



# Enhancing effective public sector governance

Effectiveness of audit committees  
in South African municipalities



Audrey H Legodi & Philna Coetzee

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in South African municipalities**



Published by AOSIS Books, an imprint of AOSIS.


**AOSIS Publishing**

15 Oxford Street, Durbanville, 7550, Cape Town, South Africa  
Postnet Suite 110, Private Bag X19, Durbanville, 7551, Cape Town, South Africa  
Tel: +27 21 975 2602  
Website: <https://www.aosis.co.za>

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Published in 2025  
Impression: 1

ISBN: 978-1-77995-338-4 (paperback)  
ISBN: 978-1-991271-19-8 (casebound)  
ISBN: 978-1-77995-339-1 (epub)  
ISBN: 978-1-77995-340-7 (pdf) 

DOI: <https://doi.org/10.4102/aosis.2025.BK479>

How to cite this work: Legodi, AH & Coetzee, P 2025, *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town.

Printed and bound in South Africa.

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The publisher (AOSIS) endorses the South African 'National Scholarly Book Publishers Forum Best Practice for Peer-Review of Scholarly Books'. The book proposal form was evaluated by our Social Sciences, Humanities, Education and Business Management editorial board. The manuscript underwent an evaluation to compare the level of originality with other published works and was subjected to rigorous two-step peer-review before publication by two technical expert reviewers who did not include the authors and were independent of the authors with the identities of the reviewers not revealed to the authors. The reviewers were independent of the publisher and authors. The publisher shared feedback on the similarity report and the reviewers' inputs with the manuscript's authors to improve the manuscript. Where the reviewers recommended revision and improvements, the authors responded adequately to such recommendations. The reviewers commented positively on the scholarly merits of the manuscript and recommended that the book be published.

## Research justification

The aim of this study was to enhance the effectiveness of governance in the public sector, focusing on the function of audit committees. The study contributed theoretically, contextually, methodologically and practically in this regard. The resource-based view of the firm theory has been neglected in the literature of audit committees. Its application in this study has extended and complemented the literature. The middle-ranged theories such as neo-institutional theory, practice theory, social representation theory, expectancy theory of motivation and social judgement theory were used to define and explain key concepts, which is an expansion to the audit committee context.

At the outset of the study, the utilisation of interactive qualitative analysis (IQA) to acquire data from participants in order to comprehend the phenomenon was groundbreaking for audit committee research. The perspectives of stakeholders regarding the factors that impact the audit committee's ability to function optimally in South African municipalities were obtained utilising the IQA methodology. Interactive qualitative analysis identified unexplored factors that South African municipalities and audit committees should consider for an optimised advisory role. This methodological contribution resulted in the construction of a literature framework to substantiate the focus of the study through the identified themes, as opposed to the conventional reliance on themes identified in the extant literature.

Various parties can benefit from the framework such as South African municipalities and their audit committees; the municipality and its stakeholders such as the public, council, Municipal Public Accounts Committee (MPAC), management, internal auditors and external auditors will understand the role of audit committees and support them using the actions proposed in the framework. Guidelines for municipal audit committees on how to perform their role effectively and ethically are provided. Regulators such as the National Treasury, provincial treasuries, Cooperative Governance and Traditional Affairs (CoGTA) and South African Local Government Association (SALGA) are provided with actions that they can implement to support the function of audit committees. Professional bodies and best practices guidance bodies may expand their standards and code of ethics, to guide members who serve on audit committees. Training organisations such as the National School of Government can use the study to identify training needs and improve their training materials.

This book represents a reworked version of more than 50% of Audrey H Legodi's, thesis 'Enhancing audit committee effectiveness in South African municipalities', submitted in fulfilment of the requirements for the degree Doctor of Philosophy in the subject Accounting Sciences in the Department of Financial Governance, College of Accounting Sciences, University of South Africa, Pretoria, South Africa, 2021 with Prof. Lourens Erasmus as supervisor and Prof. Georgina Phillipina 'Philna' Coetzee as co-supervisor, <https://uir.unisa.ac.za/handle/10500/27549>.

The authors confirm that no part of the work has been plagiarised.

The authors declare that the book represents a scholarly discourse. The target audience of the book is scholars in auditing and accounting sciences.

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# Epigraph

Do nothing from selfish ambition or conceit, but in humility count others more significant than yourselves. Let each of you look not only to his own interests, but also to the interests of others.

Philippians 2:3-4



# Acknowledgements

I express my sincere gratitude to God, my Creator, for bestowing upon my parents who provided an exceptional upbringing that fostered my strong faith in Him. I am thankful and appreciative to Him for endowing me with His remarkable capabilities.

The work is also dedicated to my family, my husband Ray Legodi and my daughters Thato and Neo. They are always willing to give me time to work. I am grateful for their support.

Professors Polly Mashigo and Philna Coetzee, my erstwhile employers at Tshwane University of Technology, are also acknowledged and thanked for their assistance with this endeavour.

Professor Philna, you are an incredible mentor. Thank you very much for devoting your time and effort to imparting knowledge to me. It is not in vain. Your presence in my life is divinely provided.

Yours truly, Professor Lourens Erasmus, my doctoral supervisor, I want to thank you for instructing and guiding my research. You exerted a great deal of effort.

The individuals who took part in the focus groups and interviews have my sincere gratitude. The study has been a triumph because of your insightful contributions.

Thank you to all those who have contributed to this undertaking, although it is not possible to acknowledge each one individually.

Much love  
Audrey

# Dedication

This book is dedicated to my late parents, my father Wynand Dingane Skosana and my mother Saletta Maboge Skosana. They were passionate educators who were responsible for ensuring that I received an education. Their diligence and commitment in all that they did served as a model for me to emulate. They not only embodied excellence but also demonstrated it in their actions; they walked the talk.



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# Abbreviations and acronyms, figures and tables appearing in the text and notes

## List of abbreviations and acronyms

ABSA	Amalgamated Banks of South Africa
AC	audit committee
AFS	annual financial statements
AG	auditor-general
AGSA	Auditor-General South Africa
AI	artificial intelligence
ANAO	Australian National Audit Office
AUC	African Union Commission
CA(SA)	chartered accountant (South Africa)
CAE	chief audit executive
CEO	chief executive officer
CFO	chief financial officer
CIA	certified internal auditor
CIBA	Chartered Institute for Business Accountants
CIO	chief information officer
CoE	Centre for Excellence
CoGTA	Cooperative Governance and Traditional Affairs
COO	chief operating officer
CPD	continuous professional development
CSR	corporate, social and environmental responsibility
DART	detailed affinity relationship table
ESG	environmental, social and corporate governance
EXCO	Executive Committee
FRC	Financial Reporting Council
GEAR	Growth, Employment and Redistribution
GFOA	Government Finance Officers Association
GRAP	generally recognised accounting practice
HR	human resources

ICT	information and communications technology
IDP	Integrated Development Plan
IIA	Institute of Internal Auditors
IIASA	Institute for Internal Auditors in South Africa
IoDSA	Institute of Directors in South Africa
IQA	interactive qualitative analysis
IRD	interrelationship diagram
IT	information technology
King I	<i>King Report on Corporate Governance for South Africa 1994</i>
King II	<i>King Report on Corporate Governance for South Africa 2002</i>
King III	<i>King Report on Corporate Governance for South Africa 2009</i>
King IV	<i>King Report on Corporate Governance for South Africa 2016</i>
MEC	Member of the Executive Council
MFMA	<i>Municipal Finance Management Act</i>
MPAC	Municipal Public Accounts Committee
NRF	National Research Foundation
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PSACF	Public Sector Audit Committee Forum
QDAS	qualitative data analysis software
RACSA	Research on Audit Committees South Africa
RDP	Reconstruction and Development Programme
RGA	registered government auditor
RSA	Republic of South Africa
SAG	South African Government
SAICA	South African Institute of Chartered Accountants
SAIGA	Southern African Institute of Government Auditors
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SEC	United States Securities and Exchange Commission
SETA	Sector Education and Training Authority
SID	system influence diagram
SOX	<i>Sarbanes-Oxley Act</i>

ToR	terms of reference
UK	United Kingdom
Unisa	University of South Africa
USA	United States of America
VRIN	valuable, rare, inimitable and non-substitutable
VRIO	value, rareness, imitability and organisation

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# Biographical notes

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Audrey Hlabisang Legodi serves as the Chair of the Department of Auditing at the University of South Africa (Unisa). She is a PhD holder in Accounting Sciences and a registered government auditor (RGA). She holds an award of RGA Professional of the Year for her contribution to the discipline. Her professional background spans more than two decades and includes management, lecturing, research, external and internal auditing, and finance. In some of these roles, she has held leadership and governance responsibilities. Legodi served as a council member and a chairperson of the Audit and Risk Committee in various higher education institutions. Her research interests are in public sector governance, focusing on audit committees, external audits, internal audits, performance audits and anti-corruption. She conducts research projects for the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E). Legodi has received awards for several of her research undertakings.

Legodi is a co-opted EXCO member for the Southern African Institute of Government Auditors (SAIGA). She also holds the position of an independent Education Committee member at the Chartered Institute for Business Accountants (CIBA).

Legodi contributes to a number of community development initiatives. Driven by her strong conviction that everyone is entitled to a dignified life, she strives ceaselessly to empower and better the circumstances of those she can reach.

## **Philna Coetzee**

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Philna Coetzee has been lecturing both undergraduate and graduate external and internal audit programmes. She has developed numerous programmes at various universities in these fields, including the flagship MPhil in Internal Auditing at the University of Pretoria, financially supported by Amalgamated Banks of South Africa (ABSA), and in collaboration with

Erasmus University in the Netherlands and the Gordon Institute of Business Science, University of Pretoria. She is a National Research Foundation (NRF)-rated researcher, with risk management and internal auditing as her mainstream topics. She has supervised Master's (MA) and PhD students to completion and has published over 50 academic research papers. Coetzee was the founder of two inter-university research groups, leading to many successes such as members obtaining NRF status and staff obtaining their MA or PhD degree. Most of her research is pragmatic, resulting in either the private or the public sector providing support for the research, with reports serving at various professional body platforms and the South African Parliament. During Coetzee's career, she has won numerous prizes for teaching and learning as well as research. Apart from her academic work, she has consulted with both private and public sector organisations on aspects of internal auditing and risk management. She held various managerial positions in her 34 years in academia, such as leading the Centre of Internal Audit Excellence at the University of Pretoria and the Deputy Executive Dean at Unisa. Currently, she is consulting the Dean of the Faculty of Economic and Finance at the Tshwane University of Technology on research activities.

# Foreword

**Lourens Erasmus**

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In South Africa, given its history of governance difficulties and the imperative to restore trust in public institutions, the role of public sector audit committees is especially vital. They play a key role in ensuring responsible management of public resources and advancing good governance practices. While challenges persist in municipal governance, ongoing endeavours are being made to tackle them and enhance the situation. However, sustained commitment from political leaders, strengthened institutional capabilities, and increased transparency and accountability are essential for driving meaningful reforms and enhancing service delivery at the grassroots level.

Effective audit committees strengthen accountability by overseeing financial reporting, internal controls and adherence to legal standards. They strengthen transparency by scrutinising financial statements and audit results. They reinforce governance by offering independent supervision of financial reporting, risk management and internal controls. They pinpoint areas for improvement and cultivate trust and confidence to ultimately contribute to economic stability.

The research in this book contributes to the municipal governance literature. It explored the perceptions of audit committee members and audit committee stakeholders to determine the factors that impact the effectiveness of municipal audit committees in South Africa. The factors or root challenges formed concepts to inform audit committee effectiveness frameworks for audit committees, municipalities and oversight institutions, respectively. Each of the identified concepts was theoretically and empirically validated to add to the robustness of the findings and lend credibility to the frameworks.

**How to cite:** Erasmus, L 2025, 'Foreword', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, p. xxvii.  
<https://doi.org/10.4102/aosis.2025.BK479.Of>



# Preface

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This book is an extension of my doctoral work as a member of the project Research on Audit Committees South Africa (RACSA), a project that was created with the aim of optimising the role of the audit committee in all spheres of the government of South Africa. I was very fortunate to be a student of dedicated supervisors who were committed to guiding me and making sure I completed my studies. The journey was rough sometimes, a roller coaster of emotions, but eventually, it came to an end with joy and laughter.

The purpose of this book is to bring awareness to key stakeholders of the municipalities on the role of audit committees in municipalities and how it can be enhanced by both the municipalities and audit committee members and regulators.

The individuals who took part in the focus groups and interviews are thanked, sincerely. Your insightful feedback has been duly acknowledged in the study and has generated frameworks that, if implemented, will elevate the function of audit committees in municipalities.

By implementing the recommendations outlined in the frameworks, the difficulties associated with recruiting capable audit committees to impoverished municipalities, particularly those situated in rural areas, will be effectively resolved. Furthermore, the study offers explicit instructions on how to effectively assemble a proficient audit committee. The study offers pragmatic solutions to the obstacles that audit committees encounter as a result of political interference.

We are fully persuaded that the incorporation of frameworks into municipal governance will significantly enhance its overall quality.

**How to cite:** Legodi, AH 2025, 'Preface', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, p. xxix. <https://doi.org/10.4102/aosis.2025.BK479.00>



# Glossary

<b>Terminologies</b>	<b>Definitions</b>	<b>Sources</b>
<b>Affinities</b>	Factors derived from the words of the focus group participants. The words describe the experience of the participants with the phenomenon.	Northcutt and McCoy (2004, pp. 44 & 314)
<b>Assurance</b>	A statement intended to increase the level of stakeholders' confidence about an organisation's governance, risk management and control processes over an issue, condition, subject matter or activity under review when compared to established criteria	IIA (2024, p. 10)
<b>Audit committee in South African municipalities</b>	An independent advisory committee appointed by the council for the municipality	RSA (2003, s. 166)
<b>Chief audit executive (CAE)</b>	The leadership role is responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards. The specific job title and/or responsibilities may vary across organisations	IIA (2024, p. 10)
<b>Conflict of interest</b>	A situation, activity or relationship that may influence, or appear to influence, an internal auditor's ability to make objective professional judgements or perform responsibilities objectively	IIA (2024, p. 10)
<b>Constituencies</b>	Parties who have something to say about the phenomenon and can do something about the phenomenon	Northcutt and McCoy (2004, p. 72)
<b>Corporate governance</b>	Effective and ethical leadership that promotes ethical culture, legitimacy, effective control and good performance	IoDSA (2016, p. 11)



<b>Terminologies</b>	<b>Definitions</b>	<b>Sources</b>
<b>Governance</b>	The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organisation toward the achievement of its objectives	IIA (2017, p. 23)
<b>Integrated Development Plan (IDP)</b>	A document that reflects the integrated development and management plan of the municipality	RSA (2008, S. 1)
<b>Internal audit charter</b>	A formal document that defines the internal audit activity’s purpose, authority and responsibility	IIA (2017, p. 21)
<b>Risk</b>	Uncertainty of events and the likelihood of those events happening can negatively impact the achievement of objectives	IoDSA (2016, p. 16); IIA (2017, p. 24)
<b>Risk management</b>	A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives	IIA (2024, p. 13)
<b>Stakeholders</b>	Individuals or groups of people who are significantly affected by the organisation’s activities and outcomes	IoDSA (2016, p. 17)

# Contextualisation and research design

## ■ Introduction

Internal and external stakeholders who have a vested interest in the organisation require a level of assurance that the internal parties employed by the organisation are affecting appropriate decisions to the organisation's advantage. With an audit committee being one of the pillars of a sound governance structure of an organisation – both in the private sector and the public sector (Appiah & Amon 2017; Cohen, Krishnamoorthy & Wright 2017; Ellwood & Carcia-Lacalle 2016; Mnif & Borgi 2017) – it can assist in reducing organisations' challenges and providing some level of assurance to external stakeholders (Thomas, Aryusmar & Indriaty 2020). However, for an audit committee to deliver on this promise, it needs to be effective.

In a South African context, effective audit committees may provide independent oversight (Institute of Directors in South Africa [IoDSA] 2016) and, for the municipal environment, advice (Republic of South Africa [RSA] 2003, s. 166[2]) that will benefit the organisation and external parties. Audit committees in South African municipalities are established by the public sector legislation in Section 166 of the *Municipal Finance Management Act 56 of 2003* (hereafter referred to as MFMA) as a governance tool to advise the municipal council and management (RSA 2003, s. 166[1]).

**How to cite:** Legodi, AH & Coetzee, P 2025, 'Contextualisation and research design', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 1-24. <https://doi.org/10.4102/aosis.2025.BK479.01>

Numerous studies on effective audit committees have been conducted, with most being relational and based on the positivism paradigm. However, failures by organisations that retain audit committees still raise concerns about the effectiveness of their role, leading to the question of whether relational studies will provide an answer to this problem. Bédard and Gendron (2010) argue that the true study of audit committee effectiveness lies with the interpretivism paradigm. Consequently, this inductive exploratory study investigates how the effectiveness of audit committees can be enhanced – leading to frameworks that may assist audit committees, municipal management and other parties, such as the South African National Treasury, as overseers of audit committees in South Africa.

## ■ South African municipal decay

In support of this study, it is important to understand what the status of municipalities within a South African context is. Studies by, inter alia, Ramutsheli and Janse van Rensburg (2015), Mnguni and Subban (2022), and other views expressed by De Waal (2012) and the Auditor-General South Africa (AGSA) (2019, 2023) provide some clarity on the concerns within South African municipalities, which are mainly because of maladministration and operational failures of municipalities owing to (1) non-compliance with laws and regulations; (2) deficient internal controls; (3) poor management; (4) unethical organisational culture; (5) deficits in supply chain management, triggering unauthorised, fruitless and wasteful expenditure; (6) inadequate contract management; (7) deficiencies in human resources (HR); (8) high staff turnover at senior management levels; (9) irregular or inappropriate appointments; (10) incompetent municipality workers; (11) vacant positions; and (12) shortage of skills amongst other things.

Another challenge faced by municipalities, especially municipalities in rural areas, is insolvency. The municipalities in rural areas provide free basic services to most of their households and rely mainly on government grants to fund their operations (National Treasury 2020). Annual price escalation by suppliers of bulk services such as electricity and water exacerbates the problem. Overall, municipal debt totalled R211 billion in 2016 (Department of Statistics South Africa [StatsSA] 2017), with a debt ratio of 29%, which means that for every rand used by the municipality, 29c was in the form of debt. For rural municipalities, during 2015–2016 and 2017–2018, the rural district municipalities derived 80% of their revenue from government transfers, in contrast to metropolitan

municipalities' 19%, as metropolitan municipalities possess a willing tax base from which they can generate their own revenue, with resources such as rates, levies and taxes (National Treasury 2020). Thus, poor municipalities' insufficient revenue and high dependency on grants result in interruptions to infrastructure development and economic and social development. The debt renders the municipalities unsustainable and unable to pay their suppliers and provide services, such as the purchase of electricity from Eskom and providing it to the citizens in the local community. With the municipal debt to Eskom totalling approximately R450 billion during 2020 (Omarjee 2020), an Eskom debt recovery plan – comprising load reduction tariff and hiking tariff – has resulted in numerous legal actions by civil rights movements protecting the citizens (Omarjee 2020; Omarjee & Raborife 2017).

Further to the poor service delivery by municipalities, the courts have been approached by communities who want the municipal council to be dissolved and for their municipalities to be administered by the provincial government (National Treasury 2020; Twani & Soyapi 2023). An example of this kind of legal action is the dissolution of the Makana local municipal council by the court, directing that the municipality be placed under administration (Smit 2020). Section 139 of the Constitution allows the provincial government to intervene and take over the administration of dysfunctional municipalities (RSA 1996, s. 139). This action may result in improved accountability by council and municipal employees to local communities.

The trend of municipalities placed under administration is continuing. During 2009–2014, 29 municipalities were placed under administration, and 24 municipalities during 2018–2020, because of financial mismanagement, dysfunctional councils and collapsing infrastructure (eNCA 2014; Evans 2018), with eight of the 24 municipalities in the North West province placed under administration (Manyane & Sidimba 2024). Further, it seems poor service delivery is the highest cause for concern amongst the people of the country, with 58% of community protests between 2012 and July 2016 reported to be related to dissatisfaction with municipal service delivery (Chigwata, O'Donovan & Powell 2016), the highest of all grievances. The outcome of these failures of poor or lack of service delivery to the residents has led to violent protests by citizens against the leadership of the municipalities. The communities protest to communicate their frustrations, not only to the leaders of municipalities but also to the entire country, through media coverage. Almost 2,000 major protests regarding poor municipal service delivery have occurred from 2004 to 2019. Gauteng province has experienced the highest number

of protests, followed by KwaZulu-Natal (Municipal IQ 2020). It could have been easily assumed at the advent of democracy that, with the implementation of the new Constitution, previously disadvantaged citizens would be happy and satisfied. However, the opposite seems to be manifesting. The protests demonstrate that citizens are unhappy with the service delivery by their municipalities.

It is evident that the municipal councils and management require assistance to keep their local communities satisfied within the parameters of service delivery and legislative mandate. The National Treasury introduced a new municipal systems improvement grant that will help poor-performing municipalities to improve the billing system in collecting revenue, performance management and record-keeping (National Treasury 2016). Therefore, effective audit committees are expected to assist the municipal council and management by providing the necessary, suitable advice that will result in improved service delivery and a reduced number of or zero protests. The audit committees are key governance structures that can contribute to assisting municipalities with utilising their resources effectively and satisfying their customers, namely, local communities.

## ■ Contextualising South African municipal audit committees

South Africa is a country that is governed by the *Constitution of the Republic of South Africa Act 108 of 1996*. Three spheres of government are established by Section 40 of the Constitution, namely, national, provincial and local government, with the latter intending to serve the citizens and promote equal rights, human dignity and non-racialism (RSA 1996, ss. 1[a]-[b], ss. 3[2][a]-[b], s. 40[1]). South Africa has 257 municipalities consisting of eight metropolitan municipalities, 44 district municipalities and 205 local municipalities (Governance Performance Index 2024; Yes Media 2019). Not much has changed since 2019, apart from the corruption in local government and the coronavirus disease 2019 (COVID-19) effect on municipal income (DPME 2021). Yet, municipalities must still provide the following to its citizens: (1) the basic needs of all communities and to develop previously disadvantaged communities (RSA 1996, s. 151); (2) develop and implement socio-economic goals that will meet the needs of the local communities (Binza 2005); (3) provide electricity, water, transport and sanitation (National Treasury 2016); and (4) citizens must benefit from government services (RSA 1996, ss. 9-10).

To assist municipalities with adherence to these roles, the government has formulated different strategies and legislation to develop the local

communities governed by municipalities. These include, inter alia, the *White Paper on the Reconstruction and Development Programme* (RDP), focusing on creating new infrastructure and rehabilitating neglected infrastructure to improve the provision of municipal services and the collection of municipal revenue, in a sustainable manner (RSA 1994). A second document, driving the importance of investing in infrastructure to improve service delivery, was again emphasised in a policy document titled *Growth, Employment and Redistribution* (GEAR) (Department of Finance 1996). Third, local government-specific legislation and policy documents, such as the *Municipal Systems Act 32 of 2000*, promote the socio-economic growth of local communities and the *White Paper on Municipal Service Partnerships* in 2004 (RSA 2000, 2004).

While solutions have been developed to address poverty and inequality in the constitutional democracy of South Africa, intergenerational poverty and inequality remain entwined throughout the fabric of South Africa (Polus, Kosiński & Tycholiz 2021). The municipalities servicing cities, urban areas and towns control areas exhibiting large retail and industrial developments, resulting in sufficient revenue generation to enable them to serve their communities (RSA 1998b). However, townships and former homelands are predominantly populated by impoverished residents who are unable to contribute adequate municipal revenue, resulting in feeble tax bases (Zulu & Mubangizi 2014). Further, the effect of state capturing resulted in fraud and corruption in the government, more specifically in local government (AGSA 2017; Corruption Watch 2016; Ethics Institute of South Africa 2015; Motubatse 2016), and during COVID-19 (DPME 2021), even the cities, urban areas and towns were struggling to collect revenue, affecting the income of municipalities.

Funding from the government fiscus increased from R104.9 billion in 2016–2017 to R592.7 billion expenditure budget in 2023–2024 (National Treasury 2023). Owing to the significance of the revenue share amount amidst national budget constraints, it is essential that municipalities practise proper financial management, act with integrity and are accountable. The key role players must ensure that there are proper internal controls, risk management, governance, legislation and service delivery, in addition to ensuring that the relevant legislation, regulations, policies and procedures are implemented effectively when administering the budget (RSA 2003). To secure assurance on these matters, provision is made for an internal audit function and an independent government auditor who acts as an external auditor for all public sector organisations, the AGSA – both overseen by the audit committee.

## ■ Audit committees: Private sector versus public sector

The existence of the audit committee concept can be traced back as far back as the 1940s when the United States Security and Exchange Commission endorsed the audit committee to verify the independence of auditors for the listed United States organisations (Fichtner 2009). The audit committee was later incorporated into the best practices of corporate governance by different countries - both in the private and the public sectors, with corporate governance being the ethical and effective leadership by a governing body promoting ethical culture, good performance, effective control and legitimacy in the organisation (IoDSA 2016).

Audit committees fulfil a crucial governance role in the South African public sector. Yet, organisations continue to collapse, and audit committees are often blamed for not understanding the basic and complex issues of the financial and internal controls they were tasked to oversee (Moeller 2008, p. 93). Similarly, within the South African local government sphere, the effectiveness of the audit committee in poor-performing municipalities is uncertain, requiring further comprehensive assessments (Chaka 2013) and inspiring this study that is reported in the research book.

As audit committees originated in the private sector, it was important to understand whether there is a difference between private sector and public sector audit committees, specifically within local government, and if so, what are the differences. In doing so, three documents were compared on the matter (refer to Table 1.1):

- The third *King Report on Corporate Governance* (IoDSA 2009) - the reason being that the King Reports are best practices in both private and public sectors in South Africa and are seen by many international scholars as one of the best codes in the world (Atkins et al. 2015). The third King Report, or King III, was used as it has a comprehensive discussion on audit committees.
- The *Companies Act 71 of 2008* (RSA 2008) - the legislation driving corporate governance in the private sector.
- The *MFMA 56 of 2003* (RSA 2003) - the legislation driving corporate governance in municipalities.

Using King III as the basis, of the 47 items, 32% of the items identified were addressed in the *Companies Act*, and 36% of the items identified were addressed in the MFMA. Hence, this indicates that King III is much more comprehensive in the guidance it provides to audit committees in ensuring that it is effective - making it a well-documented guidance to audit committees in being effective. Further, the municipal legislation is

**TABLE 1.1:** Comparison of audit committees' legislation and guidance.

<b>King III</b>	<b>Companies Act</b>	<b>MFMA</b>
Establish	√	√
ToR approved by board	X Duties listed	X Duties listed
Minimum of two meetings	X	√ Min four times
Meets with internal auditing annually	X	√
Meets with external auditing annually	X	√
Independence and capacity of members	√	√
Members keep up to date	X	X
Minimum three members	√ Independent non-executive	√
Chair is not chair of board	X	√ Not employed by municipality
May consult specialists/consultants subject to board-approved process	X	X
Board fills vacancies/details if not	√	X
Board elects chair/details if not	X	√
Chair involved in setting/agreeing agenda	X	X
Chair present at AGM	X	X
Regards all factors and risks that may impact integrity of integrated report	X	X
Reviews and comments on AFS	√	√
Reviews disclosure of sustainability issues in integrated report	X	X
Recommends to board to engage external assurance provider on material sustainability issues	X	X
Considers need to issue interim results	X	X
Reviews content of summarised information	X	X
Engages external auditors to provide assurance on summarised financial information	X	X
Ensures that combined assurance received is appropriate to face all significant risk	X	X
Monitors relationship between external assurance providers and company	X	X
Performs annual review of finance function	√ Accounting practices	√ Various activities
Results of finance function review are disclosed in integrated report	X	X
Responsible for appointment/dismissal of CAE	X	X
Responsible for performance assessment of CAE	X	X
Approves internal audit plan	X	√
Ensures that internal audit function is subject to independent quality review	X	X
Risk management role described in charter	X	√

Table 1.1 continues on the next page→



**TABLE 1.1 (cont.):** Comparison of audit committees' legislation and guidance.

<b>King III</b>	<b>Companies Act</b>	<b>MFMA</b>
Oversight of financial reporting risk	X	√ Advice
Oversight of internal financial controls	√	√ Advice
Oversight of fraud risk related to financial reporting	X	√ Advice
Oversight of IT risk related to financial reporting	X	√ Advice
Nominates external auditor for appointment	√	X Government auditor
Approves terms and fees of engagement and remuneration of external auditor	√	X Government auditor
Monitors and reports on independence of external auditor	√	X Government auditor
Defines policy and approves non-audit services by external auditor	√	X
Informed of reportable irregularities identified and reported on by external auditor	X	X
Reviews quality and effectiveness of external audit process	√	X
Reports to board on its statutory and assigned duties	X	X
Reports to shareholders how statutory duties were carried out	√	X
Reports to shareholders on its satisfaction with independence of external auditors	X	X
Reports to shareholders on their view on AFS and accounting practices	√	√ Council
Reports to shareholders whether internal financial controls are effective	√	X
Provided summary of role and details on composition, number of meetings and activities in integrated report	X	X
Recommends integrated report for approval to the board	X	X

Source: Adapted from Erasmus, LJ, Coetzee, P, Du Preez, A & Msiza, CD 2021, Annexure A, online.

Key: AGM, annual general meeting; AFS, annual financial statements; MFMA, *Municipal Finance Management Act*; ToR, terms of reference; CAE, chief audit executive.

more comprehensive than the private sector. Although audit committees were first implemented in the private sector, South African municipalities have followed suit and are well legislated to drive effective audit committees. It also suggests that studies conducted in the private sector may well be relevant or provide additional guidance to audit committees within the public sector.

## ■ Effective audit committee

An effective audit committee is an important structure, developed to probe good governance and accountability by organisations (Dodo 2017). Their initial role of reviewing the fairness and quality of financial reporting and accounting practices (Turley & Zaman 2007) has expanded because of the complexity of organisations and their environment, and the failure and collapse of organisations (Bruynseels & Cardinaels 2013). Amongst many responsibilities, their role now includes a comprehensive understanding of the organisation's risks and monitoring of those risks, in addition to the oversight of internal and external audit functions and effective governance (Dodo 2017). They monitor and provide some assurance to the governing body that finances and risk are properly controlled by management, that the financial reporting is of quality and that the organisation will achieve its goals. (In South African municipalities, the audit committees serve not only as oversight bodies but also as advisory bodies on similar matters of financial reporting, risk management and effective governance [Erasmus & Matsimela 2019; RSA 2003, s. 166(2)].)

Research on the effectiveness of audit committees was reviewed by consulting the international and South African bodies of knowledge. Private sector studies were *inter alia* reviewed because of the availability of extensive literature and the limited number of studies concerning audit committees in the local government. Such adoption of private-sector principles to the public sector is supported by the new public management theory (Chowdhury & Shil 2019), a theory maintaining that the public sector implements useful private-sector principles.

## ■ International studies

Studies used mixed, quantitative and qualitative approaches, with mostly surveys and document analysis to collect data. The studies were mostly conducted in the private sector applying agency-, stakeholder-, legitimacy-, signalling-, institutional-, coping behaviour-, managerial hegemony-, resource dependence-, stewardship- and behavioural theories. With hundreds of studies on audit committees, only a few are highlighted. Firstly, studies by Ng (2013) and Feng (2014) found that the size of the audit committee influences its effectiveness. The audit committee size was a significant factor, and it positively influenced the effectiveness of the internal audit function and the external audit fees.

According to Salehi and Shirazi (2016) and Biswas, Bala and Mandal (2023), the effectiveness of the audit committee is also influenced by its independence – improving the financial reporting quality. A minimum of

three independent, non-executive members is recommended for the audit committee to be effective in an organisation, or a minimum of two independent members in a small organisation (Financial Reporting Council [FRC] 2016). Supporting the independence of the audit committee, the appointment of audit committee members should be in accordance with the required criteria (Purcell, Francis & Clark 2014).

The number of meetings and the behaviour of audit committees are additional elements of an effective audit committee. The study by Nehme (2013) found that both the independence of the audit committee and its size do not show a significant positive relationship with audit quality; instead, it was the number of committee meetings that influenced audit quality, as supported by Qasim, Muqattash and Al Barghouthi (2019). As such, the FRC (2016) in the United Kingdom recommends a minimum of three audit committee meetings a year to establish an effective audit committee. The study by Ng (2013) likewise supports the notion that effective audit committees have frequent meetings, especially to oversee the quality of the internal audit function, amongst other roles.

Other elements highlighted are that the effectiveness of audit committees is associated with the audit committees behaving ethically and their strong will to exercise their powers when performing their roles (Thomas & Purcell 2019). Also, the audit committee expertise, including accounting expertise (Saggese et al. 2023), is of high importance for an effective audit committee. Studies show that the audit committee possessing expertise, including accounting expertise, is associated with the improved quality of financial reporting and the effective functioning of the internal audit (Feng 2014; Ng 2013; Qasim et al. 2019; Salehi & Shirazi 2016). However, Nehme's (2013) findings indicate that the financial expertise of the audit committee does not influence audit quality; rather, enough audit committee meetings do, as auditors spend more time in an organisation that lacks an audit committee with financial expertise. Therefore, based on the researched revelations with respect to the elements mentioned, the audit committees with accounting expertise and enough meetings are those capable of monitoring and supporting the audit functions to improve quality.

Three additional items identified by the literature include, firstly, the monitoring role of an effective audit committee being extended to monitoring the risk of the organisation, organisational performance and governance processes (Thomas & Purcell 2019). Secondly, Armitage (2011, p. 102) and Wong (2012, p. 190) highlighted the importance of having a comprehensive audit committee charter and/or ToR that are complied with by the audit committee. The audit committee charter must inform the audit

committee, public sector officials and the public about the role, responsibility and authority of the audit committee. The charter must be reviewed annually (Purcell et al. 2014). Lastly, Purcell et al. (2014) added that the audit committee is effective when it has a structured, transparent relationship and communication with the council and management, resulting in rigorous debates and reports being timely.

## ■ South African studies

With fewer studies conducted in a South African context, a few elements are highlighted from the body of knowledge. Audit committee composition and independence were investigated with application to both the private and public sectors. Marx's (2009) study of the private sector recommends the composition of the audit committee as consisting of three independent non-executive members, as supported by Roos (2021) in local government departments. According to Motubatse's (2016) study of the public sector, audit committees are not effective when poor recruitment and appointment processes are implemented, resulting in incompetent, politically connected members being appointed by municipalities. Consequently, the independence of those members is impaired owing to conflict of interest. The independence of the members is necessary because it enables the audit committee to contribute to the good governance of the organisation (Marx 2009; Motubatse 2016). According to La Grange's (2015) private sector study, an independent audit committee adds value to the organisation as it allows external auditors to express their concerns about management without intimidation.

Chaka's (2013) study of local government determined that the frequency of meetings influences the effectiveness of audit committees. Marx (2009) and Dlamini, Mutambara and Assensoh-Kodua (2017) asserted that an effective audit committee holds a minimum of four audit committee meetings per year, whereas Stamper's (2011) public sector study recommends a minimum of six audit meetings per year.

The audit committee members must be qualified, with expertise consisting of financial skills enabling them to assist the governing body with improved quality of internal controls, risk management, financial reporting and audits (Koranteng 2015; La Grange 2015; Mqadi 2020). Information technology skills and legal skills are also recommended for an audit committee to be effective (La Grange 2015; Stamper 2011). An audit committee with the necessary expertise will be capable of providing an oversight or monitoring role to external and internal audit functions, resulting in the improved quality of financial reporting (Marx 2009; Van der Nest 2006). Koranteng (2015) concluded that an organisation's staff members' competency and experience in financial management and

regulations and qualified and competent internal auditors further contribute to audit committee effectiveness.

According to Motubatse's (2019) study, the oversight role of the public sector audit committee must also include financial and risk management control. The assurance audit reports by these functions must be scrutinised carefully and reported on by the audit committee to the governing body to promote the accountability of management's activities (Van der Nest 2008). Furthermore, the audit committee chairperson must have frequent meetings with the senior management of the internal and external audit functions (Chaka 2013; Dlamini et al. 2017; Motubatse 2019; Stamper 2011). The chairperson of the public sector audit committee must have direct access to the chief audit executive (CAE) and the external audit function (Van der Nest 2008).

The audit committee must comply with its charter, legal requirements and best practices (Chaka 2013; La Grange 2015; Marx 2009; Motubatse 2019; Stamper 2011), although Van der Nest's (2006) public sector study declares that it cannot be assumed that audit committees are effective when they are compliant.

Audit committees are effective when they have a productive and supportive relationship with management (Chaka 2013; Koranteng 2015). The leadership of the public sector must be stable, with individuals preferably occupying their positions for a long period (Koranteng 2015), with the individuals being competent and experienced, especially the accounting officer and the chief financial officer (CFO). Also, the accounting officer, CFO, CAE and relevant senior managers must communicate constantly with the audit committee and be willing to diligently attend all audit committee meetings (Dlamini et al. 2017; Van der Nest 2006). Private sector CFOs find audit committees to be beneficial when they do not interfere with management duties but provide an oversight role (Marx 2009). Moreover, management must be willing to implement audit committee recommendations (Stamper 2011). The audit committee chairperson must have direct access to the accounting officer, who is the municipality's administrative head (Van der Nest 2006, 2008). Furthermore, the effectiveness of audit committees is also influenced by the administrative support they receive from the organisation and their preparedness for meetings, requiring the organisation to provide the agenda and the necessary documents timeously to audit committee members (Chaka 2013; Marx 2009).

Audit committees must receive training, especially specialised training in finance, which will enable them to identify maladministration and fraudulent financial transactions (La Grange 2015; Marx 2009, p. 396). Studies by Van der Nest (2008) and Dlamini et al. (2017) recommend an

orientation programme for new public sector audit committee members. All members must attend ongoing learning programmes that will educate them about emerging risks and controls, and the internal audit function is expected to provide training to audit committee members concerning risk management (Chaka 2013; Motubatse 2019). Furthermore, audit committees should perform both self-assessment and independent assessment to examine whether they complied with the terms of reference (ToR) and to measure their effectiveness (Chaka 2013, p. 160; Dintwe 2016; Marx 2009; Van der Nest 2006).

## ■ Research gap

Considering the research conducted and the factors identified as fundamental to effective audit committees, the South African studies provide fragmented views limited to specific case studies of municipalities. A holistic view from a variety of stakeholders from all categories of South African municipalities has not been obtained, leading to perspectives that will guide municipalities, audit committees and regulators such as the National Treasury, provincial treasuries and the South African Local Government Association (SALGA) on their role to enhance the effectiveness of audit committees. Motubatse (2016) supported the view that future studies should be undertaken to reveal more factors that will enhance the effective role of South African public sector audit committees.

Furthermore, the studies reviewed applied qualitative methods (La Grange 2015; Motubatse 2016, 2019; Roos 2021; Stamper 2011; Tangruenrat 2013), quantitative methods (Adams 2016; Bonsu 2015; Chaka 2013; Feng 2014; Nehme 2013; Qasim et al. 2019; Salehi & Shirazi 2016; Thomas & Purcell 2019) and mixed research methods (Marx 2009; Ng 2013; Van der Nest 2006, 2008). The following methods were employed to collect data, hence the need for another approach to follow: (1) surveys (Adams 2016; Bonsu 2015; Chaka 2013; Feng 2014; La Grange 2015; Marx 2009; Motubatse 2016, 2019; Mqadi 2020; Nehme 2013; Ng 2013; Qasim et al. 2019; Salehi & Shirazi 2016; Stamper 2011; Tangruenrat 2013; Van der Nest 2006, 2008); (2) document analysis (Feng 2014; Marx 2009; Nehme 2013; Qasim et al. 2019); and (3) case studies (Chaka 2013; La Grange 2015; Roos 2021; Stamper 2011).

## ■ Research design

Given the background to the problems in the South African municipal audit committee environment and the gap of a comprehensive study in understanding what an effective audit committee might entail, for this environment, the choice of an interpretivist paradigm was considered to

perform an exploratory inductive study. The methodological approach consists of gathering evidence through qualitative methods from experienced individuals who are familiar with the phenomenon and have opinions about the effectiveness of audit committees. The research methods are focus groups using interactive qualitative analysis (IQA) techniques and a survey employing interviews.

## ■ Focus groups using interactive qualitative analysis

The IQA is a qualitative data collection and analysis technique employed to conduct focus group sessions (Northcutt & McCoy 2004), with a unique angle where data were collected from knowledgeable participants, without influence by the researcher. The benefits of focus groups, in general, are that (1) data are collected from multiple participants in less time and a less expensive manner; (2) the group effect stimulates the sharing of ideas, memories and experiences by individuals; and (3) individuals are more willing to disclose information they would not normally disclose during one-on-one interviews, owing to the supportive group effect (Tracy 2013).

## □ Sampling

Two focus groups were arranged using purposive sampling. The criteria for selecting the participants were based on the participants' experience with audit committees in South African municipalities. The selected participants contributed rich data from their various experiences and perspectives. The Public Sector Audit Committee Forum (PSACF) within the IoDSA was identified as the relevant source to obtain information with respect to selecting individuals to participate in the focus groups. The forum was established in 2011 by the IoDSA, the Institute for Internal Auditors in South Africa (IIASA), the South African Institute of Chartered Accountants (SAICA), the Institute of Risk Management South Africa, National Treasury, AGSA and the Development Bank of Southern Africa. The main aim of the forum is to provide guidance and support to the subscribed members, who are audit committee members and audit committee stakeholders in the public sector (PSACF 2018).

The invitation to potential participants was sent to all members in the PSACF database, after which an appeal for participation was posted on the IoDSA website. The constituencies were classified into two groups in terms of distance and power within the phenomenon (Northcutt & McCoy 2004) as indicated in Table 1.2.

**TABLE 1.2:** Constituency of focus groups.

Participants	Focus group 1	Focus group 2
Total number of participants = 15	6	9
Participant source	<ul style="list-style-type: none"> <li>• Public Sector Audit Committee Forum</li> <li>• National Treasury</li> <li>• Provincial Treasury</li> <li>• SALGA</li> </ul>	<ul style="list-style-type: none"> <li>• Public Sector Audit Committee Forum</li> <li>• Metropolitan, district &amp; local municipalities</li> <li>• National Treasury</li> <li>• SALGA</li> </ul>
Occupation	<ul style="list-style-type: none"> <li>• Chief director (1 participant)</li> <li>• Director (1 participant)</li> <li>• Senior consultant (2 participants)</li> <li>• Senior managers (2 participants)</li> </ul>	<ul style="list-style-type: none"> <li>• Audit committee chairpersons of metropolitan, district and local municipalities (5 participants)</li> <li>• Director (1 participant)</li> <li>• Managers (3 participants)</li> </ul>
Province	Gauteng & Eastern Cape	Gauteng, Eastern Cape & Limpopo
Highest qualification	<ul style="list-style-type: none"> <li>• Master's degree (2 participants)</li> <li>• Honours degree (2 participants)</li> <li>• Bachelor's degree (2 participants)</li> </ul>	<ul style="list-style-type: none"> <li>• Doctorate degree (1 participant)</li> <li>• Master's degree (3 participants)</li> <li>• Honours degree (4 participants)</li> <li>• Bachelor's degree (1 participant)</li> </ul>
Professional qualification	<ul style="list-style-type: none"> <li>• CA(SA) (1 participant)</li> <li>• Other professional designation (1 participant)</li> </ul>	<ul style="list-style-type: none"> <li>• CA(SA) (3 participants)</li> <li>• CIA (2 participants)</li> <li>• Other professional designation (3 participants)</li> </ul>
Average years of working experience	21	16
Number of AC served	Not applicable	<ul style="list-style-type: none"> <li>• Six to ten (1 participant)</li> <li>• Two to five (3 participants)</li> <li>• One (1 participant)</li> </ul>

Source: Legodi, AH 2021, p. 65.

Key: AC, audit committee; SALGA, South African Local Government Association; CA(SA), chartered accountant (South Africa); CIA, certified internal auditor.

