financial statements are amongst important bases of performance appraised across corporate and public sector entities (Anderson, Mansi & Reeb, 2004; DeZoort, Hermanson, Archambeault & Reed; 2002). In due regard, stakeholders' need for reliable financial statements becomes indispensable (Anderson *et. al.*, 2004). More specifically, shareholders and non-shareholding stakeholders must receive information that reflects a true and fair view of the entity's transactions in all material respects because short of this will be to their detriment (Hundal, 2013; Park, 1998). Scholars commented that regardless of the sector of operation, each legal entity needs to establish independent mechanisms to oversee financial reporting processes (He, Piot & Thornton, 2009; DeZoort *et. al.*, 2002). One of the suggested mechanisms is an audit committee (AC). This suggestion is mainly founded on Agency Theory (Jensen & Meckling 1976) and widely advocated by extant literature (Malai, 2015; PWC, 2011; Yamamoto, 1999).

According to literature (for example, PWC, 2011; DeZoort *et. al.*, 2002), AC is formed amongst non-executive members of the governing body and its primary objective is to enhance financial reporting quality. More explicitly, the primary responsibility of AC is to oversee and give pieces of technical advice to management on matters pertaining to financial reporting and related activities so as to enhance financial reporting quality (PWC, 2011; Magrane & Malthus, 2010). Financial reporting related activities include external and internal auditing, internal control, risk management and compliance on behalf of the governing body (PWC, 2011).

4 University of Dar es Salaam Business School, Tanzania
Email: csanjas@yahoo.co.uk OR masanja@udbs.udsm.ac.tz

Moreover, AC potential benefits include quality financial statements along with high performance experienced by the reporting entity, to enable stakeholders to make informed decisions and to protect all relevant stakeholders (He, Piot & Thornton, 2009; Pucheta-Martinez & Fuentes, 2007). Such benefits are empirically supported by various researchers, for instance, Sarpal (2017) and Malai (2015). In due regard,such benefits have driven almost all entities in both private and public sector to adopt audit committees (Dodo, 2017; Yamamoto, 1999).

In Tanzania, all public sector entities including local government authorities (LGAs) use audit committees as a vital mechanism for overseeing financial management. It is now more than a decade since Tanzania LGAs adopted audit committees, whose primary objective, responsibilities and operational procedures are similar to those operating in the private sector (URT, 2009). Consistent with Regulation Number 30 of the Tanzania Public Finance Act (PFA) of 2001 as amended, Order number 12 of the Local Authority Financial Memorandum (LAFM) Number 9 of 2009 requires every LGA to establish an AC (URT, 2009; URT, 2001a; 2001b). The AC referred to has mandate of overseeing and providing technical advice to LGAs' top management on financial management matters. Such matters include financial reporting and related activities of internal control, auditing, risk management and compliance (URT, 2009).

However, performance of Tanzania LGAs in terms of financial management and hence, reporting has not been impressive. This is supported by a series of the Controller and Auditor General (CAG) annual reports (URT, 2017; 2016; 2015). The reports indicate that fraudulent financial reporting acts such as inflated purchases, payments for non-existing suppliers and ghost workers are repetitive amidst audit committees' mandatory oversight as well as advisory roles. This raises a question on effectiveness of such committees. Until this study set in to find out, none of the prior studies had answer(s) for such questionable situation. In due regard, it was inevitable to investigate whether or not they had capabilities to work effectively because in so doing, it not only bridges the knowledge gap thereto but also it lays down the foundation for informed intervention.

Various scholars, practitioners and regulators recommend pre-requisites critical for an audit committee's effectiveness (ACE) in overseeing management, that is, financial reporting and related activities. Such pre-requisites include AC characteristics (Bolton, 2014; Hundal, 2013; Rahmat, Iskandar & Saleh 2009; Blue Ribbon Committee- BCR, 1999) and execution processes (PWC, 2011; Turley & Zaman, 2007). Based on pre-requisites. AC characteristics include independence, expertise and experience in accounting as well as finance together with financial literacy in general, an appropriate size (at least 3 but not more than 5 members), authority, resource and diligence (Hundal, 2013; BRC, 1999). For instance, Bolton (2014) reports that there is a significant inverse relationship between AC independence and management fraudulent acts, that is, the higher the AC independence, the lower the fraudulent acts. Rahmat and colleagues (2009) assert and confirm, empirically, that financially distressed companies have audit committees with poor qualitative characteristics as opposed to non-distressed companies. On the other hand, execution processes based on pre-requisites of ACE require observation or performance of all activities considered necessary for effective oversight of financial reporting (Turley & Zaman, 2007). Such activities include reviews of: integrity of interim and annual financial statements, accounting policies, management estimates and judgments, compliance with accounting standards, adequacy together with clarity of disclosures and internal controls (PWC, 2011; Turely & Zaman, 2007). Beasley, Carcello, Hermanson and Neal (2009) support this empirically.