**Focus group 1** (Audit committee stakeholders)

**Focus group 2** (Audit committee members & organisations supporting audit committees)

All participants hold a senior position, holding some form of academic qualifications, and most have professional qualifications. In terms of the sample size of the constituencies of the focus groups, this study considered ideal sizes ranging from five to eight, six to nine and six to 10 individuals, as smaller sizes allow everyone to share intense and lengthy experiences of in-depth information, unlike in large groups (Krueger & Casey 2015; Morgan 1998). The smaller size of constituencies was considered a limitation of the study. It was circumvented by having interviews as well.

The first category comprised the stakeholders in a direct relationship with the audit committees. The reason for excluding audit committee members from the first constituency was to allow individuals to express



their views without intimidation by audit committee members and to understand the viewpoints from the demand perspective. The first focus group consisted of six professionals in a direct working relationship with audit committees in the municipalities, possessing relevant experience as employees of both the provincial and national treasuries, supporting the audit committees in the municipalities. Their occupations ranged from that of senior managers in the public sector, a public finance management consultant and an experienced senior manager in one of the 'Big 4' audit firms. It was assumed that they possessed specific power or authority to effect change within audit committees.

The second category included audit committee members and government employees who support the audit committees, are closest to the phenomenon and possess the power or authority to effect change. The perspective of the audit committee members, as the suppliers of the service, was essential to understanding the phenomenon. This second focus group constituency consisted of nine participants. Five audit committee members, one member from the National Treasury and three members from SALGA work directly with audit committees. All the participants in both focus groups understood the phenomenon and professed the relevant experience of the phenomenon. As the groups were each separated from influencing authorities, each group's participants were thus able to fully express their views of the phenomenon, without being apprehensive of consequences.

## □ Steps in data gathering and analysis

Data were collected from the focus groups and analysed inductively to identify factors that influence the effectiveness of audit committees (Merriam & Grenier 2019). The following steps were followed:

### □ *Before the focus groups*

The IQA research flow started off with the IQA research design stage, consisting of the following elements: Problem statement, constituencies, constituency classification, issue statement, comparisons and research questions (Northcutt & McCoy 2004). This stage was used to prepare for the focus groups. The following research problem statement was formulated, which was communicated to the focus groups:

With the trend of malpractice, mal-administration, and poor service delivery prevailing in South African municipalities, while being advised by audit committees on good governance, effective internal controls, risk management, performance management and compliance, the effectiveness of audit committees

as the advisory body is questionable and requires further investigation using the lens of the theoretical framework of this study, namely agency theory and the resource-based value theory of the firm (Legodi 2021, p. 33).

### □ **During the focus groups**

To improve the trustworthiness of the data, a professional educational psychologist was employed to manage the focus groups. This ensured that the process was without research bias.

As mentioned, the focus groups were conducted with the purpose of identifying factors (also known as affinities in IQA), that is, open coding, and understanding how the factors (affinities) relate to each other, according to the steps identified by Northcutt and McCoy (2004). 'Affinities' are defined as the words used by the participants in the focus group to describe their perceptions of the phenomenon, namely: (1) What are the components of the phenomenon? (2) How do the components relate to each other? and (3) How do the systems compare? The 'components' are the affinities generated by the participants in defining the phenomenon and illustrate how the affinities relate and compare to each other in a system. To determine the affinities that define the phenomenon, the researcher prepared the following research question for the constituencies:

What are the factors that influence the effectiveness of audit committees functioning within municipalities?

### ○ **Silent brainstorming, inductive coding and axial coding**

The second phase of the IQA research flow was affinity production through focus groups. This phase started with a warm-up exercise for the participants of the focus groups. This was followed by the facilitator requesting the participants to write down their thoughts about the phenomenon on a notecard, one thought per note card. The written note cards were taped to the wall. The facilitator read each card to the group to clarify and confirm the meaning. The first process is referred to as *silent brainstorming*. Next followed the *inductive coding*, where the facilitator requested the groups to silently organise the cards into groups of meaning. After this process was complete, the grouped note cards were assigned headings and labelled as affinities, and the miscategorised cards were sorted into the correct groups. This process is called *axial coding*, during which the affinities were assigned names and were reorganised, clarified and refined by the participants.

## ○ Theoretical coding

The next stage is the *theoretical coding*, a stage where participants determine the perceived cause-and-effect relationships amongst all the affinities produced. The purpose of theoretical coding is to collect data from the participants to understand how the affinities influence each other and thereafter analyse the data. The participants completed worksheets titled *Detailed Affinity Relationship Table* (DART) that illustrated the possible relationships amongst affinities. 'If/then' hypothesis was used to indicate the direction of the relationship on the DART worksheet. For example:

- If you think that 1 influences 2, then indicate 1→2
- If you think that 2 influences 1, then indicate 1←2
- If you think that there is no relationship between 1 and 2, then indicate 1 < >

An arrow may only go in one direction. The participants were asked to indicate the direction they think illustrates the strongest or most important influence in instances where two directions were possible and to give examples to explain the relationships they selected. Each participant worked independently so that they could express their thoughts without being dominated by other participants – a process called *independent coding*.

The information from the participants' completed DART worksheets was collected, and all the relationships were counted to determine the optimal relationships to be included in the interrelationship diagram (IRD), using a statistical method called the Pareto principle. The statistical method is based on a Pareto principle of 80/20, meaning that addressing fewer problems (relationships) with the most variance (frequencies) will solve most of the problems in a system. The optimal number of relationships with most variation formed part of the system illustrated in the IRD and, later, the system influence diagram (SID).

The following process was followed: Firstly, all the relationships from the DART form were recorded in a Microsoft Excel spreadsheet. Thereafter, the relationships were counted, and cumulative frequencies in number value and percentage for each relationship were determined and illustrated in a Pareto chart. The cumulative frequency represented the frequency of votes cast for an affinity pair added to the previous total. The cumulative percentage (relation) represented the cumulative percentage based on the total number of relationships. The cumulative per cent (frequency) represented the percentage of votes cast for an affinity pair added to the previous total. Lastly, the cut-off point for the optimal number of relationships to be included in a system, IRD, was selected based on the maximum power. Power is the difference between cumulative per cent (frequency) and cumulative percentage (relation) and represents the optimisation of the system.

## □ **After the focus groups**

After the collection, the data were analysed as follows:

### ○ **Interrelationship diagram**

Firstly, it was determined whether each affinity in a pair was a perceived *cause* or an *effect*, or if there was *no relationship* between the affinities. These perceived relationships were summarised in an IRD using arrows in a table – a process known as *rationalising of the system*. The IRD ultimately classified the affinities as drivers, outcome and neutral, as explained in Table 1.3.

Northcutt and McCoy (2004, pp. 32, 173) defined ‘driver’ and ‘outcome’ as follows: A primary driver is a significant cause in the system as it influences many affinities, but it is not influenced. A primary outcome is converse – it is a significant effect that is influenced by many affinities but does not influence others. A secondary driver is a relative cause that influences many affinities but is influenced to a lesser extent. A secondary outcome is converse – it is a relative effect that is influenced by many affinities but influences fewer affinities. When an equal number of affinity relationships of those that influence (causes) and those that are influenced (effects) exist, the affinity is classified as a neutral affinity.

### ○ **System influence diagram**

The results from the IRD of the drivers, outcomes and neutral affinities were first displayed in a tentative SID assignment chart. This chart assisted in identifying the position of the affinity in the SID. The drivers were placed on the left-hand side and outcomes on the right-hand side. The visual chart (SID) displayed the entire system of influences and outcomes and the relationships amongst affinities. The SID provided relationship analysis, revealing the dynamics of the system. The first version of the cluttered SID, with its rich data and many connections, was difficult to interpret, owing to the affinities that were interlocked. The redundant associations were removed to form a second SID, namely, the uncluttered SID – the visual mind map, illustrating the participants’ experiences with the phenomenon and the relationship amongst those experiences.

**TABLE 1.3:** Classification of affinities.

<b>Classification of affinities</b>	<b>Cause/effect</b>	<b>Description</b>
Primary driver	Significant cause	Influence other affinities, but is not influenced
Secondary driver	Relative cause	Influences other affinities, but is also being influenced
Neutral	No effect	Equally being influenced by and influences other affinities
Secondary outcome	Relative effect	Being influenced by other affinities, but also influences
Primary outcome	Significant effect	Only influences other affinities, but is not influenced

Source: Developed from Northcutt, N & McCoy, D 2004, p. 69.

## ■ Survey using interviews

This is an inductive exploratory study to obtain further confirmation of the affinities. The purpose of the interviews was for participants to confirm and, where appropriate, refine the proposed framework developed to enhance the effectiveness of audit committees in municipalities. The researcher kept an up-to-date spreadsheet to record the details of the interviewees and script necessary notes.

## ■ Sample

Fourteen interviews were conducted and were deemed enough as data saturation was achieved; a new participant to the sample would not produce any new, significant information (Lincoln & Guba 1985). The following categories of participants were invited by the researcher and participated in the interviews:

- *Category 1:* Three current or former audit committee members
- *Category 2:* Five current or former municipal workers
- *Category 3:* Three regulators
- *Category 4:* Three stakeholders of municipalities.

The sample was composed of 71% male participants and 29% female participants. This confirms the statistics that most senior positions in South Africa are occupied by males (Vallie 2018), which renders the sample representative of the gender balance. All the participants hold a degree, all being members of a professional body and most holding professional designations. The 14 participants represent every type of municipality and seven of South Africa's nine provinces. All participants, except for one analyst in Category 3, occupied the position of manager and above.

## ■ Data gathering, analyses and reduction

### □ Interviews

The framework was tested by presenting it to the interviewees and asking whether they agreed, partially agreed or disagreed with the proposed action. They were further asked to give more comments if applicable, allowing the interviewees to express themselves and elaborate on their answers, without restrictions. The power relations in the interview were as follows: the researcher initiated the interview, posed questions to the interviewee, asked follow-up questions in respect of some of the interviewee's answers, terminated the interview and interpreted the interview information, while the interviewee answered the questions and asked questions for clarity when needed. The researcher applied

the art of asking clear, simple and meaningful questions and listening during interviews.

## □ Data analysis and interpretation

Data analysis and interpretation were performed with the main purpose of testing and refining the draft framework. Phases were undertaken during qualitative data analysis and interpretation, using the support of qualitative data analysis software (QDAS), namely, ATLAS.ti™ Version 8 (hereafter Atlas.ti). The phases were given as follows: Phase 1 – Data preparation, Phase 2 – Data exploration, Phase 3 – Data reduction and Phase 4 – Reporting. Interviews were recorded, and these recordings were transcribed into Microsoft Word documents. The content of the transcriptions from the audio-recorded interviews was used by the researcher to describe, compare and analyse the data.

As part of the methodological norms of ensuring the quality of the research process, the researcher emailed the transcripts to the participants to conduct a member check of the accuracy of the content. This member-checking step specifically addresses the dependability, conformability and credibility of qualitative studies' trustworthiness. All 14 interview participants confirmed the accuracy of their transcripts, with only minor changes to some transcripts. The transcripts were anonymised and named, employing pseudonyms. Pseudonyms used were 1A, 1B and 1C for current or former audit committee members; 2A, 2B, 2C, 2D and 2E for current municipal workers; 3A, 3B and 3C for regulators; and 4A, 4B and 4C for stakeholders of the municipalities.

## □ Data reduction

Because of the amount of data that was gathered, it was necessary to reduce the data to meaningful reporting. During this phase, the codes were grouped based on the prefixes. The grouping of codes assisted in comparing and mapping codes (concepts) and revealed emerging concepts. The codes were categorised into 12 groups named after the categories from the frameworks that were developed after the focus groups. These code groups were listed and visible in Atlas.ti and were translated into networks for reporting. Networks are a graphic representation of codes in a relational manner. To report the codes, groups were formed based on the categories of the framework to achieve a coherent and systematic flow.

## ■ Development of themes

The research design, flowing from the research problem to the development of the five themes, is presented schematically in Figure 1.1.

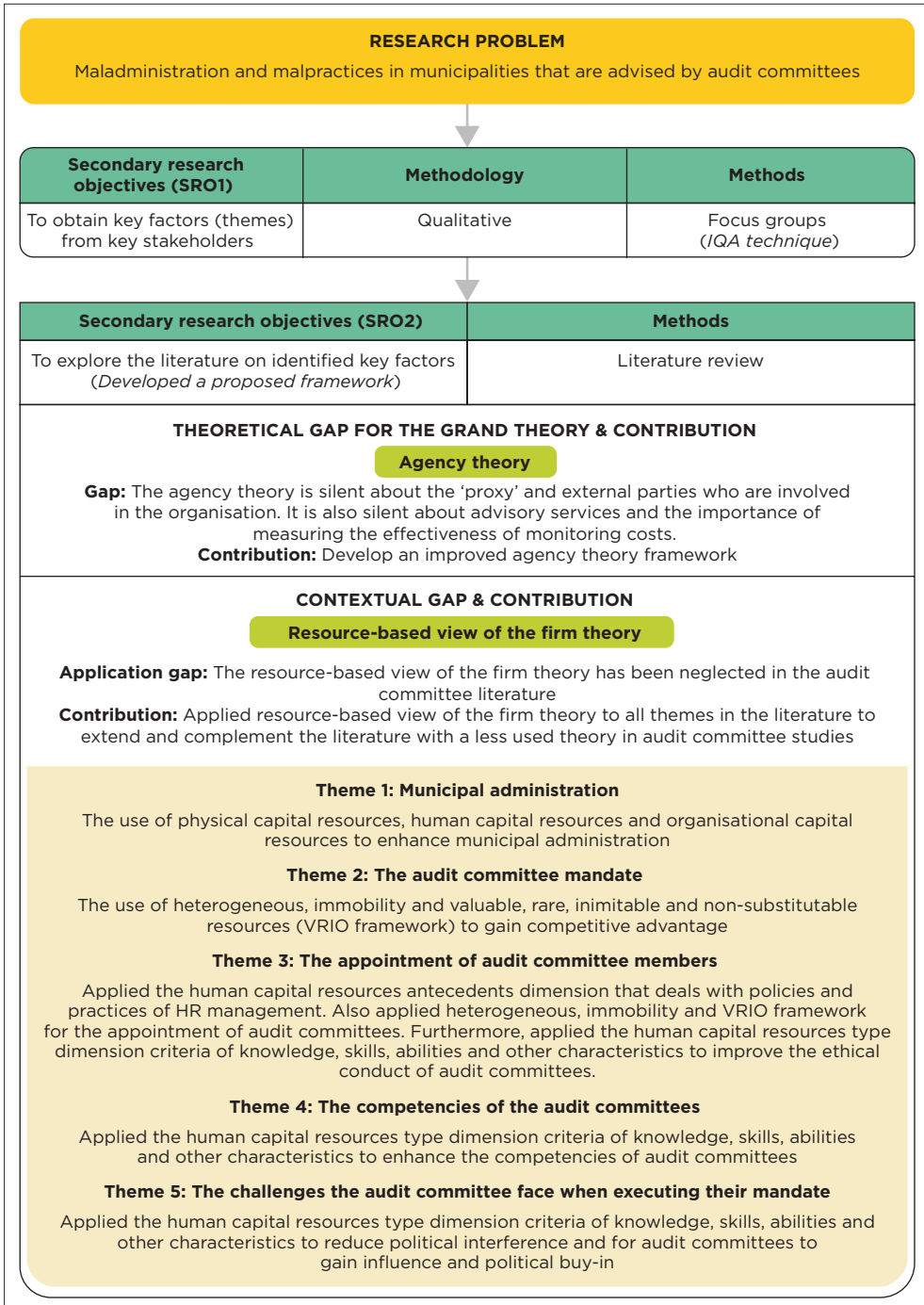
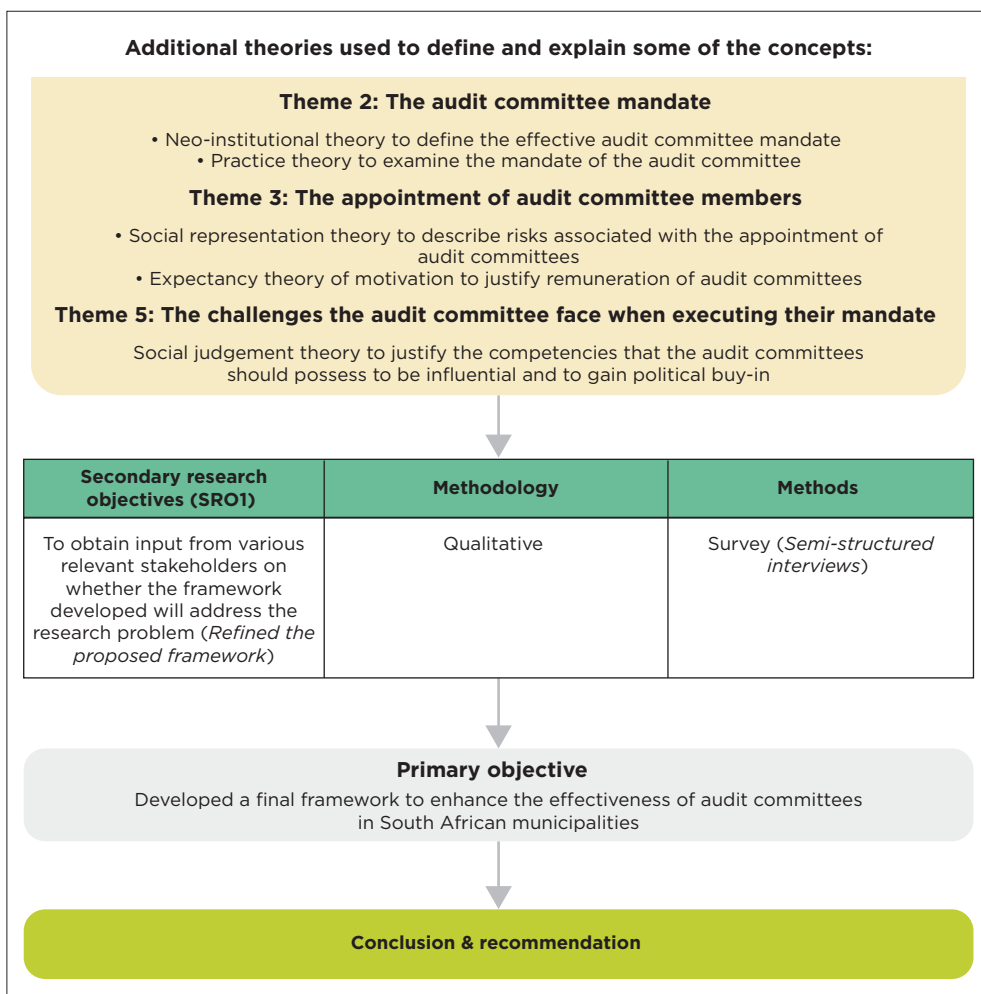


Figure 1.1 continues on the next page→



Source: Legodi, AH 2021, pp. 48-49.

Key: VRIO, value, Rareness, Imitability and Organisation; HR, human resources.

**FIGURE 1.1:** Conceptual framework.



Because of the number of affinities that were identified during the focus groups to focus further data collection and analysis in meaningful discussions, five themes were developed by grouping similar affinities together. These themes are given as follows:

1. Municipal administration
2. Audit committee mandate
3. Appointment of members
4. Competencies of members
5. Challenges faced by audit committees.

## ■ Significance of the study

Methodologically, the study's effective approach of starting out by presenting enquiries to relevant and credible stakeholders to derive trustworthy factors that influence the effectiveness of audit committees is valuable and significant. This approach revealed new factors and expanded an in-depth understanding of the participants' real-life experiences. It adds significantly to the literature in respect of the audit committee and municipalities.

Contextually, the factors that impact the effectiveness of audit committees revealed by the focus groups, literature study and interviews can be applied to improve audit committee effectiveness in municipalities. The framework can be employed by audit committee members, municipal council and policymakers to render the necessary changes to policies, oversight and legislation regarding organisations of the municipalities like the MPAC, SALGA, the National Treasury, the Provincial Treasury, internal and external auditors, the local community, municipal management and staff, training providers, professional bodies and researchers to improve audit committee effectiveness. The framework can also contribute to standards of best practices.

# Constructing themes for the framework

## ■ Introduction

Using the IQA method, focus groups were used to identify factors (affinities for IQA terminology) that influence audit committee effectiveness – one for audit committee stakeholders and one for audit committee members. From the affinities and related data gathered, five themes were developed. These five themes are further discussed in Chapters 3–7.

In this chapter, the steps followed from individual affinities to the themes, per focus group, are presented as follows:

1. Develop affinities based on inductive coding and axial coding.
2. Determine the strength of each affinity by using theoretical coding within a DART.
3. Determine the strength of each affinity pair's relationship using the IRD.
4. Determine the main influencer(s) in the system.
5. Develop themes across the two focus groups.

**How to cite:** Legodi, AH & Coetzee, P 2025, 'Constructing themes for the framework', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 25–34. <https://doi.org/10.4102/aosis.2025.BK479.02>

## ■ Focus group: Audit committee stakeholders

### ■ Inductive coding and axial coding

Following the silent brainstorming and the verbal debate amongst participants, 11 affinities and 53 sub-affinities emerged from the focus group. From the discussion during the focus group, descriptions for each affinity were developed as presented in Table 2.1, referred to as inductive coding and axial coding.

**TABLE 2.1:** Affinities from focus group – audit committee stakeholders.

Affinity	Descriptions
1. Location of municipality	Challenges with logistics, lack of relevant skills, high travelling costs, long travelling time and accommodation expenses, because of inadequate municipal budgets, resulting in procuring the services of incompetent and inexperienced audit committee members
2. ToR	Influencing independence, the audit committee's ToR and municipal structure should support the notion. Yet frequently, ToR are not adhered to, and the audit committee reports to the accounting officer instead of the council.
3. Member remuneration	Inconsistency of remuneration rates paid between municipalities influences the quality of applicants
4. Ethics	Associated with independence and objectivity, ethical conduct can be enforced when members belong to professional bodies, enforced to comply with the body's code of ethics or conduct. Multiple audit committee membership and personal relationship with management jeopardise ethical conduct.
5. Political buy-in	Council members do not support the operations of audit committees caused by the difficulty of audit committees to acquire political buy-in
6. (In)ability to influence	Audit committees lack the skills and abilities to influence an outcome and utilise their disclosure power in the annual reports to expose the maladministration in municipalities, resulting in non-implementation of recommendations
7. Member selection	Audit committees must comprise members that, together, possess a suitable balance of specialised skills. Recruitment and selection are compromised when conducted by parties that the audit committee oversee, leading to incompetent members not understanding their roles and/or lack the skills and experience.
8. Organisational maturity	The effectiveness of the audit committee is influenced by the maturity of the municipality, with non-availability of proper procedural documents (records), vacant executive positions, and unskilled or incompetent officials
9. Internal auditing	A critical governance pillar for the municipality and support for audit committees, some functions are dysfunctional because of budgetary constraints leading to the appointment of incompetent internal auditors
10. Risk management	Poor risk management plan leads to non-implementation of audit committee recommendations that may lead to risk mitigation
11. Municipal management	Non-support from leadership [refers to council] and management [refers to accounting officer and other managing staff employed by the municipality] because of inadequate leadership, management, administrative and internal controls skills

Source: Legodi, AH 2021, p. 90-91.

Key: ToR, terms of reference.

## ■ Theoretical coding

The Pareto principle was used to tally all the relationships from the DARTs and determine the frequency of each relationship. The focus group members' total votes were 193 in 110 possible relationships amongst affinities. Some of the relationships did not receive any votes as the focus group members did not deem the affinities to have a relationship. To determine where the strength lies among the relationships, the Pareto Chart was constructed by sorting the relationships in descending order of frequency. The cumulative frequencies and percentages in terms of both the number of votes (193) and relationships (110) were also calculated. The cutoff point was at affinity relationship pair 49 at strength 37.3, representing 81.9% of the relationships.

## ■ Interrelationship diagram

The 49 relationships were used to classify each affinity as the cause (drivers), neutral (no influence) or effect (outcomes) using IRD. The IRD also distinguishes the affinities that did not have a relationship in the system. Of the 49 relationships, 8 relationships were conflicting, meaning the affinity relationships attracted votes from both directions. The affinity relationship that received the highest vote was included, resulting in 45 relationships as summarised in Table 2.2.

**TABLE 2.2:** Interrelationship diagram – audit committee stakeholders.

1	2	3	4	5	6	7	8	9	10	11	OUT	IN	Δ	Affinities
	↑	↑		↑		↑	↑	↑	↑	↑	8	0	8	1. Location of municipalities
←		↑	←	←	↑	↑		↑	↑	↑	6	3	3	2. ToR
←	←		↑	←		↑				←	2	4	-2	3. Remuneration of members
	↑	←		←	↑		←	↑	←		3	4	-1	4. Members' ethical conduct
←	↑	↑	↑		↑	↑	↑	↑	↑	↑	9	1	8	5. Political buy-in
	←		←	←		←	↑	↑	↑	↑	4	4	0	6. Committee's (in)ability to influence
←	←	←		←	↑		←	←		←	1	7	-6	7. Selection and appointment of members
←			↑	←	←	↑		↑	↑	↑	5	3	2	8. Municipal maturity
←	←		←	←	←	↑	←		←	↑	2	7	-5	9. Internal auditing
←	←		↑	←	←		←	↑		←	2	6	-4	10. Risk management
←	←	↑		←	←	↑	←	←	↑		3	6	-3	11. Municipality management support
											45	45	0	<b>Total</b>

Source: Legodi, AH 2021, p. 99.

Key: ToR, Terms of reference.

↑ **arrows out** (the affinity on the vertical side influences the affinity on the horizontal side)

← **arrows in** (the affinity on the vertical side is influenced by the affinity on the horizontal side)

The IRD reflects on 11 affinities with 45 relationships. Each affinity's relationship, as indicated by the participants, is summarised on the right side of the table. For example, the 8 - 0 - 8 of the first affinity influences eight (OUT) other affinities ( $\uparrow$ ) with no affinities (IN) influencing this specific affinity, resulting in a delta ( $\Delta$ ) of 8. The 11 shaded blocks refer to affinities that cannot have a relationship with itself.

The IRD reflects a tentative SID assignment as follows:

- *Four positive deltas (or drivers):* Affinities 1, 5, 2, 8
- *Six negative deltas (or outcomes):* Affinities 4, 3, 11, 10, 9, 7
- *One zero delta (neutral):* Affinity 6.

However, as some of the links can be duplicates, such as one influences three directly and one also influences three via two, the SID had to be 'uncluttered', refer to Figure 2.1. After this cleaning exercise of the duplications, the final SID is presented in Figure 2.1, resulting in the following:

- *One primary driver:* Location of the municipality
- *Three secondary drivers:* Political buy-in, ToR and municipal maturity
- *One neutral:* AC's (in)ability to influence
- *Six secondary outcomes:* Remuneration, ethical conduct, selection and appointment of members, internal auditing, risk management and support from municipal management.

This means that the location of the municipality was seen by most participants as the most prominent influencer of the effectiveness of the audit committee, followed by the committee itself, the ToR, the external municipal environment (political buy-in), and internally, the municipal lack of maturity, jeopardising the effectiveness of the audit committee.

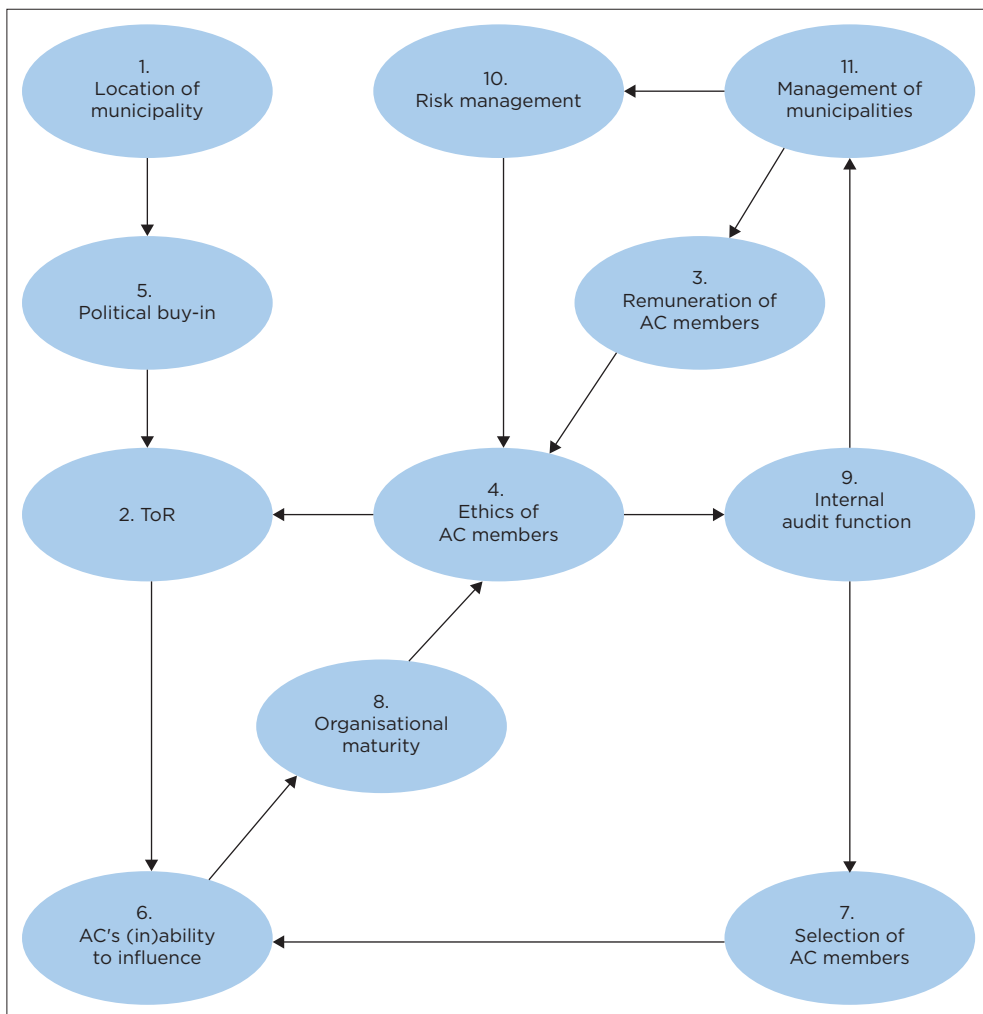
## ■ Focus group: Audit committee members

### ■ Inductive coding and axial coding

For this focus group, 14 affinities and 79 sub-affinities emerged. From the discussion during the focus group, descriptions for each affinity were developed as presented in Table 2.3, referred to as inductive coding and axial coding.

### ■ Theoretical coding

The Pareto principle was used to tally all the relationships from the DARTs and determine the frequency of each relationship. The focus group



Source: Legodi, AH 2021, p. 104.

Key: AC, audit committee; ToR, terms of reference.

**FIGURE 2.1:** Uncluttered system influence diagram – audit committee stakeholders.

members' total votes were 577 in 182 possible relationships amongst affinities. Twelve relationships did not receive any votes as the focus group members did not deem the affinities to have a relationship. The Pareto chart was constructed by sorting the relationships in descending order of frequency. The cutoff point was at affinity relationship pair 70 at strength 23.93, representing 70% of the relationships.

**TABLE 2.3:** Affinities from focus group – audit committee members.

<b>Affinity</b>	<b>Descriptions</b>
1. Assurance providers	Assurance providers must be competent, effective and supportive, having the capacity, proficiency and strength to execute their duties. The internal auditor's scope of work should be adequate in supporting the municipality.
2. Independence	A sound working relationship between an independent AC and other stakeholders of the municipalities must exist, with members being objective, avoiding conflict of interest and staying free from political interference
3. Legislation	Members are not cognisant of the legislative framework governing the municipalities, being unfamiliar with applicable laws and regulations, resulting in the inability to identify errors and misstatements
4. Ethical conduct	Member ethical behaviour or conduct directly affects their effectiveness
5. Understand mandate	Firstly, the role of ACs is not always clear and documented in the charter and may thus impact overall focus, resulting in agendas and minutes of meetings being irrelevant. Secondly, AC members do not understand the municipal environment, which will result in the focus on relevant risk areas. Thirdly, powers are not utilised effectively. Continuous training could correct these issues.
6. Municipal understand mandate	Council and management do not understand the role of an AC (and the difference between MPAC and ACs), viewing it as a compliance exercise, weakening the relationship between the two parties that leads to an accountability gap and recommendations not addressed
7. Preparation and participation	The preparation and participation of AC members directly affect the effectiveness of the AC. Members attend meetings unprepared (perhaps because of receiving packs late), thus not contributing adequately, or do not attend at all.
8. Intergovernmental support	Municipalities' reporting lines, and how the municipality link with other government structures and the role of government organisations such as the national and provincial treasuries, and CoGTA, are not understood, resulting in an accountability gap. Audit committee members should network and attend functions organised by public sector forums.
9. Municipal admin function	Municipalities must consist of professional and experienced staff members led by a skilled management team and stable leadership, rendering relevant information to the committee when needed. The municipality should have an effective finance function led by a skilled CFO, as its duties link directly to many of the AC's tasks.
10. Political interference	Although politics is an integral part of the municipal environment, it should not influence the decisions of the AC. The council comprises members from different political affiliations and needs to support the AC in the execution of its mandate without compromising its independence.
11. Role of committee chair	The robustness of the AC chair influences effectiveness – being competent, having strong leadership skills, being experienced, having planning skills and executing meetings, and being able to execute performance evaluation, including self-assessment
12. Diversity of skills	Members must have diverse skills, experience, professional competence and age, with a skills matrix identifying the current skills and essential skills lacking that require recruitment

Table 2.3 continues on the next page→

**TABLE 2.3 (cont.):** Affinities from focus group – audit committee members.

Affinity	Descriptions
13. Recruitment and appointment	The council should drive the recruitment process, considering the rotation of members, diversity of skills based on municipal needs, a dedicated AC for each municipality and the economic environment of the municipality. Factors that may discourage skilled individuals from applying include low pay rates, distant locations, high workload, and negative municipal publicity relating to fraud and corruption.
14. Remuneration	Inconsistency of remuneration rates influences the flow of attracting specific skills to an AC, with professionals being attracted to municipalities that pay higher rates, suggesting a revised framework for rates

Source: Legodi, AH 2021, pp. 109-110.

Key: AC, audit committee; ACs, audit committees; CFO, chief financial officer; CoGTA, Department of Cooperative Governance and Traditional Affairs; MPAC, Municipal Public Accounts Committee.

## ■ Interrelationship diagram

The 70 relationships were used to classify each affinity as the cause (drivers), neutral (no influence) or effect (outcomes) using IRD in Table 2.4.

The system has 14 affinities identified by the participants, with 70 relationships among these 14 affinities. The IRD reflects a tentative SID assignment as follows:

- *Eight positive deltas (or drivers):* Affinities 2, 3, 8, 9, 10, 12, 13, 14
- *Five negative deltas (or outcomes):* Affinities 1, 4, 5, 6, 7
- *One zero delta (neutral):* Affinity 11.

After uncluttering, the final SID is presented in Figure 2.2, resulting in the following:

- *One primary driver:* Legislative framework
- *Seven secondary drivers:* Political interference, diversity of skills, remuneration, intergovernmental support, independence, municipal administration function, recruitment and appointment
- *One neutral:* Role of the audit committee chair
- *Four secondary outcomes:* Audit committees understand the mandate and assurance providers and municipalities understand the committees' mandate and ethical conduct
- *One primary outcome:* Preparations and participation of audit committee members.



**TABLE 2.4:** Interrelationship diagram - audit committee stakeholders.

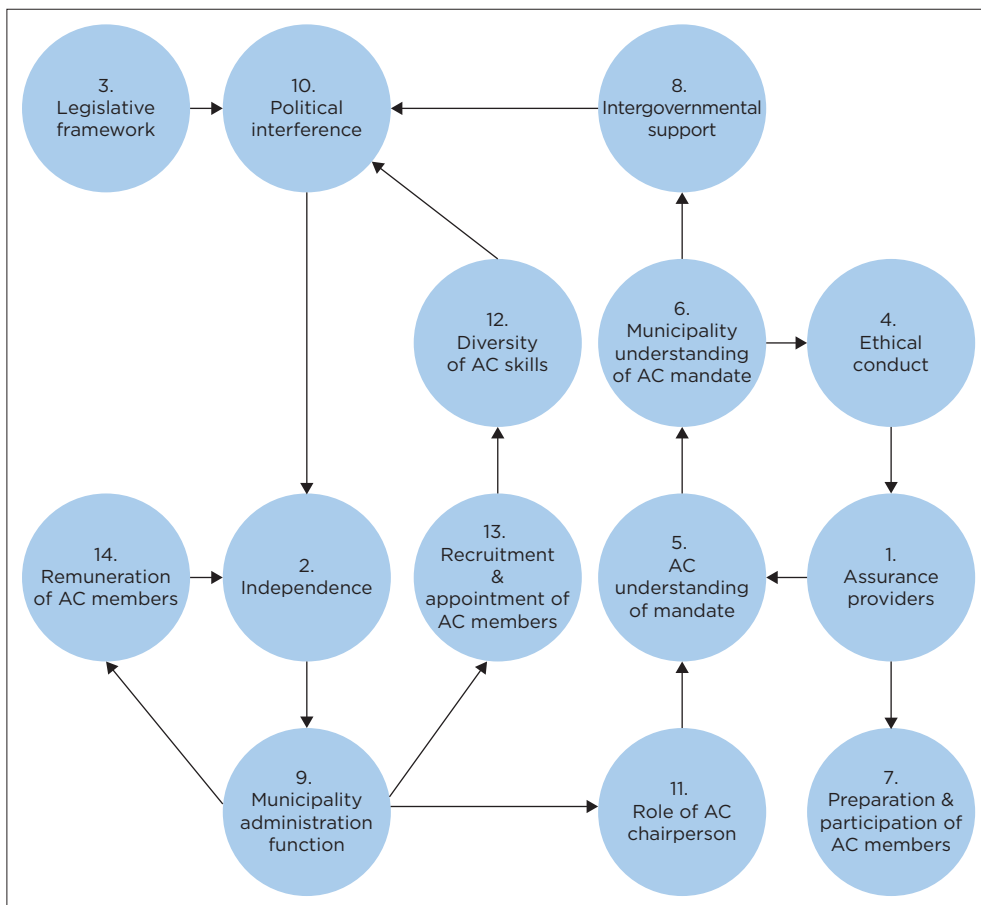
1	2	3	4	5	6	7	8	9	10	11	12	13	14	OUT	IN	Δ	Affinities
	←	←	←	↑	↑	↑			←	←	←			3	6	-3	1. Assurance providers
←		←	↑			↑		↑	←	↑		←	←	5	4	1	2. Independence
↑	↑		↑	↑	↑	↑	↑	↑	↑	↑		↑	↑	12	0	12	3. Legislation framework
↑	←	←		←	←				←	←	←	←	←	1	9	-8	4. Ethical conduct
←		←	↑		↑	↑	↑	↑	←	←	←	←	←	5	7	-2	5. Committee understand mandate
←		←	↑	←			←	↑	←	←	←	←	←	2	8	-6	6. Municipal understand committee mandate
←	←	←		←			←	←	←	←	←	←	←	0	11	-11	7. Preparation and participation
		←	←	←	↑		↑	↑	↑		↑			5	3	2	8. Intergovernmental support
	←	←		←	↑	↑	←		←	↑	↑	↑	↑	6	5	1	9. Municipal administration function
↑	↑	←	↑	↑	↑	↑	←	↑		↑	←	↑		9	3	6	10. Political interference
↑	←	←	↑	↑	↑	↑	←	←	←					5	5	0	11. Role of audit committee chair
↑			↑	↑	↑	↑		←	↑			←		6	2	4	12. Diversity of member skills
	↑	←	↑	↑	↑	↑	←	←	←		↑		←	6	5	1	13. Recruitment and appointment
	↑	←	↑	↑		↑		←				↑		5	2	3	14. Remuneration
														70	70	0	<b>Total</b>

Source: Legodi, AH 2021, p. 119.

↑ **arrows out** (the affinity on the vertical side influences the affinity on the horizontal side)

← **arrows in** (the affinity on the vertical side is influenced by the affinity on the horizontal side)

The legislative framework in which a municipality operates was identified by participants as the most prominent influencer of the audit committee’s effectiveness. Seven secondary drivers relating to the committee itself (namely, the recruitment and appointment of the audit committee members, including the independence of the committee, diversity of member skills and remuneration of members), the external municipal environment (namely, political interference driving ineffectiveness of the audit committee and lack of intergovernmental support), and internally, the municipal administration function that is not supporting the audit committee functioning.



Source: Legodi, AH 2021, p. 124.

Key: AC, audit committee.

**FIGURE 2.2:** Uncluttered system influence diagram - audit committee members.

## ■ Development of themes

As some of the affinities overlap, both within a focus group and between the two focus groups, themes were developed to eliminate duplication, resulting in the discussion of the themes being more confusing. The 25 affinities were reorganised and grouped with the aim of eliminating duplicates. Three criteria were used to group the affinities, namely (1) those with a similar name, (2) those with different names but a similar meaning (refer to Tables 2.1 and 2.3) and (3) those related with a comprehensive explanation. In total, five themes were identified, as presented in Table 2.5.

**TABLE 2.5:** Development of themes.

Focus group 1 affinities	Focus group 2 affinities	Theme	Reason
Location of municipality	Diversity of skills	4	Competencies of members
Terms of reference	ACs understand the mandate AC chair Meeting preparation and participation	2	Audit committee mandate
Member remuneration	Remuneration	3	Appointment of members
Ethical conduct	Ethical conduct	3	Appointment of members
Political buy-in	Political interference	5	Challenges
(In)ability to influence	-	5	Challenges
Member selection	Recruitment and appointment Independent	3	Appointment of members
Organisational maturity	Municipal admin function	1	Internal municipal activities
Internal auditing	Assurance providers	1	Internal municipal activities
Risk management	-	1	Internal municipal activities
Municipal management	-	1	Internal municipal activities
	Municipal understand mandate	2	AC mandate
	Intergovernmental support	4	Competencies of members
	Legislative framework		

Source: Authors' own work.

Key: AC, audit committee; ACs, audit committees.

## ■ Conclusion

The 25 affinities identified by the two focus groups, namely, audit committee stakeholders and audit committee members, were analysed to determine the strengths of each. For each of the groups, one primary driver that may affect all other aspects of the audit committee was identified, and although different for the two groups, both are important matters, namely, the location of the municipality (affecting the recruitment of audit committee members and the effective working of the committee because of financial support) and legislative framework (referring to inter alia the knowledge of the audit committee members of the municipal environment in order to provide the right services). Further, the secondary drivers, also deemed important for audit committee effectiveness, can be classified into three areas, namely, the external environment, the committee itself and the internal municipal environment, with many overlapping between the two focus groups in support of the methodology used.

To provide focus on the discussion of the 25 affinities, these were combined to form five themes. Each of these themes, considering the strength of each affinity within the themes, is discussed in the next five chapters.

# Municipal administration

## ■ Introduction

In this chapter, the first theme, namely, municipal administration, is presented. Firstly, the six affinities linked to this theme are briefly introduced in the context of the overall theme. Thereafter, each of the six affinities is contextualised, and where applicable, burning issues are debated. This is followed by the discussion of overcoming challenges faced in each affinity. Following the presentation of the six affinities, emerging concepts from the affinities are presented for the audit committee, the municipality and National Treasury, provincial treasuries and SALGA, presented in a framework format. Lastly, each framework has been validated by stakeholders, and the views of participants are presented in the final section of the chapter.

## ■ Affinities

The first theme, namely, municipal administration, consists of two secondary driver affinities and four secondary outcome affinities, which are briefly introduced.