Though prior studies reviewed remarkable contributions in terms of identification of characteristics and execution processes based on pre-requisites for effective oversight of financial reporting, they suffer from several short falls. Most of them examine ACE by testing the cause-effect relationship and not the extent to which they have effectiveness pre-requisites. The view from this study is that because the cause-effect relationship between ACE pre-requisites and ACE is extensively confirmed in literature, it becomes more value adding to examine ACE by establishing the extent to which ACE pre-requisites prevail in a particular AC than to continue testing the less certain relationship. Also, most previous studies focused on characteristics based on pre-requisites but neglecting execution process based on pre-requisites thereby suggesting that knowledge about the latter is limited. Furthermore, majority of previous studies' methodological approach was either purely quantitative or purely qualitative as opposed to the mixed methods, which are recommended to have robust results (Neuman, 2005). This implies that previous studies' results are not sufficient and hence, knowledge gap about the phenomenon still exists. Moreover, most studies reviewed address corporate sector, neglecting the public sector particularly of developing economies including Tanzania. Thus, this suggests that a contextual theoretical and empirical knowledge gap prevails.

Unlike former studies, this study used the extent of possession of AC characteristics and performance of processes deemed necessary for effective oversight financial reporting as the criteria to examine ACE. It employed mixed as opposed to mono methods and focused on the public sector of the developing economy, Tanzania, in particular. The current study sought to address the question whether or not Tanzania LGAs' audit committees are effective in overseeing financial reporting. Moreover, Dar es Salaam-based LGAs' audit committees altogether formed the case and sources of data. The next sections of the paper present literature review through theoretical underpinnings and empirical review, methodology, analysis and interpretation of findings followed by discussion of findings. The paper ends up by presenting conclusions and implications.

Literature Review

Theoretical Underpinning Review

Literature review indicates that agency (Jensen & Meckling, 1976), stakeholder (Freeman, 1984) and institutional (Scott, 1997; Powell, 1991) theories offer plausible explanation regarding ACE (He *et. al*., 2009; Anderson *et. al*., 2004). Agency Theory as complimented by Stakeholder Theory underlies essence of AC characteristics with more emphasis on independence (DeZoort *et. al.,* 2002). It is argued that daily management of the entity's transactions enables managers to have much more information than shareholders and this gives them an opportunity to bias information to flow in favour of their interests at the detriment of shareholders (Jensen & Meckling, 1976). This situation raises a need for instituting an independent mechanism to bridge information asymmetry and to align interests between managers and shareholders (Arnold & De Lange, 2004). Among such mechanisms there is the AC, whose independent monitoring of management is presumed to provide reasonable assurance of credibility of financial information reported by management to final users (Malai, 2015 He *et. al*., 2009; BRC, 1999). Generally, Agency Theory based reasoning views AC as an effective independent mechanism that can effectively monitor and offer technical advice to management on matters pertaining to financial reporting.

Regarding Institution Theory (Scott, 1997; Powell, 1991), two conflicting views emerge. Some supporters of Institution Theory argue that AC adds value to the reporting entity and that is why there is institutionalization of guidelines for AC composition in terms of characteristics and operations (Beasley *et. al*., 2009). However, some argue that AC exists not necessarily to serve as an effective independent monitor and advisor to management (Dodo, 2017; Scott, 1997). It may exist to serve as a ceremonial symbol of compliance with existing laws or organizational structure (Dodo, 2017). In general, this argument implies that the AC does not add value to the reporting entity.

Notwithstanding the above conflicting views, demand for establishing an independent AC is critical as far as its primary objective is concerned (URT, 2009; DeZoort *et. al*., 2002; Yamamoto, 1999). In due regard, it can be argued that an independent AC bears high potential for enhancing integrity of financial management, which, in turn, enhances credibility of financial statements' information. Consequently, it is logical in arguing that AC is largely anchored on the Agency Theory's framework of thinking.

Empirical Review

Previous studies generally, report that audit committees have significant impact on fostering financial management integrity, especially financial reporting quality (Berkman & Zuta, 2017; Sarpal, 2017; Malai, 2015; Rich & Zhang, 2014; Rahmat *et. al*., 2009). Using logit regression and data from the largest listed companies at Tel Aviv Stock Exchange, Berkman and Zuta (2017) report that audit committees with reasonable financial literacy and at least one member with financial expertise have positive significant impact on financial reporting quality. They (*ibid*.) explain that financial literacy alongside at least one experienced financial expert makes audit committees to have meaningful monitoring and technical advice to management regarding financial reporting and related matters. Such observation is consistent with results from a study by Rich and Zhang (2014) as well as Hundal's (2013) regression-based studies in United States of America (USA) municipalities and India corporations, respectively. Yet, Ogoro and Simiyu (2015) reported negative significant relationship between financial expertise and ACE in the regression-based study of 177 state owned corporations in Kenya.