**How to cite:** Legodi, AH & Coetzee, P 2025, 'Municipal administration', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 35-80. <https://doi.org/10.4102/aosis.2025.BK479.03>

Secondary driver affinities:

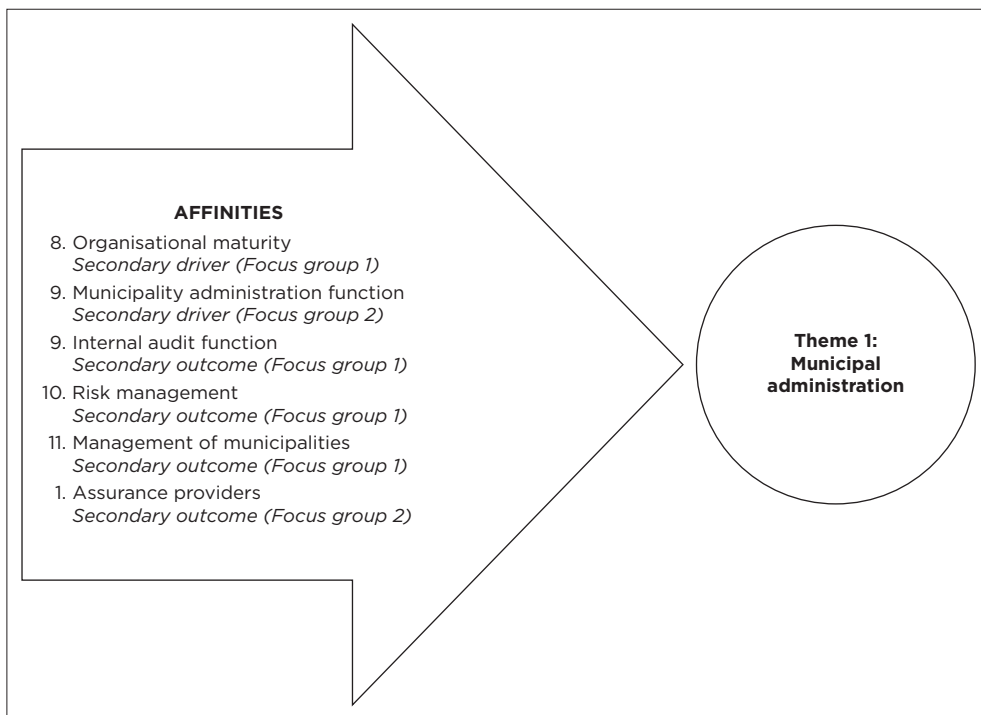
- *Municipal administration*: The affinity encompasses the fundamental functions and obligations of the municipality.
- *Organisational maturity*: The affinity pertains to the maturity and efficiency of a municipality's systems, procedures and structures.

Secondary outcome affinities:

- *Management of municipalities*: The affinity focuses on leadership and monitoring the activities of the municipality. It is directly affected by the effective functioning of the municipal administration.
- *Risk management*: The affinity focuses on identifying, assessing, managing and reducing potential risks for municipalities. It is essential to ensure a sound risk management of municipal operations.
- *Internal audit function*: The affinity is linked to the municipal internal audit unit, which is tasked to evaluate and enhance the effectiveness of internal controls, risk management and governance processes in the municipality and the successful attainment of the municipality's objectives.
- *Assurance providers*: The affinity pertains to external auditors who offer impartial evaluations of the municipality's financial statements' fairness and adherence to accounting reporting frameworks and legislation.

The illustration in Figure 3.1 and the discussion provide insight into the creation of the theme that is signified by the origin of the affinities, as perceived through the framework of the resource-based view of the firm theory.

The efficacy of risk management, municipal management, internal audit function and assurance providers depends on the maturity of municipalities and their administration to carry out their responsibilities. The municipality plays an administrative role in providing services to its citizens (Dong 2019). The municipal administration, as a government entity, should include coordinated functions, units, processes and duties (RSA 2000, s. 2). It should be mature enough to take responsibility for implementing steps to prevent corruption (RSA 2000, ss. 6[2][b]-[c]). The top management of municipalities, including accounting officers, CFOs, senior managers and senior officials, are accountable for overseeing the municipalities and their financial management (RSA 2003, s. 77) and for overseeing staff members while carrying out their public service responsibilities (RSA 2000, s. 51[d]). Their attention must be directed towards the formulation and execution of an anti-corruption strategy encompassing a code of conduct, regulations or guidelines, and consistent anti-corruption training (Al-Okaily 2023).



Source: Legodi, AH 2021, p. 133.

**FIGURE 3.1:** Municipal administration.

It is also important to define the theme in the context of municipal administration function and challenges to understand the need for audit committees to provide useful advice. The theme is debated, applying the resource-based view of the firm theory, resulting in establishing strategies that can enhance the municipality's administration and the role of audit committees, to ensure effective and efficient municipal administration. Assurance must, therefore, be provided on whether the affairs of the municipalities are performed as required by legislation and policies and whether the goals are achieved. Thus, the internal audit function and external auditors are units that render such assurance and also give recommendations to the accounting officer (RSA 2003, s. 165[2]). They also advise on risk management through recommendations (RSA 2003, s. 2[b][iv]). Therefore, management and assurance providers are critical stakeholders, transporting the administration of the municipalities to its maturity level by managing risks adequately.

## ■ Municipal administration function

### ■ Contextualisation

The main theme is municipal administration, specifically referring to the affinities depicted in Figure 3.1. Municipalities are local government entities that play important political, social and economic responsibilities in local communities. The Constitution mandates them to operate effectively within their budgetary and administrative capabilities (RSA 1996, s. 152[2]). Yet, the concept of ‘thriving’ is challenging to comprehend. Thus, to comprehend the municipal mission and how it might succeed, it is crucial to grasp the responsibilities of municipal administration and the obstacles that may hinder a municipality from thriving.

Municipal administration is defined within the context of public administration. It refers to how municipalities use their resources and capabilities to service all the people of their communities, as explained by the *Municipal Systems Act 32 of 2000* (RSA 2000, s. 4[2][a]). Prudent expenditure of taxpayers’ money in delivering services to its people is at the core of municipal administration. Therefore, municipalities should be economical, effective and efficient in their use of resources, providing fair, impartial, transparent and professional services that meet the needs of their communities. Such services should be performed by capable HR who will take full accountability for their actions (RSA 1996, ss. 156[5], 160[1][d]).

### ■ Overcoming challenges through leadership development and resource acquisition

Aspects highlighted on challenges faced by municipalities include the implementation of legislation and policies that outline effective municipal administration, as it seems to be a formidable task for most municipalities in South Africa. Presently, 32 municipalities are under administration, with 66 out of 257 municipalities being designated as ‘dysfunctional’ because of council instability and inadequate oversight; poor administration; performance impediment on conditional grants; poor condition and absence of infrastructure maintenance and repairs; and ineffective revenue collection and management (Department of Cooperative Governance and Traditional Affairs [CoGTA] 2023; Thorne 2024).

The misuse of taxpayer funds is alleged to be the trend of municipalities (Wasserman 2019). Numerous municipalities, according to investigations, exhibit deficiencies in service provision, administration, financial management and governance (CoGTA 2016). In 2018, only 18 of the 257 municipalities operated efficiently; this caused dire concern for the

government and those who are ostensibly receiving services. In 2023, only 38 out of the 257 municipalities received clean audits. Although it is an increasing trend, it is still concerning that less than 20% of the country's municipalities are defined as being 'stable' (CoGTA 2023).

An assortment of obstacles is allegedly to blame for this bleak circumstance. The text highlights several of the most significant obstacles concerning municipal resources and leadership.

## □ Competence of leaders

Given the subpar performance exhibited by municipalities, it is reasonable to surmise that the leaders' proficiency in resource management is subject to scrutiny. Every municipality comprises a diverse array of councils and managers who work together to ensure that the government's strategies are implemented effectively in the services provided to the citizens of the nation. The executive governing body responsible for implementing all municipal decisions is the municipal council (IoDSA 2013; RSA 1996, s. 160[1][a]). Councils are composed of counsellors who are elected by the voters and who are members of the local community residing in their specific wards (RSA 1998a, s. 20[1][a]). The council is tasked with comprehending the community's requirements and formulating strategies to guarantee the fulfilment of said requirements. On the contrary, demonstrations suggest that residents, particularly in rural areas and informal settlements, are profoundly discontent with the standard of service provision because of the failure to fulfil their requirements (Heese & Allan 2019). Therefore, the council must engage in community consultations to ascertain its understanding of the community's concerns (RSA 1996, ss. 152[1][e], 1998a, 19[2][c], 2000, 3[4][2][c], 5[1][a][i]).

Moreover, in a political voting process, councillors are elected as municipal leaders, irrespective of the nominees' educational qualifications, oversight experience and abilities (RSA 1998a, s. 20[1][a]). This provision potentially grants candidacy to councillors who lack competence (Ntsabo 2017). Consequently, there is a potential for inept councillors to appoint senior managers who do not possess the necessary qualifications and competence (Daniel 2018). To fulfil their oversight duties in an effective and efficient manner, council members must possess competence and knowledge (Mofolo 2023).

Furthermore, the council appoints the head of municipal administration, who in turn appoints other senior managers. This process is initiated by the head of administration, who is the accounting officer (RSA 2003, ss. 60–66, 78). Appointing personnel and management based on patronage,



which favours loyal members of the ruling party but may be unqualified for their positions (Franks 2015), is an unlawful and inappropriate appointment practice. Legislation mandates that municipal management possess the requisite skills and expertise to fulfil their responsibilities (RSA 2000, s. 56[b]). The sum of the managers and their portfolios may vary; for instance, a smaller district municipality might consolidate portfolios to reduce costs, while a larger metropolitan area might have distinct divisions for distinct responsibilities (RSA 2003, s. 21[2][d][i]).

The municipal constituency development and community service delivery strategies ought to be delineated in a planning document, Integrated Development Plan (IDP) that is collaboratively drafted with the community, following the stipulations of the *Municipal Systems Act 32 of 2000* (RSA 2000, ss. 3[d], 16[1], 20[2], 57[5], 77, 81[c]). Because of inadequate oversight by councillors and mayors and poor implementation of the performance management system, the goals of the IDPs are not consistently met (Auditor-General of South Africa [AGSA] 2018, p. 3). Consequently, the community is deprived of substandard services, and infrastructure is compromised. The primary causes of infrastructure neglect, according to the AGSA, are inadequate project management abilities, substandard craftsmanship and ineffective leadership oversight – all of which stem from a competency issue. Municipal performance is correlated with implementing a suitable and efficient performance management system (Nzama, Moloji & Marx 2023).

## □ **Leader accountability**

Leaders ought to bear responsibility for their conduct and decisions, irrespective of whether they effectively attend to the community's needs (Thebe 2017). Social, political, financial, legal, ethical and professional accountability are all encompassed within this (Olum 2014). Insufficient oversight may give rise to unethical conduct among municipal staff, which may have adverse consequences for taxpayers and residents (Koranteng 2015). Such consequences may include but are not limited to the misappropriation of funds, depletion of municipal resources and withholding of vital services from the communities.

To foster a culture that promotes ongoing improvement and values excellence, municipalities must ensure that their employees and leaders adhere to appropriate disciplinary measures and accept responsibility for their actions. Municipal leadership and officials were subjected to minimal or no consequences for their misconduct and substandard performance (AGSA 2023). This is most evident in instances where municipal managers and senior management responded inadequately to the AGSA findings and allegations of possible fraud, non-performance and abuse of the supply

chain management system, and where councils failed to effectively address unauthorised, irregular, fruitless and wasteful expenditure. Inadequate financial management and accountability contributed to the ongoing decline in the financial well-being of municipalities (AGSA 2023). It is apparent that municipal leaders fail to adhere to the provisions outlined in Section 59(3)(a) and (b) of the *Municipal Systems Act 32 of 2000*. These provisions mandate that municipal leaders scrutinise the choices made by councillors, employees and political office bearers (RSA 2000, s. 59[3][a]).

## ■ Leveraging the media and leadership frameworks

Media attention can heighten accountability (Justesen & Skaerbaek 2010). Municipalities may be motivated to adopt such recommendations by public pressure when exposed to instances where reputable audit committee advice is disregarded. Furthermore, to ensure appropriate management and responsibility, one may consider implementing a six-phase system for leadership and organisational change (Carter, Ulrich & Goldsmith 2005, pp. 182–190). Included in this system are:

- *Diagnosis*: Threats and obstacles must be identified by leaders.
- *Assessment*: Using instruments such as the Myers-Briggs Type Indicator or 360-degree evaluations, to assess employee perceptions and decision-making.
- *Programme design*: Construct initiatives customised to the outcomes of the evaluation, including mentoring, instruction and an enhanced system for hiring and selecting personnel.
- *Programme implementation*: The designed programmes are executed.
- *On-the-job support*: Ensure success by providing ongoing support following programme implementation.
- *Evaluation*: Assemble an evaluation instrument using performance management (RSA 2000, s. 67[1][d]).

The municipalities can promote a just, efficient, effective and adequate administration system through the implementation of this six-phase system.

## ■ Training initiatives

Inadequate capabilities and competencies pose an additional fundamental factor contributing to municipal failures. Because of their limited capabilities and expertise in finance, information technology (IT) and technical units, municipalities were forced to rely heavily on consultants for infrastructure initiatives (AGSA 2023). The presence of vacancies and instability in critical positions, including the CFO and accounting officers, were factors that contributed to the restricted progress in audit results and the prolonged resolution of significant irregularities and other violations.

The fourth *King Report of Corporate Governance* (King IV) recommends that municipalities have independent councillors who possess the necessary skills and competencies to assume their governance responsibilities (IoDSA 2016). As leaders, councillors are obligated to appoint, evaluate and cultivate management with pertinent expertise and credentials (RSA 2000, ss. 56[b], 68[1] and 78[1][a][ii]). Small, rural municipalities are eligible to receive funding from the Sector Education and Training Authority (SETA) for training in local government in accordance with the *Municipal Systems Act 32 of 2000*, which encourages the development of human resource capacity through employee training (RSA 2000, ss. 68[2], 72[1][v]). The efficacy of the training should be to enable both the staff and council to execute their duties with diligence and responsibility.

To enhance employee performance, Pooe, Worku and Van Rooyen (2016) advocated for the implementation of tailored skills-based training initiatives within municipal settings. Despite the recognition that training can remedy incompetent personnel, municipal lack of financial resources frequently hinders development and training initiatives (Luthuli, Nyawo & Mashau 2019). Therefore, inadequate financial resources, in addition to incompetent human capital resources, contribute to poor performance.

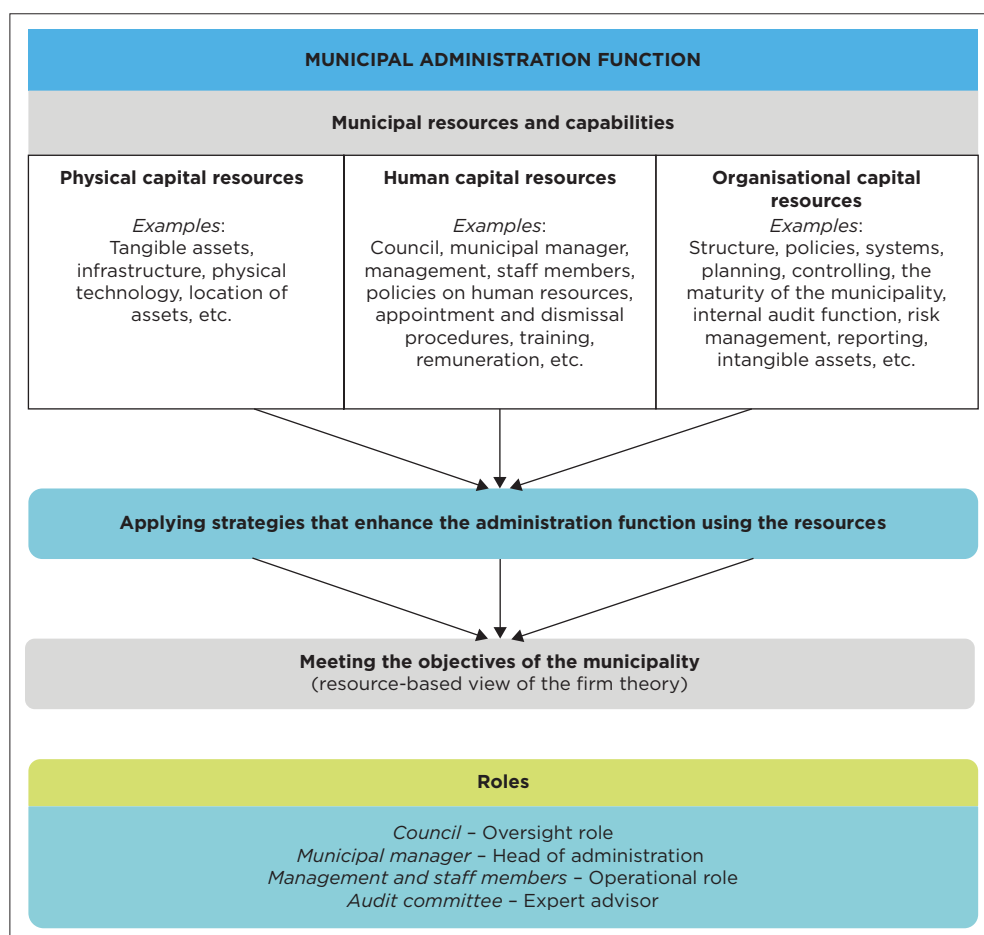
The accountability for performance must extend to all councillors and employees (AGSA 2023). To enhance compliance with internal controls and legislation, they must receive training on how to implement audit recommendations that are credible, pertinent and beneficial to enhance municipal performance (Dain & Rahmat 2017; Nzama et al. 2023). In addition to establishing appropriate policies and systems to facilitate these practices, leadership should foster a culture that emphasises accountability, training and the implementation of recommendations. Performance monitoring and objective assessment can be achieved by implementing monthly scorecards (Carter et al. 2005). A connection should be made between these monthly performance scores and year-end performance evaluations. Employees who achieve or surpass performance targets should be acknowledged and rewarded because of such evaluations (Carter et al. 2005). Non-performing individuals ought to be granted supplementary training.

## ■ Leveraging resources and capabilities for effective municipal administration

To ascertain supplementary resolutions for municipal challenges, one may utilise the resource-based view of the firm theory (Barney 1991; Wernerfelt 1984). The significance of valuable, rare, inimitable and non-substitutable (VRIN) resources in attaining a competitive advantage is underscored by

this theory. Municipalities can enhance the efficiency, effectiveness and transparency of their operations by utilising their VRIN resources, which include financial assets, skilled personnel, innovative technologies and solid stakeholder relationships. Municipalities have the potential to establish a path towards enhanced public trust and improved performance by implementing pertinent frameworks and theories, acquiring the necessary resources and developing their leadership.

Figure 3.2 illustrates the capabilities and valuable resources that have been identified in accordance with the resource-based view of the firm theory. By strategically leveraging these resources and capabilities, municipal administration can be improved, and the objectives of an organisation can be accomplished. The resource-based view of the firm



Source: Legodi, AH 2021, p. 152.

**FIGURE 3.2:** Applying a resource-based view of the firm theory to municipal administration function.

theory is implemented in various ways. Firstly, the identification of municipal accessibility to VRIN: Potential advantages may consist of proficient personnel, cutting-edge technologies, robust stakeholder relationships and financial resources. Secondly, municipalities can improve the efficacy, transparency and efficiency of their operations by formulating strategies to leverage their VRIN resources. Thirdly, by strengthening the function of audit committees by implementing the value, rareness, imitability and organisation (VRIO) framework, which guarantees that audit committees possess the requisite resources, expertise and independence to furnish municipal management with valuable guidance and oversight, the effectiveness of audit committees can be enhanced.

Figure 3.2 illustrates the capabilities and valuable resources that have been identified in accordance with the resource-based view of the firm theory. By strategically leveraging these resources and capabilities, municipal administration can be improved, and organisational objectives can be accomplished. Furthermore, the figure elucidates the division of responsibilities inherent in the municipal administration function. The council, in its capacity as the governing body, issues directives and exercises oversight. The municipal manager or accounting officer is responsible for overseeing the administration to ensure financial accountability and efficient operations. Personnel and management have executive administrative responsibilities and enforce council resolutions. The audit committee functions as an autonomous oversight entity and provides specialised guidance (RSA 1996, s. 151[2], 2003, ss. 77, 78, 161[2]).

Through the strategic utilisation of these resources, capabilities and unique positions, the council as a governing body can cultivate an administration that is more streamlined, accountable and efficient, thereby providing superior service to their constituents.

## ■ Summary

Consideration must be given to municipal administration. Municipalities must be capable of recognising and carrying out their responsibilities; they must be competent. It is necessary to hold at least incompetent council members, management and staff accountable for their actions and decisions. By applying the resource-based view of the firm theory, accountability and competence are assessed in accordance with a tried-and-true framework. This guarantees that municipalities consider and execute pertinent elements, while audit committees evaluate municipal administration in comparison to a compilation of best practices, thereby augmenting the effectiveness of audit committees.

## ■ Organisational maturity

### ■ Contextualisation

Focus group 1 described immature municipalities as those that do not keep accurate records, do not comply with legislation and policies, recruit unskilled labour because of *inter alia* budget constraints and have vacant positions of key senior personnel. In other words, municipalities' resources and behaviour mainly determine the measurement of whether the organisation is mature or not. Of the aspects mentioned by the focus group, namely, unskilled labour, vacant key positions, non-compliance and lack of record-keeping, all four can be linked to staff competence, implicating that staff is incompetent or unable to perform their duties. As mentioned before, AGSA raised the same concerns. Proper record-keeping is essential for enhancing municipal performance (Nzama et al. 2023). Municipalities that have been subject to repeated disclaimed audit opinions and material irregularities must confront persistent issues of inadequate record keeping (AGSA 2023).

Mello (2018) voiced the same concerns as the focus group that councillors and management lack monitoring and evaluation skills, hence the poor performances. Focus group 1 defined immature municipalities as those that, among other things, fail to maintain accurate records. They fail to comply with policies and legislation, they hire unskilled labour because of budget constraints, and they have key senior personnel positions vacant. The same issues were raised by AGSA, as mentioned before. Municipalities must appoint competent, experienced and skilled staff, consultants and leadership who undergo regular training (Nzama et al. 2023).

In other words, the assessment of an organisation's maturity is predominantly determined by the resources' behaviours, skills and decisions made for the municipalities. Municipalities that are not mature are distinguished by the mismanagement of resources and potentially incompetent personnel, which ultimately culminates in subpar performance. To tackle these challenges, a strategic approach to resource management is necessary, which entails the implementation of tailored training programmes and the effective allocation of resources.

### ■ Overcoming the challenges with resources management

The resource-based view of the firm theory posits that the trajectory towards achieving maturity for the municipality can be traced by the organisation acquiring and effectively managing the requisite human

resources to accomplish its objectives – at the individual, group and organisational levels (Werner et al. 2016). Robbins and Judge (2017) delineated the components that each of the aforementioned levels contributes to the maturity levels of proficient personnel, thereby guaranteeing the optimal utilisation of HR, with respect to the individual, group and organisational levels of resources.

## □ Individual level

Robbins and Judge's (2017) fundamental model of organisational behaviour posits that individuals contribute their unique qualities, including diversity, personality and values, upon entering an organisation (input). Actions such as emotions and moods, motivation, perception and decision-making result from their inputs (process). Attitudes, stress, task performance, citizenship behaviour and withdrawal behaviour are the results of these processes (output). As a result, to achieve the desired processes and outcomes that will improve municipal administration, the municipality should effectively manage personal input.

Municipalities aspiring to achieve maturity should not only oversee the input of HR but also manage the process elements that arise among individuals, to attain favourable results. According to the fundamental organisational behaviour model, the emotional responses, motivation, perception and decision-making of individuals are all components of the process that impact their job performance, satisfaction and behaviour (Matta et al. 2014, p. 923; Robbins & Judge 2017). Hence, providing instruction in areas such as emotional intelligence may serve as a viable approach to fostering competent human capital. Emotional intelligence is the capacity to recognise and control one's emotions; it entails emotional stability (Vasefia, Dehghanib & Mirzaaghapoora 2018). The fundamental model of organisational behaviour, therefore, posits that when individuals provide the municipality with appropriate input, there will be a reduction in tension, irrational emotions and moods. Additionally, when individuals possess an accurate viewpoint (pertaining to the municipality), they will be able to make appropriate decisions that result in favourable consequences.

As a result, it is critical that audit committees furnish municipalities with practical guidance concerning the contributions of personnel hired by the municipality. Consequently, the enquiry pertaining to whether the audit committee possesses the authority to advise the human capital resources of municipalities, including but not limited to staff recruitment, training and other relevant components, will be justifiable. In their fundamental model of organisational behaviour, Robbins and Judge (2017) emphasised the significance of managing individuals within an organisation. Individuals contribute their distinct attributes of diversity, personality and

values to the organisation, which subsequently impact its operations. The processes of emotions, moods, motivation, perception and decision-making result in a variety of outcomes such as attitudes, stress, task performance, citizenship behaviour or withdrawal behaviour.

## □ Group level

A working group in the workplace consists of two or more individuals collaborating to accomplish a specific goal (Robbins & Judge 2017). Associating with a group can facilitate the development of identities and self-esteem in individuals (Fujita, Harrigan & Soutar 2018). Therefore, the municipalities must facilitate avenues for groups to cultivate favourable associations. Group structure, roles and team responsibilities are established prior to group formation (input) in most organisations (Robbins & Judge 2017). Consequently, the group can comprehend the expectations if the information is unambiguous. In a similar way, municipalities must establish units with distinct responsibilities that enable group members to identify with the municipality confidently and positively.

The fundamental model of organisational behaviour identifies the following as group-level activities: Management, politics, communication, leadership and power (processes). The objective of these endeavours is to establish a cohesive and functional group (output). As one of the model's activities, communication is defined as the exchange of information or comprehension of its significance among two or more parties (Brink & Costigan 2015; Robbins & Judge 2017). While studies on municipalities do not specifically focus on research on groups, communication in the public sector is considerably more complex than in the private sector because of the involvement of society or the public as the principal stakeholder. It may also have an impact on the way groups within municipalities communicate, as well as, on a broader scale, the way municipalities communicate with all their stakeholders at the organisational level, as well as between and outside the organisation (Canel & Luoma-aho 2019). Indeed, public participation is a component of effective communication in the public sector, as mentioned by Rasila and Musitha (2017).

Furthermore, communication can operate as a managerial tool, facilitating information exchange, feedback provision, emotional expression and persuasion among group members (Robbins & Judge 2017; Wijn & Van den Bos 2010). As a result, the human capital resources of the municipality will be enhanced through effective communication. Additionally, leadership is a component at the group level (Robbins & Judge 2017). As recommended by the model, organisational groups ought to possess the necessary leadership competencies to effectively accomplish the objectives of group



cohesion and operation. Leadership plays a pivotal role within municipal organisations. Hence, to achieve its goals, the municipality must recruit a leader who aligns with those objectives. Various leadership styles may be integrated within an organisation, contingent upon its intricacy and requirements. Parry (2011) delineated a range of leadership styles that are applicable at different organisational levels. However, in the context of groups, transformational leadership emerges as the most crucial: it motivates individuals to improve their performance by leveraging the collective objectives and values.

## □ Organisational level

According to the fundamental organisational behaviour model, an organisation's survival and productivity (outcomes) are contingent on its structure and culture (inputs), which in turn impact the practices of HR management and change (processes) (Robbins & Judge 2017). Hence, it can be postulated that for the municipal administration to attain the necessary level of maturity, the municipal objectives must encompass a functional organisational framework, optimal management and implementation of HR practices, and a culture that fosters exceptional public service. The organisational capital resources category includes the structure, culture and practices. Human resources management is considered a human capital resource in accordance with the resource-based view of the firm theory (Barney 1991).

This implies that these resource categories are crucial at the organisational level to advance the municipal administration's maturity. Public sector studies confirm that certain municipalities have an unethical organisational culture, contributing to inadequate service delivery complexities (Ajayi & De Vries 2019; Ndenze 2019). As a result, municipalities require an accurate diagnosis that can aid decision-makers in evaluating and contrasting viable, pertinent solutions, as well as in considering the perspectives of stakeholders during the decision-making process (Salisbury et al. 2018). Therefore, the municipal administration must prioritise the procurement of essential resources and implement the requisite inputs to achieve the intended processes and outcomes.

## ■ Summary

The subsequent deductions can be made based on the preceding discourse. Individual outcomes, processes and inputs have a substantial impact on an organisation's behaviour and performance. Thus, municipalities ought to proactively oversee both individuals' inputs and the processes that influence their behaviours. Municipalities heavily depend on the collectives of individuals, which are critical components of their human capital assets

and indispensable for effective governance. Yet, the audit committee has an advisory function in human capital management.

The fundamental organisational behaviour model emphasises the significance of group structure, responsibilities and roles (inputs) in shaping group functioning and cohesion through their influence on politics, conflict, negotiation, communication and leadership (processes and outcomes). Additional enquiry is required to ascertain the function of audit committees in relation to the structure, duties and obligations of the group.

Culture, organisational structure and HR management practices have a substantial effect on the performance and level of maturity of a municipality. A well-defined strategy and an appropriate diagnostic approach are required to identify and implement effective solutions to address these elements. Hence, the potential impact that audit committees may have on factors at the organisational level requires additional investigation.

## ■ Risk management

### ■ Contextualisation

As interpreted through the lens of the resource-based view of the firm theory, the focus group's concerns regarding the insufficiency of competent personnel and credible risk management plans in municipalities indicate a dearth of human capital and organisational capital resources. A prerequisite for comprehending the notion of 'risk management' is the precondition of defining risk.

As per the International Organization for Standardization (ISO) (2009, 2018), risks are characterised as probable occurrences that possess the capacity to introduce unpredictability into the process of accomplishing goals. Such unpredictability may result in losses, among other consequences (Ruxandra 2018). The strategy, operations, finances, compliance and reporting of the organisation are all potential sources of risk (Bungkilo 2017). Alternatively stated, there is a probability that the organisation's capital and other resources will incur losses or fail to accomplish its objectives.

By identifying, assessing and managing risks and fostering the culture, capabilities and practises that may lead to the mitigation of risks, risk management is a process in which activities and resources are utilised to mitigate the risk (Committee of Sponsoring Organizations of the Treadway Commission [COSO] 2017; ISO 2018; Van der Waldt, Fourie & Malan 2024). Consequently, the tactic and instrument utilised to manage risks are a risk management plan (ISO 2018).

Illustrating the worth of new technologies, enhancing stakeholder confidence and ensuring operational dependability are a few of the benefits that an organisation can derive from implementing risk management plans and programmes (Deloitte 2017b). In accordance with the resource-based view of the firm theory, risk management is crucial for all categories of resources. Ruxandra (2018) argued that risk management is indispensable for public organisations to strengthen organisational strategy, structure, personnel, processes and infrastructure.

## ■ **Overcoming challenges by human capital resource development**

Despite the recognition of risk management as a valuable instrument for public entities, it seems to have been disregarded (Keban 2017). Furthermore, the insufficiency of public administration legislation to effectively incorporate risk management and controls at the municipal level provides further support for this claim (Riso & Castellini 2019). Annual risk analysis, management and review, including an assessment of current and future threats, are required of organisations. The findings of this process should be recorded in the risk register, along with the corresponding internal controls (Deloitte 2017b). Risk management within the municipality is the responsibility of the accounting officer (RSA 2003, s. 62[1][c][i]). Risk management is immature, according to several studies published within the last decade (Aebi, Sabato & Schmid 2012; Beasley, Branson & Hancock 2008; Coetzee & Lubbe 2013; Hull 2009; Mofokeng 2015). Coetzee and Lubbe (2017a) and the South Australian Local Government Financial Management Group (2015) identified the following as the causes of immature risk management in the public sector: Insufficient resources to mitigate risk; absence of a well-established risk management culture and leadership; limited understanding and application of suitable systems and processes; and absence of explicit legislative mandates.

## □ **Operational human capital resources**

The second concern expressed by the focus group is that municipalities lack personnel with the expertise to identify and manage risks. A study of 36 public sector organisations in South Africa reveals that none of the organisations demonstrated a developed risk management system, which is a cause for concern (Coetzee & Lubbe 2017b, p. 45). In addition, impoverished municipalities face the challenge of financing the implementation of risk management systems (Oulasvirta & Anttiroiko 2017). Additionally, Oulasvirta and Anttiroiko (2017) demonstrated that the absence of incentives discourages municipal management and politicians

from implementing risk management practices. Furthermore, the lack of information sharing among management personnel, commonly referred to as the 'silo' mentality, impedes the development of effective risk management and exposes the self-interested intentions of certain municipal leaders.

### □ **Strategic human capital resources**

Considering these obstacles, audit committee participation in risk management is critical for monitoring and advising on corrective plans and municipal actions designed to mitigate risk. Internal auditors and audit committees are critical participants in the realm of risk management (Coetzee & Lubbe 2017a; Cohen, Krishnamoorthy & Wright 2017; Sibanda, Zindi & Maramura 2020). The principal obstacles encountered by audit committees with regard to risk management, as identified by KPMG (2017) and Coetzee and Lubbe (2017a), are as follows: Inefficacy of risk management programmes; non-compliance with legal or regulatory requirements; inadequate management of cybersecurity risks and failure to maintain the control environment, which is a critical component of a robust risk mitigation strategy; and insufficient communication between internal audit bodies and risk management.

The research revealed that audit committee members not only possess inadequate awareness of the risks associated with the organisations they are tasked with overseeing but also lack comprehension of those businesses. It is acknowledged that audit committee members need a greater comprehension of the business and its risks, including cybersecurity and technology risks (KPMG 2017; Lanz 2023). Consequently, the ability of audit committee members to effectively evaluate, oversee and provide guidance on risk management plans and systems is compromised in the absence of a comprehensive understanding of the business and its associated risks.

Therefore, it is critical that the council appoint individuals with knowledge and experience in risk management, cybersecurity and technology to the audit committee. These individuals should be capable of providing guidance on how the municipality can establish a culture and set of practices for risk management that are both cost-effective and efficient. As suggested by Bungkilo (2017), audit committees could enhance their efficacy in risk management by acquiring a range of competencies to comprehend the risks at hand or by engaging the services of a specialist in domains where they are deficient in specialised knowledge. The audit committee must have the authority to oversee risk management integration throughout the organisation's operations (Zilwa 2015). Therefore, audit committees must

possess a comprehensive understanding of the organisation and its associated risks. This will empower them to assess the municipal decisions made regarding risk identification, analysis and management and to offer appropriate recommendations.

## ■ Summary

Consideration must be given to municipalities' struggle with immature risk management practices. Further, the implementation of effective risk management strategies and addressing challenges necessitates an emphasis on developing organisational capital and human capital. Effective oversight and advisory services regarding risk management require audit committees to possess the requisite expertise and knowledge. The potential for enhanced municipal performance through customised risk management plans and improved audit committee composition requires additional study.

## ■ Internal auditing

### ■ Contextualisation

The internal audit function is classified as an organisational capital resource when applying a resource-based view of the firm theory (Barney 1991; RSA 2003, s. 165[2][b]). This is because they operate under a reporting structure that is accountable to the audit committee. A concern expressed by the focus group is that the ineffective personnel at municipal internal audit functions render them ineffective in carrying out their designated duties. Internal auditing furnishes the municipality with independent risk-based assurance services, advisory services, insight and foresight (Institute of Internal Auditors [IIA] 2024). The services in question ought to be pertinent to the organisation's risk management, internal controls and governance tasks (Anderson et al. 2017; IIA 2024). Primarily, to optimise the efficiency of municipal operations, the internal audit function should perform autonomous audits and offer advisory services that aim to refine the municipalities' processes. In addition to managing risk, these services should ensure compliance with regulations, policies and internal controls.

In accordance with agency theory, the internal audit function acts as a watchdog for the public in the municipal environment by assessing the organisation's risk management and compliance. The function then provides the audit committee with an update on its findings. The relationship between the two is essential to maintaining the positive work environment required for increased performance in the municipality, so it is crucial that they both understand the reporting obligations and expectations to maintain a progressive relationship (Boohene & Gyebi 2023). To add value,

consulting services enable the internal audit function to provide guidance, facilitation and training services (IIA 2024). Consequently, the presence of internal audit functions as agents for municipalities is advantageous, as it can, among other things, clarify matters pertaining to municipal administration.

## ■ **Overcoming challenges faced by an effective internal audit function**

For the internal audit function to operate efficiently as a monitoring and advisory agent, the CAE must manage the function effectively (IIA 2024). The CAE must ensure compliance with the approved internal audit charter and develop a risk-based internal audit plan, resource plan and internal audit budget, among other essential components for an effective internal audit function, prior to commencing the assurance service (IIA 2024). The audit committee approves the internal audit charter, which is a written document that delineates the objectives, jurisdiction and obligations of the internal audit function (IIA 2024; National Treasury 2012a). One of the paramount attributes of a proficient internal audit function is adherence to the Global Internal Audit Standards established by the IIA (Erasmus & Coetzee 2017). The successful administration of the internal audit function is distinguished by the strict observance of its responsibilities and duties in accordance with the Fundamentals of the Global Internal Audit Standards (IIA 2024).

Operationally, the CAE must devise an effective approach for recruiting, developing and retaining qualified internal auditors to successfully execute the internal audit strategy and accomplish the internal audit plan (IIA 2024). Technology should be implemented within the internal audit function to enhance its efficacy and efficiency. The IIA advocates for the usage of technology within the internal audit function to enhance its efficacy and efficiency. The internal audit function in the public sector encounters obstacles that hinder its ability to adhere to the IIA Global Internal Audit Standards. These obstacles include the following: Lack of the necessary competencies, inadequately equipped to perform an IT audit; financial constraints; inadequate support and cooperation from the management; limited business expertise; organisational complexity; and an overly ambitious scope that surpasses practical capabilities (Jóhannesdóttir et al. 2018; Quampah et al. 2021).

Furthermore, given the respective shortcomings of internal auditors and audit committees in the Fourth Industrial Revolution (4IR) field, the application and assessment of artificial intelligence (AI) in audits remain a challenge (Zhang 2021). Even external auditors accepted the adoption of using AI technology in their audits (Noordin, Hussainey & Hayek 2022).

According to Alqudah, Amran and Hassan (2019), the responsibilities of internal audit functions in the public sector can be challenging, particularly if they lack competence which could result in disregarding critical areas. Utilising AI by auditors in the public sector enhances audit quality by improving the timeliness and precision of information and allowing auditing to remain competitive with other industries (Accountability State Authority of Egypt 2023). Therefore, AGSA and the public sector organisations, including municipalities, should provide training to both external and internal auditors on AI techniques, and municipalities should have sufficient budget for it.

## □ Human resources development

As the preceding discourse indicates the effectiveness of the audit committee is profoundly influenced by the leadership and personnel of the internal audit function's competence. When competent professionals execute the internal audit function in accordance with the IIA Global Internal Audit Standards, which are established in the public interest, the function is operating at its highest level of effectiveness (IIA 2024). Human capital resources should possess the appropriate combination of expertise and skills in sufficient quantity to carry out the audit plan (IIA 2024; Van der Waldt et al. 2024).

This underscores the importance of the resource-based view of the firm theory regarding internal audit function. Thus, the capabilities and resources of the internal audit function can facilitate the implementation of a strategy for efficient municipal administration (Barney 1991). However, research conducted in the public sector supports the claims made by the focus groups regarding the insufficiency and incompetence of human capital resources of the internal audit function. In their research, Mbewu and Barac (2017) examined four municipalities situated in the Vhembe district of South Africa, and their findings revealed that each of the municipalities lacked the necessary competencies and lacked a qualified internal auditor in charge of the internal audit function. On the contrary, Erasmus and Coetzee's (2017) research in the public sector of South Africa indicates that the effectiveness of the internal audit function was least influenced by the competency of the CAE and the staff comprising the internal audit function.

Diyana (2019) defined professional competence as the possession of knowledge, skills and work experience. As solutions to an incompetent public sector internal audit function, Diyana proposes an internal auditor training and development plan and the provision of customised e-training courses for a variety of target groups within the function. Consequently, e-training and customised training for the personnel of the internal audit function can



aid municipalities in retaining competent and effective internal auditors. Furthermore, it is suggested by Plant and Padotan (2017) that learnership programmes should not only offer technical skills training to newly appointed internal auditors but also incorporate formal competency assessments and establish a structured mentoring system. The establishment of formal assessment as evidence of an internal audit function's competence will instil confidence among stakeholders that the function is, in fact, providing its services in a proficient and expert fashion (Erasmus & Coetzee 2018).

## □ Goal-driven measurement of effectiveness

An additional element underscored by the preceding discourse is that the efficacy of the internal audit function can be assessed according to the degree to which it fulfils its objectives as specified in the internal audit charter. While there has been considerable research conducted on this subject for a comprehensive overview of almost a decade, Erasmus and Coetzee (2017) and Anderson et al. (2017) delineated the three fundamental components of effective internal audit services as prescribed by the IIA Global Internal Audit Standards as impartiality, competence and reasonable professional diligence. The internal audit function must execute its duties independently and objectively, while also being granted unimpeded access to senior management and the board (IIA 2024). When the CAE reports functionally to the board and administratively to senior management, independence is increased (IIA 2024). Likewise, the CAE reports functionally to the audit committee and administratively to the municipal accounting officer (IIA 2024; National Treasury 2012a).

The internal auditors' and CAE's impartial, unbiased mental attitude while carrying out their duties and devoid of any conflict of interest is crucial (IIA 2024). The study by Ma'ayan and Carmeli (2016) demonstrates that the internal audit function's relationship with the organisation is enhanced by its ethical conduct. Additionally, according to Ghani et al. (2019), the ethical culture of the organisation has an impact on the behaviour of internal auditors. Therefore, to foster an ethical culture, it is crucial that municipal leadership models moral behaviour (Mofolo 2023). Furthermore, the implementation of value-adding recommendations put forth by internal auditors enables municipalities to capitalise on the effectiveness of such auditors (Quampah et al. 2021).

The significance of internal auditors and the CAE possessing the requisite competencies to execute their duties with expertise and appropriate professional diligence is emphasised by the IIA. The IIA, in its capacity as the governing body of the field, acknowledges the significance of its members' proficiency and endeavours to offer direction through initiatives like the Internal Audit Competency Process (IIA 2015) and the Internal



Audit Competency Framework (IIA 2022) – a compilation of the knowledge areas and competency levels for different levels of internal auditors. The municipality should employ the framework and other guidance documents to ensure that the internal audit function’s leadership and staff capabilities align with best practices.

Additionally, the IIA has created a capability model for the public sector that, among other things, determines the level of maturity of competent personnel (IIA 2017). Because of the vulnerability of the internal audit function, implementing the model effectively is dubious (Janse van Rensburg & Coetzee 2016). During the empirical phase, the question of whether the audit committee should oversee competencies and provide guidance on the structure of the competency framework for the internal audit function is put to the test.

### □ **Support from reporting line management**

The presence of a proficient audit committee and an efficient internal audit function within an organisation is regarded as a foundation for sound corporate governance (Alzeban & Sawan 2015). As a result, regular interaction and communication between the CAE and the audit committee chair are essential for fostering a positive relationship (Bromilow, Berlin & Anderson 2005; Khelil, Hussainey & Noubbigh 2016). The CAE is obligated to provide the audit committee with reports on the following: The audit charter; the internal audit function’s independence; the audit plan and its execution progress; resource needs; outcomes of audit activities; and adherence to the IIA Global Internal Audit Standards which includes standards of ethics and professionalism, measures taken to rectify notable conformity concerns and management’s handling of risks that the CAE deems potentially unacceptable to the organisation (IIA 2024).

Alternatively stated, the audit committee is briefed by the CAE on its methodology for carrying out its responsibilities as well as the utilisation and administration of municipal resources. The research underscores the criticality of the internal audit function assuming accountability and responsibility for its tasks. Roussy and Rodrigue (2018) argued that CAE should produce an annual written accountability report that provides a comprehensive overview of its operations and delineates the methodologies utilised to execute its engagements. Multiple studies have provided evidence that the internal audit function is significant and influences the operations of the audit committee. This is because the audit committee heavily depends on reports generated by the internal audit function (Trotman & Duncan 2018; Tušek & Ivana 2016).