Sarpal (2017) used regression to analyse influence of AC independence, size and diligence on performance of listed companies in India and found positive significant influence. Sarpal (2017) posits that independence enables AC to exercise unbiased proactive monitoring, AC size of three to five members brings in relevant expertise as well as experience diversity and diligence enables close and serious oversight. This observation is also supported by Malai (2015) as well as Song and Windram (2004), whose studies confirm that AC independence and size have positive significant impact on financial quality. Similarly, Chien, Mayer and Senneti's (2010) study in USA large public hospitals found that hospitals, whose audit committees had appropriate size, independence and diligence experienced less financial reporting problems. These altogether deter management from fraudulent acts (*ibid*.). In contrast, Berkman and Zuta (2017) found that AC independence had no impact, whereas AC size had negative impact on financial reporting quality. These results were in line with those of Soliman and Ragab (2014).

KPMG-ACI (2014) survey found that audit committees with sufficient authority and resources needed to execute their monitoring advisory roles associated with effective financial oversight. This observation is in line with Malik (2014) as well as Rahmat colleagues' (2009) findings. It is explained that authority, which is defined as a clear definition of power and responsibilities has to be understood by both AC members and all other AC stakeholders (KPMG–ACI, 2014). This, in turn, enhances the committee's independence, access to resources as well as honest interaction with its key stakeholders and thus, it leads into effective oversight of financial reporting process together with related activities (Malik, 2014; Rahmat *et. al*., 2009).

Although reviewed studies reveal mixed results, taking them as a whole suggests that positive results overweigh negative results. In due regard, it is logical to support the argument that independence; expertise and experience in finance/accounting and financial literacy to all members; three to five members; sufficient authority; resources; and diligence enhance ACE. However, financial management oversight is a process supposed to be executed systematically. With this fact in mind, to examine ACE by using AC characteristics only may not be sufficient.

Dodo (2017) explored about downfall of corporation and the role of audit committees using Lehman Brothers as the case study. Dodo found that the AC had all required characteristics yet, it did not execute its financial oversight duties as good as supposed to execute without. Specifically, reviews of financial controls, risk management systems and financial statements, in general, were not done by the AC in ways it was supposed to do (Dodo, 2017). PWC (2011) as well as Beasley and colleagues (2009) argue and subsequently, confirm empirically that possession of right AC characteristics is a necessary but not sufficient condition for financial reporting monitoring efficacy. Moreover, the AC can be composed of independent members with all relevant expertise and experience; right size; sufficient authority; resource; and diligence but still they may not work effectively (Beasley *et. al*., 2009). Generally, studies just cited recommend that audit committees have to observe and/or perform to completion minimum possible procedures necessary for effective monitoring of financial reporting alongside right characteristics. Execution procedures or activities to be observed include reviews of integrity of all (interim or annual) financial statements before approval for public consumption (PWC, 2011; Beasley *et. al*., 2009). Furthermore, audit committees have to review existing accounting policies plus any policy changes and corresponding impacts, assess reasonableness of management's accounting estimates, judgments and evaluations made during preparations of financial statements (Dodo, 2017; PWC, 2011). Moreover, they have to review whether or not management's compliance with relevant or applicable accounting standards, assess implementation of controls underlying preparation of financial statements and evaluate adequacy as well as clarity of financial statements disclosures (PWC, 2011, Beasley *et. al.,* 2009). In due regard, it is much more meaningful to examine effectiveness of audit committees in overseeing financial reporting using both AC characteristics and execution processes.

Despite the fact that prior studies have remarkable contribution, most of them examined ACE by testing AC characteristics and ACE causal-effect relationship as opposed to extent to which AC excels in terms of those characteristics. Positive causal-effect relationship between AC characteristics and ACE has been reported widely. This suggests that it is much more value adding to examine ACE by establishing the extent to which the AC under examination possesses characteristics deemed necessary for effective oversight instead of examining ACE by testing the more or less obvious cause-effect relationship. Also, most prior studies examined ACE based on AC characteristics but neglected execution processes. It implies that knowledge on role of execution processes on enhancing ACE is scarce. Therefore, including AC execution processes when examining ACE becomes critical. Furthermore, most of the said studies examined ACE using mono method instead of mixed methods, which is widely recommended for robust results particularly in organizational studies (Neuman, 2005). Predominant use of mono over mixed methods implies that knowledge on ACE is still insufficient and thus, there was need for further research using mixed methods. Moreover, most previous studied were conducted in developed economies' contexts as opposed to developing countries and focused on corporate as opposed to the public sector. It means that ACE knowledge in relation to public sector is limited, more so in developing economies' context. Therefore, conducting a study that focuses on developing economies' public sector contributes in reducing such knowledge limitation among others.

Methodology

The research design was cross-sectional and descriptive. The study was conducted from September, 2017 to February, 2018. Cross-sectional design fits the current study because it aims at finding out prevalence of a particular situation, attributes or actions by taking a cross-section of the population at a particular time and space (Neuman, 2005). The choice of descriptive design was informed by the fact that it provides reliable answers in an attempt to explain how a particular situation is all about (Burrell & Morgan, 1979).

Population of the study consisted of Tanzania LGAs' audit committees. Purposive sampling of six Dar es Salaam based LGAs' audit committees was done. They included Dar City Council as well as Ilala, Kigamboni, Kinondoni, Temeke and Ubungo Municipals' audit committees. Purposive sampling of these LGAs was guided by at least two reasons. First, it is reported that Dar es Salaam based LGAs account for the largest number as well as size of long-term and recurrent development projects amongst all LGAs in Tanzania (URT 2017; 2016). This suggests that their corresponding revenues and expenditures' transactions are the largest as well. Such a high materiality level suggests further that findings from examination of their audit committees' effectiveness in overseeing financial management may mirror effectiveness status of the rest of the countrys' LGAs audit committees. The second reason for purposive sampling of Dar es Salaam based LGAs' audit committees was convenience on the side of the researcher in terms of proximity, information access, time and finance.

The study's unit of analysis was LGAs' audit committees. However, the unit of inquiry was LGAs audit committees' stakeholders. Generally, LGAs audit committees' stakeholders are many including AC members, employees, councilors and citizens living in the respective LGA. Yet, not all of them interact closely with audit committees in the due course of discharging their oversight and advisory duties. The law governing composition and operations of Tanzania LGAs' audit committees (URT, 2009) indicates that audit committees work closely with executive directors, treasurers, senior accountants as well as chief or senior internal and external auditors. Based on this, it was logical to choose the fore mentioned stakeholders, AC members inclusive, to be the study's unit of inquiry. This is reported by DeZoort, and colleagues (2002) who posit that AC members, internal auditors, external auditors, directors and top management are the most informed individuals about overall operations and capabilities of audit committees.

A sampling frame of 75 audit committee stakeholders with regard to Dar es Salaam based LGAs' was established. Of these 75 stakeholders, 30 were AC members, 6 audit committees' secretaries who were also heads of the LGAs' legal units, 6 directors, 12 heads as well as deputy heads of internal audit units, 9 external auditors, 6 treasurers and 6 heads of final accounts units. Dar es Salaam based LGAs' executive directors' offices and their respective human resources including legal unit offices' official information enabled determination of the sampling. The approach of generating sampling frame in a situation whereby the sampling frame does not exist is common in research (Loane & Bell, 2006).

The sample size of the study was 63 stakeholders and this was established using Krejcie and Morgan's (1970) tabulation. Purposive and convenient sampling procedures were used to select 63 respondents. The choice for such sampling procedures was based on the generic fact that voluntary participation is as well as central in survey research (Saunders, Lewis & Thornhill, 2007).

A pre-tested 5 points Likert scale questionnaire consisting of close-ended questions that included 1 = strongly disagree, 2 = disagree, 3 = agree, and 5 = strongly agree was used to collect survey data. Variables involved and their corresponding measures were established through review of relevant theoretical and empirical literature (e.g., Malai, 2015; PWC, 2011; Dezoort *et. al*., 2002). Data obtained through scaled items were subjected to the Chronbach's alpha (α) test of reliability and the score was 0.82 well above the minimum requirement of 0.7 (Saunders *et. al*., 2007; Neuman, 2005). Validity was ensured via identifying all variables and corresponding measures through review of relevant theoretical and empirical literature.

In survey, to obtain 100 percent response rate as well as zero missing values is difficult. Non-responses and missing values are common issues and their potential effects include reducing sample size and data quality in general. This, in turn, affects validity of findings and conclusions drawn there from. To manage such potentially adverse effects, the researcher decided to administer the questionnaire in person. The researcher read the question items as well as responses options and then asked the respondent to indicate his/her response option. Once the respondent indicated his/her response, the researcher marked it accordingly. As a result, a hundred percent responses and data points from 63 were achieved.

In addition to survey, in-depth face-to-face interviews were conducted as a follow up to validate findings obtained from analysis of survey data as well as to identify contextual issues that could not be captured through survey questionnaire (Hinkin, 1998). Interviews were conducted in February, 2018 and involved key informants who were selected purposively amongst those who participated in the survey phase. On average, each interview took 30 to 45 minutes and it was up to the 8th interview when the point of saturation seemed to prevail. Survey data were analysed quantitatively using frequencies, mean and standard deviation descriptive statistics powered by SPSS version 22. Interview data were arranged, sorted and entered in a matrix according to thematic areas. Then they were subjected to content analysis.