## □ Interaction between internal auditing and the audit committee

In relation to the correspondence between the internal audit function and the audit committee, the CAE is not obligated to await the formal in-person meeting with the audit committee prior to submitting reports. Instead, should there be information that merits escalation, the CAE may maintain continuous communication with the audit committee even via telephone and email (Baker 2011; Bromilow et al. 2005; Chambers 2016; PWC 2018). The CAE can maintain independence and objectivity and report with courage when discussing sensitive and confidential matters because of unrestricted interaction and communication (Bromilow et al. 2005; Lindstrom & Johnson 2018). As a result, the audit committee will possess current knowledge regarding risk and business matters that are escalated by the CAE in the exercise of sound judgement (Baker 2011; Bromilow et al. 2005). Furthermore, the audit committee will have the chance to understand the CAE's perspective on the escalated issues, enabling it to provide timely and suitable responses. The absence of sufficient informal meetings between the two parties in certain municipalities is a matter of concern (Dlamini, Mutambara & Assensoh-Kodua 2017).

It is considered crucial that the CAE and the chair of the audit committee consult to prioritise the agenda items and prepare for the audit committee meeting (Lindstrom & Johnson 2018). Unless otherwise specified by the accounting officer, the internal audit function is accountable for the secretarial duties preceding audit committee meetings in municipalities (National Treasury 2012a). It prepares the meeting materials to be discussed, distributes invitations and agendas to members, handles all meeting logistics and records meeting minutes (National Treasury 2012a). Hence, providing administrative assistance for audit committee meetings constitutes an additional authorised responsibility of the internal audit function within governmental entities. The significance of this role was underscored by the first focus group. In addition to assisting the audit committee in identifying critical areas of organisation knowledge deficiency and developing appropriate training programmes (Bromilow et al. 2005), the CAE can also assist in the orientation of newly appointed audit committee members. Additionally, the chair may review internal audit reports to acquire a more comprehensive comprehension of the organisation and its associated risks. Engaging in these behaviours could potentially foster mutual understanding of one another's responsibilities and facilitate the development of a relationship founded on trust.

## ■ Summary

Internal audit functions are seen as valuable resources for municipalities, but concerns exist about their effectiveness because of staffing issues. Their primary role is to provide assurance and advisory services related to risk management, internal controls and governance. Challenges to effectiveness include lack of support, limited expertise and financial constraints. Key factors for improvement are (1) HR development: Invest in training and development to ensure competent staff; (2) goal-driven measurement: assess effectiveness based on meeting objectives outlined in the internal audit charter; (3) support from reporting line management: foster communication and collaboration with the audit committee; and (4) interaction between internal auditing and the audit committee: maintain open communication and escalate important matters promptly.

## ■ Emerging concepts

By synthesising insights obtained from focus group discussions and the literature review, a preliminary framework was developed to illustrate emerging concepts that aim to improve the effectiveness of audit committees in South African municipalities. The final framework was developed after interviews with additional participants to evaluate the preliminary framework. The frameworks focusing on municipal administration are presented in Tables 3.1–3.3.

## ■ Framework for audit committees

Tables 3.1–3.3 are frameworks for audit committees, municipalities, treasuries and SALGA derived from focus groups and literature.

**TABLE 3.1:** Framework for audit committees – municipal administration.**Municipal administration**

1. Proficiency in the financial tools utilised by the municipality, including, but not limited to the annual budget, IDP, SDBIP and performance management system is imperative for the audit committee to furnish authoritative counsel
2. When necessary, the audit committee must render pertinent advice on administrative affairs, thereby empowering the municipality to make well-informed decisions and take accountability. It should, nevertheless, refrain from involvement in operational affairs that could undermine its autonomy.

**Organisational maturity**

1. Good governance within the municipality should be promoted by the audit committee
2. It is crucial that the audit committee remains informed regarding HR matters deliberated by the HR Committee. Furthermore, it is the audit committee's duty to offer advice on matters of which it possesses knowledge.
3. Internal auditors should give assurance to the audit committee that the municipality is in compliance with the law
4. It is imperative that the audit committee receives assurance from external audit, internal audit and other assurance providers regarding the municipality's adherence to pertinent legislation and policies regarding:
  - Management of municipal human capital resources, including staff recruitment, training and other aspects (Individual level)
  - The organisation functions, authority, responsibility and obligations of the departments within the municipality (Group level)
  - The organisational culture and structure (Organisational level).

**Risk management**

1. Knowledge of current/('up-to-date') risk management strategies is required of the audit committee
2. Legislation and risk management current best practices ought to inform the audit committee's advice to the municipality
3. The provision of adequate financial management advice by the audit committee to the municipality is crucial in reducing the risk of poor service delivery because of sustainability concerns

**Internal audit functions**

1. The audit committee is responsible for monitoring and offering expert advice on the:
  - Requirements of the competency framework of the internal audit function
  - The internal audit function's structure, purpose, authority, responsibilities, competencies, independence, charter, audit plan and resource requirements.
2. In formulating its advice to the municipality, the audit committee must utilise the reviewed final audit reports
3. The chair of the audit committee is required to attend meetings alongside senior personnel of the internal audit function such as the CAE and external auditors to deliberate on their reports and any obstacles they experienced
4. Significant issues pertaining to internal and external audit findings and recommendations must be reported to the council by the audit committee
5. To promote the effectiveness of assurance providers such as internal and external audits, the audit committee must hold management accountable by reporting it to the council for not implementing the necessary recommendations from assurance providers. Such reporting can be extended to the annual report of the audit committee.
6. The audit committee is required to remain current on the risk and business matters and those escalated by the CAE and exercise sound judgement when evaluating and providing advice
7. The CAE and internal audit function personnel should be granted access to the audit committee in a manner that is both organised and unrestricted. Attendance at these meetings on a regular basis is mandatory for both the CAE and the audit committee chair.

Source: Legodi, AH 2021, pp. 420–426.

Key: IDP, Integrated Development Plan; SDBIP, Service Delivery Budget Implementation Plan; CAE, chief audit executive.

## ■ Framework for municipalities

**TABLE 3.2:** Framework for municipalities – municipal administration.

<p><b>Municipal administration</b></p> <ol style="list-style-type: none"> <li>1. The endorsement of the audit committee function by the municipal council, management, staff and other pertinent stakeholders is imperative for the audit committee to effectively carry out its duties.</li> <li>2. Council members must have the authority to challenge the information provided by the chair of the audit committee and choose suitable recommendations for the municipality's implementation</li> <li>3. The inclusion of a comprehensive list of all recommendations put forth by the audit committee, accompanied by an explanation of the decision regarding its adoption or rejection, should be a requirement of the municipal integrated report. Accountability will be enhanced by the initiative.</li> </ol> <p><b>Organisational maturity</b></p> <ol style="list-style-type: none"> <li>1. It is imperative that the municipal council and staff members possess and operationalise pertinent legislative and institutional knowledge of the municipality and other relevant institutions</li> <li>2. The municipality is required to maintain adequate record keeping and adhere to all applicable laws, policies and procedures</li> <li>3. The municipal council and staff are obligated to comprehend and implement legislative mandates, policies and procedures that pertain to the performance management system</li> <li>4. Vacant municipal positions must be evaluated for efficiency and necessity by the municipality</li> <li>5. The necessary vacant positions must be filled in accordance with legislative policies and in accordance with the needs of IDP</li> <li>6. It is imperative that the municipality be managed effectively at the individual, group and organisational levels.</li> </ol> <p><i>Individual level</i></p> <ol style="list-style-type: none"> <li>7. The municipality should recruit personnel whose personalities and values align with the objectives of the municipality and offer the appropriate diversity of abilities, age, gender, race and so forth</li> <li>8. It is incumbent upon the municipality to organise both in-person and online training sessions for all councillors and municipal employees, covering topics such as legislation, policies, technical skills and soft skills</li> </ol> <p><i>Group level</i></p> <ol style="list-style-type: none"> <li>9. It is imperative for the municipality to implement effective control and monitoring mechanisms pertaining to power dynamics, management, politics, conflicts and communication within its groups and teams</li> <li>10. To ensure group cohesion, the municipal leadership must possess the necessary capability.</li> </ol> <p><i>Organisational level</i></p> <ol style="list-style-type: none"> <li>11. The municipality must establish a culture and organisational structure that facilitate the achievement of its objectives</li> <li>12. The municipality ought to cultivate a corporate culture that embodies devoted employees who uphold the organisation's values</li> <li>13. The implementation of human resource management and a revision of practices that impact its viability and productivity must be undertaken by the municipality.</li> </ol> <p><b>Risk management</b></p> <p>The municipality must:</p> <ol style="list-style-type: none"> <li>1. Establish a framework and system for risk management that is attuned to the surroundings and realities</li> <li>2. Maintain vigilance over the risk management system and respond timeously and adequately to threats.</li> </ol> <p><b>Audit functions</b></p> <p>The municipality should:</p> <ol style="list-style-type: none"> <li>1. Establish capabilities of human, skills and infrastructure of an independent and effective internal audit function to ensure its sustainable effectiveness</li> <li>2. Appoint CAE and internal auditors who are appropriately qualified and competent</li> </ol>
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Table 3.2 continues on the next page→

**TABLE 3.2 (cont.):** Framework for municipalities – municipal administration.

3. Remunerate the CAE and internal auditors fairly to attract qualified and competent internal auditors
4. Assure that the CAE and internal auditors possess valid qualifications and are registered members of the IIA
5. Ensure that the council adopts the approved internal audit charter
6. Implement a combined assurance strategy
7. Permit the CAE to assess the due professional care, objectivity and competence of other assurance and consulting service providers of the municipality
8. Ensure that the internal audit function's scope is adequate to provide the municipality and audit committee with the necessary information and support
9. Guarantee that the CAE and internal audit function staff possess unrestricted yet structured access to the audit committee. The audit committee chair and CAE should always attend meetings of this nature.
10. Recommend that the CAE seek expert advice from the chair of the audit committee when necessary
11. Ensure that the audit committee receives appropriate training in critical areas that demand insight from the HR department of the municipality and oversight bodies like SALGA and the treasuries.

Source: Legodi, AH 2021, pp. 450–460.

Key: CAE, chief audit executive; IDP, Integrated Development Plan; IIA, Institute of Internal Auditors; SALGA, South African Local Government Association; HR, human resources.

## ■ Framework for National Treasury, provincial treasuries and South African Local Government Association

**TABLE 3.3:** Framework for National Treasury, provincial treasuries and South African Local Government Association – municipal administration.

### **Risk management**

1. National Treasury must improve risk management regulations

### **Audit functions**

1. National Treasury must determine the mandatory training needs of audit committee members and the government organisation that should provide the training
2. National Treasury must create a competency framework for both the CAEs and the internal auditors

Source: Legodi, AH 2021, p. 485.

Key: CAEs, chief audit executives.

## ■ Validation of the framework concepts

The subsequent assistance was obtained in the process of testing the framework's identified concepts, utilising insights gathered from interviews with a range of stakeholders.

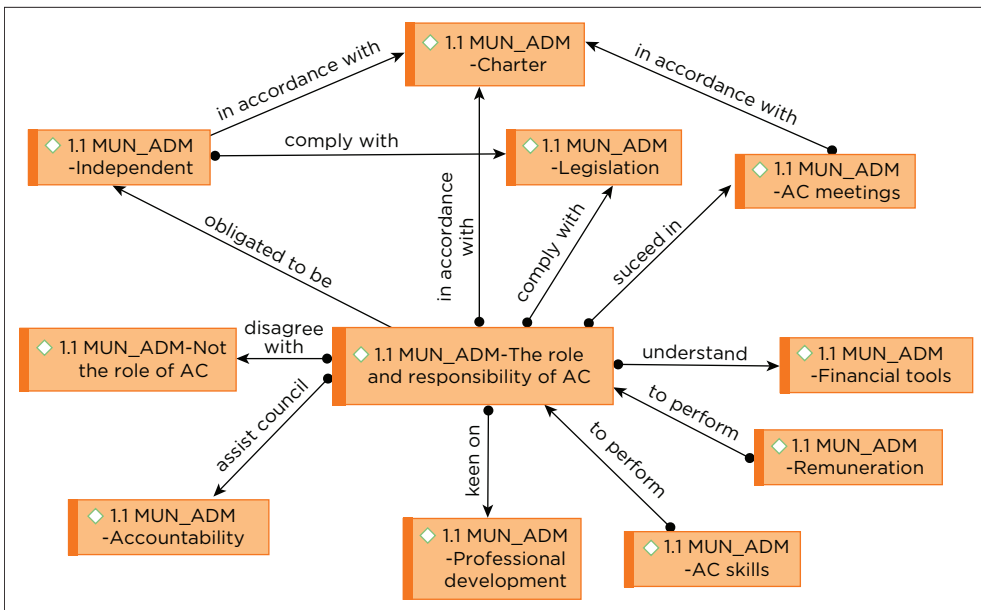
## Audit committee framework

### Municipal administration

Figure 3.3 reflects all the concepts obtained from the participants pertaining to municipal administration for audit committees.

There was unanimous agreement among all participants regarding the necessity for the audit committee to possess knowledge and proficiency in the administrative tools utilised by the municipality. Participant 1A submitted, however, that the term ‘financial’ [tools] should be used instead of ‘administrative’ [tools], because ‘when we speak about the issues of service delivery budgets and the likes, very few people call that administrative tool, we will call that financial tools’ (Participant 1A, male, white, 10 April 2020).

Furthermore, Participant 3A emphasised the audit committee’s need to be informed of ‘new legislation’. Therefore, to emphasise that the audit committee must possess current knowledge of the elements, the word ‘current’ was appended. Additionally, the framework was expanded to include accountability by the council.



Source: Legodi, AH 2021, p. 231.

Key: AC, audit committee; MUN ADM, municipal administration.

**FIGURE 3.3:** Audit committee framework – municipal administration.

A consensus was reached among 12 participants that audit committees ought to offer guidance on administrative affairs. Participant 3A stated that accounting officers are tasked with the responsibility of offering guidance on administrative affairs. Her apprehension was that the involvement of audit committees might compromise the independence of management. Moreover, Participant 1B expressed concern regarding the issue of time management when the audit committee attends to administrative matters, despite agreeing with the action. He stated that 'audit committee meetings have limited time on dealing with operational matters' (Participant 1B, male, black, 27 April 2020).

The framework was enhanced by incorporating audit committee independence and clearly prohibiting audit committee involvement in operational affairs; nevertheless, audit committees remain authorised to provide advice to the accounting officer and management responsible for administrative matters in accordance with the MFMA (RSA 2003, s. 166[2][a]).

The participants have identified key concepts, namely, legislation, the audit committee charter, the function and accountability of audit committees, the competencies required of audit committees, audit committee meetings, risk management, compensation and independence. Some of the concepts are presented within the framework under other relevant themes (chapters in this book).

Professional development is an emerging concept that was not incorporated into the initial frameworks.

'They need to make sure that they are maintaining their CPD [continuous professional development] in that respect because they are being paid for the knowledge and experience that they have.' (Participant 3A, female, Indian, 07 April 2020)

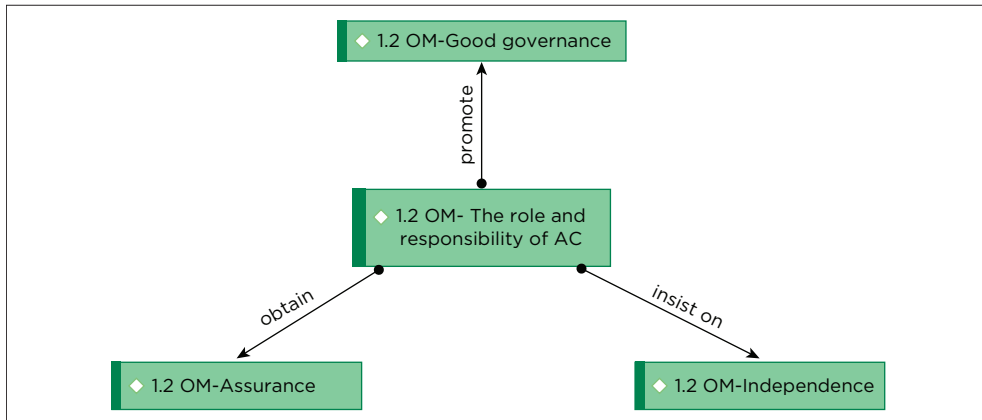
It was incorporated into the relevant category of 'competencies of the audit committee' in another theme.

## □ Organisational maturity

Figure 3.4 reflects all the codes as concepts obtained from the participants regarding the organisational maturity category.

Nine participants agreed with the proposed action to monitor and advise on organisational structure and culture; three participants partially agreed, and two participants disagreed. The primary factor influencing the participants' partial agreement or disagreement was the perception that the action in question was operational in nature and not within the audit committee's purview. Furthermore:





Source: Legodi, AH 2021, p. 233.

Key: AC, audit committee; OM, organisational maturity.

**FIGURE 3.4:** Audit committee framework – organisational maturity.

‘[T]he issues that have to do with organisational structures and human resources are mainly dealt with by SALGA through their processes. Most of the time the audit committee does have the opportunity to assess and provide their advice and recommendation.’ (Participant 3C, male, black, 09 June 2020)

Individual monitoring and guidance on human capital resource management were met, with only seven participants agreeing, one participant partially agreeing and six participants disagreeing. This constituted the rationale that ‘this is the role of management and internal administrative structures like the Executive Management Team’ (Participant 2A, female, black, 01 June 2020). It was further stated that adequate oversight mechanisms are currently in place to monitor municipalities’ human capital resources. ‘There are other specialised oversight structures in place to provide expert advice on the matters listed to council’ (Participant 2E, male, coloured, 10 June 2020).

A further concern was expressed by the participant: ‘we should be careful of overreaching the mandate of the audit committee in terms of being too involved in the operational matters of the municipality’ (Participant 2E, male, coloured, 10 June 2020). Participant 3C brought to light a matter of concern that [*audit committees*] ‘recommendations are always ignored because issues that have to do with human resource and organisational structure, are very sensitive issues for local government’ (Participant 3C, male, black, 09 June 2020). Participant 4A agrees with the argument provided. He mentioned that:

‘Human Resource Committee that actually plays the same role as the audit committee within council, so you will have Human Resource Committee which is responsible to look at the organisational structure and managing the human capital within and resources within the municipalities and how the appointments should be done, so.’ (Participant 4A, male, black, 02 April 2020)

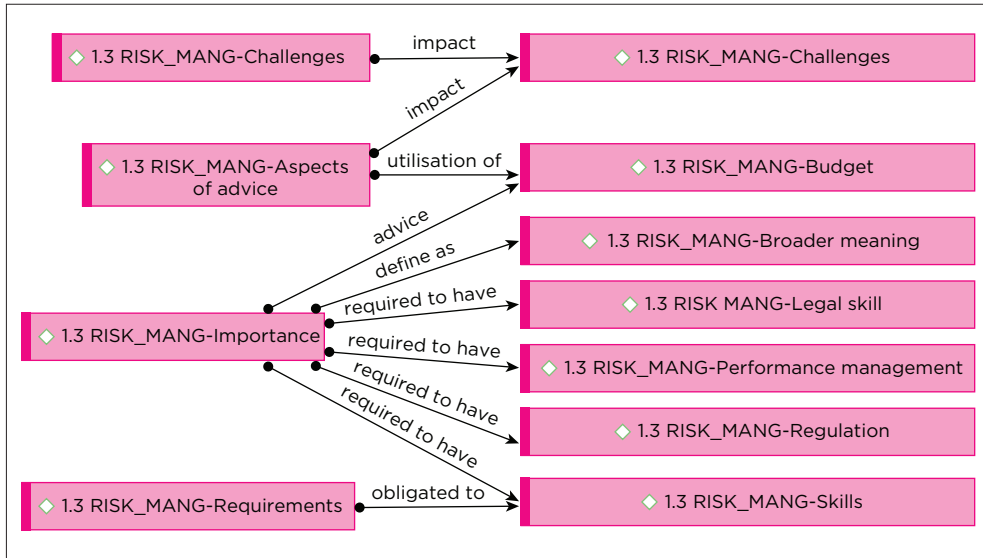
The participants' feedback adequately demonstrated that audit committees are not required to provide guidance on human capital resources in municipalities; such guidance would be redundant with existing structures and require duplicate efforts. However, matters pertaining to HR, such as risk management, performance management and effective governance, fall within the purview of the audit committee to provide guidance. Consequently, the audit committee must be informed of and provide guidance within their expertise on human resource issues deliberated upon by the HR Committee.

Nine respondents agreed with the suggested course of action regarding audit committees monitoring and advising groups on the structure, roles and responsibilities of the departments within the municipality. Two respondents partially agreed, and three respondents disagreed. This proposed action is driven by the same justifications that Participants 2A, 2E, 3A 3C and 4A provided for Action 1b. Moreover, Participant 2E stressed that '[t]here are other specialised oversight structures in place to provide expert advice on the matters listed to council' (Participant 2E, male, coloured, 10 June 2020). As a result of the participants' explanations, the audit committee's proposed actions to provide advice on matters pertaining to the structure, roles and responsibilities of departments within the municipalities were eliminated from the initial framework.

In the realm of organisational maturity, Participant 4A introduced a novel notion of good governance. He stated that audit committees 'are promoters of good governance'. An additional novel notion that was introduced was assurance. Participant 3A stated that municipalities will attain their maturity level when 'the audit committees obtain assurance about compliance with legislation and obtain assurance about these matters as opposed to providing advice' (Participant 3A, female, Indian, 07 April 2020). She put forth the point that audit committees 'are meant to be making sure that the assurance is provided by internal audit, external audit and other service providers like health and safety for example'. Assuming organisational maturity, the participant suggested that audit committees are responsible for obtaining assurance from assurance providers concerning compliance with municipal policies and legislation. The framework now incorporates a novel action pertaining to assurance.

## □ Risk management

Figure 3.5 reflects all the concepts obtained from the participants on the risk management category.



Source: Legodi, AH 2021, p. 237.  
 Key: RISK MANG, risk management.

**FIGURE 3.5:** Audit committee framework - risk management.

Service delivery is adversely affected by the risks that municipalities must manage. In addition, the audit committee must have the necessary expertise to provide guidance on budgetary issues, which will most likely improve financial management and service delivery. As opposed to listing a few specific items, as in the proposed draft framework, the framework established the broader meaning of risk management. To enhance the operational effectiveness of municipalities, regulation of risk management is vital. The audit committee ought to have a responsibility to acquire or possess proficiency in legal and performance management to offer suitable recommendations regarding risk management.

The audit committee must be well informed regarding the municipality’s operations, associated risks and risk management systems, information and communication technology (ICT), and cybersecurity. All participants agreed with the assertions. ‘Risk management is a key component of the audit committee and the municipal management’ (Participant 1C, male, black, 04 June 2020). Nonetheless, the municipalities’ inadequate or non-existent risk management systems were cited as a source of concern. ‘The municipalities we evaluate, it’s either there is no one [*appointed for risk management responsibility*] or there is someone [*unexperienced*]’ (Participant 3B, male, coloured, 28 May 2020). Some municipalities are

reportedly devoid of specialised, experienced personnel for risk management. Existing, non-specialist personnel, such as the CAE, are occasionally assigned the responsibility.

In so far as risk management expertise must be a prerequisite for audit committees, Participant 4B concurred with the suggested measures. 'At a minimum, the audit committee should have the knowledge and provide advice on risk management' (Participant 4B, male, white, 01 May 2020). A minimum of up-to-date knowledge regarding risk management is required of the audit committees.

Participant 1A suggested changes to the framework. He stated that 'information technology since then that term has been replaced by ICT and not only IT' (Participant 1A, male, white, 10 April 2020). According to Participant 4B:

'[O]ne should consider leaving the narrative at risk management only because if one specifies something like IT, then one should start specifying other areas as well, for example, fraud risk.' (Participant 4B, male, white, 01 May 2020)

Participant 4B's recommendation was duly considered, given that the overarching concept of risk management encompasses not only the areas explicitly mentioned in the framework but also those that are relevant but not explicitly listed. It was rephrased and moved to another theme.

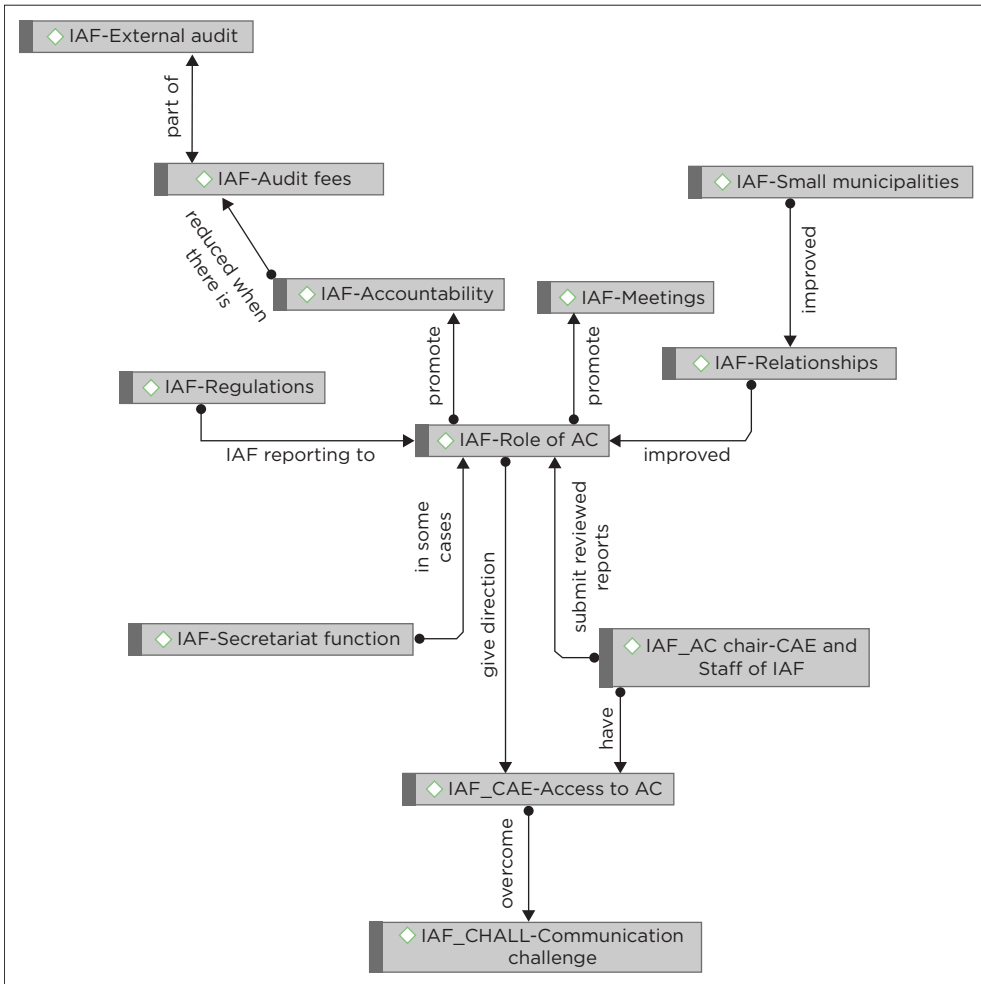
Participant 2C noted that audit committees ought to have knowledge of the municipality's risk strategies. This notion was considered, and the framework's action was revised to incorporate risk management strategies. Participant (3B) espoused the need for risk management to be regulated. 'In terms of National Treasury, I just feel they need to regulate risk management because there is a lot of room for improvement' (Participant 3B, male, coloured, 28 May 2020). As a result, the framework was supplemented with references to legislation and best practices for audit committees providing guidance on risk management.

Challenges encountered by municipalities, such as budgetary and service delivery issues, were additional novel concepts introduced in this category. 'Risk of service delivery' and 'municipalities losing their finances to deal with the damage that has actually been caused by the service delivery protests' (Participant 4A, male, black, 02 April 2020). Addressing this challenge requires the audit committee to assume the responsibility of 'oversight on the financial management, then we can see a minimal risk of service delivery protest' (Participant 4A, male, black, 02 April 2020). A novel measure was incorporated into the framework to mitigate the potential for substandard service provision.

## Internal auditing

Figure 3.6 reflects all the concepts obtained from the participants about the internal audit function.

The cost of the external audit comprised the audit fees. Audit fees may be reduced in the mere existence of municipal accountability. To foster accountability, audit committees must ensure that they report on all audit report findings. Therefore, municipalities should formulate audit action plans that encompass audit recommendations, action steps, target dates



Source: Legodi, AH 2021, p. 240.

Key: AC, audit committee; IAF, internal audit function; CAE, chief audit executive.

**FIGURE 3.6:** Audit committee framework - internal audit function.

and operational guidelines to facilitate the most efficient implementation. Accountability and consequence management should be applied to the ineffective execution of the audit action plan (Van der Walddt et al. 2024). The effectiveness of audit action plans is determined by repeating audit findings. Hence, there is a need for a turnaround strategy in such instances (McKenzie & Marx 2024).

Additionally, the chair of the audit committee must encourage ongoing communication with the CAE and his or her staff and external auditor. The audit committee must be accessible to every member of the internal audit function. Enabling all personnel affiliated with the internal audit function to have access to the audit committee will effectively address the issue of communication breakdown or miscommunication that may arise between the two entities. Especially in small municipalities that need additional support, the relationship between the audit committee and the CAE should be strengthened.

Audit committees are required to receive reports from the internal audit function. This reporting is critical to the committee's ability to provide appropriate recommendations. Furthermore, the audit committee's secretarial responsibilities are a component of the internal audit function in some municipalities.

All participants agree with the audit committee's responsibility to oversee and offer guidance on (1) the internal audit function's competency structure and the capabilities of internal auditors and (2) the function's structure, purpose, authority, responsibilities, competencies, independence, charter, audit plan and resource needs. There were no additional remarks provided, and thus, the actions in the framework remained unaltered.

On the aspect that the audit committee must review internal audit reports to understand the business and risks and provide the necessary advice, 13 participants agreed and one disagreed. Participant 2A's reason for disagreement was 'the role of internal audit management and the CAE, is to review the reports of internal audit'. And thereafter:

'[S]hould report the outcomes of those reports to audit committee to reflect the effectiveness of internal control environment in the organisation. This will form the basis for the audit committee to advise the leadership of the municipality of governance matters.' (Participant 2A, female, black, 01 June 2020)

Thirteen participants concurred and one disagreed with the statement that the audit committee must review internal audit reports to comprehend the business and risks and subsequently provide the required advice. Respondent 2A expressed dissent by essentially confirming the implication of the proposed course of action. To prevent ambiguity, the framework was rephrased to avoid confusion.

All participants reached a consensus on whether the audit committee must remain current with the risk and business issues escalated by the CAE and exercise discretion when evaluating and providing advice. No additional remarks were expressed.

Twelve participants expressed agreement with the statement that the audit committee chair must grant unrestricted access to the CAE, while two participants only partially agreed. Participant 1A suggested that the internal audit function's entire staff should [*have access*] 'to the audit committee, not only to the chair' (Participant 1A, male, white, 10 April 2020). Participant 2C expressed agreement with this viewpoint, stating that the chair of the audit committee:

'[M]ust also have continuous meetings with the staff, the internal audit staff in the presence of the CAE so that the internal audit staff are able to raise certain things that maybe they are unable to raise with the CAE.' (Participant 2C, male, black, 03 June 2020)

Contrary to the statement, which suggests that staff members should be able to raise conflicting issues in the presence of CAEs, the intention is for meetings with staff members to discuss matters that could not be discussed with the CAEs. This can create an awkward situation for staff members as they attempt to communicate contradictory information. It would be inappropriate for a subordinate to engage in a discussion with the audit committee without the knowledge of the CAE, given that municipalities are hierarchical organisations. As the head of the internal audit function, the CAE's presence is therefore required at all meetings to prevent any potential confusion.

All participants reached a consensus regarding the necessity for the audit committee chair to hold regular pre-meetings with the CAE. A point raised by Participant 4B on secretariat was that:

'[S]eparate the audit committee secretariat function with [from] the internal audit unit because at some municipalities the Audit Committee Secretariat is done by council secretariat or even a dedicated Audit Committee Secretariat but at others, it is done by the Internal Audit Unit.' (Participant 4B, male, white, 01 May 2020)

The action was revised to remove the CAEs as secretariat and use the general term 'audit committee secretariat'. It was moved from this theme to another, more relevant one.

Participant 4B suggested that the framework must include external auditing. The suggestion was considered and added to the framework. The category heading 'internal audit function' was changed to 'audit functions' to accommodate external auditing.

Participant 3C promoted the adoption of accountability practices, [*audit committees*] 'hold management accountable [...]' (Participant 3C, male,

black, 09 June 2020). The legislation does not provide explicit authorisation for audit committees to impose liability on management for failing to execute audit recommendations. Nonetheless, the audit committee may notify the council of the situation. The council has the final authority to impose liability on management. Implementation of audit recommendations is 'one of the key issues for reducing audit costs' (Participant 3C, male, black, 09 June 2020) referring to external audit fees. A new action was added to the framework to reflect this matter.

Another concept of regulations relates to 'Section 165 of the *Municipal Finance Management Act* that actually requires the internal audit to advise the Accounting Officer and also to report to audit committee' (Participant 4A, male, black, 02 April 2020). The information was proffered by the participant to support the role of the audit committee in directing the internal audit function. No action was added to the framework as the role of the audit committee concerning the internal audit function had already been included in the framework.

A concern is revealed by the notions of communication difficulties, relationships, meetings of CAE and audit committee in small municipalities that 'the relationship with the audit committee and the CAE's, some of the smaller ones is not up to standard, so there is room for improvement on that side' (Participant 3B, male, coloured, 28 May 2020). To strengthen the relationship between the internal audit function and audit committees, access to audit committees is encouraged for all internal audit function personnel. It is anticipated that the likelihood of communication failure is caused by 'restriction between personalities' (Participant 1A, male, white, 10 April 2020), between the CAEs and audit committee members.

## ■ Municipal framework

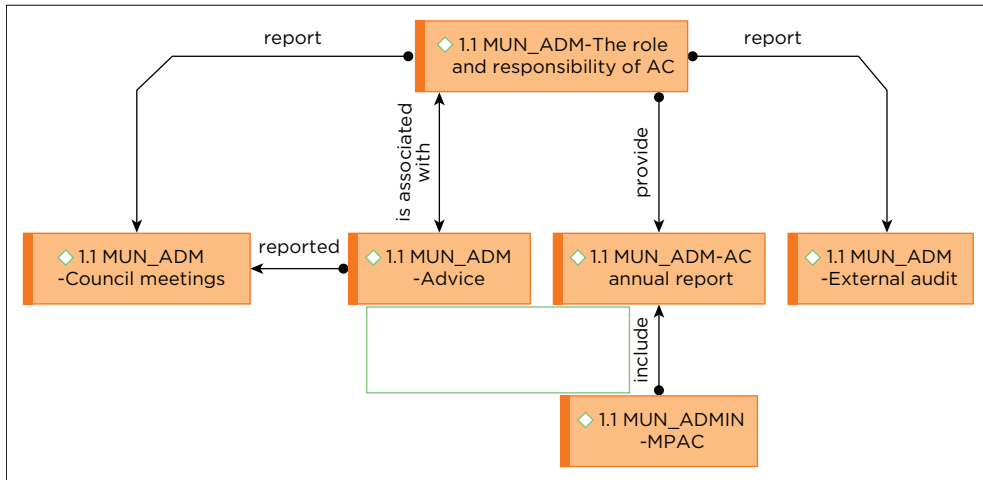
A municipal framework was developed, utilising certain concepts deliberated by the participants. Practitioners within municipalities can implement this framework to augment the effectiveness of audit committees.

## □ Municipal administration

Figure 3.7 reflects all the concepts obtained from the participants on municipal administration.

The audit committee is tasked with the duty and obligation of providing reports to the council that incorporate its recommendations. Additionally, it is their duty to provide the council with a report regarding the results of the external audit. Furthermore, in its capacity as a municipal oversight body, MPAC is obligated to incorporate the annual audit committee report





Source: Legodi, AH 2021, p. 282.

Key: AC, audit committee; MUN ADM, municipal administration.

**FIGURE 3.7:** Municipal framework - municipal administration.

into the annual integrated report of the municipality. The integrated report should comprise the recommendations put forth by the audit committee. All participants reached a consensus that the municipal council, management, staff and other pertinent stakeholders should support the audit committee’s function. Supporting the action is Participant 3C’s advocacy that:

‘[T]he municipality has the responsibility to ensure that it understands the role and responsibilities of the audit committee beyond just compliance issue so that when councillors take resolutions, they must have considered the sound advice that they have received from the audit committee.’ (Participant 3C, male, black, 09 June 2020)

The proposed course of action for the framework remains unchanged. Ten participants agreed and four disagreed regarding whether the audit committee chair should report on its engagements as a standing agenda item during ordinary council meetings. It is recommended that the audit committee chair convenes with the council ‘quarterly as a leading practice’ (Participant 2A, female, black, 01 June 2020). Therefore, the quarterly audit committee report cannot remain on the council’s permanent agenda, given that the council frequently meets monthly. Consequently, it is inappropriate to implement the proposed action of the standing agenda item for quarterly audit committee reporting during the monthly council meeting. While the proposed action was generally supported by the majority, the monthly meetings with the council are superseded by quarterly meetings because audit committees do not meet monthly. Monthly reports are, therefore, not accessible. Consequently, its inclusion was omitted from the framework.

All participants reached a consensus regarding the requirement for councillors to possess the ability to scrutinise the information provided by the audit committee chair and determine the most suitable recommendation for implementation within the municipality. Participant 4A provides support by stating that 'it does not necessarily mean that it [the audit committee advice] has to be implemented, because then they [council] need to look at advice if it is helpful' (Participant 4A, male, black, 02 April 2020). No additional remarks were expressed.

Councillors are to report to the public concerning the advice by the audit committee, and the internal auditors and external auditors rejected by the council and furnish the reasons for such rejection. The practice will promote accountability. Yet, only 11 participants agreed with the proposed action, two participants partially agreed and one participant disagreed. Participant 4B suggested that the reporting of the council 'should include other committees for example the risk committee or the performance committee or MPAC' (Participant 4B, male, white, 01 May 2020). Participant 2A further explained that:

'[I]f for instance the matters are not addressed adequately in the MPAC report, then they can use their annual report which is going to be part of the integrated report, to raise whatever concerns that they might have which are outstanding in the annual integrated report.' (Participant 2A, female, black, 01 June 2020)

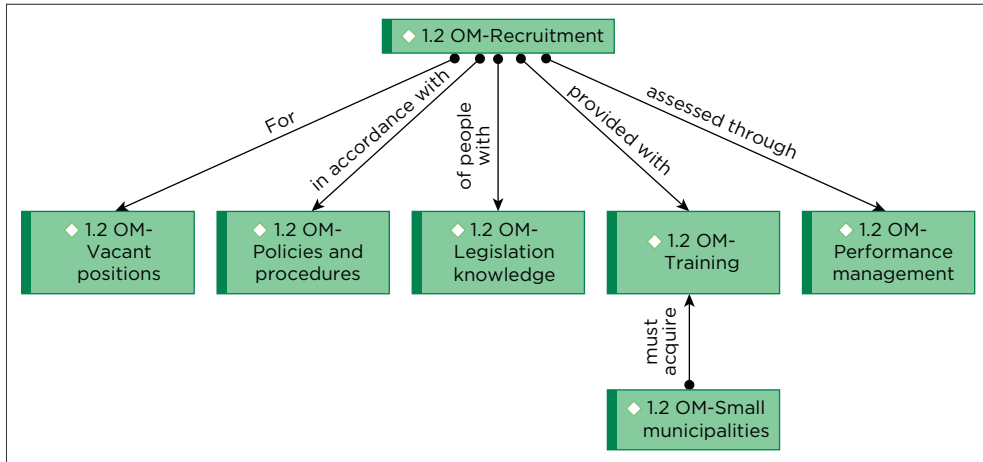
Consequently, the framework was modified to accurately represent the practical implementation of the proposed action.

Participant 4A presented a thought-provoking viewpoint that 'everything that is reported by the auditor-general or the external auditors, [it] catches a lot of interest to the public' (Participant 4A, male, black, 02 April 2020). The public takes a keen interest in the external audit reports from AGSA and studies the reports to assess the performance of municipalities. Although the viewpoint is legitimate, its implementation is beyond the purview of municipalities; thus, it was excluded from the framework.

## □ Organisational maturity

Figure 3.8 reflects all the concepts obtained from the participants on organisational maturity.

When filling vacant positions, municipalities must conduct the necessary recruitment efficiently and cost-effectively. Municipal personnel must be hired according to established policies and procedures. The municipality must recruit those with legislative expertise, and all employees must be provided with the requisite training. Additionally, training must be provided to small municipalities, particularly in areas where skills are scarce. It is necessary to evaluate the municipalities and their hired personnel via the performance management system.



Source: Legodi, AH 2021, p. 285.

Key: OM, organisational maturity.

**FIGURE 3.8:** Municipal framework – organisational maturity.

All participants agreed that the municipal council and staff members must possess institutional knowledge concerning the municipality as well as other pertinent institutions. In addition to adhering to regulations, policies and procedures, the municipality must maintain accurate records. Vulnerable positions within the municipality must be filled. The municipality should be managed adequately, individually, collectively and organisationally. Participant 3A stated that staff and council members must be well informed regarding legislation ‘because then that will make it much easier for them to comply’ (Participant 3A, female, Indian, 07 April 2020). The framework now incorporates the recommendation.

It was a matter of concern that municipalities ‘have a lot of vacant positions but they are not essential for the service delivery’, and therefore, ‘re-assessment of the efficiency’ of vacant positions is essential (Participant 1A, male, white, 10 April 2020). Vacant positions must be filled following the appropriate recruitment procedures: ‘policies and procedures as well as your [sic] IDP in terms of the need of the organisation’ (Participant 4C, female, white, 28 May 2020). Furthermore, ‘it should be done in terms of the available budget and the financial considerations in terms of the sustainability of the municipality’ (Participant 2E, male, coloured, 10 June 2020). The participants’ concerns were deemed valid and incorporated into the framework.

The municipality ought to conduct employee recruitment with a suitable blend of diverse attributes such as skills, age, sex, race and more, as well as personalities and values that align with the objectives of the organisation.

All municipal employees must have access to training, including emotional intelligence. Thirteen participants agreed, and one individual partially agreed. As stated by Participant 4A, the scope of the training ought to extend beyond emotional intelligence, and it should be ‘soft skills for all employees’ (Participant 4A, male, black, 02 April 2020). Participant 1C supported training ‘in remote municipalities [*where*] skills are a problem’ (Participant 1C, male, black, 04 June 2020). Additionally, Participant 4C underscored the criticality of providing councillors with training on ‘legislation or whatever [*sic*] or changes in the policies in their specific area’. Participant 3B recommended utilising online training whenever feasible, citing limitations in municipal budgets.

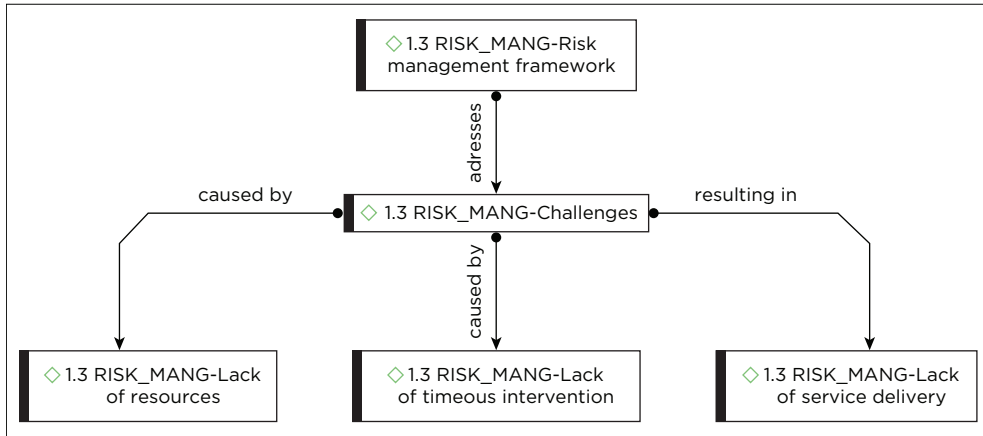
All participants agreed that the municipality must implement effective control and monitoring mechanisms pertaining to power dynamics, management, politics, conflicts and communication within its groups and teams. In order to ensure group cohesion, the municipal leadership must possess the necessary capability. On an organisational level, the municipality must establish a culture and an organisational structure that facilitate the achievement of its objectives. It ought to cultivate a corporate culture that embodies devoted employees who uphold the organisation’s values. Last, the municipality must implement human resource management and revise practices that impact its viability and productivity. Importantly, as pointed out by Participant 4B, the municipal framework must incorporate ‘performance management. Either [*in*] another category or within this section’ (Participant 4B, male, white, 01 May 2020). An action regarding a performance management system was added to the framework in another theme.

## □ Risk management

All the concepts elicited from the participants regarding risk management are presented in Figure 3.9.

The framework for risk management must effectively tackle the obstacles inherent in risk. Municipalities encounter difficulties in risk management because of insufficient resources and delayed interventions in response to risks. Inadequate risk management can lead to compromised or absent service delivery.

In addition to monitoring the risk management system and responding appropriately to threats, the municipality must implement a risk management plan and system tailored to its specific environment and circumstances. All participants agreed with this statement. Participant 2E added that ‘we refer to it as a risk management policy framework as an overarching risk management framework inclusive of a risk management



Source: Legodi, AH 2021, p. 288.  
 Key: RISK MANG, risk management.

**FIGURE 3.9:** Municipal framework - risk management.

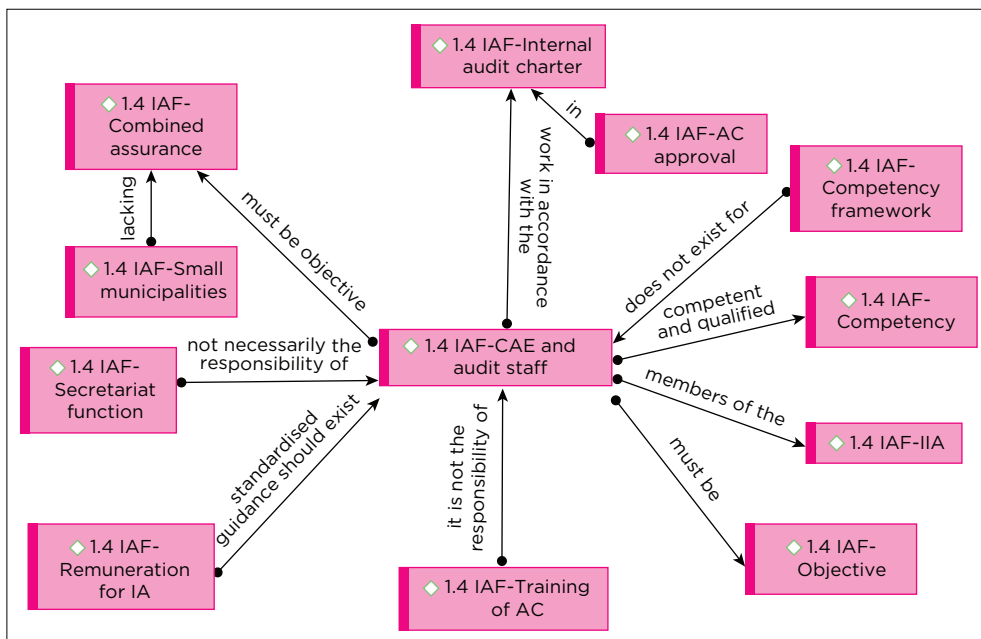
policy, strategy and implementation plan’ (Participant 2E, male, coloured, 10 June 2020).

Participant 1A elaborated on the risk management difficulties that municipalities encounter. Municipalities face several obstacles, including the insufficient, dearth of qualified and experienced personnel to address risk management, ‘you can’t run a timeous collective with one risk officer, it’s not practical and feasible’ (Participant 1A, male, white, 10 April 2020). Furthermore, the frequency of risk assessment is inadequate, ‘risk assessments take place primarily once a year’. As a result of these factors, ‘a more timeous intervention and what we see there [*sic*] is just not happening’ (Participant 1A, male, white, 10 April 2020). As stated by Participant 4A, inadequate risk management can lead to substandard delivery of municipal services. Consequently, it is critical that audit committees offer adequate risk management advice.

As Participant 3B stated, ‘there is just room for the risk management process to be regulated’ by the National Treasury (Participant 3B, male, coloured, 28 May 2020). The participant proposed that the National Treasury enhances the regulations governing municipal risk management. The action was explicated in the third framework that includes actions for the National Treasury.

## □ Internal auditing

Figure 3.10 reflects all the concepts obtained from the participants on the internal audit function.



Source: Legodi, AH 2021, pg. 290.

Key: AC, audit committee; IA, internal auditors; IIA, Institute of Internal Auditors; IAF, internal audit function; CAE, chief audit executive.

**FIGURE 3.10:** Municipal framework – internal audit function.

The execution of the internal audit function must adhere to the guidelines outlined in the audit committee-approved internal audit charter. Both the CAE and audit staff are required to maintain objectivity in their duties and with regard to combined assurance. The dearth of combined assurance in municipalities, particularly small municipalities, is a matter of concern because of their insufficient skill set. As a result, training is essential for the audit committee and the internal audit function to develop their respective skill sets. Nevertheless, the provision of training for audit committee members falls under the purview of the municipal HR department and not the CAE. Additionally, providing secretariat services to the audit committee is not within its purview. While the competency framework is available to municipalities, it fails to encompass the competencies that are expected of the CAE and internal audit staff. The CAE and internal audit staff must not only demonstrate competence but also hold the requisite qualifications and be members of the IIA. Furthermore, standardised compensation guidelines for internal audit personnel should be accessible.

The concern expressed by Participant 3C was that in impoverished and remote municipalities ‘appoint a junior person and they say we [they] have complied in terms of the MFMA’ [in establishing the internal audit function]

(Participant 3C, male, black, 09 June 2020). The internal audit function 'needs to demonstrate that the capacity (human, skills and infrastructure) that is there is able to perform its functions effectively'. It should transcend being a simple matter of compliance.

Thirteen participants expressed agreement with the proposition that municipalities should establish an independent internal audit function. In contrast, Participant 1C held a different viewpoint. Participant 1C disagreed as 'internal audit is a management function so they cannot be independent to the municipality because they are part of management' (Participant 1C, male, black, 04 June 2020). Additionally, he remarked that 'they cannot be independent, but they need to be objective in terms of their function'. Nevertheless, the legislative framework upholds the autonomy and neutrality of the internal audit department. 'Internal audit activity is independent when it can carry out its work freely and objectively and has the support of senior management and audit committee' (National Treasury 2012a, p. 16).

To facilitate the absorption of competent internal auditors, all participants agreed that a competent CAE and internal auditors must be appointed and that compensation should be fair. Participant 1A suggested that in addition to possessing competence, the CAE should be 'competent and qualified or appropriately qualified' (Participant 1A, male, white, 10 April 2020). Additionally, it is suggested by Participant 4B that 'the CAE and the internal auditors should be registered with the IIA' (Participant 4B, male, white, 01 May 2020). The feedback provided by the participants was incorporated into the framework. It was a matter of concern that:

'[A] competency framework for municipalities it's not addressing the issue of chief audit executive and his staff and therefore you sit with a disparity between the expected level of internal auditors.' (Participant 1A, male, white, 10 April 2020)

As a result, Participant 4B proposed a standard guide of 'the title[s] and the remuneration at every level' for members of the internal audit staff (Participant 4B, male, white, 01 May 2020).

Twelve participants agreed with the proposition that the council should be required to approve the comprehensive internal audit charter, which delineates the objectives, jurisdiction and obligations of the internal audit function. Conversely, two participants expressed dissent. The consensus among Participants 2C and 4A is that 'the approval of the audit committee charter remains the primary responsibility of the audit committee'. Council 'only adopt it, they don't approve it' (Participant 2C, male, black, 03 June 2020). Moreover, Participant 4B did not perceive it as obligatory to

characterise the charter as ‘comprehensive’ because of the potential for role-players to furnish supplementary descriptions with articulation which could potentially lead to a proliferation.

The participants engaged in a discussion on whether the CAE should be permitted to evaluate the competencies, objectivity and professional care of other consulting and assurance providers; whether the internal audit function’s duty scope is adequate to add value to the audit committee and municipality; whether the CAE can access the audit committee and its report; and whether the CAE should seek expert advice from the audit committee chair.

Participant 1C objected to the proposition that the CAE be granted access to the audit committee report, contending that such access is not obligatory and that, in fact, the CAE ought to ‘report to the audit committee’. In addition, Participant 2C provided a further recommendation ‘municipality must adopt a combined assurance’ (Participant 2C, male, black, 03 June 2020). While municipal combined assurance is commendable, the lack of skills in small and impoverished municipalities has been a source of concern for such ‘specialised audits’ (Participant 3B, male, coloured, 28 May 2020). Until competent personnel are recruited, this would not be a viable mandate.

Thirteen participants agreed regarding whether the CAE should provide training to the audit committee on critical areas where insight is lacking, while one participant opposed it. The action was opposed by Participant 4B because ‘training responsibility vests in the human resources department, not the CAE’ (Participant 4B, male, white, 01 May 2020).

In response to the question of whether the internal audit function should be required to furnish secretariat (administrative) services to audit committee members prior to audit committee meetings, 13 respondents expressed agreement and three respondents disagreed. Participants 1C, 2D and 4B disagreed as ‘the municipality has its structure of having either a committee secretary or a company secretary’ (Participant 1C, male, black, 04 June 2020).

## ■ Conclusion

A well-informed, compliant and efficient municipal administration is essential for effective service delivery and community well-being. Councillors should be empowered to question the committee’s advice to promote informed decision-making. The effective functioning of an audit committee within a municipality relies on collaborative support from various stakeholders.



Transparency and accountability can be enhanced by including a comprehensive list of the committee's advice in the municipal integrated report. By adhering to these principles, municipalities can strengthen their governance processes and ensure responsible management.

The audit committee's expertise in financial tools, such as the annual budget, IDP, Service Delivery Budget Implementation Plan (SDBIP) and performance management system, is crucial. While providing advice on administrative matters, the committee must maintain its independence and refrain from engaging in operational issues. The audit committee should also provide financial and risk management advice to promote the sustainability of the municipality.

The maturity of the municipality as an organisation is determined by the multifaceted approach that encompasses legal compliance, strategic management and human resource practices. The municipality should take the following actions to enhance its risk management practices: implement a robust risk management framework and timely and effective risk response. The audit committee should stay informed about current risk management strategies, legal requirements and best practices.

The recommendations for the municipality's internal audit function are comprehensive and crucial for effective governance. They enhance transparency and accountability.

# The audit committee mandate

## ■ Introduction

In this chapter, the second theme, namely, the audit committee mandate, is presented. Firstly, the five affinities linked to this theme are briefly introduced in the context of the overall theme. Thereafter, each of the five affinities is contextualised, and where applicable, burning issues are debated and/or the underlying theory is explained. Following the presentation of the five affinities, emerging concepts from the affinities are presented for the audit committee, and the municipality, in a format of a framework. Lastly, each framework has been validated by stakeholders, and the views of participants are presented in the final section of the chapter.

## ■ Affinities

The second theme, namely, the audit committee mandate, consists of one secondary driver affinity, two secondary outcome affinities, one primary outcome and one neutral affinity.

### **Secondary driver affinity:**

1. *Terms of reference*: The affinity focuses on the recorded responsibilities of audit committees.

**How to cite:** Legodi, A & Coetzee, P 2025, 'The audit committee mandate', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 81-105. <https://doi.org/10.4102/aosis.2025.BK479.04>

**Secondary outcomes affinities:**

1. *Audit committee's understanding of its mandate:* The affinity focuses on the understanding of the role and scope of the audit committee by the audit committee members.
2. *Municipality's understanding of the audit committee mandate:* The affinity focuses on the municipal understanding and support of the mandate of the audit committee.

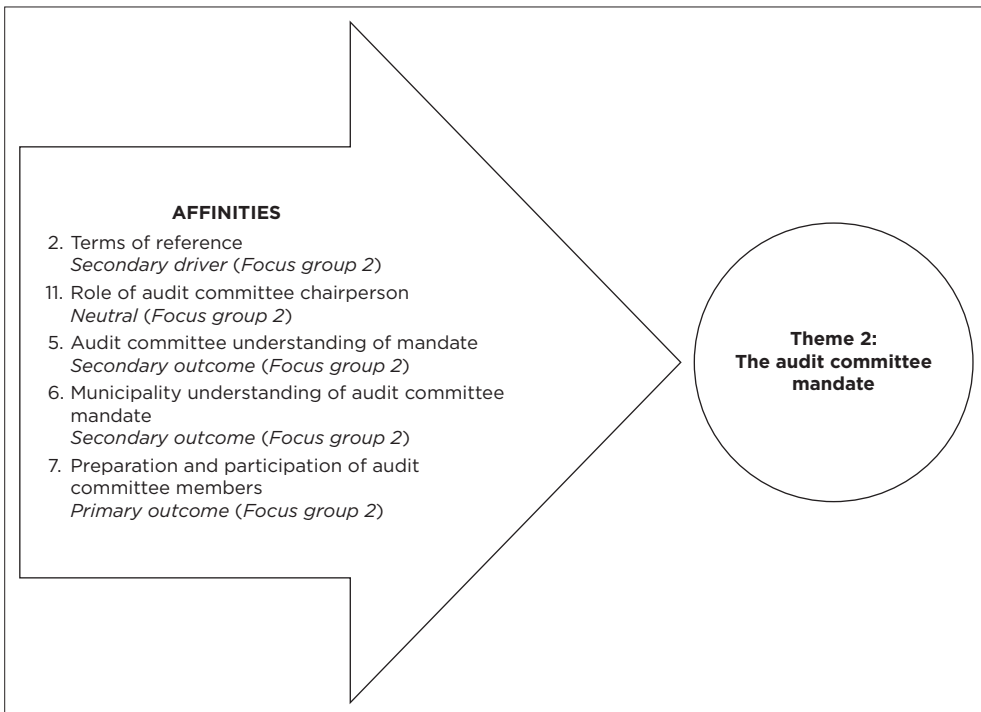
**Primary outcome affinity:**

1. *Preparation and participation of audit committee members:* The affinity focuses on the role of audit committee members with regard to preparing and participating in audit committee meetings.

**Neutral affinity:**

1. *The role of the audit committee chair:* The affinity focuses on the function and responsibilities of the audit committee chair.

The subsequent discussion and Figure 4.1 focus on the theme, which signifies the origin of the affinities, as observed through the lenses of neo-institutional theory (the definition and effectiveness of the audit committee mandate) and practice theory (an examination of the audit committee mandate in practice).



Source: Legodi, AH 2021, p. 134.

**FIGURE 4.1:** The audit committee mandate.

The comprehension of the audit committee mandate, encompassing their responsibilities of meeting preparation and attendance, as well as the position of audit committee chair, ought to be documented in the ToR. The municipalities must comprehend and endorse the ToR for audit committees. Legislation and ToR specify the audit committees' mandative capacity (Protiviti Knowledge Leader 2019; RSA 2003; Turley & Zaman 2007). The formation of various organisational structures without conducting a thorough evaluation of their effectiveness and authority, including audit committees in the municipalities, is a matter of concern (Munir 2015, p. 90). A concern raised by the focus groups is that certain municipalities have established audit committees for compliance purposes only, rather than for their intended purpose of operation.

Thus, both the audit committee members and the pertinent stakeholders of the municipalities must possess a comprehensive understanding of the audit committee's role and extent of authority. The onus is on the audit committee chair to ensure that the pertinent stakeholders and audit committee members are adequately informed regarding the mandate and the extent of the scope of the audit committees (PWC 2018). To facilitate stakeholders' comprehension of the audit committee's function, including that of the council, it is incumbent upon the chair of the audit committee to impart pertinent information. Moreover, productive preparation for and attendance at audit committee meetings are possible when members comprehend their function, impact and boundaries. Furthermore, financial sustainability is directly and significantly impacted by audit committee meetings and all internal auditor characteristics, excluding internal auditor competence (Agyemang & Modisane 2023).

Through the application of neo-institutional theory and practice theory, the subject is contested, leading to the development of approaches that can bolster the audit committee's mandate.

## ■ Contextualisation

### ■ Defining audit committee mandate: Neo-institutional theory

To establish the precise position of an effective audit committee mandate, the neo-institutional theory is utilised. The neo-institutional theory places significant emphasis on the imperative for organisations to possess formal structures and beneficial practices to augment their overall effectiveness (Meyer & Rowan 1977). The audit committee constitutes a formal structure of governance (Brennan & Kirwan 2015). The formal structure components are universally acknowledged and indispensable for fulfilling the requirements of the organisation (Tolbert & Zucker 1983). According to neo-institutional theory, to increase its chances of survival, an organisation

may be compelled to carry out its responsibilities in a manner that is largely endorsed by its external peers (DiMaggio & Powell 1983; Zucker 1987). Likewise, to pass the legitimacy test, the audit committee must adhere to its legally mandated function as defined by law and generally accepted best practices. Several studies have examined the legitimacy of the audit committee role through the lens of neo-institutional theory such as Judge, Douglas and Kutan (2008); Christopher, Sarens and Leung (2009); and Hegazy and Stafford (2016). These investigations have established the applicability of the theory to audit committees.

## ■ Oversight versus advisory role

The fourth *King Report of Corporate Governance* is the prevailing standard for both the public and private sectors in South Africa. It delineates the audit committee's mandate as oversight of the accuracy and reliability of financial statements and evaluates the efficacy of assurance services, including those provided by external and internal auditors (IoDSA 2016). It refers to the duty of the monitoring function to ensure that the financial statements are credible. In line with this perspective, the Australian National Audit Office (ANAO) practice guide delineates the function of audit committees as the examination of internal controls, performance, risk management and financial reporting (ANAO 2015). An additional best practice manual from the Government Finance Officers Association (GFOA) of the USA and Canada prescribes a comparable duty for audit committees. It defines this duty as oversight of internal controls, independent auditors and government financial reporting GFOA of the United States and Canada 2008).

The principal function of audit committees seems to be the exercise of oversight. This may potentially hold true for certain municipalities in particular nations, such as the United States and the United Kingdom (Cadbury 1992, 4.33; United States of America-Government 2002, s. 301[2]; Zhang & Rich 2016). The legislative and recommended practices may have divergent objectives. For example, as stated in King IV Principle 8, Recommended Practice 51, audit committees are tasked with the responsibility of oversight rather than advisory (IoDSA 2016). In contrast, certain nations, such as South Africa and the State of Victoria in Australia, have statutory municipal audit committees that function as advisory bodies (Local Government Victoria 2014; RSA 2003, s. 166[2]). Consequently, it is critical to examine the literature pertaining to advisory bodies and draw comparisons with that which concerns South African audit committees.

Brennan and Kirwan (2015) advocated for the audit committee to assume an advisory and supportive function. The primary function of an advisory committee is to aid the organisation in its endeavours through the provision of strategic recommendations and guidance (Hornberger & Forster 2019).

It is apparent that the formation of the advisory audit committee must adhere to its distinct tenet of offering value-added strategies and counsel to the organisation. Therefore, the advisory function of the audit committee in local government entails providing support to the council and management in matters pertaining to internal controls, compliance with regulations and effective service delivery (Purcell et al. 2014). This advisory role is in stark contrast to the oversight role, as the audit committee actively participates in providing decision-making strategies prior to the occurrence of events and transactions, as opposed to merely monitoring them after they have transpired.

In forming advisory committees, salience, representativeness and credibility serve as guiding principles (Veit, Hustedt & Bach 2017). These principles were formulated with the intention of serving as a policy to the advisory committees that are charged with providing counsel to organisations. The policy will guide audit committees in their service as advisory bodies to the municipality (RSA 2003, s. 166[2]). Therefore, it was determined that the principles, namely, salience, credibility and representativeness, which pertain to the policy advisory committee, are pertinent and transferable to every facet of the audit committee's advisory function. From now onwards, for the purposes of this study, the mandate of the audit committee shall be defined in accordance with these principles.

The three principles are defined as follows:

1. *The principle of salience* pertains to the timely and pertinent provision of advisory knowledge to policymakers. Because of this rationale, audit committees are obligated to possess knowledge that is advantageous to the municipalities and to furnish the municipalities with pertinent and enduring counsel.
2. *The principle of credibility* stipulates that recommendations must be substantiated by sound and comprehensive knowledge. Research from both the public and private sectors emphasises the importance of audit committee members possessing a high level of expertise. To contribute to the organisation's success, members are anticipated to possess comprehensive knowledge of a range of financial and non-financial subjects (ANAO 2015; Hornberger & Forster 2019; Krick 2015; Schiffino & Krieger 2018; Zilwa 2015). This includes the stipulation that the audit committees' recommendations must originate from reputable sources.
3. *The principle of representativeness* relates to advice from the advisory committee that must be fair and unbiased to all relevant parties. Accordingly, the audit committee should represent all relevant stakeholders of the municipality in a fair and unbiased manner, conducting itself ethically.

## ■ Defining audit committee mandate

An in-depth analysis of the function or mandate of audit committees is conducted through the framework of practice theory. Pierre Bourdieu, a French social scientist, formulated this theory to comprehend human behaviour or practice within the cultural milieu (Bourdieu 1977; Reckwitz 2002; Schatzki 1997) – to ascertain the reasons behind individuals’ actions. According to the theory, human behaviour consists of universal binary oppositions (Maggio 2017), such as good and bad behaviours. Additionally, the theory asserts that individuals possess the capacity to behave contrary to established norms and systems (Maggio 2017). Furthermore, it posits that human behaviour is determined by reenactments of past occurrences, which are subsequently reproduced and internalised using a degree of autonomy (Bourdieu 1984; Maggio 2017; Moraes et al. 2017). The problem with the degree of liberty is that individuals might not behave as anticipated. This implies that audit committees can deviate from their charter, despite being cognisant of and accustomed to their customary responsibilities. For instance, audit committee members in the public sector fail to adequately prepare for meetings and fail to participate as expected, despite this being a standard part of their professional responsibilities (Deloitte 2017a; PSACF 2014).

By utilising the practice theory components established by Warde (2005) and corroborated by Welch (2017) with respect to the following three components – (1) procedures, (2) understandings and (3) engagements – this discourse outlines the audit committee’s responsibility. These elements demonstrate the relationship between theoretical knowledge and its practical application in a coordinated manner.

- The term ‘practice of procedures’ pertains to the rules, principles and instructions.
- The second component of ‘understandings’ is the practical ability to carry out a task. Engagements encompass the potential methods of attaining the intended results.
- Therefore, the protocols that ought to be followed when carrying out the audit committee mandate (procedures), the comprehension of the audit committees’ function by the audit committees themselves (understandings) and the methods employed to achieve the intended result (engagements) serve as the fundamental basis of the mandate.

## □ Practices of procedures

A written document containing the audit committee’s duties and responsibilities is referred to as the ToR (Protiviti Knowledge Leader 2019; Turley & Zaman 2007). The charter serves as the ToR for audit committees

(National Treasury 2012a). It is the primary focus of the discourse surrounding procedures and practices. The optimal charter ought to encompass not solely the obligations and responsibilities of the audit committee but also its objective, jurisdiction and membership prerequisites, delineating the framework, procedures, standards of membership of the audit committee, processes and membership requirements of the audit committee (GFOA 2008). Legislation, best practices, policies and the audit committee's ToR all influence the procedures and practices of the committee.

In accordance with the audit committee's primary legislative obligation, which is to furnish impartial counsel to the municipal council, political office-bearers, accounting officers and the municipality's management regarding the following: internal control; internal audits; risk management; accounting policies; the sufficiency, dependability and precision of financial reporting and information; performance management; effective governance; adherence to the MFMA; and performance management, these responsibilities ought to be synchronised (RSA 2003, s. 166[2][d]). A municipal audit committee may readily obtain an ideal audit committee charter template, which has been compiled by various organisations including the IIA, for the purpose of adopting or utilising it as a benchmark to compare with its own charter when improving its own. The inclusion of a comprehensive list of the responsibilities (procedures and practises) of the municipal audit committees in the charter necessitates the approval of the council (National Treasury 2012b). Therefore, the council's adoption of the charter listing a comprehensive list of the responsibilities (procedures and practises) of the municipal audit committees is essential.

The charter contains, among other provisions, guidelines for audit committee meetings, including a minimum number of annual meetings, the distribution of pertinent materials (including the agenda) to committee members prior to each meeting, and the recording and secure storage of minutes for each session of the meetings (National Treasury 2012b). It is imperative to have a comprehensive and all-encompassing charter that serves as the foundation for formulating recommendations to the accounting officer and municipal council; establishing the agenda for meetings; soliciting skills and expertise for the audit committee; evaluating the performance of the audit committee in relation to its key stakeholders, municipal council, management, AGSA and internal auditors; and encouraging participation in and contributions to meetings.

The charter serves as a guide for audit committees regarding the procedures by which they are expected to carry out their responsibilities.



Unquestionably, it is a valuable document for the audit committee members, as it instructs them on how to carry out their responsibilities in accordance with the practices of procedures. Considering this, the council should compile, evaluate and approve a comprehensive charter for each municipality that contains pertinent information. The charter will, therefore, provide audit committee members, the council, management and other pertinent parties with a shared understanding of the audit committee's function, obligations and protocols. In addition, the charter can be used for dismissing incompetent audit committee members. It may be advantageous for the charter to include procedures for evaluating the performance of audit committee members to ensure compliance.

While the audit committees' compass is the charter, certain charters fail to furnish comprehensive and unambiguous details pertaining to the audit committees' mandate (Martinov-Bennie, Soh & Tweedie 2015; Price & Lankton 2018). Furthermore, several charters delineate responsibilities that audit committee members are unqualified to execute (Marx 2009). Therefore, the audit committee and all pertinent stakeholders must comprehend the audit committees' mandate as outlined in the charter. Some municipal charters do stipulate the necessary parameters, and Böhm, Bollen and Hassink (2016) discovered that the scope delineated in the charter may substantially diverge from the audit committee's practical operations. Consequently, it is imperative for the council to appoint members who can carry out the audit committee's entire mandate in accordance with the charter and applicable legislation.

Municipalities lack uniformity in audit committee disclosure practices (Kganakga, Schutte & Derbyshire 2023). The charter should refer to the disclosure themes mentioned in the King IV report for the annual reports of municipal audit committees. They should be adopted.

## □ Practices of understanding

Two facets of the discourse comprise the practice of understanding: The significance of the audit committee comprehending their mandate and the municipality comprehending and endorsing the audit committee mandate.

### □ *The audit committee's understanding of its mandate*

As mentioned, the mandate for audit committees is formally stated in the charter, legislation, best practices and policies (practices of procedures). As a result, all municipal audit committees are granted access to the documents and are required to adhere to the established procedures. If the audit committee lacks a clear understanding of the structure and function of these documents – including their intent, rules, practices, standards,

procedures and authority – they will fail to accomplish their intended purpose. They ought to possess knowledge (practices of knowledge) regarding the implementation of its documented mandate (practices of procedures). Insufficient comprehension may result in the audit committee failing to execute or performing improper actions, which may have negative consequences for the municipality. Therefore, the public, as the principal of the municipality, may be required to bear the agency cost of a dysfunctional structure incapable of advising the entities.

Brennan and Kirwan (2015) furnished audit committees with a framework for analytical practice-based theory. The framework enumerates the governance activities that audit committees must implement in practice (praxis) and that stakeholders and committee members must comprehend. In addition to comprehending their own responsibilities, it is critical that the audit committee is informed of the municipality's mission and its constituents. By participating in pertinent workshops and management meetings, members can acquire information that will augment and update their knowledge of the organisation (ANAO 2015). The information is available to the newly appointed members of the municipality's audit committee through an induction programme organised by the Provincial Treasury or National Treasury, as well as through attendance at meetings with the accounting officer, CFO, CAE, and other pertinent stakeholders (National Treasury 2012a).

To effectively function within the frameworks of municipal governance and operational structures, audit committees must be endowed with authority and knowledge pertaining to such matters. This can be accomplished through the utilisation of appropriate policies, management letters, audit committee minutes of meetings, audit opinions (including specifics of outstanding issues), council resolutions and recommendations presented to the municipal council, pertinent legislation and the most recent reports from municipalities and organisations (National Treasury 2012a; RSA 2005a). Consequently, it is critical that audit committees carry out their important responsibilities with knowledge of how the municipality ought to operate with its agents. Nevertheless, it is disconcerting that research indicates that certain audit committee members lack comprehension of their responsibilities and the environment in which their organisation functions, preventing them from fulfilling the obligations outlined in their charter (Böhm et al. 2016; KPMG 2017).

Moreover, as stipulated in the *Municipal Systems Act 32 of 2000* mandates that every municipality implement a performance management system (RSA 2000, ss. 11[3][k], 38[a]). Audit committees are tasked with the responsibility of providing advice on behalf of this system (PSACF 2019). The potential consequence of audit committees being unable to

offer appropriate guidance regarding the performance system is that the key performance indicators and targets of the municipality become superfluous, unsuitable and unquantifiable. As a result, the audit committee's value becomes dubious if it lacks knowledge of the municipality, its auxiliary systems and optimal methodologies.

### □ ***The municipality's understanding of the audit committee mandate***

It is of the utmost importance that municipal structure actors comprehend and support the audit committee's mandate. This perspective was shared by both focus groups and is corroborated by Thomas and Purcell (2019), who discovered that certain municipalities establish audit committees merely for the sake of compliance or appearance. As a result, the committees are not utilised to their full potential. The efficacy of audit committees may be impeded if the council, accounting officer and management fail to comprehend its objectives (practices of understanding). Municipal stakeholders may withdraw their support for the audit committee because of a lack of comprehension. Hence, it is imperative that the council must be granted unimpeded access to the audit committee (IoDSA 2013) to acquire knowledge regarding the committee's operations. Such an understanding could foster council recognition of the audit committee's function, enabling it to provide support and leverage its capabilities for the betterment of the municipality.

Moreover, by having the council comprehend the responsibilities of an audit committee, it will be capable of selecting competent candidates to fulfil their statutory obligations as audit committee members (RSA 2003, s. 166[2]). This will ensure that not only the audit committee chair possesses the appropriate blend of expertise and experience but also the other committee members. Effective communication skills are a critical attribute for the audit committee chair. These skills are essential for ensuring that all relevant stakeholders, including the municipal council, the MPAC, the Finance Committee, the accounting officer, management, staff, internal auditors, external auditors, Provincial Treasury and National Treasury, comprehend the committee's mandate (National Treasury 2012a; PWC 2018).

Moreover, the chair must be proactive in reaching out to municipal stakeholders with the purpose of building relationships (Chambers 2016) and ensuring their understanding of the audit committee mandate. Private meetings and periodic telephone calls by the audit committee chair can enhance relationships (Chambers 2016; PWC 2018) with the accounting officer, the CAE, the CFO, the external auditor, the Provincial Treasury, the National Treasury and any other person the chair of the audit committee deems appropriate to invite or engage (National Treasury 2012a). In addition to attending meetings by the agents, reporting fulfils a vital role in

bringing an understanding of the audit committee mandate to the proxy and agents.

It is imperative that every item for reporting originates from the audit committee agenda, which is in accordance with the procedures outlined in the charter (Böhm et al. 2016). In order to facilitate stakeholders' comprehension of the audit committee's mandate, reporting items ought to comprise the following: Critical risks and corresponding mitigation strategies; the efficacy of internal controls; noteworthy external audit discoveries, suggestions and current status thereof; noteworthy internal audit discoveries, suggestions and current status thereof; endorsement of preliminary financial statements for council approval; and the audit committee's assessment of the organisation's financial standing. Therefore, if the mandate is comprehended and contributes value to the municipality, the audit committee may attain political support and influence among municipal stakeholders.

## □ **Practices of engagements**

The discourse surrounding practices of engagement underscores the significance of the chair of the audit committee responsibility and the audit committee's obligation to fulfil its mandate.

### □ ***Members' commitment***

It is ineffectual for audit committee members to possess knowledge and understanding regarding the implementation of their mandate (procedures of understanding and practices of procedure, respectively) if their conduct fails to demonstrate a genuine dedication to the mandate. When the audit committee executes its engagements on behalf of the organisation, it must demonstrate a steadfast dedication to the procedure for attaining the intended results (practices of engagements). Motubatse (2016) noted that to improve the audit committee's efficacy, individual audit committee members must devote time and effort to its operations. The effectiveness and dedication of audit committee members have been empirically demonstrated to be correlated with their regular attendance at audit committee meetings (Ika & Ghazali 2012; Motubatse, Ngwakwe & Sebola 2018). Therefore, in their capacity as the committee's leader, the audit committee chair must strongly encourage all committee members to attend all meetings. In addition to promoting attendance, the chair should inspire meaningful participation by encouraging members to prepare for meetings to offer helpful advice. Fair participation is required, and the chair must possess the ability to control parties that exert dominance throughout the meetings (Hornberger & Forster 2019). Hence, it is critical that the chair

possesses exceptional abilities in guiding discussions and inspiring members of the audit committee to participate. During audit committee meetings, the chair and other committee members must pose pertinent enquiries (Gendron, Bédard & Gosselin 2004; Spira 1999). Their participation in more committees, which adds to their responsibilities and lowers the calibre of services they provide, is another factor that erodes their commitments (Chi et al. 2023).

### □ ***Role of the audit committee chair***

In addition to attending meetings and making meaningful contributions during audit committee engagements, it is critical that the chair adheres to a pertinent agenda that aligns with the charter (Böhm et al. 2016). This practice ensures that items on the agenda are objective and comprehensive. The audit committee should be provided with executive summaries for each topic on the agenda, in addition to reports that highlight significant issues raised by management, to prevent information overload (PWC 2018). Additionally, it is critical that the invitation, agenda and meeting-related information be disseminated to members promptly and in an easily navigable format (Chambers 2016). Legislation pertaining to municipalities mandates that members be provided with the agenda and pertinent information no later than seven days prior to the meeting's commencement (National Treasury 2012b). Because of time constraints, audit committee members are unsuitably prepared for meetings when they receive information late (Hornberger & Forster 2019). This defeats the audit committee's purpose, which is to provide the organisation with valuable input.

Amidst the engagement practices, it is imperative that the audit committee chair engages not only with the audit committee members but also with the pertinent stakeholders of the organisation (Abernathy et al. 2014). In the context of municipalities, constructive engagement between the chair and pertinent stakeholders, including the CFO, CAE, external auditors and others, can yield favourable outcomes for governance (Zaman & Sarens 2013). In addition, the chair must demonstrate unwavering dedication to the following procedures: formulating an annual work plan, identifying deficiencies in the audit committee's skill set, soliciting the requisite expertise and skills from the council, providing timely updates to the council and MPAC and maintaining effective communication with the municipality (National Treasury 2012a). All these engagement practices will result in the intended outcome (Warde 2005; Welch 2017), particularly when the municipal audit committee chair is an independent individual (National Treasury 2012b; RSA 2003, s. 166[5]).

### ▣ ***Assessment of chair and committee members***

Research suggests that annual self-evaluation and the balanced scorecard framework may be employed to evaluate the efficacy of practices of engagement implemented by the chair and audit committee members (Martinov-Bennie et al. 2015; Morgan 2010; Protiviti Knowledge Leader 2019). Both instruments are essential, as the balanced scorecard framework evaluates key performance indicators and the self-assessment questionnaires provide an opportunity to address a range of issues. The criteria for evaluating the effectiveness of the audit committee ought to be included in the charter (National Treasury 2012a). The results of the self-assessment ought to be disclosed to the council, and the chair should enact necessary enhancements. In certain circumstances, members who fail to meet expectations without valid justification should be removed from office (National Treasury 2012a). Consequently, the chair and members of the audit committee must be dedicated to their engagement-mandate responsibilities within the municipalities. Those whose methods fail to deliver the expected results must be terminated, as their work must be beneficial to the municipality.

### ■ **Summary**

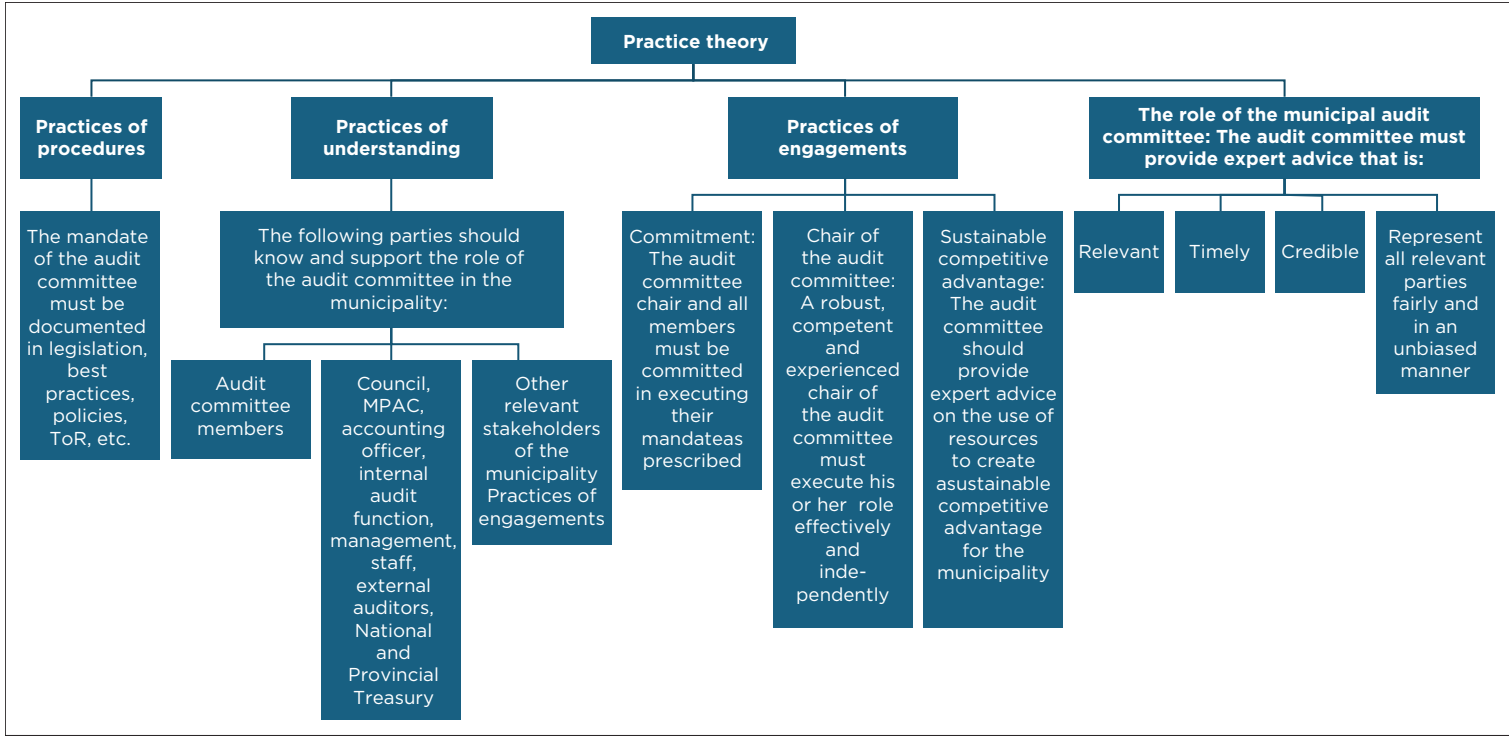
The audit committee's mandate is depicted in Figure 4.2 by employing the three elements of practice theory. This demonstrates that the audit committee's understanding of its responsibilities should be derived from statutes, best practices, policies and ToR. Furthermore, it is the responsibility of the audit committee chair to ensure that all pertinent municipal parties are well informed regarding the audit committee's functions, including those of its members. Every individual serving on the audit committee must be fully dedicated to carrying out their responsibilities efficiently. The responsibility of the municipal audit committee should be to furnish advice that is relevant, timely, reliable, impartial and fair.

### ■ **Emerging concepts**

A framework is constructed to present emerging concepts derived from the literature review and focus group discussions; its purpose is to enhance the efficacy of audit committees in municipalities of South Africa.

### ■ **Framework for audit committees**

Tables 4.1 and 4.2 are frameworks for effective audit committees, municipalities, treasuries and SALGA derived from focus groups and literature.



Source: Legodi, AH 2021, p. 178.  
 Key: MPAC, Municipal Public Accounts Committee; ToR, terms of reference.

**FIGURE 4.2:** The audit committee mandate – practice theory.

**TABLE 4.1:** Framework for audit committees – audit committee mandate.

<b>The audit committee mandate</b>
<p>1. The audit committee must:</p> <ul style="list-style-type: none"> <li>a) Offer relevant, timely, credible, fair and unbiased advice that will enhance the work of the municipality</li> <li>b) Comply with terms of reference from legislation and the audit committee charter.</li> </ul>
<p><b>A) Practices of procedures</b></p> <p>2. The audit committee's charter inter alia must:</p> <ul style="list-style-type: none"> <li>a) Stipulate the minimum competencies required</li> <li>b) Stipulate that the audit committee work plan should be aligned with the charter's provisions</li> <li>c) Stipulate that agendas for the audit committee meetings should be composed in accordance with the provisions of the charter</li> <li>d) Align with the internal and external audit functions</li> <li>e) Stipulate those records of the meeting minutes be kept in a safe place</li> <li>f) Stipulate that the audit committee must conduct an annual self-assessment.</li> </ul>
<p><b>B) Practices of understanding</b></p> <p>3. The chair of the audit committee should:</p> <ul style="list-style-type: none"> <li>a) Possess strong communication skills to bring an understanding of the committee mandate to relevant municipal stakeholders</li> <li>b) Attend private meetings and periodic calls with the relevant municipal stakeholders to gain an understanding of municipal undertakings</li> <li>c) Execute reporting that will assist the council in understanding the role and usefulness of the audit committee</li> <li>d) Cultivate a relationship with the MPAC chair and invite him or her to attend audit committee meetings.</li> </ul>
<p>4. The new audit committee members must:</p> <ul style="list-style-type: none"> <li>a) Attend programmes (induction, training, etc.) that will enhance their knowledge</li> <li>b) Attend scheduled meetings and workshops with the municipal stakeholders to acquire relevant information</li> <li>c) Read recent minutes of audit committee meetings to gain an understanding of the matters discussed in the audit committee</li> <li>d) Understand the material (information pack) provided and contribute to the meetings</li> <li>e) Maintain good relations with the key stakeholders of the municipality.</li> </ul>

Table 4.1 continues on the next page→



**TABLE 4.1 (cont.):** Framework for audit committees – audit committee mandate.

<b>C) Practices of engagement</b>
5. The audit committee chair must be highly experienced, professional, sceptical, confident with high integrity, organised and proactive, have strong communication and interpersonal skills, and be willing to devote the time and energy necessary.
6. The audit committee chair must possess: <ul style="list-style-type: none"> <li>a) Vast experience in leadership and knowledge of financial management, accounting, audit, governance, risk, industry, organisational culture and management behaviour</li> <li>b) Communication, presentation, writing and reporting skills</li> <li>c) The ability to:               <ul style="list-style-type: none"> <li>i. Facilitate face-to-face and virtual meetings</li> <li>ii. Lead discussions</li> <li>iii. Encourage other members to attend meetings and participate meaningfully in meetings</li> </ul> </li> <li>d) Competencies to build relationships with council, management, other stakeholders of the municipality and fellow audit committee members</li> <li>e) Persuasion skills to convince council and management to adopt audit committee advice</li> <li>f) Competencies to develop and execute an annual work plan</li> <li>g) Capabilities to identify skills gaps in the audit committee and request the council to appoint necessary experts.</li> </ul>
7. The audit committee chair must communicate frequently with the audit committee secretariat in preparation for audit committee meetings.
8. The audit committee chair must be independent and objective when setting the agenda of the meeting and facilitating the meetings.
9. The agendas must be complete and address all the necessary and crucial items that need to be discussed by the audit committee.
10. The audit committee chair must deliver quality quarterly reports and an annual report to the council.
11. The audit committee chair must facilitate adequate annual self-assessments by the audit committee.

Source: Legodi, AH 2021, pp. 426-433.

Key: MPAC, Municipal Public Accounts Committee.