Analysis and Interpretation of Findings

The analysis of both survey and interview data was done descriptively. Survey data were analysed first, whereby frequencies were used to describe respondents' selected profile. Thereafter, frequencies, mean and standard deviations were used to summarise stakeholders' perceptions of audit committee's effectiveness in overseeing financial reporting. In-depth interviews' content analysis was done after quantitative analysis.

Presentation and interpretation of findings are submitted in the following order: Respondents' selected profile started followed by stakeholders' perceptions of audit committee's effectiveness in overseeing financial reporting. Lastly, presentation of in-depth interview results as the follow up on survey findings.

Selected Respondents' Profile

Table 1: Selected Respondents' Profile

Background/Profile	Items	Frequencies	Percent
Education Level	Secondary School (Form four/Six)	1	1.6
	Diploma/Advanced diploma	6	9.5
	Bachelor degree	37	58.7
	Postgraduate (PGD/Masters/PhD)	19	30.2
	Total (N; %)	**63**	**100.0**
Education major/specialization	Accounting	37	58.7
	Finance	8	12.7
	Marketing	2	3.2
	Management	2	3.2
	Economics	3	4.8
	Other/non-business	11	17.4
	Total (N; %)	**63**	**100.0**
Accountancy & Finance Professional qualification (e.g., CPAT, ACCA, CIMA, CFA, CISA)	Yes	20	31.7
	No	43	68.3
	Total (N; %)	**63**	**100.0**
Working experience (accounting, auditing, finance and related areas)	Yes- Less than a year	4	6.3
	Yes- 1-3 years	16	25.4
	Yes- 4 years and above	25	39.7
	No	18	28.6
	Total (N; %)	**63**	**100.0**
Working experience with audit committees as a member or key stakeholder	Less than a year	6	9.5
	1-3 years	33	52.4
	4 years and above	24	38.1
	Total (N; %)	**63**	**100.0**

Source: Field Data (2017/18).

Table 1 indicates that of all 63 respondents, graduates were 88.9 percent. More specifically, first degree holders were 58.7 percent and the remaining (30.2%) were post graduates holding either postgraduate diploma or master degree or doctorate degree (*ibid.*). Only 11.1 percent of the respondents have education level below first degree.

Likewise, of all 63 respondents, 71.4 percent had education major or specializations in accounting and finance disciplines (Table 1). Furthermore, 82.6 percent majored in business and related disciplines including economics and management, only 17.4 percent majored in non-business disciplines (Table 1). Moreover, about 31.7 percent respondents had accounting, finance or related professional qualifications such as CPAT, ACCA, CIMA and CFA; CISA. Furthermore, Table 1 indicates that all 63 respondents had working experience with audit committees either as members or key stakeholders. Of all 63 respondents, 90.5 percent had working experience with audit committees for more than a year and the remaining (19.5%) had experience of less than one year (Table 1). Moreover, 71.4 percent had practical working experience in accounting, finance, auditing and related disciplines (Table 1). From the respondents' selected profiles, at least three implications emerge. First, all respondents were able to understand the research instrument's media of communication, which was English language. Second, almost all respondents were deeply informed about audit committees' operations and capabilities. Third, almost all respondents were able to comprehend account, finance and auditing terminologies used in both the questionnaire and validation interviews. Based on these implications, reliability of their responses was most likely.

Stakeholders' Perceptions of Audit Committees' Effectiveness

The study objective was to examine perceptions of stakeholders on effectiveness of Tanzania LGAs' audit committees in overseeing financial reporting. This was done by asking participants to give their opinions about audit committees' possession of AC characteristics and performance of processes relevant for effective oversight. Participants indicated their opinions on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Compute variable statistical technique was used to sum up individual question items' scores into their respective variables and constructs. Thereafter, frequencies, mean and standard deviation descriptive statistics were computed. A mean of ≤ 3 was considered negative perception of the variable or construct, while that of >3 was considered as positive perception. Also, standard deviation of < 2 suggested low variations of perceptions amongst participants. Frequencies related to strongly disagree and disagree were collectively considered as disagree percentage, whereas those for strongly agree and agree were altogether considered agree percentage. Neutral percentages were considered as they were. Table 2 presents results obtained from analysis of stakeholders' perceptions starting with results of the overall construct in bold italics followed by results for each dimension of the construct or variable.

Results in Table 2 reveal that stakeholders' overall perception over audit committees' possession of characteristics necessary for effective oversight of financial reporting was generally positive (M = 3.16) and perception variations among respondents were generally low (SD = 0.308). Among dimensions of AC characteristics, independence characteristic was perceived negatively (M = 2.03, SD = 0.482) by more than 65 percent of all respondents (Table 2). The rest of dimensions were perceived positively (Table 2). Expertise and experience in accounting and finance (M = 3.55, SD = 0.464), and authority (M = 3.55, SD = 0.623) are AC characteristics that received the highest scores with more than 55 percent and 49 percent, respectively (Table 2).