## ■ Framework for municipalities

**TABLE 4.2:** Framework for municipalities – audit committee mandate.

<b>The audit committee mandate</b>
<b>Practices of procedures</b>
1. Compile and approve the audit committee charter comprising of information regarding: <ul style="list-style-type: none"> <li>a) Appointment of committee members</li> <li>b) Ethical conduct of audit committee members</li> <li>c) Remuneration of audit committee members</li> <li>d) List of duties of audit committee members</li> <li>e) Number of audit committee meetings</li> <li>f) Audit committee meeting procedures</li> <li>g) Agenda and minutes of audit committee meetings as compulsory requirements</li> <li>h) Self-assessment and dismissal procedures of audit committee members</li> <li>i) Other relevant matters.</li> </ul>

Table 4.2 continues on the next page→

**TABLE 4.2 (cont.):** Framework for municipalities – audit committee mandate.**Practices of understanding**

1. To promote understanding between the municipality and the audit committee, the following actions should take place:
  - a) Council must understand the role of the audit committee to ensure that suitable members are appointed to the committee.
  - b) The municipality must arrange induction for new audit committee members.
  - c) Council should have structured and unrestricted access to the audit committee.
  - d) There must be sufficient interaction between the audit committee and management as well as sufficient frequency of meetings.
  - e) Compulsory attendance of the audit committee meetings by relevant municipal stakeholders.
  - f) Provide necessary training for all audit committee members.

**Practices of engagement**

1. The agenda and information pack must be relevant.
2. Executive summaries highlighting significant issues should be distributed to audit committee members along with the information pack.
3. The agenda and information pack should be distributed to audit committee members in advance to allow sufficient time for them to prepare for their meeting.
4. Virtual audit committee meetings should be allowed to encourage maximum attendance.
5. Council must determine a quorum for audit committee meetings of no less than 51% of the members. The agreed number or percentage of members that form a quorum must be documented in the charter.
6. Council and other relevant parties should assess the performance of the audit committee and its members.

Source: Legodi, AH 2021, pp. 460–464.

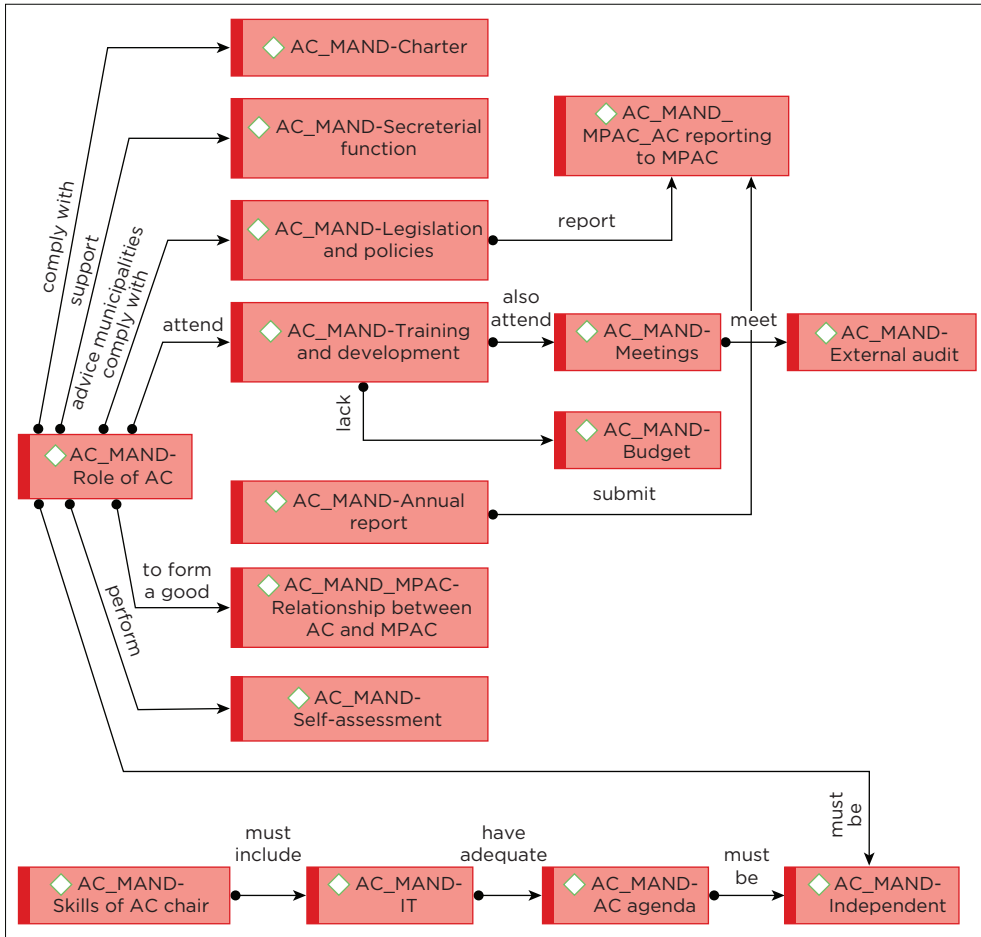
## ■ Validation of the framework concepts

In testing the concepts identified for the framework, and based on the interviews conducted with various stakeholders, the following support was obtained.

### ■ Audit committee framework

Figure 4.3 summarises all the concepts contributed by the participants about the audit committee mandate.

The independence of the audit committee and adherence to the charter are essential requirements. The audit committee's agenda should be comprehensive, encompassing subjects such as IT. It is critical that the chair of the audit committee possesses expertise in IT. Moreover, in establishing the agenda, the audit committee chair must be impartial and not unduly influenced; the chair must always be independent.



Source: Legodi, AH 2021, p. 245.

Key: AC, audit committee; AC MAND, audit committee mandate; IT, information technology; MPAC, Municipal Public Accounts Committee.

**FIGURE 4.3:** Audit committee framework - audit committee mandate.

It is recommended that municipalities establish a secretariat function to aid audit committees. The audit committee is tasked with providing guidance to municipalities regarding adherence to policies and legislation. Additionally, it is required by law that the chair submit the audit committee’s annual report for inclusion in the integrated report from MPAC. Audit committee members are required to attend workshops and meetings that will provide them with the necessary tools and knowledge. However, municipalities typically lack the financial resources necessary to train and develop audit committee members so that they can perform their duties to the fullest. The audit committee chair is responsible for coordinating and participating in meetings with the external auditor to deliberate on the difficulties encountered by external auditors within the municipalities.

The relationship between the MPAC and the audit committee must be positive. Furthermore, the audit committee is responsible for conducting self-evaluation.

All participants reached a consensus that the audit committee must provide advice that is pertinent, timely, credible, fair and unbiased and adhere to the audit committee charter and statutory ToR to improve the municipality's operations.

Regarding whether the audit committee's work plan must be in accordance with the provisions outlined in the audit committee's charter; whether the composition of agendas for audit committee meetings ought to adhere to the stipulations outlined in the charter; and whether the meeting minutes should be securely stored, and the audit committee is required to perform an annual self-evaluation, participants answered as follows. Participant 3B mentioned that there is also a need for 'alignment between the internal audit and the audit charter' (Participant 3B, male, coloured, 28 May 2020). Furthermore, Participant 2E suggested that 'the charter should also refer to the competencies of the audit members' (Participant 2E, male, coloured, 10 June 2020). This view was also added to the framework.

It was unanimously agreed upon by all attendees that the audit committee chair ought to possess (1) effective communication abilities to ensure that pertinent municipal stakeholders comprehend the committee's mandate; (2) participate in confidential consultations or meetings and regular phone conversations with pertinent municipal stakeholders to acquire knowledge about municipal initiatives; and (3) generate reports that will aid the council in comprehending the function and efficacy of the audit committee. Participant 2C is an advocate for the concept of private meetings of the chair with key stakeholders. He further proposed that the chair of the audit committee should 'have engagement with the AG [auditor-general] so that they at least can also discuss about challenges that are faced by the AG as they engage with the municipality' (Participant 2C, male, black, 03 June 2020).

Every participant reached a consensus on the requirement that newly appointed audit committee members must participate in knowledge-enhancing programmes (induction, training, etc.) and participate in regularly scheduled workshops and meetings with municipal stakeholders to obtain pertinent information.

While all participants concurred that training is essential, 'municipalities don't have enough budget for training and development. They don't cater for training needs of audit committee members' (Participant 3C, male, black, 09 June 2020). Therefore, to gain insight into the municipal environment, the audit committee must utilise alternative methodologies.

Already, the framework has proposed workshops and meetings with municipal stakeholders that are pertinent. Participant 2C suggested that either the chair or members of the audit committee should be present at the municipal 'strategic planning' meetings. Nevertheless, following deliberation regarding the 'Organisational maturity' category, it has been determined that the committee's presence at such meetings is superfluous, as members can readily rely on assurance providers, including internal auditors, to furnish information regarding the organisational strategy and structure.

An insight into the topics deliberated in audit committee meetings can be obtained by perusing the minutes of previous committee meetings. Members must comprehend the provided materials (information packet) and actively participate in the meetings. They also maintain positive relationships with the municipality's most important stakeholders.

All attendees reached a consensus regarding the essential qualities an audit committee chair should possess. These qualities include extensive experience, professionalism, scepticism, high integrity, organisation, proactivity, effective communication and interpersonal abilities, and a willingness to invest the required time and effort.

All attendees reached a consensus that the audit committee chair should possess significant leadership experience and comprehensive understanding of financial management, accounting, audit, governance, risk, industry, organisational culture and management behaviour; skills in reporting, writing, presentation and communication; the capacity to administer meetings, inspire members to attend and actively engage in discussions, facilitate meetings and lead discussions; the ability to establish and maintain rapport with the municipality's council, management and other stakeholders, as well as with other audit committee members; be able to persuade management and the council to accept the audit committee's recommendations; the ability to formulate and implement a yearly work schedule; and proficiency in recognising deficiencies in the audit committee's skill set and petitioning the council to designate essential specialists.

In conjunction with the competencies deemed essential for the chair, Participant 2C stated that 'the chair of the audit committee must also have IT skills' (Participant 2C, male, black, 03 June 2020). These competencies are necessary for the chair to facilitate online meetings. This viewpoint was supported by Participant 4B. He recommended that 'define what constitutes a meeting. It should be more than the physical coming together at a premises to meet. It can also include virtual meetings like a video conference' (Participant 4B, male, white, 01 May 2020). This perspective was incorporated into the framework.

It was universally agreed upon by all participants that the chair of the audit committee should maintain independence and objectivity in their efforts to influence the agenda and facilitate the meetings. Participant 4B indicated that ‘the audit committee chair sets the agenda, he doesn’t influence, he has the final say over it’ (Participant 4B, male, white, 01 May 2020). In addition, Participant 3B expressed apprehension regarding the agenda’s comprehensiveness. He asserted that ‘sometimes the IT is not always even on the agenda’ (Participant 3B, male, coloured, 28 May 2020). An additional action item was included to support the notion that agendas must encompass all essential and vital matters.

All participants concurred that the audit committee chair is obligated to provide the council and the MPAC with high-quality reports. Participant 1A brought up a significant aspect, namely, that ‘the audit committee can provide input into the oversight board and by way of doing that, they can submit an annual report’ (Participant 1A, male, white, 10 April 2020).

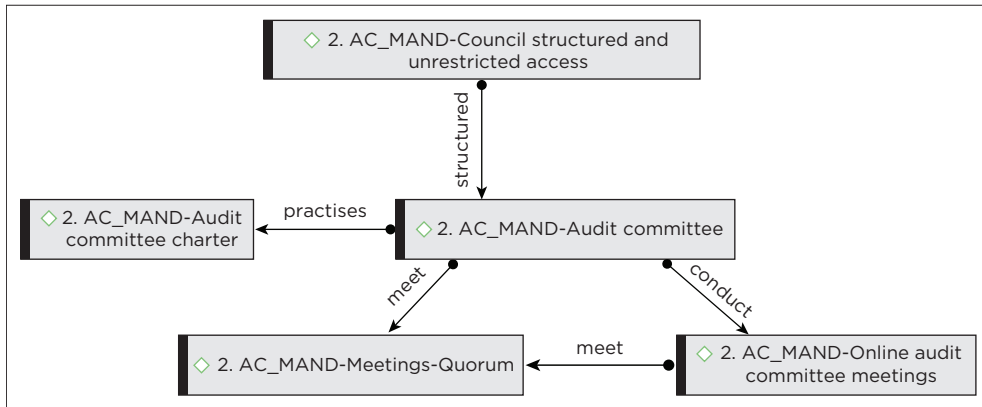
It was unanimously agreed upon by all participants that the audit committee chair should actively encourage the annual self-assessment of the committee. An issue was raised by Participant 3B that the audit committees ‘don’t do self-assessments through the work plan’ (Participant 3B, male, coloured, 28 May 2020). Additionally, it was proposed that the audit committees be evaluated by the stakeholders listed below: ‘council should assess the audit committee, the municipal manager maybe, external audit and internal audit’ (Participant 4B, male, white, 01 May 2020). The action was amended to stipulate that the council and other pertinent stakeholders within the municipalities should evaluate the audit committee’s performance to render this viewpoint applicable to audit committees.

As stated by Participant 3C, the ‘audit committee should also ensure that the municipality complies with all applicable legislation and policies’ (Participant 3C, male, black, 09 June 2020). Nevertheless, such is not the legislated function of the audit committee. Their role is ‘to advise the municipality and council on legislative issues’ (Participant 1C, male, black, 04 June 2020). Therefore, the view of Participant 3C was not considered.

Participant 1A advocated for the formation of a rapport between the chair of the MPAC and the audit committee. He suggested that the relationship might be nurtured by means of ‘an invitation of the MPAC chair to your audit committee’ (Participant 1A, male, white, 10 April 2020).

## ■ Municipal framework

Figure 4.4 reflects all the concepts obtained from the participants on the audit committee mandate.



Source: Legodi, AH 2021, p. 294.

Key: AC MAND, audit committee mandate.

**FIGURE 4.4:** Municipal framework - audit committee mandate.

An audit committee charter ought to document every anticipated audit committee practice and procedure. Council access to the audit committee should be both organised and unrestricted. Moreover, the ability of audit committees to perform meetings virtually should be permitted. A quorum is required for all their meetings.

On the practices of procedures, the audit committee charter ought to include a list of responsibilities; the number of meetings to be held; meeting procedures; agendas and minutes of meetings; and procedures for the self-evaluation and termination of audit committee members. There was unanimous agreement among all participants on these matters. Participant 4B suggested to ‘delete the word “comprehensive”’ as the audit charter should be comprehensive, nonetheless. Participant 2C proposed that the charter encompass details pertaining to ‘audit committees’ appointments, ethical conduct and remuneration’ (Participant 2C, male, black, 03 June 2020). These were changed. Participant 4A criticised the inclusion of the wording ‘Other relevant matters’ in the framework. He required ‘matters’ to be specified. In defence of the inclusion, it is argued that the municipalities might have different items they view as important to audit committees that should form part of the charter. For example, Participant 4B sought the charter ‘to add those areas where the audit committee can also be asked to assist for example recruitment for senior posts, part of the disciplinary board’ (Participant 4B, male, white, 01 May 2020). Such activities might not apply to all municipalities, hence the need for municipalities to include those matters that are relevant to them alone.

What is regarded as crucial to the framework is to be explicit about the minimum information that should be included in the charter. On the

practices of understanding, specifically, the audit committee should be accessible without restriction to the council. Yet, the council must comprehend the audit committee's function to appoint qualified and suitable members to the committee. Hence, sufficient interaction and meeting frequency should characterise the audit committee's engagement with management. Audit committee meetings must be attended in person by all pertinent municipal stakeholders, where the induction process for newly appointed audit committee members is conducted and all members of the audit committee are provided with the required training.

Everybody concurred. Participant 4C agreed with unrestricted access but recommended that it must take place 'in a structured manner' (Participant 4C, female, white, 28 May 2020). The viewpoint was credible and incorporated into the framework.

On the practices of engagement, (1) relevance is required for both the agenda items and the information pack; (2) executive summaries should be provided to audit committee members, highlighting important matters alongside the full information pack; (3) the agenda and information pack should be distributed beforehand to ensure adequate preparation time; (4) the performance evaluations of the audit committee and its members should be reviewed by the council; (5) all participants agreed, and 'other relevant parties' were included to assess the performance of audit committees and their members; and (6) to promote attendance, Participant 3B asserted the importance of online meetings. Furthermore, Participant 4A recommended 'adding a quorum or the minimum number of people that should actually be available' [for a meeting] to the framework (Participant 4A, male, black, 02 April 2020). The deemed suitable perspectives were incorporated into the framework.

## ■ Conclusion

Firstly, the council should comprehend the audit committee's role in appointing suitable members. The municipality has numerous duties including to adopt the audit committee charter, which covers essential aspects such as appointment procedures, ethical conduct, remuneration, duties, meeting frequency, procedures, safeguarding of meeting minutes and self-assessment. A definition of a quorum (e.g. a minimum of 51% of members) must be included in the charter. They must provide relevant information packs, including executive summaries highlighting critical issues, and distribute them in advance for thorough preparation. They should consider allowing virtual meetings for broader participation and ensure clear guidelines for dismissal procedures of audit committee members. The municipality should foster an understanding between the municipality and the audit committee by arranging induction for new audit



committee members, providing structured and unrestricted access to the committee and offering necessary training to all committee members.

The committee chair should have certain qualities, skills and experience, including high experience, professionalism, scepticism, integrity and confidence; be organised and proactive and have strong communication skills; and be proficient in communication, presentation and reporting. A willingness to invest time and energy in the activities; have leadership experience and knowledge across financial management, accounting, audit, risk and organisational culture; obtain the ability to facilitate both face-to-face and virtual meetings, lead discussions and encourage participation; build relationships with council, management and fellow committee members; have persuasion skills to influence council and management decisions; and identify skills gaps and advocate for necessary appointments.

The committee chair should communicate the committee's mandate effectively to municipal stakeholders; engage in private meetings and calls to understand municipal operations; foster a relationship with the MPAC chair; be diligent when preparing for meetings; deliver comprehensive quality quarterly and annual reports to the council; and facilitate thorough annual self-assessments by the audit committee.

The audit committee must provide relevant, timely, credible, fair and unbiased advice to enhance municipal work. Complying with ToR from legislation and the audit committee charter is crucial. Whereas new committee members should attend knowledge-enhancing programmes (induction, training, etc.), participate in meetings and workshops with municipal stakeholders, review recent audit committee minutes, understand provided materials and actively contribute, and maintain positive relations with key stakeholders.

Although the study demonstrates how the audit committee's role can be enhanced to be effective, it is imperative for the South African government to reassess and reclassify the audit committees' presently mandated function of advisory. Typically, audit committees hold a minimum of four ordinary meetings per year. The committee's capacity to provide sufficient counsel is compromised because of the limited number of meetings held. Insufficient meetings lead to inadequate deliberations. It becomes a committee devoid of power and authority. Furthermore, advisory committees should consist of experts in various fields. Expert members should constitute advisory committees. Advisory committees must be involved in daily operations to be effective. Their recommendation must be incorporated into daily operations, and therefore, the current practice of independent audit committees contradicts the optimal function of advisory committees. The current audit committees' advisory function is weakened

by the above-mentioned reasons. As a result, the South African government ought to contemplate reclassifying the function of municipal audit committees as an oversight function. An additional committee comprising experts, which could provide guidance to the municipality and be involved in operations, can be established in conjunction with the independent oversight audit committee.



# Appointment of committee members

## ■ Introduction

In this chapter, the third theme, namely, the appointment of audit committee members, is presented. Firstly, the seven affinities linked to four areas are briefly introduced in the context of the overall theme. For each of the four aspects, various relevant discussions follow, including the challenges and strategies of the recruitment selection and appointment process, the mechanisms that can be used to implement ethical conduct, the concerns, enhancement and benefits of independence, and remuneration. Following the presentation of the seven affinities within the four aspects, emerging concepts are presented for the audit committee, the municipality, and National Treasury or provincial treasuries or SALGA, in the format of a framework. Lastly, each framework has been validated by stakeholders, and the views of participants are presented in the final section of the chapter.

## ■ Affinities

This theme consists of seven affinities, mainly secondary, with several critical elements pertaining to the appointment of audit committee members:

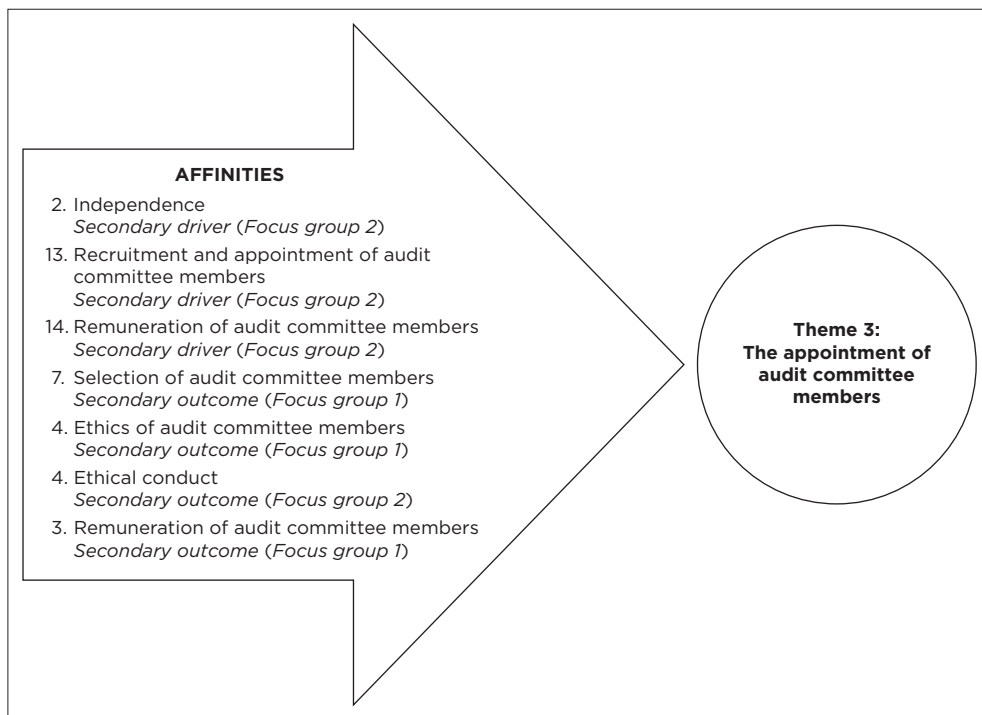
**How to cite:** Legodi, AH & Coetzee, P 2025, 'Appointment of committee members', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 107-150. <https://doi.org/10.4102/aosis.2025.BK479.05>

- *Recruitment, selection and appointment of audit committee members* was identified as a secondary outcome comprising the following:
  - Challenges in the appointment process were analysed using social representation theory.
  - Defining and enhancing audit committee independence.
  - Strategies for effective appointment based on the resource-based view of the firm.
- *Audit committee independence* was identified as a secondary driver:
  - Defining the independence of the audit committee.
- *Remuneration* was identified in different ways by the two focus groups as a secondary driver and one as a secondary outcome:
  - It is an analysis of audit committee member compensation using the expectancy theory of motivation.
- *Ethical conduct* was identified as a secondary outcome:
  - Defining ethics and ethical conduct.
  - Applying ethical conduct principles to audit committees through the resource-based view of the firm.

The theme, indicating the source of the affinities, is illustrated in Figure 5.1 and discussed while viewed through the lens of applicable micro theories.

The focus groups yielded secondary outcomes concerning the ethical conduct of audit committees, which were associated with the independence of audit committees, which is also the secondary outcome driver. In contrast, the affinity named *remuneration of audit committee members* was the same for the two focus groups, but classified differently, as a driver and an outcome. Also, *recruitment and appointment of audit committee members* (secondary driver) and *selection of audit committee members* (secondary outcome) are similar affinities from the two focus groups, classified differently. The variation in perspective can be ascribed to the participants' respective priorities. In contrast to the stakeholders of the municipalities, the appointment and compensation of audit committee members are regarded as highly significant and influential for audit committee members.

A workforce, i.e., the individuals employed by the organisation, must be appropriately aligned for the organisation to accomplish its goals and plans (Nel et al. 2014). To obtain personnel of this nature, organisations must implement an appropriate recruitment procedure. Appropriate candidates ought to be appointed after the recruitment process via a systematic selection procedure (Nel et al. 2014).



Source: Legodi, AH 2021, p. 136.

**FIGURE 5.1:** The appointment of audit committee members.

Concerns were expressed by the focus groups regarding the municipality's unethical recruitment and selection practices for audit committee members as well as the members' unethical conduct. There are instances where the practices involve favouritism. These practices are associated with hegemony where dominance of ideas is established and promoted through physical control or collective will; this is also referred to as sociocultural unity (Donoghue 2018; Ives 2005).

Focus groups revealed that the council (as a governing body) occasionally consents to the involvement of unauthorised individuals, such as an accounting officer, in the recruitment and appointment of audit committee members within the municipal setting. The recruiting method will, therefore, result in the accounting officer having an advantage when it comes to selecting members of the audit committee. The position of authority of the accounting officer has the potential to validate improper conduct by impeding the implementation of the proper procedure (Klepczarek 2017). The appropriate course of action is for the council to select and recruit audit committee members in a fair manner (RSA 2003).

The ethical culture fostered by leadership is an additional factor that aids the organisation in accomplishing its objectives (Nel et al. 2014). Leadership must foster an ethical culture through the selection of

candidates who exemplify ethical behaviour. During the candidate selection process, the council should additionally give due consideration and prioritisation to the ethical conduct exhibited by the applicants. Duggan (2018) concurred that ethics should be incorporated into the hiring and selection process, emphasising that prior to appointing candidates, organisations should conduct background checks and evaluate their ethical behaviour during interviews. The application of hegemony during the recruitment process may increase the probability of selecting unethical members. The risk is that such individuals may maintain allegiance to the parties that appointed them, even if it is against the best interests of the municipality. As a result, the members of the audit committee should be appointed and vetted by the council for ethical behaviour.

Furthermore, independence, which refers to an unbiased, objective and impartial manner of conduct, must also be evaluated as part of the screening process (ANAO 2015; IoDSA 2016; PSACF 2017). This practice serves to partially shape the candidates' ethical mindset and behaviour. Independence of the audit committee positively impacts the frequency of audit committee meetings (Biswas, Bala & Mandal 2023). By increasing the likelihood of candidates possessing integrity, this practice will foster an ethical culture within the municipalities.

Furthermore, the organisation ought to employ various strategies to motivate the chosen individuals, by implementing a reward system and establishing pay structures (Warnich et al. 2015). Although the focus groups acknowledged 'remuneration' as a commonality within the theme, their classifications varied. It was categorised as a secondary outcome by focus group 1 (stakeholders), but a secondary driver by focus group 2 (audit committee members). This diversity in categorisation underscores the complex interaction among various facets of this subject matter. Through an examination of these facets, the objective of this chapter is to furnish a thorough comprehension of the pivotal functions and obligations of audit committee members, encompassing their appointment and selection, impartiality, ethical behaviour and remuneration.

## ■ Recruitment, selection and appointment

### ■ Challenges in the appointment process of audit committee members

The appointment of audit committee members in local government is the responsibility of the governing body (GFOA 2008, p.1; IoDSA 2016; Local Government England 2017; RSA 2003, s. 166[5]).

## □ Appointment body

Focus group 2 expressed apprehension regarding the practice whereby the council, in certain instances, does not appoint audit committee members but rather delegates to other parties (e.g. the accounting officer), which can lead to unethical conduct and a conflict of interest. Further deficiencies in the process of selecting and appointing audit committee members have been identified as appointing individuals who have personal or professional ties with councillors or management; appointing former or current auditors of local government; appointing retired executives from the local government; and appointing 'politically correct' individuals who lack the necessary expertise and qualifications.

## □ Compliance checkbox

An additional deficiency pertains to the utilisation of audit committees for compliance purposes only and neglects to employ them in accordance with their intended legislative function (Martinov-Bennie, Soh & Tweedie 2015; Thomas & Purcell 2019). Based on the aforementioned information, it can be concluded that municipalities are vulnerable to unethical practices during the appointment procedure, which could result in a conflict of interest and compromise the audit committee's independence. The avoidance of such actions is recommended for municipalities. In lieu of this, municipalities ought to be dedicated to an ethical procedure for selecting and appointing qualified and competent personnel, utilising the legally mandated process to fully fulfil its function.

## □ Social dilemma

Social representation theory elucidates an additional obstacle inherent in the procedure for selecting members of municipal audit committees. Fractionalisation, according to the social representation theory, affects the formation of social thought (Emiliani & Passini 2016; Wagner et al. 1999). Inevitably, as the theory defines social thinking as thoughts and feelings, audit committee members may be susceptible to a familiarity risk via their emotions and thoughts towards those who appointed them. One potential consequence of their social orientation is that they may develop a sense of obligation and concern to protect the interests of those who appointed them. Unfortunately, as a result, these individuals may be socially constructed to be subjective and reliant on those who appointed them; this would undermine the audit committee's independence and produce a biased body that would not represent the municipality's best interests but rather their own and others. Furthermore, objective and biased accountability may result when those who appointed the audit committee



members are implicated, thereby undermining the audit committee's responsibility to investigate the municipality's financial affairs (RSA 2003, s. 166[2][d]). The performance of the audit committee in the municipalities may be compromised because of this type of conduct.

## ■ Strategies for the appointment process of audit committees

The audit committee appointment strategies are formulated using the following principles:

1. Human capital resources and the VRIO framework
2. Appointment requirements of audit committees through the resource-based view of the firm theory
3. The appointment and selection process.

### □ Human capital resources

Human capital resources are one of three categories of resources that, according to the resource-based view of the firm theory, contribute to the enhancement of the organisation's performance (Barney 1991). Human capital resources comprise knowledge, abilities, skills and other essential attributes that supplement the organisation's competitive advantage and operational effectiveness (Ployhart 2015). It consists of individuals and their attributes, interpersonal connections, dedication, policies, expertise, methodologies, programmes, skills and experience (Barney 1991; Barney & Wright 1998). Human resources practices are routine operational tasks within an organisation (Rozika, Dharma & Sitorus 2018). The study by Mansour (2015) states that HR policies and practices derived from human capital resources include 'planning, recruitment, training, participation, performance appraisal and compensation' which influence the organisation's performance and can result in a sustainable competitive advantage.

The perspective of human capital resources was formulated by Nyberg et al. (2014) through an examination of 156 scholarly articles that invoke resource-based theorising. Literature was evaluated in accordance with three key dimensions, namely, type, context and antecedents (Nyberg et al. 2014). In this study, the dimensions were utilised to suggest enhanced approaches for human capital resources to strengthen audit committee effectiveness. The initial dimension of 'type' is utilised to analyse the audit committees, as it pertains to the expertise and capacities of individuals. The type-dimension refers to the assemblage of distinct attributes, including psychological knowledge, skills and abilities, that are present at the unit

level of human capital resources (Nyberg et al. 2014; Ployhart 2015). 'Knowledge' refers to factual or procedural information that is crucial for task execution and also serves as a foundation for developing skills and abilities; 'Skills' denotes proficiency and the capacity to carry out a task; 'Abilities' denotes a sustained cognitive readiness to endure the task; and 'other characteristics' encompasses attributes and personality traits that impact individuals during task execution (Nyberg et al. 2014). Therefore, the type-dimension elucidates the significance of knowledge and abilities that enhance ethical conduct that audit committee members ought to possess.

The antecedents' dimension pertains to the policies and practices of human resource management (Nyberg et al. 2014). It is adopted in the discourse surrounding the appointment and compensation of audit committee members to demonstrate the necessity for municipalities to establish policies that regulate human resource management practices. Policies governing the appointments, compensation and ethical conduct of audit committee members.

## □ The appointment requirements of audit committees

The resource-based view of the firm theory is applied to review the appointment process of audit committees. The VRIO framework from the theory is scrutinised. This framework serves as a tool for the organisation to leverage its resources to attain a sustainable competitive advantage (Barney 1995; Barney & Wright 1998). Value, rareness, imitability and organisation comprise the VRIO framework. Resources must generate opportunities, neutralise threats, increase net revenues or reduce net expenses to be considered valuable (Barney 1995; Barney & Mackey 2016; Barney & Wright 1998). Hence, the assessment of an audit committee's value is predicated on its contribution to the generation of opportunities, mitigation of threats, augmentation of net revenues or reduction of net expenses for the municipality. The audit committee must be endowed with sufficient authority and knowledge and receive backing from the governing body to be able to add value (Oussii, Klibi & Ouertani 2019).

One way in which audit committees can be valuable in municipalities is by offering sound guidance to political office bearers, auditors, management and auditors regarding ways to enhance internal controls, risk management, financial reporting and governance (RSA 2003). To effectively carry out their advisory duties, the audit committee can generate value through adequate meeting preparation and attendance (Brennan & Kirwan 2015; Oussii et al. 2019). It is detrimental to the municipality's position if the council selects members whose performance falls short of normal expectations. Therefore, it is imperative for the council to appoint individuals

who possess the requisite knowledge and proficiency to fulfil their responsibilities and offer their support to the municipality.

Secondly, VRIO stipulates that the resources in question must be scarce. The resources are uncommon and rare; they cannot be obtained by competing organisations (Barney 1995; Barney & Mackey 2016; Barney & Wright 1998). This approach works best in the private sector, and public sector organisations such as municipalities complement one another rather than compete with one another. As a result, human capital resources within municipalities are not uncommon. Nevertheless, this does not negate the necessity for the council to appoint audit committee members with the optimal combination of municipality-specific competencies. An illustration of this can be seen in the varying competencies expected of audit committees: those in a metropolitan area situated in a city will have distinct competency requirements from those in rural areas. An example of a common competency is that of the audit committee possessing a wide range of competencies, one of which is financial acumen (Alzeban & Sawan 2015; Gacheru, Nasieku & Oluoch 2019). While the audit committee's competencies are standardised and replicable, they still add value to the municipality. Sources of competitive parity are resources that are valuable but not necessarily scarce; they produce economic value commensurate with average performance (Barney 1995; Barney & Mackey 2016; Barney & Wright 1998).

The third controversial element of VRIO imposes the use of unique resources. The element of imitability prevents other organisations from duplicating or substituting the HR capital strategy (Barney 1995; Barney & Mackey 2016; Barney & Wright 1998). This implies that the individuals appointed to the audit committee ought to possess distinctive knowledge, capabilities and attributes that are advantageous to the municipality and difficult for other entities to replicate. Nonetheless, because municipalities must operate collaboratively, it will be a disadvantage to acquire human capital resources that are unlike any other. Municipalities have the potential to gain knowledge from one another through various means, including the replication of strategies.

Finally, to achieve a sustainable competitive advantage, an organisation's utilisation of its resources and capabilities must be organised regarding structure, systems, practices, reporting structure and policies (Barney 1995; Barney & Wright 1998). As previously stated, municipalities do not engage in competition with one another; thus, the competitive advantage is not applicable. However, the municipality continues to benefit from the VRIO elements. Understanding the industry and business is crucial for the audit committee to function efficiently (Khemakhem & Fontaine 2019; Oussii et al. 2019). Accordingly, members of the audit committee that must be

appointed by the council must have a comprehensive knowledge of the municipal environment, structure, systems, policies and practices. A comprehensive understanding on the part of the audit committee will enable it to generate pertinent enquiries, conduct a thorough examination of the information obtained, and proactively provide impartial advice to the council, accounting officer and other pertinent municipal officials (IoDSA 2013; National Treasury 2012a).

To summarise, the VRIO framework can solely be implemented in municipalities regarding the *value* and *organisation* elements. The two components furnish comprehensive data that the council may consider when selecting members for the audit committee. The appointed members ought to constitute a heterogeneous audit committee (variety of competencies and training). The inapplicability of immobility is because municipalities are not in competition with one another, which precludes the development of unique strategies for no entry barriers. However, every municipality possesses a distinct identity and set of requirements that will require a unique strategy, but it does not mean that the strategy cannot be copied or used by other municipalities.

## □ The appointment and selection process

Given the prerequisites, the audit committee members must exhibit their competencies to the council prior to their appointment, so that it can verify that they meet the bare minimum standards and possess the required expertise. This objective can be accomplished through the implementation of background checks throughout the recruitment and selection procedure. Such checks may encompass academic credentials, criminal records, previous employment, credit history, and references (Heathfield 2018). Additional background checks must account for the number of audit committees or boards the applicant is a member. As the performance of committee members who serve on multiple committees is adversely affected by the heightened responsibilities and risks to the quality of service (Chi et al. 2023; National Treasury 2012a; Sharma & Iselin 2012). In contrast, Tanyi and Smith (2015) present an alternative perspective on the proposition that audit committee membership ought to be limited to the number of committees the individual serves on. The findings indicated that there is no statistically significant correlation between the workload of members of the audit committee and the quality of financial reporting. The sole correlation observed pertains to the financial expert who serves as a committee member and the workload of the audit committee chairperson.

In conjunction with background checks, reference checks should be performed to validate the applicant's self-reported information and gain a more complete comprehension of the individual (Esterhuizen 2019).

Reference checks ensure that the applicant is impartial, dependable, trustworthy, competent, and dedicated, while also ascertaining whether they possess the requisite expertise and experience to serve on an audit committee (Nor, Nawawi & Salin 2018). The preliminary evaluation of candidates should take place prior to conducting interviews, regarding the minimum requirements (Eriksson, Johansson & Langenskiold 2017; Esterhuizen 2019). When determining whether a candidate has high self-efficacy and meets the minimum requirements, an interview should be conducted as it is a component of the hiring procedure (Fish 2017). It is necessary for the council to conduct interviews with candidates to determine whether the personality and skills of the candidates correspond to the criteria for a competent and ethical audit committee. An increased probability of appointing appropriate and qualified candidates results from these procedures.

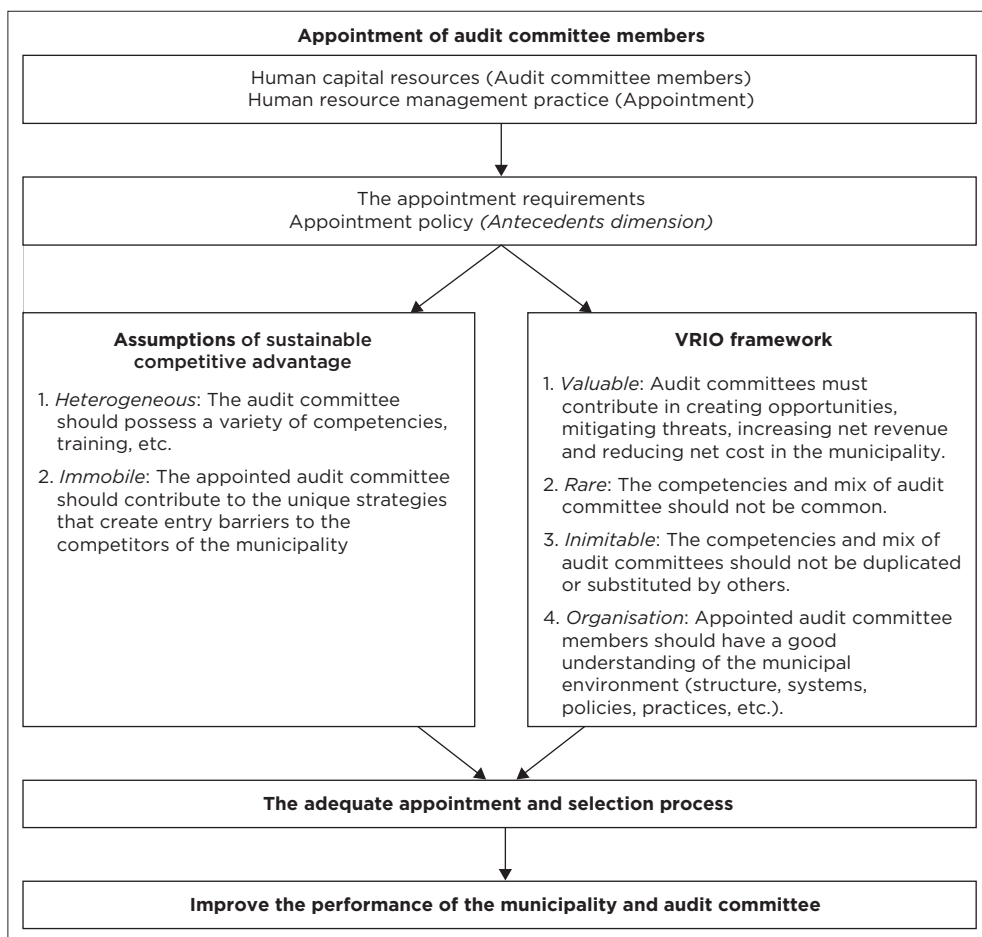
Despite the council's awareness of the statutory and municipal policy-mandated recruitment process, it does not always adhere to it. Consequently, a mechanism to ensure compliance is required. Without regard for individual autonomy, all individuals ought to be required to abide by the law (Barnett 2017). Hence, it is imperative to incorporate paternalism into the recruitment process for audit committee members. According to Dworkin (1972), paternalism is the coercion of an individual to do something against his or her will, justified solely on the grounds of the well-being, happiness, needs, interests, or values of society. This refers to a system in which the righteous law takes precedence over the freedom of individuals to make their own decisions. Paternalism is esteemed for encouraging the orderly operation of society (Amatrudo 2009). Therefore, it can be deduced that the implementation of paternalism during the audit committee member recruitment process serves as a deterrent against unethical and fraudulent practices.

## ■ Summary

As shown in Figure 5.2, audit committees are municipal human capital resources, and municipal policy should dictate the procedure for appointing them as part of human resource management. The council ought to incorporate the two components of the VRIO framework, value and organisation, into its appointment criteria.

## ■ Ethical conduct of audit committees

As Thomas and Purcell (2019) stated, human beings do not invariably exhibit rational behaviour. As a result, specific audit committee members



Source: Legodi, AH 2021, p. 187.

Key: VRIO, value, rarity, imitability and organisation.

**FIGURE 5.2:** The appointment of audit committee members.

are susceptible to irrational conduct and may diverge from established norms and standards. Moreover, their potential for partiality and ill-advised judgment can lead to ineffectual decision-making; thus, audit committees must be governed by ethical standards. Rossouw and Van Vuuren (2010) state that in the realm of human interaction, ethics refer to that which is virtuous or proper. Occasionally, a differentiation is established between the concepts of good and right. 'Good' is defined as 'that which possesses value', while 'right' is defined as 'that which we are duty-bound to do' (Plaisted 2017). Nevertheless, Rossouw and Van Vuuren provide an additional definition of ethical behaviour or conduct as 'that which is considered in addition to one's own self-interest' (Rossouw & Van Vuuren 2010).

It is morally and politically immature, according to Berlin (2002) and Overeem and Verhoef (2014), to deny the existence of diversity and contradictory behaviour. Consequently, such diversity may cause discord when attempting to define the ethical conduct of audit committee members. Divergent opinions and strained relations among audit committee members and other municipal stakeholders may result in conflicts. Therefore, audit committees must have the ability to distinguish right, good and unselfish conduct.

## ■ Ethical conduct through laws and standards

Good behaviour can be discerned by examining legal frameworks and established norms (Jennings 2006; Purcell, Francis & Clark 2014; Rossouw & Van Vuuren 2010). The rationale for establishing good practice through legislation is grounded in the value of pluralism concept, which underscores the necessity for ethical standards to be derived from a variety of human ideas (Spicer 2015). Additionally, normative standards, which are actions that are compatible with universal laws and do not inflict harm, can be employed to assess the proper conduct (Jennings 2006; Rossouw & Van Vuuren 2010). To determine whether the conduct of audit committee members is acceptable or unacceptable, it is necessary to assess whether their behaviours can be universally accepted by society and transformed into a law that is devoid of any negative consequences. Acceptable conduct ought to emanate from a moral character that encompasses virtues such as fairness, honesty, reverence, justice, patience, empathy, compassion, altruism, benevolence and other commendable qualities (Beauchamp & Bowie 2004). Purcell et al. (2014) affirmed that practice guides are essential, in addition to prescribed laws, to assist the audit committee in enforcing effective ethical practices. Considering this, the council ought to appoint audit committee members who possess a practical understanding of the pertinent legislation, acceptable standards and policies governing the ethical conduct of audit committees, as well as the capability to implement this understanding and conduct themselves in an ethical manner. Competence and knowledge are both type-dimensional.