Diligence (M = 3.32, SD = 0.552) characteristic ranked second followed by resource (M = 3.29, SD = 0.623) and size (M = 3.06, SD = 0.337), respectively (Table 2). However, note that all positive perceptions, that is, overall and individuals are just above the midpoint of 3.00 (Neutral) whereby none of them reached the mean of at least four (agree). Moreover, findings revealed further that overall, the highest scores (38.1%) of the sampled stakeholders were neutral with regard to audit committees' possession of right characteristics, whereas 36.5 percent agreed and 25.4 percent disagreed (Table 2).

On the side of execution processes, Table 2 results indicate that stakeholders' overall perception was negative (M = 2.87, SD = 0.825). Only 38 percent perceived positively that audit committees of investigated LGAs performed processes necessary for effective oversight of financial reporting (Table 2). The highest percent (41.3%) of all 63 respondents disagreed and the remaining (20.7%) were neutral (Table 22). Evaluation of adequacy and clarity of financial statement disclosures were the most negatively perceived (M = 2.37, SD = 1.222) dimension of execution processes, more than 55 percent indicated negative perception (Table 2). Other execution processes perceived negatively included review of material accounting estimates and judgements (M = 2.61, SD = 1.150) and review of accounting policies appropriateness, changes and impacts (M = 2.68, SD = 1.162), respectively (Table 2). On the other hand, review of interim and annual financial statements' integrity before approval was the most positively perceived (M = 3.33, SD = 1.032) dimension of execution processes whereby more than 60 percent of respondents agreed (Table 2). Reviews of implementation of controls underlying preparations of financial statements (M = 3.16, SD = 1. 172) and compliance with applicable accounting standard (M = 3.10, SD = 1.082) raked second and third, respectively, in terms of positive perception scores (Table 2). Nevertheless, all of the positive perceptions were just above the midpoint of 3.00 [(neutral) Table 2].

Table 2: Stakeholders' Perceptions of Effectiveness of LGAs' Audit Committees in Overseeing Financial Reporting: Frequencies, Percentages, Mean and Standard Deviations

Construct/Variable	Frequency	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree 4	Strongly Agree (5)	Total N; %	Mean (M)	Std. Dev (SD)
Possession of right AC characteristics	***Frequency***	***6***	***10***	***24***	***19***	***4***	***63***	***3.16***	***.308***
	Percent	***9.5***	***15.9***	***38.1***	***30.2***	***6.3***	***100***		
Independence	Frequency	8	34	11	9	1	63		
	Percent	12.7	53.9	17.5	14.3	1.6	100	2.03	.482
Expertise & experience in accounting and finance and financial literacy in general	Frequency	9	3	16	33	2	63		
	Percent	14.3	4.8	25.4	52.4	3.1	100	3.55	.464
AC size appropriateness	Frequency	1	5	48	8	1	63		
	Percent	1.6	7.9	76.2	12.7	1.6	100	3.06	.337
Authority sufficiency	Frequency	11	5	16	24	7	63		
	Percent	17.5	8	25.4	38.1	11	100	3.55	.623
Resources (information and finance) sufficiency	Frequency	6	12	21	22	2	63		
	Percent	9.5	19.1	33.3	34.9	3.2	100	3.29	.803
Diligence	Frequency	4	6	37	15	1	63		
	Percent	6.3	9.5	58.7	23.7	1.5	100	3.32	.552
Execution Processes relevant for effective financial reporting oversight	***Frequency***	***10***	***16***	***16***	***15***	***6***	***63***	***2.87***	***.825***
	Percent	***15.9***	***25.4***	***25.4***	***23.8***	***9.5***	***100***		
Review of interim and annual financial statements integrity before approval	Frequency	3	11	11	34	4	63	3.33	1.032
	Percent	4.8	17.5	17.5	54.0	6.3	100		
Review of all accounting policies appropriateness, changes and corresponding impacts	Frequency	10	20	18	10	5	63	2.68	1.162
	Percent	15.9	31.7	28.6	15.9	7.9	100		
Review of appropriateness of material accounting estimates and judgements made by management	Frequency	11	21	14	4	13	63	2.61	1.150
	Percent	17.5	33.3	22.2	6.4	20.6	100		
Review of compliance with applicable accounting standards (e. g. IPSAS or IFRS)	Frequency	5	14	18	22	4	100	3.10	1.082
	Percent	7.9	22.2	28.7	34.9	6.3	63		
Evaluation of adequacy and clarity of financial statements disclosures	Frequency	19	16	20	3	5	63	2.37	1.222
	Percent	30.2	25.4	31.7	4.8	7.9	100		
Review of implementation of internal controls affecting preparation of financial statements	Frequency	7	14	16	18	8	63	3.16	1.172
	Percent	11.1	22.2	25.4	28.6	12.7	100		
Total (N, Mean)							**63**	**3.015**	n/a

Source: Field Data (2017/2018).