## ■ Ethical conduct through personal motivation

Members of the audit committee must not only be well-informed and adhere to established regulations and laws, but they should also be driven by a strong ethical conscience and a desire to conduct municipal business in an ethical manner while it is an ethically challenging environment, which is typical of contemporary organisations (Hannah, Avolio & Walumbwa 2011).

The audit committee must possess the fortitude to advocate for ethical conduct and must remain unyielding in the face of unethical temptations. Municipalities present a formidable obstacle when it comes to fostering ethical conduct, given that they function within a frequently dysfunctional political milieu (Chabane 2009; Mkhize 2018). Despite immense opposition and challenges, the members of the audit committee must maintain their steadfast commitment to ethical behaviour. In addition to possessing these qualities, the audit committee must also exhibit the type-dimension attributes which include personal character and demeanour, which are conducive to ethical conduct.

## ■ Ethical conduct through reporting structures

Encouraging moral fortitude can also be accomplished by granting access to the reporting structure. The study by Khelil, Hussainey and Noubbigh (2016) found that the CAE's private access to the audit committee and reporting structure, as well as the audit committee's participation in hiring and firing the CAE, increased moral fortitude. The provision of unrestricted private access to the council to the audit committee chair can similarly inspire moral fortitude. Furthermore, moral fortitude can be manifested by those who have developed intellectual and moral virtues through training and habit or practice (Slote & Besser-Jones 2015). This implies that members of the audit committee cannot rationalise their unethical conduct by asserting that such qualities are not innate, because they can be acquired through training and practice. According to Beauchamp and Bowie (2004), while it is commendable to acquire ethical knowledge, individuals ought to be self-motivated and not obligated to cultivate virtues. This claim can be refuted on the grounds that audit committee members who have the option to act ethically may engage in contradictory behaviours; for instance, a member who has the option to disregard legal or ethical standards may opt to carry out actions that do not promote good behaviour. As a result, numerous occupations administer codes of ethics (conduct) that adhere to which their members or staff must conform.

## ■ Professional code of ethics

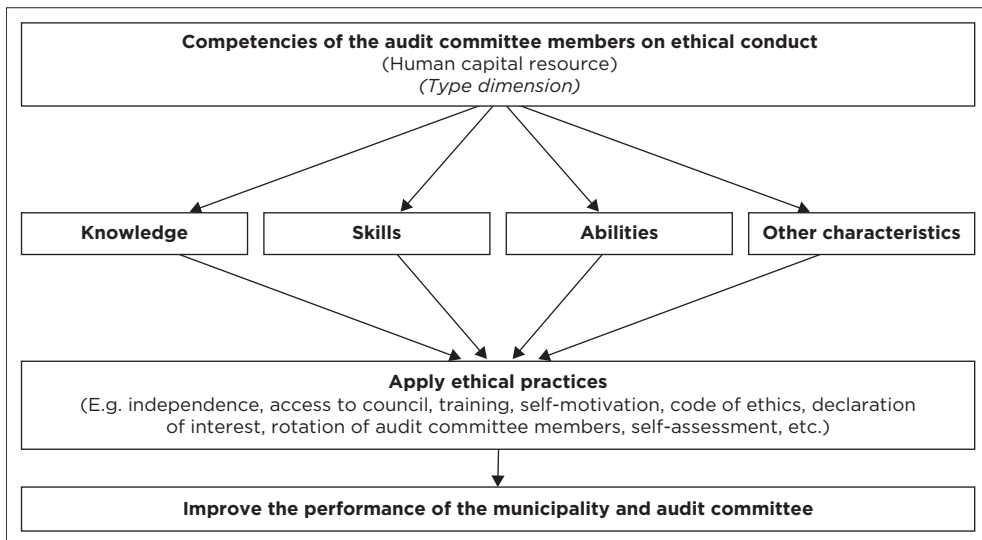
A code of ethics, akin to a code of conduct, is a written document that delineates a prescribed set of conduct expected of professionals and staff (Svara 2014). It is advisable that the entire audit committee be apprised of the code of ethics formulated by the organisation, which mandates their adherence (Deloitte 2017a). Schedules 1 and 2 of the *Municipal Systems Act 32 of 2000*, emphasise that the council is responsible for ensuring that the municipality complies with the code of



conduct (RSA 2000, Schedules 1 & 2). Members of the audit committee who are affiliated with professional organisations such as the IIA and SAICA are further required to adhere to the codes of ethics of their respective professional organisations, in addition to the organisational code of conduct (IIA 2019; SAICA 2018). It is believed that by fostering a culture of honesty and accountability, the code of ethics decreases the probability of financial statement fraud (Persons 2009). While the code of conduct frequently faces criticism for its theoretical nature and lack of practical applicability (Svara 2014), audit committees can potentially improve their ethical conduct through its practical implementation. It has been established that the code of ethical conduct plays a key role in ensuring that the accounting ethics principles are applied (Rogošić & Perica 2023), which often include independence. A key virtue of independence of the audit committee is frequently cited in the code of ethics (National Treasury 2012a; RSA 2003, s. 166[4][a], 166[5]).

## ■ Summary

The ethical competencies and practices that enhance the ethical conduct of audit committees are depicted in Figure 5.3.



Source: Legodi, AH 2021, p. 191.

**FIGURE 5.3:** Enhancing ethical conduct of audit committees.

## ■ Independence of audit committee members

The audit committee ought to maintain independence from the organisation's management and staff (Shbeilat 2014). Hence, in determining the composition of the audit committee, the council ought to abide by applicable laws and industry standards, placing significant emphasis on the independence of each committee member. The following defines an independent audit committee (ANAO 2015; IoDSA 2016; PSACF 2017):

1. In its operation, the committee must be free from any managerial activities
2. It must be devoid of any conflicts of interest
3. It must be unbiased and unaffected by external influences
4. It must conduct itself in an objective and impartial manner.

If adherence to these elements is not perpetual, there are several concerns that can be identified.

## ■ Concerns on audit committee independence

The appointment process is overseen by municipal management or employees, including non-governing body members such as the executive mayor, accounting officer or mayoral committee for finance member (IoDSA 2013). As a result, individuals whose interests are conflicted because of favouritism and nepotism and individuals who lack independence, sufficient skills and experience are appointed to the aforementioned positions. The second focus group expressed a similar apprehension regarding these appointment practices, which violate the law requiring the council to appoint audit committee members as the governing body (RSA 2003, s. 166[5]).

The potential for familiarisation with the council remains a concern. Members of the audit committee, who were appointed by the council, might be inclined to prioritise council approval over the best interests of the municipality. It is imperative that the audit committee exercises caution to prevent the risk of familiarity and render decisions autonomously.

## ■ Enhancing audit committee independence

There are numerous suggestions that could augment the independence of audit committees. Firstly, King IV recommends that all audit committee members should be non-executive or external to the organisation (IoDSA 2016). Nevertheless, Australian best practices and South African and British legislation permit employees to serve on audit committees

(ANAO 2015; Local Government England 2017, s. 14(3); RSA 2003, s. 166(5)). In instances where employees of the organisation are permitted to serve on the audit committee, the entire committee must remain impartial and unaffected by managerial obligations (ANAO 2015; Krishnamoorthy, Wright & Cohen 2002; RSA 2003, s. 166(2)). Secondly, the composition of the committee should consist primarily of external members, with the council assuming the responsibility of appointing the committee members rather than being a member of the audit committee (RSA 2003, s. 166(5)). Thirdly, independence is considered a crucial characteristic of an effective audit committee as it fosters the principles of transparency, accountability and responsibility among the members of the audit committee (Bédard & Gendron 2010; Thomas & Purcell 2019). Fourthly, it is recommended that audit committee members disclose any personal or professional interests they may have at each audit committee meeting (ANAO 2015; IoDSA 2013). This practice promotes independence by ensuring that any potential conflicts of interest are brought to light, while it would be ideal for the audit committee to include the declaration of interest as a regular agenda item at all meetings and have the council review it to promote the practice. Fifthly, the implementation of a rotating membership system for the audit committee enhances independence, and the organisation's policies should endorse this practice (ANAO 2015). Sixthly, members are discouraged from serving for longer than six consecutive years or two consecutive terms (National Treasury 2012a; PSACF 2017). On the contrary, Gacheru et al. (2019) and Sharma and Iselin (2012) discovered that members with a brief tenure may exhibit ineffectiveness because of their limited expertise and familiarity with the organisation. Fourie (2004) and Magrane and Malthus (2010) proposed that to preserve the expertise and understanding of the audit committee, staggered terms of office for committee members be implemented, so that not all committee members are replaced simultaneously. Lastly, conducting an annual self-assessment of audit committee members' independence through the completion of a questionnaire and subsequent reporting of the findings to the governing body serves to foster both independence and ethical conduct (Deloitte 2014). The scope of the self-assessment should extend beyond individual evaluations to encompass committee assessment as well (ANAO 2015). Thus, to encourage ethical behaviour, municipalities must implement a continuous independent self-evaluation of the audit committee and council review of the audit committee.

## ■ **Benefits for municipalities to enhance audit committee independence**

Existing literature indicates that an organisation that maintains an independent audit committee experiences various advantages. Persons (2005, 2009)

argued that the presence of an independent audit committee reduces the probability of fraud because such committees are more likely to identify inappropriate business transactions or financial misstatements. This assertion is corroborated by Butcher (2023), who stated that the board of directors, top executives, finance leaders and auditors must work together to prevent fraud effectively. Additionally, according to Deloitte (2014), organisations that have independent audit committees have the capacity to recognise and control financial risk. On the contrary, Beasley et al. (2000) contended that organisations that have audit committees with reduced independence also exhibit vulnerability to financial statement fraud. According to Zhou, Owusu-Ansah and Maggina (2018), there is no correlation whatsoever between the audit committee's independence and the organisation's performance. Furthermore, research conducted by Rich and Zhang (2014) and Zhang and Rich (2016) indicates that the presence of an independent audit committee does not necessarily result in an improvement of internal control weaknesses. In fact, these studies provide support for the claim that a committee that includes an insider with financial expertise and knowledge of internal controls provides more valuable information compared to a committee consisting solely of external committee members.

According to RSA 2003, Section 166(4), the audit committee for municipalities in South Africa is an advisory body that permits internal members, although external members comprise the majority. These internal members should preferably be senior public servants capable of operating autonomously from the governing body. (Halligan 1995; Tellmann 2017). A member of the internal audit committee may not hold the positions of council member, CFO, CEO, chief operating officer (COO), corporate head, chief information officer (CIO) or CAE (ANAO 2015; RSA 2003, s. 166(5)). Municipalities must, therefore, appoint senior personnel who are resistant to the influence of politicians, council members, colleagues and other municipal stakeholders. Additionally, they must be accorded the same treatment as the other members of the external audit committee to encourage candid discussions and group decision-making during audit committee meetings (Molander, Grimen & Eriksen 2012). One could contend that external members frequently exert more power because they exercise control over the internal members by applying the professional standards of their discipline (Tellmann 2017).

## ■ Summary

Although several scholars advise that the audit committee responsible for oversight should consist of non-executive (external) members, a combination of external and internal members is customary for audit

committees with an advisory function in South African municipalities (IoDSA 2016; RSA 2003, s. 166[4][a], 166[5]). Internal members should be independent of the council. The invitations to attend audit committee meetings should be extended to the CEO despite the apparent preference for oversight-oriented committees for external members. Financial reporting quality is enhanced when the CEO discloses information to the audit committee (Johnston & Nowland 2017).

## ■ Remuneration of audit committee members

### ■ Defining remuneration

Compensation, or remuneration, is a practice within the realm of HR (Nyberg et al. 2014). It is a monetary compensation the employer provides to employees in exchange for the services they have completed (Bussin & Fermin 2017). Additionally, it is recognised as an incentive to inspire employees to improve their productivity and performance (Brown 2019). It may include monetary compensation, incentives or allowances (Martono, Khoiruddin & Wulansari 2018).

Remuneration for the audit committee consists of monetary compensation granted to committee members in exchange for their services to the organisation. It is critical that the independence of audit committee members remains intact despite the compensation they receive in exchange for their services (UK Government 2017). It is generally accepted that independent audit committees are fulfilling their mandate efficiently (Brennan & Kirwan 2015). In addition to the compensation of audit committee members, the audit committee may require funds to retain specialists, for instance, if the committee lacks the requisite personnel in finance and legal (GFOA 2008).

Regarding the compensation of audit committee members, this discourse will exclusively examine it through the framework of the expectancy theory of motivation.

### ■ Leveraging the expectancy of audit committee members

Victor Vroom introduced the expectancy theory when he established a connection between employee motivation, reward and performance (Vroom 1964). His theory is founded on three variables: expectancy, instrumentality, and valence. A deficiency in any of these variables leads to an absence of motivation (Baciu 2017; Vroom 1964).

Performance expectation is the conviction that the efforts (actions) of employees will result in a desired outcome (Baciu 2017). Likewise, members of the audit committee are anticipated to exert diligence in their tasks that culminate in a tangible outcome. Nimri, Bdaif and Bitar (2015) corroborated Vroom's assertions by deriving the conclusion that employees are considerably more motivated to achieve objectives when they perceive themselves to possess the requisite skills, experience and capabilities. Furthermore, the focus groups identified certain proficient and seasoned members who engage in excessive service commitments by assuming additional audit committee responsibilities for various organisations, ultimately leading to poor performance. According to the focus groups, this unsatisfactory performance is the result of double-booked meetings leading to absenteeism and insufficient preparation time for the meetings. The consensus of the focus group was that the motivation of the audit committee is determined by compensation rather than applying their expertise and skills. They allege that audit committee members prioritise receiving substantial compensation from multiple organisations over producing work of the highest calibre. This notion is supported by the findings of Tanyi and Smith (2015), who discovered that an excessively busy audit committee chair undermines the monitoring and oversight function of the committee. Herranz, Iturriaga and Reguera-Alvarado (2018) concurred that the presence of audit committee members with multiple responsibilities has a detrimental impact on the quality of their roles within the organisation. Consequently, this leads to the deduction that proficiency and tenure do not ensure a satisfactory level of performance. Therefore, it is critical that policies and legislation impose a restriction on the number of committees that members of the audit committee may serve on (National Treasury 2012a).

Instrumentality constitutes the second variable, which dictates how the workers' performance is evaluated and rewarded. In a similar fashion, compensation is provided to audit committee members in exchange for their participation and effort in organising audit committee meetings (National Treasury 2012a). There is evidence that rewards, including compensation, influence the organisation's performance (Bussin & Fermin 2017; Martono et al. 2018). It was determined that inadequate compensation for audit committee members was one of the factors impeding their ability to perform their duties effectively (Oussii et al. 2019). The focus groups' assertion that audit committee members are motivated by remuneration is substantiated by the evidence.

Nimri et al. (2015) argued that policies and components of trust and control are essential for effective remuneration practices; that is, employees must have confidence that decision-makers will compensate them fairly. The issue of audit committee compensation fairness was also brought up by the focus groups because of the variability in compensation rates.

Therefore, it is critical that the council carefully considers remuneration rates in order to reflect the level of effort that is anticipated by audit committee members. The council should approve the compensation rate, which should then be recorded in the audit committee charter (National Treasury 2012a). The written policies endorsing equitable compensation for audit committees must not only be present but also operational within the organisation. An organisation that has established policies will endorse an equitable reward system (Bussin & Fermin 2017).

Valence, the third variable, is defined as the degree to which the reward is significant (value) to the employees (Baciu 2017). It argues that employees are more likely to be motivated to complete a task when the reward is sufficiently appealing (Lloyd & Mertens 2018). Additionally, increased employee compensation increases the effectiveness of the HR system (Brown 2019). According to these studies, employees will be unmotivated to complete the task, and the HR system will operate inefficiently if the reward falls short of expectations. As per the findings of the focus groups, the audit committee members' preference for municipalities is influenced by the high compensation rates; municipalities with the highest compensation rates are given preference. As a result, the valence variable is relevant, as members of the audit committee equate the value of the work with the reward provided.

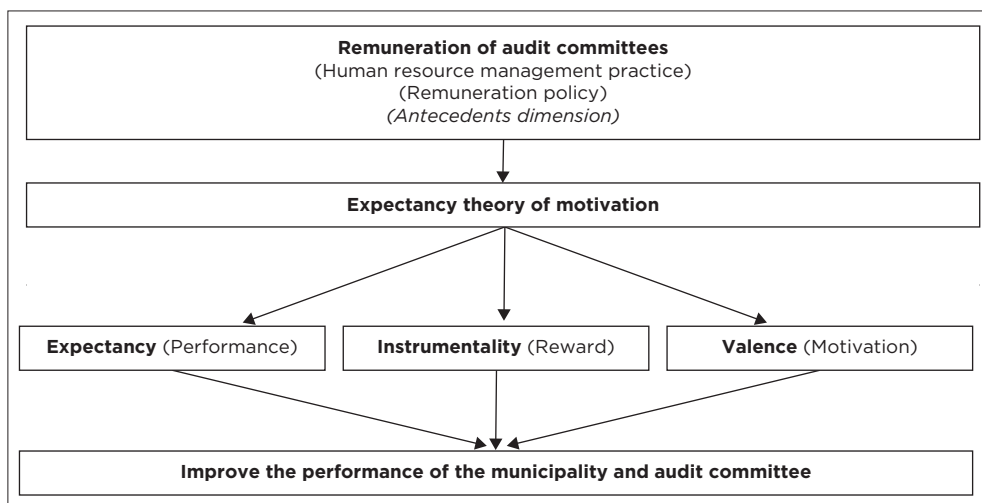
Lloyd and Mertens (2018) contended that while the three variables may be associated with the compensation of audit committee members, they are inadequate in and of themselves. They suggested the incorporation of the *social context* as an additional variable (Lloyd & Mertens 2018). Social context concludes that workers are motivated by the social interaction they have with other individuals and coworkers and recommends that employers take into account the variety of social interactions among employees when designing incentive structures and jobs that will inspire employees (Lloyd & Mertens 2018). Audit committees are subject to 'societal, organisational and regulatory forces' (Brennan & Kirwan 2015). As audit committee members are social beings who interact with others, including other audit committee members, the social context variable is applicable to the compensation of audit committee members. Throughout these exchanges, participants may deliberate on compensation, and as a subset of the members is incentive-driven, they may also compare compensation rates. Demotivation may ensue if they are remunerated at a lower rate than their counterpart, whereas encouragement may ensue if the inverse is true. Members of the municipal audit committee may seek employment with higher-paying organisations in response to discouragement. Thus, the members of the audit committee may be positively or negatively influenced by social interactions.

## ■ Summary

When evaluating the conduct of municipal audit committees, it is imperative to extend beyond the variables suggested by Vroom (1964) and Lloyd and Mertens (2018). To ascertain reasonable and appropriate remuneration rates for each municipality, the National Treasury, the governmental entity entrusted with the oversight of public sector finances, must consider supplementary factors, including financial viability, risks, geographic location, logistics (including travel, lodging and meeting venue), and the intricacies, risk and dangers typical of each municipality. Thus, each municipality or category of municipalities requires a customised, equitable compensation rate.

Adding incentives to the remuneration would encourage skilled and experienced individuals to serve on audit committees in impoverished and remote municipalities if the National Treasury does not insist on using a single fixed rate for all municipalities. Additionally, ineligible municipalities that lack the financial means to pay the remuneration rate or receive those incentives should be considered for subsidies by the national or provincial treasuries. Presumably, autonomous, seasoned and proficient audit committee members would be willing to serve if rates and incentives were to be modified to favour remote, impoverished municipalities.

The three variables comprising the expectancy theory of motivation are illustrated in Figure 5.4.



Source: Legodi, AH 2021, P. 199.

**FIGURE 5.4:** Remuneration of audit committee members.



As demonstrated previously, one of the human resource management practices that should adhere to a policy of equitable compensation is remuneration. To encourage the audit committee members to improve the performance of the municipality, they must be compensated for their efforts. Each member is expected to contribute to this end with their utmost effort.

## ■ Emerging concepts

The effectiveness of audit committees in South African municipalities is intended to be enhanced through the presentation of a framework that integrates emerging concepts derived from both focus group discussions and the literature review.

## ■ Framework for audit committees

Tables 5.1–5.3 are frameworks for audit committees, municipalities, treasuries and SALGA derived from focus groups and literature.

**TABLE 5.1:** Framework for audit committees – appointment of audit committee members.

<p><b>Appointment of audit committee members</b></p> <ol style="list-style-type: none"><li>1. Legislation to be amended to authorise provincial treasuries to appoint municipal audit committee members. The appointments performed by treasuries will reduce the risk of conflict of interest for audit committee members, where members safeguard the interest of those in the municipalities who appointed them.</li><li>2. The audit committee members should not serve on more than three audit committees simultaneously, except in the case of shared audit committees</li><li>3. The audit committee members holding professional qualifications must be affiliated to the associated professional body</li><li>4. The audit committees must render authoritative guidance to the council regarding the expertise needed</li></ol>
<p><b>Remuneration of audit committee members</b></p> <ol style="list-style-type: none"><li>1. Audit committee members should not over-commit to serving on different committees to maximise their income</li></ol>
<p><b>The ethical conduct of the audit committees</b></p> <ol style="list-style-type: none"><li>1. The audit committee member must be self-motivated to behave ethically</li><li>2. The audit committee member must comply with legislation, relevant best practices, charter, policies and code of conduct</li><li>3. The audit committee member must attend training that promotes ethical behaviour</li><li>4. The charter must allow the audit committee chair to have unrestricted, structured and constructive meetings with the council</li></ol>
<p><b>Independence of audit committee members</b></p> <ol style="list-style-type: none"><li>1. The audit committee, individually and collectively should:<ol style="list-style-type: none"><li>a) Be independent</li><li>b) Not hold a conflict of interest</li><li>c) Declare any private and business interest annually and also in every audit committee meeting, as a standing item on the agenda</li><li>d) Be unbiased with no external influence and act in an objective and impartial manner</li><li>e) Ensure members resign after serving their legislated full term; however, appointments and resignations should be executed at different time intervals to prevent a skills dearth</li><li>f) Promote good governance by its independent contribution.</li></ol></li></ol>

Table 5.1 continues on the next page→

**TABLE 5.1 (cont.):** Framework for audit committees – appointment of audit committee members.

2. The charter must be explicit and prescribe both allowed and prohibited actions concerning audit committee members' behaviour to promote their independence
3. The mandatory annual self-assessment should be conducted for the audit committee and for all its members
4. The audit committee members should receive training to improve their performance and to enhance their independence

Source: Legodi, AH 2021, pp. 434–435 & 440–443.

## ■ Framework for audit municipalities

**TABLE 5.2:** Framework for municipalities – appointment of audit committee members.

### **Appointment of audit committee members**

1. The council or Provincial Treasury must be the only body authorised to appoint audit committees
2. If the audit committee lacks skills because of the remote location of the municipality, the council should consider appointing members that can attend the audit committee meetings online
3. The council must appoint enough members to the committee, considering the legislated minimum requirement of three people
4. Municipalities must have policies that govern human resource management practices relating to audit committee's appointment, ethical conduct and remuneration

### **Appointment requirements**

1. Appoint individuals who are independent (do not have a conflict of interest, are unbiased with no external influence and act in an objective and impartial manner)
2. Appoint members possessing the appropriate combination of competencies, that is, heterogeneous (diverse) and add value to the municipality
3. Appoint audit committee members with an understanding of the municipal environment in terms of legislation, structure, systems, practices, policies, etc.
4. Appoint capable members to provide advice that can create unique strategies for the municipality that generate opportunities, mitigate threats, increase net revenue or decrease net cost
5. Establish a rare (unique) audit committee comprising a combination of competencies that is customised for the municipality
6. The structures and processes of the municipality must be sufficiently organised to maximise the services of the audit committees

### **Appointment process**

1. Background checks including verification of employment references, educational credentials, criminal record, credit history, former employment, etc. should be conducted in respect of eligible candidates
2. The council should verify that the applicant does not serve on more than three audit committees simultaneously, except in the case of shared audit committees
3. Members must disclose information about the number of audit committees they serve, during the application process. If the information was misrepresented, their contract of service should be terminated
4. Council can verify the applicant's suitability with other organisations where the applicant served or is serving as an audit committee member, to ascertain whether the applicant is independent, reliable, trustworthy, competent and committed
5. Council and the human resource management unit must refrain from including candidates who do not meet the minimum requirements on the shortlist

Table 5.2 continues on the next page→

**TABLE 5.2 (cont.):** Framework for municipalities – appointment of audit committee members.

6. The interview questions must sufficiently test the independence and competencies of the candidates
7. Council should not appoint:
  - a) Individuals with close professional or personal relations with management or councillors
  - b) Politically connected individuals without relevant experience.
8. A cool-off period should be applied to former municipal employees prior to becoming a member of the audit committee
9. If the appointment system is not fair, transparent, equitable, competitive and cost-effective, and does not endorse the MFMA, it should be classified as unlawful, and the perpetrators must be punished
10. The municipality must avoid practices that lead to negative publicity

**Remuneration of audit committee members**

1. In consideration of the risk, hazards, geographical location of the municipality and logistical circumstances, the council must approve equitable compensation rates for audit committee members
2. Without compromising the audit committees' independence, the council should consider incentives that will entice competent and experienced individuals to serve on the audit committees of impoverished, remote and small municipalities. Incentives will not be necessary if the municipality allows audit committee meetings to be conducted online and telephonically.
3. In impoverished municipalities, the National Treasury or the Provincial Treasury must identify the source of funds necessary to subsidise audit committee member compensation

**The ethical conduct of the audit committees**

1. Develop and implement ethics policies and a code of ethics for audit committees at the council level. In a charter, the information must be documented.
2. Council involvement is required in the recruitment of ethical audit committee members and the dismissal of unethical ones
3. Audit committee members must be subject to contract termination if they fail to attend a specified number of meetings
4. When terminating the contract, the audit committee chair and the secretariat are obligated to adhere to proper procedures, and the terms of termination must be formally recorded in a charter
5. Ethics compliance among municipal employees and audit committee members must be strictly enforced by an ethics committee and an ethics champion appointed by the municipality

**Independence of audit committee members**

1. The following actions that promote the independence of audit committee members should be documented in a charter:
  - a) Obligatory independence
  - b) Declaration of conflict of interest
  - c) The mandatory appointment of new members subsequent to the termination of contract-expiring members.
2. Council must appoint members who can function independently
3. Council to regularly review the conflict of interest register and act timeously
4. Council must evaluate the results of the audit committee's self-assessment and perform the necessary actions
5. Council must assess the independence of the audit committee, annually
6. Council must dismiss members who are not compliant with legislation, the charter, policies and/or the code of conduct

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Source: Legodi, AH 2021, pp. 465–472 & 476–479.  
Key: MFMA, *Municipal Finance Management Act*.

## ■ Framework for National Treasury, provincial treasuries and South African Local Government Association

**TABLE 5.3:** Framework for National Treasury, provincial treasuries and South African Local Government Association – appointment of audit committee members.

<p><b>Appointment of audit committee members</b></p> <ol style="list-style-type: none"> <li>1. The appointment of the audit committee members should be centralised at provincial treasuries or SALGA</li> <li>2. Provincial treasuries or SALGA must monitor the adequacy skills of audit committees</li> </ol>
<p><b>Remuneration of audit committee members</b></p> <ol style="list-style-type: none"> <li>1. In determining the remuneration of audit committee members, the National Treasury must establish benchmarks against other nations and utilise best practices derived from research and performance outcomes</li> <li>2. National Treasury can decide on how audit committee members of poor and smaller municipalities can be subsidised</li> <li>3. It is necessary to centralise the remuneration of audit committee members. The structure that bears the responsibility can be determined by the National Treasury.</li> </ol>
<p><b>Independence of audit committee members</b></p> <ol style="list-style-type: none"> <li>1. The National Treasury must create a code of conduct for audit committee members</li> </ol>

Source: Legodi, AH 2021, pp. 485–486.

Key: SALGA, South African Local Government Association.

## ■ Validation of the framework concepts

Subsequent support was obtained through testing the framework's identified concepts and in consultation with various stakeholders, as revealed through interviews.

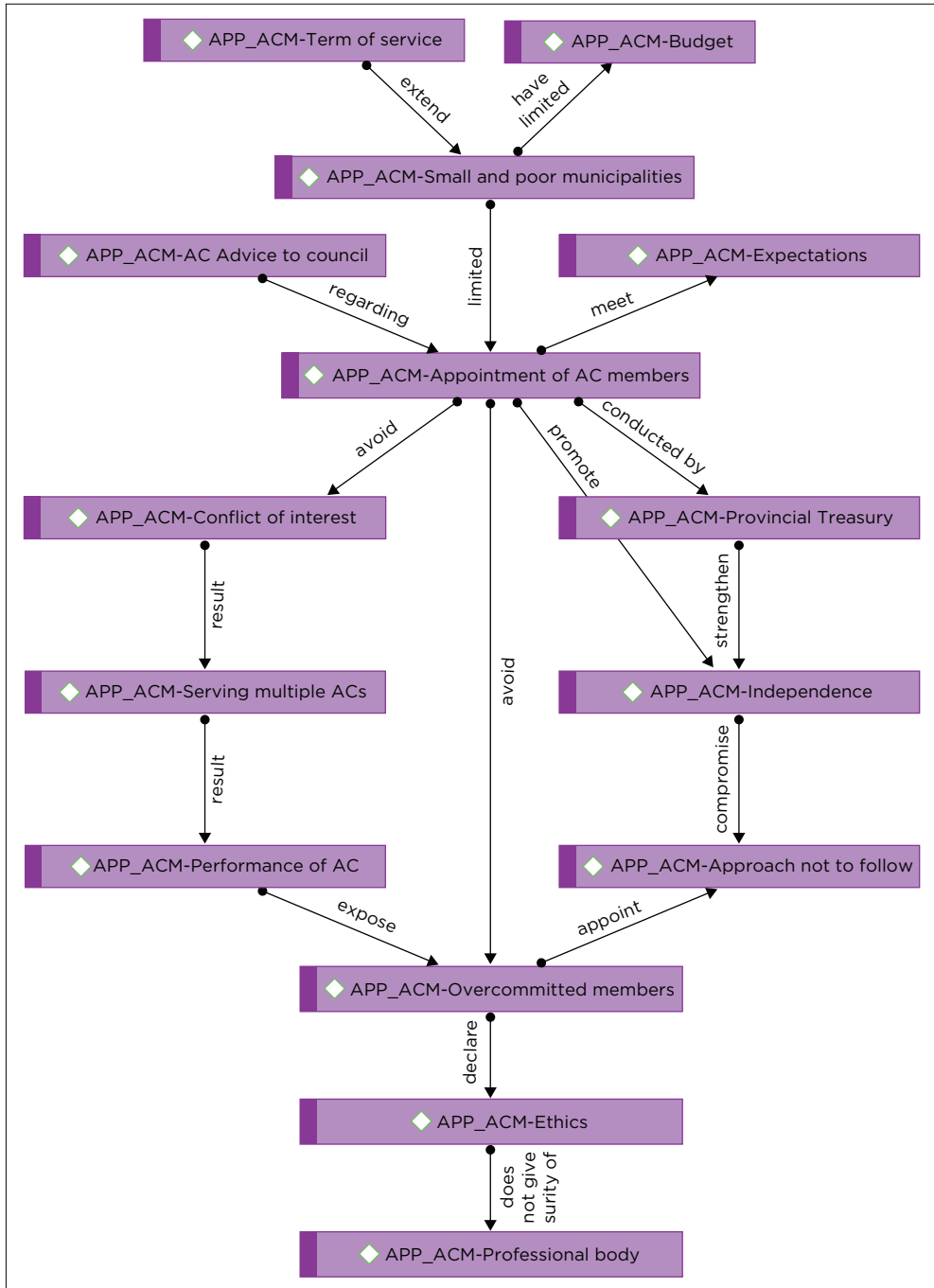
### ■ Audit committee framework

#### □ Appointment of audit committee members

All the concepts gathered from the participants regarding the appointment of audit committee members are depicted in Figure 5.5.

Small and impoverished municipalities, because of their constrained financial resources, are unable to invest in the appointment of competent audit committee members. An extension of the term of service for audit committee members in small and impoverished municipalities was proposed.

When the responsibility for appointing audit committee members lies with the accounting officers rather than the council, the integrity of the committee is compromised. There was unanimous agreement among all participants regarding whether audit committee members ought to prioritise the municipality and its stakeholders over the interests of



Source: Legodi, AH 2021, p. 251.

Key: APP ACM, appointment of audit committee members; AC, audit committee.

**FIGURE 5.5:** Audit committee framework – appointment of audit committee members.

their appointors. Participant 1C asserted that ‘there is always conflict of interest’ when the appointment is done internally (Participant 1C, male, black, 04 June 2020). Participant 2C further asserts that in certain municipalities, ‘the Accounting Officer also is playing a part in the appointment of the audit committee so the independence of the audit committee can be compromised’ (Participant 2C, male, black, 03 June 2020). Hence, it is critical that the appointment be conducted according to the proper framework to prevent compromised autonomy.

Participant 2C proposed a novel notion aimed at mitigating the potential for conflicts of interest, suggesting changing the responsibility of ‘the appointment of the audit committee to Provincial Treasury just to strengthen their independence’ (Participant 2C, male, black, 03 June 2020). His proposal is logical, given that it would prevent councillors and other unauthorised parties from appointing audit committee members in a way that advances their own personal interests. The appointment of audit committee members by the Provincial Treasury would serve to boost their independence. In the process of selecting new members for the audit committee, the current committee members ought to apprise the council of the requisite expertise.

The appointment of audit committee members ought to be conducted in a manner that prevents any potential conflicts of interest. A member may be entangled in a conflict of interest if they concurrently represent municipalities and organisations that are stakeholders of the municipalities. Notwithstanding their efforts to prevent overcommitment and interruptions caused by other services, the appointed members remain obligated to meet the expectations.

Furthermore, engaging in multiple committee services can potentially lead to subpar performance, undermine one’s independence, and generate a conflict of interest. A potential conflict of interest may emerge when individuals hold positions of authority over municipalities and their stakeholders, including suppliers. In lieu of appointing overly preoccupied audit committee members, the council should restrict appointments to individuals who are affiliated with a professional organisation. Although membership in a professional organisation does not necessarily ensure ethical conduct, audit committee members must have the integrity to admit when they are overcommitted, even though doing so would expose their subpar performance. An alternative viewpoint posited that municipalities might forego the chance to request the services of knowledgeable and experienced members if the number of committees served is restricted.

Thirteen of the participants agreed with the notion that serving on multiple committees could have a detrimental effect on the performance of audit committee members. One participant expressed disagreement with this suggestion. Participant 1C disagreed with the suggested course of action, contending that the assumption that members who serve on multiple committees lack commitment is unfounded. He stated that the degree of service 'is dependent on [*his*] performance at the day' (Participant 1C, male, black, 04 June 2020). He argued that certain members, who have amassed vast experience, are retired from day-to-day work. They serve solely on multiple committees. They have sufficient time to prepare; as a result, their performance is not adversely affected. He further stated that it is adequate that 'they must provide a declaration' that they participate in numerous committees and will thus be capable of delivering a service of high quality. The individual must be removed from the committee if the chair discovers that he or she is overcommitted and incapable of providing superior service.

His assertion regarding the capacity of retired and, in certain instances, unemployed members is warranted. Nonetheless, one could contend that members' independence could be compromised if most of their income came from audit committees, as this could incentivise them to cater to the interests of their appointors. Consequently, members of audit committees ought to be employed in organisations that provide gainful employment. Their membership in various audit committees must be restricted. Thus, all should be subject to the same restrictions regarding the maximum number of audit committees that can be serviced simultaneously.

Eleven participants agreed that audit committee members should be affiliated with a professional organisation, while three disagreed. An appropriately valid argument was presented, which stated that 'not all people that is [*sic*] knowledgeable belong to a professional body' (Participant 1A, male, white, 10 April 2020). Additionally, certain members lack a professional status or standing and are ineligible to subscribe to the professional organisation. Consequently, the action is only feasible if 'we are going to have a professional body specifically for audit committees'.

Participant 1A's argument was sound: 'The mere fact that you belong to a body will not increase your ethics' (Participant 1A, male, white, 10 April 2020). Despite the validity of the opinions expressed by the opposing participants, the affiliation of audit committee members who possess professional qualifications with a professional organisation is an added benefit. The membership of a professional organisation is bolstered by the codes of conduct and disciplinary actions it imposes on members who violate them; therefore, membership promotes ethical conduct.

As to whether the existing audit committee is obligated to provide the council with expert advice in the new appointment of audit committee members, all members reached a consensus. It is crucial, according to Participant 4C, that the audit committee provide the council with guidance concerning the required expertise. It aids the council's ability to make the 'right decision when appointing and approving audit committee members' (Participant 4C, female, white, 28 May 2020).

Certain municipalities are encountering difficulties in recruiting competent audit committee members because of their geographical location and constrained financial resources. An extension of the term of service for audit committees operating in these domains was suggested by Participant 3C. 'Instead of saying two terms, maybe make it three terms to allow municipalities to retain skilled members' (Participant 3C, male, black, 09 June 2020). The recommendation was excluded from the framework because of its potential to foster a significant risk of familiarity and compromise the independence of the audit committee, predicated on the assumed extended association.

Participant 3B put forth a proposal regarding the utilisation of online forums for these types of municipalities. His proposal was that:

'[B]ecause we are in the technology era, maybe the use of Zoom, would maybe assist them getting better ones [audit committee members] if they are willing to move towards that.' (Participant 3B, male, coloured, 28 May 2020)

This perspective was considered valid and was incorporated into the municipal framework.

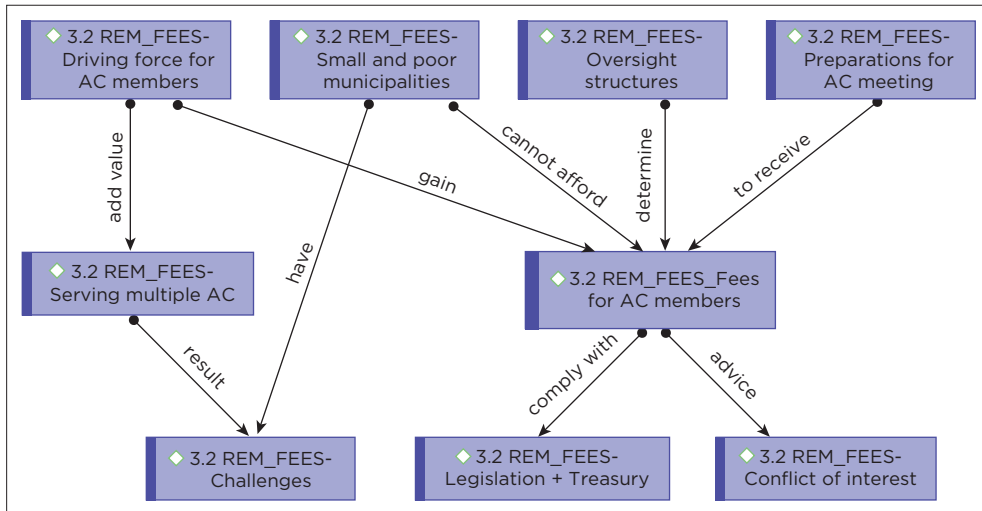
Participant 4B thought it necessary to 'mention the ideal size of an audit committee' (Participant 4B, male, white, 01 May 2020). The council should appoint an adequate number of committee members.

## □ Remuneration of audit committee members

Figure 5.6 reflects all the concepts obtained from the participants about the remuneration of audit committee members.

Serving on multiple audit committees may result in various challenges. Two contradictory views were raised as a driving force for audit committee members to serve on multiple committees. The views were to add value and benefit from the fees. It is fair to and expected of members to receive remuneration when preparing for meetings. The oversight structures of the government must determine fair audit committee fees in compliance with the regulations of the National Treasury. There is no need for the audit committee to advise about its own fees, as this would present a conflict of interest. Furthermore, small and poverty-stricken municipalities are





Source: Legodi, AH 2021, p. 256.

Key: REM FEES, Remuneration of audit committee members, AC, audit committee.

**FIGURE 5.6:** Audit committee framework – Remuneration of audit committee members.

encountering the challenge of not being able to afford to pay the audit committee fees.

On the notion of whether audit committee members should not over-commit to serving on different committees to receive high remuneration, 13 participants agreed and seven participants disagreed. Participant 1A argued that *[although]*:

‘[T]he circular states no more than three committees but you [we] must be realistic in South Africa we have professional audit committee members and that is all that they do.’ (Participant 1A, male, white, 10 April 2020)

He is convinced that ‘they want to add value’ more than desiring to receive high remuneration. Another cause of multiple committee seats is that it can be ‘difficult to limit people because especially in the rural municipality where skills are not available, then you tend to have a member sitting in more than five audit committees’ (Participant 1C, male, black, 04 June 2020). The quality of service is a concern when audit committee members serve on multiple committees. They need to spend sufficient time in preparation for the meetings to provide adequate advice to the municipality. Also, meetings of the ‘committees [*can*] happen on the same days that members tend to fail to attend both meetings’ (Participant 1C, male, black, 04 June 2020). They must, therefore, avoid serving on multiple committees that will prohibit them from being effective in their work. The action remained unchanged, as there are challenges in serving on multiple

committees, especially if the primary motive is to receive high remuneration instead of adding value. Most participants agreed to the action.

On the question of the audit committee rendering expert advice regarding the remuneration policy and rates for audit committee members, seven participants agreed, one participant partially agreed and six participants disagreed. Participant 1B partially agreed with the action mentioned that ‘the audit committee must rather refer to best practices than prescribing what should be their remuneration’ (male, black, 27 April 2020). The recommendation of benchmarking was found to be relevant to the National Treasury, as it determines the fees. The participants who disagreed with the action raised concerns about conflict of interest. ‘I say no they will have a conflict of interests in this regard’ (Participant 2A, female, black, 01 June 2020). ‘You can’t determine your [own] fees’ (Participant 1C, male, black, 04 June 2020). ‘There is a possibility that they might not be really objective about the remuneration because you know if something favours you’ (Participant 2B, female, coloured, 01 June 2020). Furthermore, Participants 1A, 1B, 2E and 3A believe that the National Treasury is a sufficient oversight structure that determines the fees for the audit committee and that there was no need for another oversight structure. Therefore, based on the valid concerns of the participants who disagreed, the action was removed from the framework.

Although the National Treasury is the oversight structure responsible for regulating the remuneration rate, there was a concern that the remuneration is not adequate:

‘MFA circular provides a rate, and that rate is not commensurate with an hourly rate. It’s a flat rate and it is [s/c] not suffice to keep professionals in audit committees.’ (Participant 1A, male, white, 10 April 2020)

Participant 3B supports the view that audit committees ‘are underpaid, especially the professionals’. Participant 3C agrees and adds that: ‘these sometimes create problems in attracting the right individuals and leading to high turnover making the audit committee ineffective’ (Participant 3C, male, black, 09 June 2020). Although these views are regarded as valid, the solution could be considered and provided by the National Treasury. Hence, this discussion did not form part of the framework for audit committees, as it falls within another sphere of government’s mandate.

The concern that ‘MFMA circulars prohibit municipalities remunerating audit committee members in the employ of the State’ (Participant 3C, male, black, 09 June 2020) is relevant to the National Treasury’s authority and is thus not addressed in the framework.