In-depth Interviews

As indicated before on in the methodology section, in-depth interviews were conducted with a view to validate results obtained from analysis of quantitative data as well as to capture context specific issues, which the quantitative approach would hardly capture. Key informants were selected based on information richness and willingness to participate. Eight informants participated, two external auditors, one treasurer, two heads of final accounts sections and three audit committee members. Of the three audit committee members, two were financial experts and one was the chairperson. Semi-structured interview questions focusing on possession of ACE pre-requisites were asked. On one hand, interviewees were asked about extent to which their LGAs' audit committees had characteristics deemed necessary for effective oversight of financial reporting. On the other hand, they were asked questions about extent to which their LGAs' audit committees performed processes or activities regarded necessary for effective oversight of financial reporting. After coding and categorizing the in-depth interviews' transcriptions, two themes, namely, inadequate AC characteristic and inadequate financial reporting oversight processes were identified.

Regarding inadequate AC characteristics theme, informants revealed that except for size and resource characteristics, the rest of the characteristics were inadequate. Independence characteristic was the most inadequate followed by financial literacy and diligence, respectively. For independence, informants asserted that all of the AC members were appointees of the LGAs' directors (auditees) and most of the members including the chairpersons were employees of LGAs. According to informants, such situation leaves room for the director to appoint individuals who may act in her/his interests. On the side of financial literacy, informants attested that apart from one financial expert as per law, the rest of AC members were not financial literate and training seminars for AC members was hardly conducted after appointment. For instance, one of the informants said that ''the chairperson of their LGA's audit committee was the head of agriculture department, two more members were from social work and education departments, respectively. At the same time, "I have never seen them going for training. Now how can these people do audit committee job successful?'' Generally, informants posited that most of their LGAs' audit committee members had no finance and accounting literacy. Moreover, informants disclosed that *ad hoc* meetings were repetitive and meeting dockets were not served well in advance. According to informants, it was a common aspect to serve meetings' dockets to AC members and invitees just one day before the meeting date. For example, one informant asserted that ''On one afternoon I received a WhatsApp text message informing me of the committee meeting to be held on the next day at 10:00 AM and that one officer was on his way to deliver the meeting docket.'' Informants opined that both *ad hoc* meetings plus late serving of the meetings' dockets denied them enough time to prepare for the meetings and that affected their contributions during meetings.

As for inadequate financial reporting oversight processes theme, informants asserted that audit committees were not devoting efforts and time to oversee the whole process of preparing financial statements as good as expected. One informant said that, ''As the head of final accounts section for years, I have never received any technical inputs from the audit committee with regard to preparation of financial statements.'' In addition, informants asserted that investigated LGAs' audit committees used to review audited financial statements along with internal or external auditor's reports but unaudited financial statements. Moreover, informants revealed that audit committees did not hold meetings, whose agenda focused on review or assessment of appropriateness of accounting policies or estimates and judgements made by management.

In totality, quantitative findings from this study indicate that Dar es Salaam based LGAs' audit committees were generally perceived positively by stakeholders. However, such overall perception was just above the midpoint of 3.00 (3.015). On the other hand, qualitative findings indicated that Dar es Salaam based LGAs' audit committees were generally poor in terms of characteristics and processes considered critical for effective oversight of financial reporting.

Discussion of Findings

Recall, the study objective was to examine effectiveness of Tanzania LGAs' audit committees in overseeing financial reporting process with Dar es Salaam based LGAs' audit committees being the case. Quantitative findings revealed that Dar es Salaam based LGAs' audit committees had relatively low level of characteristics deemed necessary for effective oversight of financial reporting given the fact that overall scores were just above the mid/neutral point (3.00). The overall perception was positive but low (M=3.16) with the independent characteristic being lacking (M = 2.03). Besides, neither of the remaining individual characteristics had positive scores up to 4.00 or above because the highest of all were finance/accounting expertise and experience (M = 3.55) and authority (M =3.55). Positive perception but just above the neutral point (3.00) creates doubt and one is unlikely to comment that such audit committees had capabilities to perform their financial oversight role effectively. On the side of qualitative findings, it was revealed that except for size and resource characteristics, the rest of the AC characteristics were inadequate with independence being the most critical followed by financial literacy.

Considering these findings relative to prior studies' (e.g., Sarpal, 2017; Malai, 2015; Rich & Zhang, 2014) findings, it is evident that Dar es Salaam based LGAs' audit committees are less effective in overseeing financial reporting. Generally, Malai (2015) as well as Rich and Zhang (2014) found that audit committees with adequate independence, financial/accounting expertise and experience of financial matters by all members including literacy and diligence are effective. Critical lack of independence as revealed by both quantitative and qualitative findings can be explained by the fact that the law governing composition of LGAs' audit committees gives power to the top management to appoint audit committee members. But also, the same law dictates that the chairperson should not be an outsider. Low financial literacy to members, except for one financial expert, can be explained by lack of training along with biased appointment. Once the appointing authority appoints at least one financial expert as per law, then the rest of members are likely to be appointed in any ways.

For execution processes, quantitative results showed that Dar es Salaam based LGAs' audit committees were generally not performing activities deemed necessary for effective oversight of financial reporting. The overall stakeholders' perception was negative (M = 2.87). Findings revealed that audit committees were not reviewing accounting policies, estimates and judgements made by management, and evaluation of adequacy as well as clarity of financial statements disclosures. Surprisingly, it was observed that review of interim and annual financial reports, implementation of internal controls affecting preparation of financial statements and compliance with applicable accounting standards were, to some extent, done. However, since this positive observation was just above the neutral point of 3.00, then one cannot be sure that audit committees were doing such reviews as satisfactory as supposed to be. In addition, qualitative findings showed that Dar es Salaam based LGAs' audit committees were not devoting efforts and time on matters pertaining to financial reporting oversight process. The committees provided no any technical inputs with regard to this role and instead, they used to put much more emphasis on reviewing audited financial statements. It should be noted that efforts devoted to audited financial statements does not amount to overseeing financial reporting process. Looking at these findings in connection to prior studies (for example, Dodo, 2017; PWC 2011; Beasley *et. al*., 2009), there is enough evidence that Dar es Salaam based Audit committees were less effective than expected. Prior studies just referred found that audit committees, which do not perform all activities considered relevant for effective oversight of financial reporting were less effective.

In the researcher's view, inadequate performance of activities necessary for effective oversight of financial reporting process can largely be explained by lack of financial and accounting expertise as well as literacy in general as revealed by the study findings, on one hand. On the other hand, it can be explained by lack of orientations on specific activities, which the audit committees have to do with regard to financial reporting oversight. To sum up, biased appointment modality seems to be a major root cause of relatively ineffective functioning of Dar es Salaam based LGAs' audit committees. Once appointment of a particular AC is not done objectively, lack of independence, relevant expertise and experience as well as diligence is likely to prevail. Another implied cause of ineffectiveness includes inadequate orientations about the scope of activities necessary for effective oversight of financial reporting. Last but not the least, limited or lack of training on financial literacy to AC members who are not experts in finance/accounting is amongst the implied causes for Dar es Salaam based LGAs' audit committees to be less effective.

Conclusions and Implications

As indicated by reviewed literature, research on ACE in the public sector context, especially of developing economies is limited and thus, knowledge limitation on the phenomenon prevails. The current study attempted to reduce such knowledge gap by examining effectiveness of Tanzania LGAs' audit committees in overseeing financial reporting. The study used Dar es Salaam based LGAs as the case and results suggested that Dar es Salaam based LGAs' audit committees were less effective. In more specific terms, the study found that Dar es Salaam based LGAs' audit committees were less independent with low financial literacy and diligence. Also, results revealed that the committees were not performing activities regarded necessary for effective oversight of financial reporting and according to what they were supposed to. Pursuant to these findings, it is, therefore, logical to conclude that Tanzanian Dar es Salaam based LGAs' audit committees were found to be more compliant with their roles. This is consistent with the Institution Theory-based argument that audit committee may exist to serve as a compliance symbol and not as a value adding oversight mechanism.

The study's overall findings have worth noting academic and policy implications in relation to effectiveness of audit committees in overseeing financial reporting. Academically, examining ACE by establishing the extent to which AC has right characteristics and performs activities regarded as necessary for effective oversight of a particular responsibility is a meaningful methodological alternative to testing the cause-effect relationship. Positive and significant relationship between AC characteristics processes and ACE is extensively confirmed in empirical literature. This suggests that the alternative approach adds more value as opposed to the latter, which is likely to end up into more or less obvious results.

In terms of policy, the current study findings imply that LGA's top management should not be the audit committees' appointing authority; AC chairperson should not be an insider and financial literacy to all members should be enforced as it is the case with the requirement of at least one member to the financial expert. This implication is based on the logic that management as the agent can hardly be willing to appoint independent and capable members of AC. Therefore, it follows that further amendments should be made to the legislation(s) governing audit committees' appointment, composition and operations in general. To end up, it is important for readers to note that the current study was cross-sectional and limited to Tanzanian Dar es Salaam based LGAs' audit committees. Therefore, notwithstanding its contributions, caution should be given to generalization of its findings across all times and to other settings. It is possible that future research in the same or different contextual settings may produce different results.

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