It was a concern that ‘the smaller ones [municipalities] can’t really pay the rates as per the audit committee Charter rates. That is a problem’

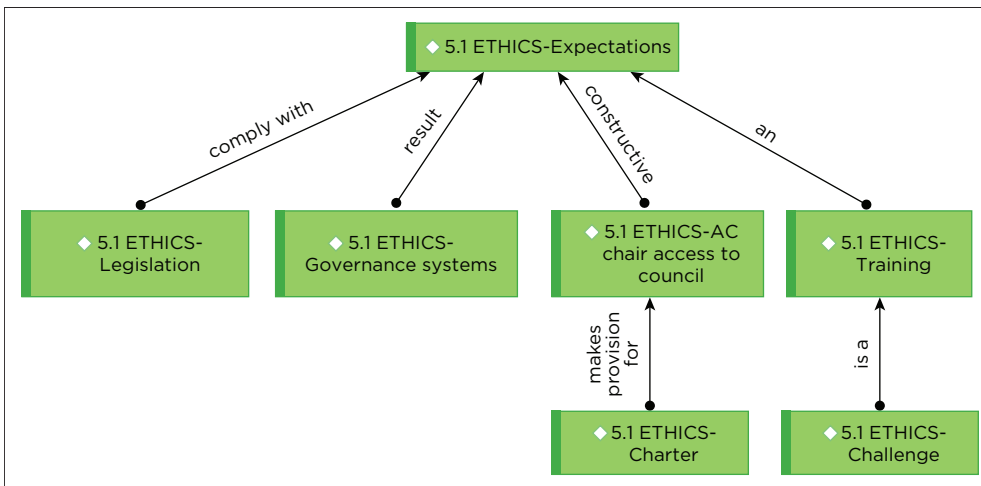
(Participant 3B, male, coloured, 28 May 2020). Participant 1B recommended that the treasuries bear the responsibility of ensuring that municipalities in remote areas attract audit committee members with the necessary skills. This is, perhaps, more of an ideal than a reality. Thus, the option of virtual audit committees (connectivity permitting) might be of greater assistance than in the pre-virtual times. When treasuries address the quandary situations where audit committee members serve on multiple committees of more than five at a time, as mentioned by Participant 1C, they should be eliminated.

### □ Ethical audit committee members

Figure 5.7 reflects all the concepts obtained from the participants on the ethical conduct of the audit committee members.

Audit committee members are expected to comply with legislation that promotes ethical conduct. It is expected that ethical behaviour will result in good governance systems within the municipalities. Also, the charter must make provision for the audit committee chair to have unlimited access to the council. It is expected that access to the council will be facilitated in a structured manner and that such unrestricted communication will be constructive engagements. Another expectation is ethics training for audit committee members. However, this presents a challenge owing to municipal budget constraints.

On the question of whether the audit committee member must be self-motivated to behave ethically, all agreed. Participant 4A emphasised that



Source: Legodi, AH 2021, p. 264.  
Key: AC, audit committee.

**FIGURE 5.7:** Audit committee framework – the ethical conduct of the audit committee members.

‘ethics whether it is documented or not documented’ must be upheld. Also, ‘every member of an audit committee should be an all-rounder with basic ethical elements’ (Participant 4A, male, black, 02 April 2020). Participant 1C further states that ‘when they agree to serve on a committee, they are expected to conduct themselves professionally and without conflict of interest’ (Participant 1C, male, black, 04 June 2020). The statement thus remained unchanged.

On the notion of whether the audit committee member must comply with legislation, relevant best practices, policies and codes of ethics, all agreed, and the statement remained the same.

Similarly, whether the audit committee member must attend training that promotes ethical behaviour is agreed upon. A concern was raised that:

‘[T]he issue of training and it remains a challenge for capacitating audit committee members, particularly now that everything has changed and most of the training is offered by external service providers which requires a budget and municipalities don’t make allocations for training for committee members because they are not employees of the municipality.’ (Participant 3C, male, black, 09 June 2020)

Participant 3B agreed that ‘there is room for improvement, whether it is workshops or programmes’ (Participant 3B, male, coloured, 28 May 2020). The action remained unchanged.

Whether the audit committee chair must have unlimited access to the council, to promote ethical conduct, 13 participants agreed and one participant disagreed. Participant 4B disagreed with the action as ‘it sounds like the audit committee is doing the work of the ethics officer of the municipality and that extends beyond the mandate of the audit committee’s oversight’ (Participant 4B, male, white, 01 May 2020). The concern was considered and the action was rephrased. Participant 4C recommended that access to the council ‘must just happen in a structured manner’ and:

‘It must be constructive, and it must also be when there is really that need for it and it serves a purpose and not just because of potential let’s say ulterior motives or whatever.’ (Participant 4C, female, white, 28 May 2020)

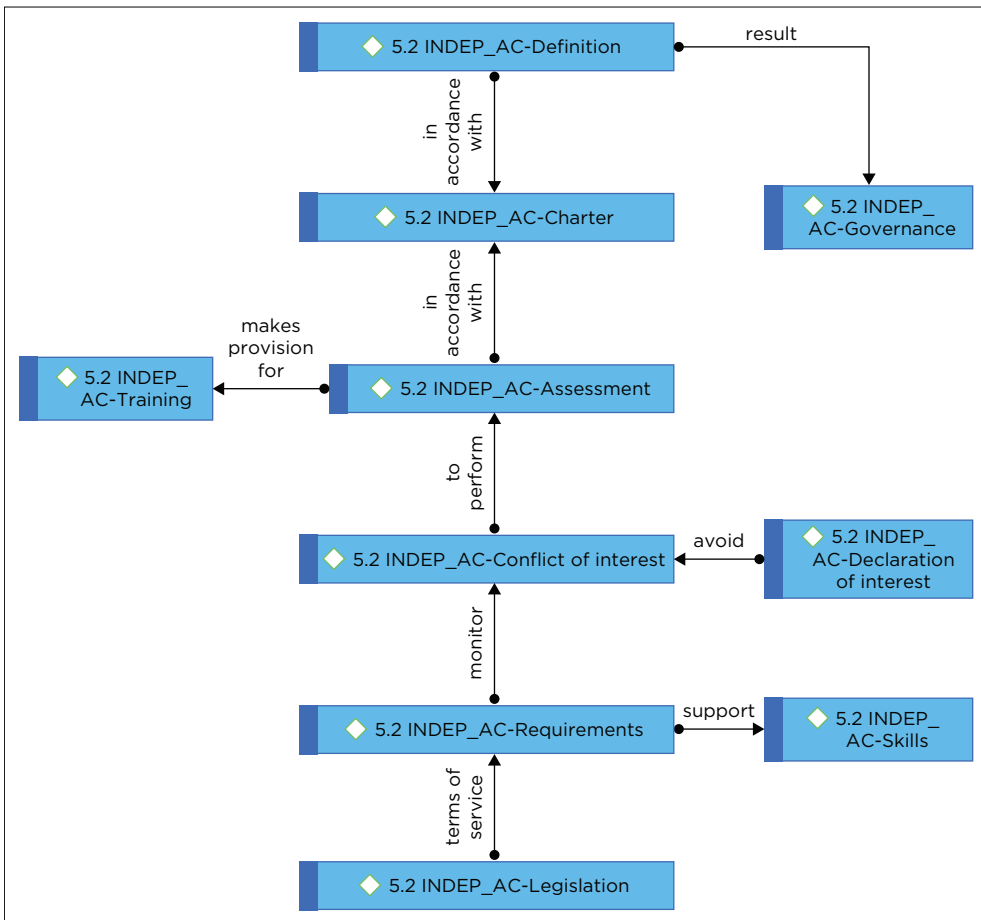
She further recommended that the charter should make provisions for such access. The action was rephrased after considering the valid comments of the participants.

The ‘audit committee charter’ is a new concept that is discussed in this category of the framework. Another new concept is ‘good governance’. Participant 4A expressed that the ethical conduct of audit committees will promote good governance. The action regarding good governance was added to the category of ‘Independence’.

## □ Independence of audit committee members

Figure 5.8 reflects all the concepts obtained from the interviewed participants on the independence of audit committee members.

The definition of the ‘independence of audit committee members’ should concur with the charter, and an assessment of compliance to requirements of independence and the necessary skills must also be conducted. The areas of improvement identified during their assessment should be improved upon, providing for the necessary training. Further, it should be an obligation to monitor any conflict of interests of audit committee members, and members must declare their interests at



Source: Legodi, AH 2021, p. 267.

Key: INDEP AC, independence of audit committee members.

**FIGURE 5.8:** Audit committee framework - independence of audit committee members.

every meeting. Last, to enhance independence, the audit committee members should uphold legislation and not serve more than two consecutive terms of service (six years) as legislated, on the same committee. Ultimately, the independent audit committee should enhance good governance within the municipality.

On the statements that the audit committee should be independent; not hold a conflict of interest, be unbiased with no external influence and act in an objective and impartial manner; declare any private and business interest in every audit committee meeting - it should be a standing item on the agenda; and rotate members that serve at the municipality to promote independence, all participants agreed. Regarding the third point, Participant 1B suggested that annual declarations must be enforced 'because the meeting declarations are limited to the agenda of the meeting, not the issues that happen in between the meetings' (Participant 1B, male, black, 27 April 2020). This view was added to the framework. Participant 1C further stated that 'members not only do declarations but actually monitor the conduct of members in terms of how they behave, how they perform and how they conduct themselves ethically' (Participant 1C, male, black, 04 June 2020). The ethical behaviour of audit committee members was addressed before. The fourth point was rephrased as the word 'rotate' was regarded as confusing by Participant 4B. It was replaced by the action stating that the audit committee members should resign after serving their legislated full term. Participant 2C commented on the issue of skills: 'we need to safeguard so that there is no loss of skills. That means this [*resignation*] is supposed to be done in a staggered way' (Participant 2C, male, black, 03 June 2020). This view was taken into consideration.

On the question of whether the mandatory annual assessment to examine their independence should be conducted by all audit committee members and the results reported to the council, all participants agreed. All agreed with the proposed action but, based on the recommendation of Participant 4B, rephrased into two parts, namely: (1) the mandatory annual assessment should be conducted for the audit committee and all its members and (2) the results of the assessment of audit committee members must be evaluated by the council and the necessary actions taken.

According to Participant 4C, the charter must explicitly promote the independence of audit committee members. Participant 2E is also of the same view. He commented:

'[R]equirement of not serving on more than two, three-year terms. It is also included in the charter. Just to enhance the importance of not serving too long on a committee.' (Participant 2E, male, coloured, 10 June 2020)

Participant 3C further emphasises the importance of independence by expressing that ‘an audit committee member cannot do any work or consulting work for that municipality until their term has expired. This must be in writing’ (Participant 3C, male, black, 09 June 2020). Additional action was added to the framework, stating that the charter must be explicit regarding actions that the audit committee members should or should not perform to promote their independence.

Training was recommended by Participant 4C to enhance the independence of audit committee members. She mentioned that:

‘[T]he performance assessments you know it will be written into your [*audit committee*] charter and of course it will be done also and from that will flow areas where improvements have been identified and actions in terms of how they can improve on those areas with meeker ratings like training interventions etc.’ (Participant 4C, female, white, 28 May 2020)

The view regarding training was added to the framework.

Participant 4A suggested that audit committee members must ‘contribute positively to the achievement of good governance’ (Participant 4A, male, black, 02 April 2020). Also, ‘skills’ was a new concept in this category. It was considered.

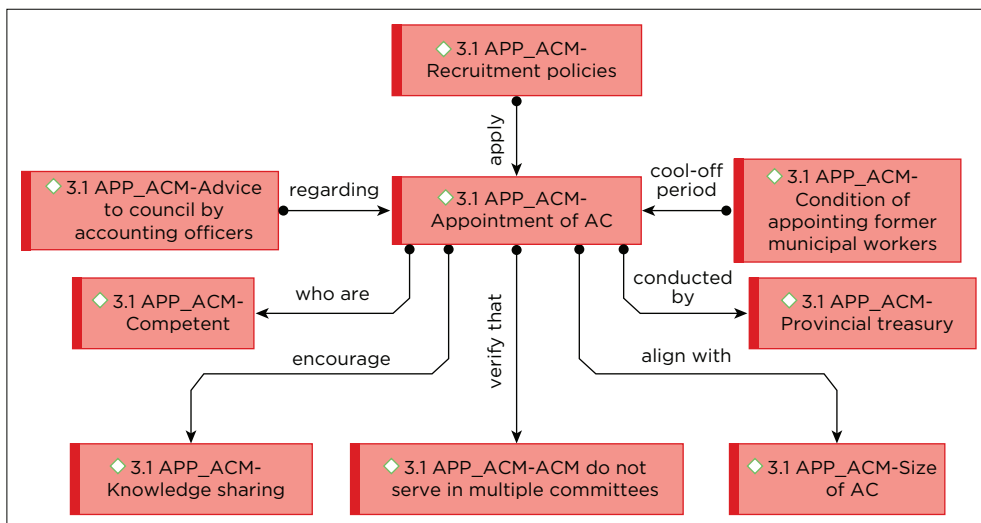
## ■ Municipal framework

### □ Appointment of audit committee members

Figure 5.9 reflects all the concepts obtained from the participants on the appointment of audit committee members.

Recruitment policies should be applied when appointing audit committee members. When recruiting audit committee members, the council should verify that the applicants are not overcommitted by serving on multiple committees (more than three). The council is encouraged to seek advice from the accounting officer regarding the appointment of audit committee members, especially about the skills required. The council should appoint members who are competent. Additionally, a cool-off period should be a condition of employment for former municipal employees who would like to apply for audit committee positions. Some participants prefer that the appointment of the audit committee be centralised and performed by provincial treasuries. Also, the size of the audit committees must be sufficient to align with the size of the municipalities. Moreover, knowledge-sharing amongst the appointed audit committee members is encouraged.

The statement that the council must be the only body authorised to appoint the audit committee and municipalities must have policies that govern human resource management practices relating to the audit



Source: Legodi, AH 2021, p. 297.

Key: AC, audit committee; APP ACM; appointment of audit committee members.

**FIGURE 5.9:** Municipal framework - appointment of audit committee members.

committee's appointment, ethical conduct and remuneration. All the participants agreed. The existing challenge with the appointment of the audit committee is 'delegate [delegation of] the function that is assigned by [to] council to the Accounting Officer and his staff' and 'councillors are not involved in the physical interview nor the process of assessing the audit committee members' (Participant 1A, male, white, 10 April 2020). This view was supported by Participants 3B and 3C. Although Participant 3C accept such practice on condition that 'it should be in writing' when the council delegate their authority, the practice remains unlawful because it is the council's responsibility according to the MFMA, Section 166(5) (RSA 2003, S. 166[5]). Participant 2D accurately advised that the involvement of accounting officers in the appointment of audit committee members should be limited to advice that is 'sought from the Accounting Officer of the required skill and adherence to the audit committee charter'.

Participant 4A proposed the solution that 'the appointment of the audit committees can be centralised at the provincial level'. Participant 2C agrees with the proposal that audit committee members 'be appointed by Provincial Treasury' (Participant 2C, male, black, 03 June 2020). Participant 4B agrees with the centralisation of this action but proposes a different organisation, i.e., SALGA. He comments that 'a more ideal situation is maybe of one give that [the appointment of audit committee members function] to SALGA with a system that monitors the skills of audit committee members' to create 'further independence for oversight' (Participant 4B, male, white, 01 May 2020).



All participants agreed that municipalities have policies that govern human resource management practices relating to audit committee's appointment, ethical conduct and remuneration. Participant 2A supports the view of using 'the same [*municipal human resources*] policies of recruitment' when appointing audit committees.

All participants agreed to most of the following statements: (1) Appoint individuals who are independent (do not have a conflict of interest, are unbiased with no external influence and act in an objective and impartial manner). (2) Appoint members possessing the appropriate combination of competencies, that is, heterogeneous (diverse). (3) Appoint audit committee members with an understanding of the municipal environment in terms of legislation, structure, systems, practices, policies, etc. (4) Appoint capable members to provide advice that can create unique strategies for the municipality that generate opportunities, mitigate threats, increase net revenue or decrease net cost. (5) Establish a rare (unique) audit committee comprising a combination of competencies that cannot be imitated by competitors. (6) The structures and processes of the municipality must be sufficiently organised to maximise the services of the audit committees.

Two participants disagreed with the second last statement. Participant 2A disagreed as 'knowledge sharing amongst each other [*municipalities*] is encouraged', and therefore, it is not necessary to create an audit committee that cannot be imitated, but rather create a committee with competent members. Also, Participant 2E disagreed with the action, as municipalities do not compete amongst each other. The action was revised in the framework to consider the views of the participants.

On the statements related to appointment processes, namely: (1) Background checks including verification of employment references, educational credentials, criminal record, credit history, former employment, etc., should be conducted in respect of eligible candidates. (2) The council should verify that the applicant does not serve on three or more other audit committees, as this could negatively influence the effectiveness of the committee. (3) The council can verify the applicant's suitability with other organisations where the applicant served or is serving as an audit committee member, to ascertain whether the applicant is independent, reliable, trustworthy, competent and committed. (4) The council and the human resource management unit must refrain from including candidates that do not meet the minimum requirements to the shortlist. (5) The interview questions must sufficiently test the independence and competencies of the candidates. (6) The council should not appoint individuals that have close professional or personal relations with management or councillors, former or current auditors of local government,

retired executives from the local government and politically connected individuals without relevant experience. (7) If the appointment system is not fair, transparent, equitable, competitive and cost-effective, and does not endorse the MFMA, it should be classified as unlawful, and the perpetrators must be punished. (8) The municipality must avoid practices that lead to negative publicity.

All the participants agreed, except for three aspects. One Participant 2D disagreed with this as ‘municipalities are not that different from each other especially the local municipalities’ and ‘if a member of an audit committee serves on more than three audit committees of local municipalities, such member can share knowledge’ (Participant 2D, male, black, 09 June 2020). The view of knowledge sharing is valid. However, it does not negate the fact that overcommitted audit committee members might not be independent and may lack time to prepare for all their meetings. Also, meetings can occur simultaneously on the same day, resulting in missed meetings. Therefore, the action was not changed to consider the view of Participant 2D. The statutory requirement of not serving on more than three audit committees, except in the case of shared audit committees, was considered.

Furthermore, Participant 2A suggested that members disclose ‘information during the application process in the curriculum vitae’ and ‘if the “information was misrepresented”, they must be terminated’ (Participant 2A, female, black, 01 June 2020). This view was considered.

With regard to the council not appointing former or current auditors of local government and retired executives from the local government, nine participants agreed to the action, one participant partially agreed and four participants disagreed. The main reason was that former and retired employees of the municipalities have vast experience that can be helpful to the audit committee and the municipalities: ‘These are people who have the most experience about the municipal environment as they have been part of it and can add lots of value to the committees’ (Participant 2B, female, coloured, 01 June 2020). The views of the participants were considered, and the proposed actions were removed from the draft framework. Participants 2A and 2C suggested municipalities must impose a condition on hiring former municipal workers as audit committee members: ‘there must be a cool-off period’ (Participant 2A, female, black, 01 June 2020). The suggestion was valid and considered in the framework.

Participant 1B required the framework to include the ‘minimum and maximum number of audit committee members’ (Participant 1B, male, black, 27 April 2020). The study adopts the minimum number of three persons not employed by the municipality, as per legislation (National Treasury 2012b, p. 3; RSA 2003, S. 166[4][a]). However, the maximum

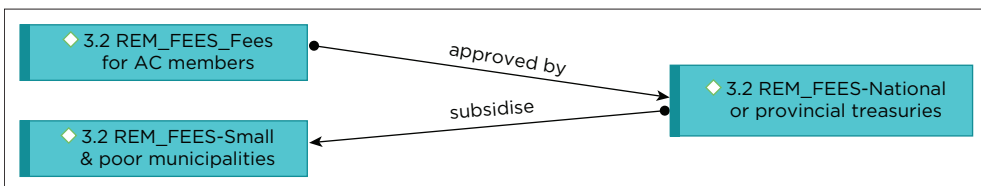
number of audit committee members depends on the size and complexity of the municipality and affordability. Therefore, the framework cannot determine the maximum number of members, and this view was not added to the framework.

## □ Remuneration of audit committee members

Figure 5.10 reflects all the concepts obtained from the participants on the remuneration of audit committee members.

Some participants believe that audit committee members should not be paid more than the approved standard rate by the National Treasury and Provincial Treasury. They are of the opinion that the rate determined by the National Treasury is sufficient, as higher remuneration does not translate to better quality of work. Furthermore, numerous participants support the notion of the National Treasury or provincial treasuries subsidising the cost of audit committees in small and poverty-stricken municipalities. Those who are opposed to such subsidy expressed concern that members will become dependent on the subsidy, and it can be problematic when treasuries might, at times, not possess the resources to afford the subsidy.

On the statements on whether the council must approve fair remuneration rates for audit committee members, considering the risks, geographic location of the municipality and the logistics (travelling, accommodation, meeting venue, etc.); the council should consider incentives that will entice skilled and experienced individuals to occupy audit committee positions in poor and remote municipalities; and the National Treasury or Provincial Treasury must subsidise poor municipalities to pay market-related remuneration for audit committee members, all participants agreed with the first point, while Participant 4A disagreed with the second statement and Participant 4B disagreed with the third statement. Regarding the second statement, most participants agreed with the action ‘provided that the independence of the member is not impaired’ (Participant 4B, male, white, 01 May 2020). However, Participant 4A completely disagreed.



Source: Legodi, AH 2021, p. 302.

Key: AC, audit committee, REM FEES, Remuneration of audit committee members.

**FIGURE 5.10:** Municipal framework - remuneration of audit committee members.

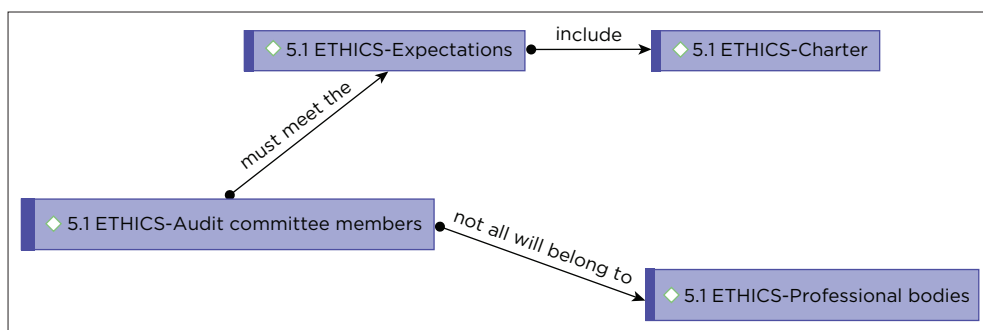
He emphasised that the focus should not be about paying high remuneration ‘remuneration does not translate into the best quality audit committee person or member’ (Participant 4A, male, black, 02 April 2020). ‘The remuneration of audit committee members should not even go beyond what is suggested in their own directives or circulars’ because the purpose is not high remuneration but to ‘contribute towards the good governance of the municipalities’ (Participant 4A, male, black, 02 April 2020).

Furthermore, Participant 4B does not agree with the third statement as a subsidy might ‘create a dependency on National [or] Provincial Treasury to the extent that [*when*] they don’t have funds available, then the municipal audit committee[s] might not proceed at all’ (Participant 4B, male, white, 01 May 2020). Also, ‘I’m not sure if National or Provincial is willing to do that, but it is something that can be looked at’ (Participant 3B, male, coloured, 28 May 2020).

Participant 4B proposed that the organisation that can subsidise municipalities is SALGA, as it ‘manages all this [the] oversight’ and ‘the municipality pays a subscription [municipalities pay subscriptions]’ (Participant 4B, male, white, 01 May 2020). Although there is no evidence that high remuneration translates to the quality service of members, and treasuries might not be willing to subsidise audit committee costs, the problem persists that small and poverty-stricken municipalities in remote areas lack qualified audit committee members. Until conducting online or telephonic audit committee meetings is the norm, incentives must be paid to attract experienced and qualified audit committees. Therefore, Statements 2 and 3 remain relevant.

## □ The ethical conduct of audit committee members

Figure 5.11 reflects all the concepts obtained from the participants on the ethical conduct of the audit committee members.



Source: Legodi, AH 2021, p. 306.

**FIGURE 5.11:** Municipal framework - the ethical conduct of the audit committee members.

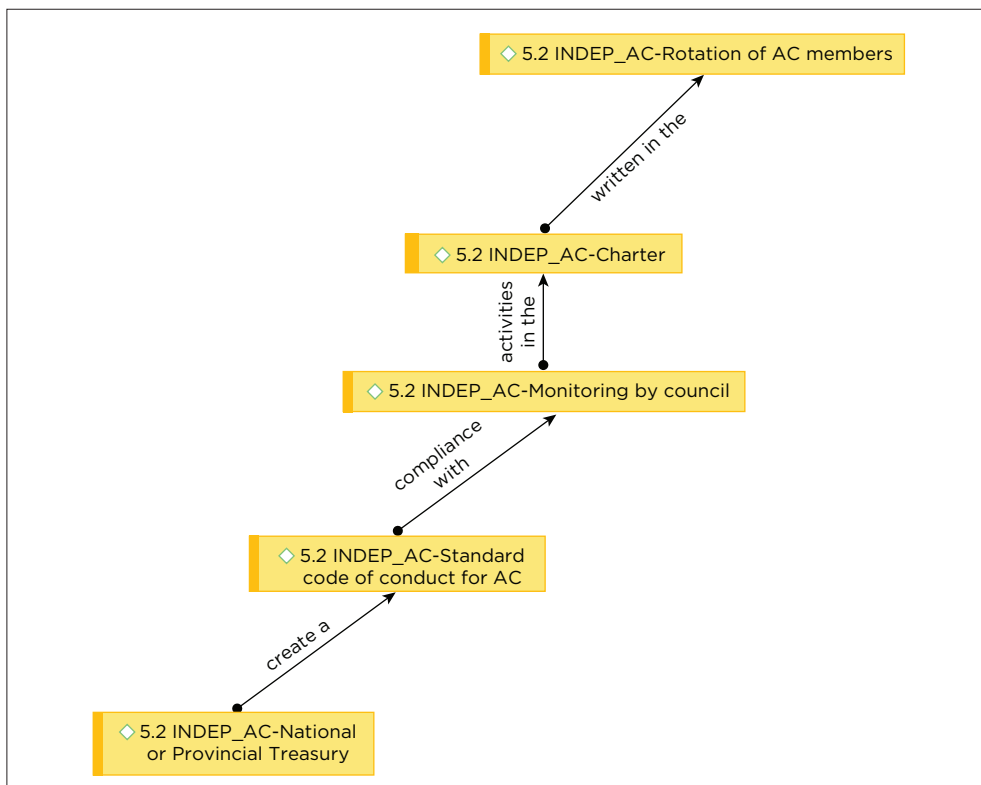
The ethical expectations with regard to the audit committee members' conduct should be included in the charter. These expectations include attending a specific minimum number of audit committee meetings. Although it is admirable to have all members of the audit committee be affiliated to a professional body, it is not practically possible.

On the statements whether the council should develop and implement ethics policies and a code of ethics for audit committees; the council must be involved in the hiring of ethical and termination of unethical audit committee members; the council is to appoint members who are affiliated with professional bodies and are obliged to behave as is required by the code of conduct of their respective bodies; and the municipality must establish the maximum number of meetings from which audit committee members are allowed to be absent before their contract is terminated, all agreed with Statements 1, 2 and 4, yet only 11 participants agreed with Statement 3, while three participants disagreed. For Statement 1, Participant 4C mentioned that the required ethics policies and code of ethics should also be scripted in the audit committee charter. The view was added to the framework. With Statement 3, Participants 1A, 3B and 4C disagreed as 'it is going to be too difficult to be enforced' (Participant 4C, female, white, 28 May 2020). Although Participant 2D agreed, he also mentioned that it would be impractical to implement. For Statement 4, Participants 1A, 2A, 2E and 3C suggested that the action 'must be stated in the audit committee charter so that audit committee members are aware of what is expected of them' (Participant 3C, male, black, 09 June 2020). Participant 1A further commented that 'the audit committee chairperson and the secretariat must follow due process' when terminating a contract. Their opinions were considered, and additions were made to the framework. Furthermore, Participant 2C insisted that 'we need to get to the reason for non-attendance before we terminate the contract' (Participant 2C, male, black, 03 June 2020). Even though valid reasons can be provided for the maximum absenteeism by the member, the negative impact on the committee remains. Therefore, it is maintained that the contract must be terminated.

## □ Independence of audit committee members

Figure 5.12 reflects on all the concepts obtained from the participants on the independence of audit committee members.

The activities that promote the independence of the audit committee and its members include rotation (changing) of members following their contract conclusion - this should be scripted in the audit committee charter. Council should monitor whether activities required by the charter are adhered to by the audit committee. Also, when the code of conduct for audit committees drafted by the National Treasury or Provincial Treasury



Source: Legodi, AH 2021, p. 308.

Key: AC, audit committee; INDEP AC; Independence of audit committee members.

**FIGURE 5.12:** Municipal framework - independence of audit committee members.

comes into existence, the council should monitor whether the audit committee complies with such code.

On the statements whether the council must include requirements regarding independence, declaration of conflict of interest and rotation of audit committees in its policies; council must appoint members who can function independently; the council to regularly review the conflict of interest register and act timeously; and the council to dismiss members who are not compliant to policy and code of conduct, all participants agreed. Participants 1A, 2A and 3C suggested that all the actions 'should also be added in the audit committee charter' (Participant 3C, male, black, 09 June 2020). Their view was added to the framework. For Statement 1, Participant 4B proposed using a different word for 'rotation', as it could be confusing. It was amended and included that the information must be contained in a charter. Regarding Statement 3, 'I currently do not feel that this is being done from the council's side, the review of the independence so I think there is room for improvement' and regarding Statement 4 'there

is nothing like a code of practice or conduct for audit committee members' (Participant 1A, male, white, 10 April 2020). Participant 1A suggested that 'a standard document [of code of conduct] for all and it must be coming from Treasury' (Participant 1A, male, white, 10 April 2020). His view was valid and relates to actions that need to be executed by the National Treasury. In line with the current practice, the charter should contain a list of expectant ethical behaviours for audit committees. Therefore, the statement was amended to exclude a code of conduct – because it does not exist – and include, instead, the charter and legislation.

## ■ Conclusion

The appointment process of audit committee members should involve thorough checks, including background verification. Fair remuneration rates, incentives and funding sources must be considered.

The proposed amendments to legislation regarding municipal audit committees by allowing provincial treasuries or SALGA to appoint committee members will enhance transparency and effectiveness. The following benefits can be attained:

- *Reducing conflict of interest:* Independent appointments will minimise conflicts arising from personal or professional relationships in the municipality.
- *Limiting simultaneous committee membership:* Ensuring members focus on their responsibilities without over-committing.
- *Professional qualifications:* Requiring relevant qualifications ensures competence.
- *Recruitment for impoverished municipalities:* Attracting skilled individuals to rural areas is crucial.

There will be greater accessibility to audit committee meetings in remote areas because of the use of online platforms which will increase the number of competent audit committee members. The audit committee should maintain independence, declare interests and undergo regular self-assessments. Ethical conduct, documented in a charter, is essential for effective governance. An ethics champion can enforce adherence to these principles.

# The competence of the audit committee

## ■ Introduction

In this chapter, the fourth theme, namely, the competence of the audit committee, is presented. Firstly, the four affinities linked to this theme are briefly introduced in the context of the overall theme. Thereafter, the competence of the audit committee is contextualised, followed by the diversity of competencies and the municipal environment's effect on the competence. Following the presentation of the five affinities, emerging concepts arising from the affinities are presented for the audit committee, and the municipality, in the format of a framework. Lastly, each framework has been validated by stakeholders, and the views of participants are presented in the final section of the chapter.

## ■ Affinities

The theme is defined by the following determinants that propel audit committees towards effectiveness:

1. **Two primary drivers are:**

- *Location of the municipality:* The affinity focuses on how the location of the municipality impacts the effectiveness of the audit committee.

**How to cite:** Legodi, AH & Coetzee, P 2025, 'The competence of the audit committee', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 151-172. <https://doi.org/10.4102/aosis.2025.BK479.06>



- *Legislative framework*: The affinity focuses on the legislation applicable to the municipal environment.

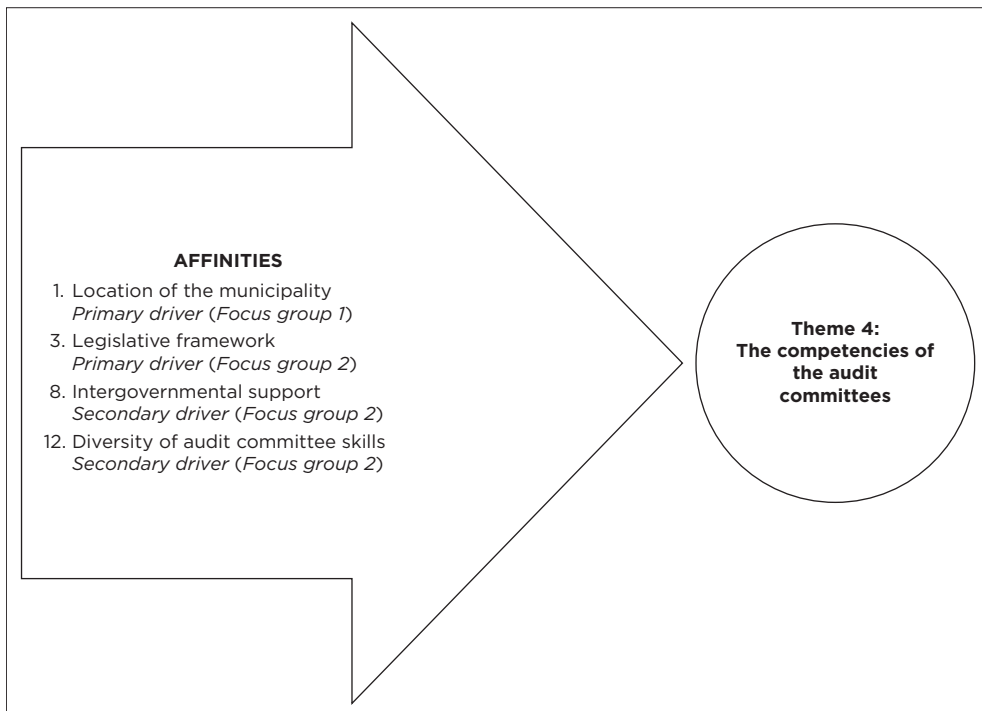
## 2. Two secondary drivers are:

- *Intergovernmental support*: The affinity focuses on the availability of intergovernmental support.
- *Diversity of audit committee skills*: The affinity focuses on the diverse set of skills within the audit committee.

The theme, which signifies the origin of the affinities, is depicted in Figure 6.1 and elaborated upon in the subsequent sections.

Because they influence nearly all the affinities, the *location of the municipality* and the *legislative framework* are primary drivers, which means they have a greater influence on the efficient operation of audit committees, while they are not influenced. Secondary drivers (affecting most affinities while being influenced by lesser affinities) include *intergovernmental support* and the *diversity of audit committee skills*.

To fulfil the interests of its stakeholders, the organisation's HR must be capable of advancing the triple bottom line - economic, social and environmental benefits (Noe et al. 2010). Consequently, to achieve the



Source: Legodi, AH 2021, p. 138.

**FIGURE 6.1:** The competencies of the audit committee.

triple bottom line, organisations must ascertain the varied skill domains that will be utilised, and recruits must possess a wide range of competencies to support the organisation's present and future objectives (Nel et al. 2014; Noe et al. 2010). When recruiting audit committee members, municipalities must similarly consider the variety of skills and abilities necessary to achieve their objectives. Concerns regarding the competencies of audit committees were expressed in the focus groups. There was a concern regarding the audit committee members' limited understanding and variety of skills regarding legislation, intergovernmental support and technical competencies necessary to carry out their responsibilities, particularly in rural and impoverished municipalities.

## ■ Contextualising audit committee competencies

Extensive research has been conducted across various fields and disciplines to examine the concept of competencies. However, for the purposes of this study, competencies are defined in accordance with the resource-based view of the firm theory, which encompasses knowledge, skills, ability and other characteristics (Nyberg et al. 2014; Ployhart 2015). The type-dimension of human capital resources and its four components are crucial. Research on audit committees characterises the committee's roles and responsibilities as well as the ability to execute audit committee duties (Hegazy & Stafford 2016; PSACF 2017). A multitude of scholarly investigations have been undertaken to examine either the broad concept of 'the right mix of competencies' (Gacheru et al. 2019) or specific facets thereof, including audit committee attributes (Ellwood & Garcia-Lacalle 2016; Zhou, Owusu-Ansah & Maggina 2018), as well as the credentials, expertise and proficiencies of committee members (Malet 2013; Masegare & Ngoepe 2018; Rummell, DeZoort & Hermanson 2019). Audit committees with expertise are associated with high audit quality (An 2023). A more thorough comprehension of audit committee competencies can be attained through the application of the resource-based view of the firm theory's type-dimension to human capital resources.

As a result, the competencies that comprise audit committee members can be more precisely defined as the factual information pertaining to the functions and obligations of the audit committee and procedures (knowledge); the practical application of acquired knowledge (skills); members having the cognitive capacity to execute the responsibilities of the audit committee (ability); and they should possess the qualities and character necessary to carry out the responsibilities of the audit committee (other characteristics, commonly known as attitude).

To fulfil its fiduciary duty, the audit committee must possess diverse competencies. These include a comprehensive understanding of the business

and industry in which the committee operates, along with the ability to remain current on the latest trends (Zilwa 2015). The audit committee's overall competency set may encompass a wide range of areas, including finance, financial management, project management, taxation, legal matters, administration, governance, audit, risk management, HR, strategy, performance management, IT and any other pertinent competency required by a particular organisation (e.g. engineering). Such a diverse set of skills enables the audit committee to provide assurance regarding the financial health of the organisation (Krishnan, Wen & Zhao 2011; National Treasury 2012a; Zilwa 2015). Expertise in IT has become essential in recent years to mitigate the risks associated with automated processes resulting from emerging technologies that influence financial reporting (Center for Audit Quality 2018). Based on the resource-based view of the firm theory's definition of competencies, it can be inferred that audit committees must be equipped with knowledge, skills and the appropriate mindset to effectively utilise financial and non-financial information during their responsibilities.

While audit committees are anticipated to possess a wide range of skills, oversight committees are not obliged to be subject matter experts; rather, they are only expected to possess a practical understanding of the subject matter (Australian National Audit Office [ANAO] 2015; Zilwa 2015). On the contrary, audit committees possessing an advisory function, such as those found in municipalities of South Africa, ought to consist of members who are authorities in diverse academic, scientific and technical domains (Hornberger & Forster 2019; Schiffino & Krieger 2018). A synergy of specialists is imperative for the public sector, and in the context of this research, for municipalities, to tackle the intricate challenges of governance and enhance proficiency (Gacheru et al. 2019; IoDSA 2013; Krick 2015). Therefore, to assist the municipality in achieving the objectives of the Service Delivery Budget Implementation Plan (SDBIP) and IDP programme, the municipal audit committee, comprising members possessing diverse areas of expertise, will be capable of furnishing precise advice (PSACF 2018; RSA 2000, ss. 3[d], 16[1], 20[2], 57[5], 77, 81[c]). Although the competencies are vital for the audit committee to perform effectively, the diverse range of expertise demanded renders the audit committee's responsibilities intricate and nearly unattainable, particularly for impoverished municipalities that lack the financial means to attract and retain such professionals.

In addition, competencies associated with members' credentials, expertise and experience, audit committee diversity should also encompass age, gender, ethnicity, geography and culture (Deloitte 2018; Halaoua & Boukattaya 2023; Komal et al. 2023; Olagunju et al. 2023). Such diversity is promoted through the implementation of public sector policies, such as affirmative action and equality policies (Ashikali & Groeneveld 2015). Also, it is supported by the South African Constitution insofar as it advances justice and equality for all citizens (RSA 1996, s. 1[a]). Research provides evidence that diverse

audit committees have the potential to foster innovation, facilitate informed debates, advocate for ethical behaviour and demonstrate proficient decision-making skills (Deloitte 2018; Velte 2018; Zalata, Tauringana & Tingbani 2018). Furthermore, a diverse audit committee tends to benefit society because they prioritise environmental, social and corporate governance (ESG) and corporate, social and environmental responsibility (CSR) disclosures, especially when the committee has female members (Jibril et al. 2024; Olagunju et al. 2023; Pucheta-Martínez, Gallego-Álvarez & Bel-Oms 2021). There is a correlation between the presence of female audit committee members and improved audit quality (An 2023).

As a result, audit committee members of all ages and genders are required, and those from various geographies and cultures can aid one another in comprehending the culture of the systems and inhabitants of the municipality's location; this is particularly true for South Africa, which is home to a culturally diverse society.

## ■ Diverse competencies for audit committees

Particularly financial and legislative proficiencies that the audit committee must possess in a municipal setting consist of the following:

### ■ Financial matters

Knowledge of accounting and auditing practices constitutes financial literacy (Malet 2013, pp. 7–8). Research indicates that audit committees comprising members who have financial literacy, particularly in the areas of accounting and auditing, and are competent in evaluating, reviewing, advising, supervising and enhancing the organisation's internal controls (Alzeban & Sawan 2015; Malik 2014; Salehi & Sharazi 2016). This viewpoint is supported by King IV and the Australian National Audit Office, which mandate that audit committees comprise individuals with a wide range of skills and experience, one of which must be financially literate (ANAO 2015; IoDSA 2016). This phenomenon, according to the GFOA of the United States and Canada, is yet another way of mandating that all committee members, not just one, have a fundamental understanding of auditing and governmental financial reporting (GFOA 2008). As a result, municipalities should consider appointing at least one member with financial expertise and strive to obtain the advantages of having an audit committee that is financially literate.

Numerous studies posit that financial competencies are associated with improved audit fees, enhanced quality of financial reporting and increased efficiency of internal controls and the internal audit function (Abbott & Parker 2000; Alzeban & Sawan 2015; Goodwin 2003; Saggese et al. 2023; Wilson 2019; Zain, Subramaniam & Stewart 2006). Nonetheless, in addition to financial expertise, the audit committee must also be impartial

(Zain et al. 2006). This means that its operations and decision-making should be kept separate, and it should not be susceptible to external influences from parties affiliated with the organisation. On the contrary, Rich and Zhang (2014) discovered no empirical support for the notion that financial expertise on an independent audit committee enhances its effectiveness. According to their research, municipal audit committees that include an internally employed financial expert are less prone to experiencing deficiencies in internal controls. Enron, a company that was overseen by an audit committee that included an accounting professor but nevertheless failed, is an example of an organisation that could have failed despite having an external financial expert, as concluded by Felo, Krishnamurthy and Solieri (2003). Therefore, the collapse of an organisation is possibly less probable, if not entirely averted, when an audit committee retains an external expert or independent external consultant in financial affairs.

Maintaining financial literacy among audit committees in municipalities is of utmost importance. However, most municipalities in South Africa exhibit inadequate financial expertise resulting in persistent deficiencies in internal controls, which consistently lead to unfavourable audit opinions from AGSA (2017). Municipalities require the advice of an audit committee on financial matters, as they cannot rely solely on internal financial employees. As a result, when recruiting members for the audit committee, the council should ensure that an individual with expertise in both auditing and finance serves on the committee. Furthermore, it is critical that the local government audit committee has a comprehensive understanding of the regulations, frameworks, governance, reforms and activities of the public sector (IoDSA 2013; National Treasury 2012a). Their knowledge of the public sector will empower them to offer the municipality trustworthy advice, encompassing not only fiscal affairs but also performance management functionality, compliance and dependability (PSACF 2019).

## ■ Public sector legislative environment

The authority to govern independently is granted to the governing body of a municipality, the council, by the Constitution (RSA 1996, s. 151(3)). Nevertheless, such governance must exercise restraint. Because of the unique political, administrative and local community structures that comprise the municipality's legal framework, universal legislation is required (RSA 2000, s. 2[b]). Good governance is promoted, and individual self-interest is eliminated when legislation is implemented by an organisation, which results in acceptable and appropriate legal decision-making (Masegare & Ngoepe 2018). Good governance and legal accountability are both intertwined with adherence to legislation (Ellwood & Garcia-Lacalle 2016).

Uncontrolled bureaucratic rule should be avoided even when universal legislation is required (Weber 1994); citizens must be treated with respect and never treated as ends in themselves (Beauchamp & Bowie 2004). Certain municipal councillors and staff have been implicated in corrupt practices, including failing to comply with legislation and neglecting to provide services to the communities (CoGTA 2016; Van Niekerk & Dalton-Brits 2016). To encourage lawful decision-making, municipal audit committees should possess, among other competencies, knowledge of legislation and its relevance to the municipality (IoDSA 2013; National Treasury 2012a).

As a result, audit committees must be well versed in the legislation that regulates the municipality to provide the municipality with advice that is consistent with good governance and obligations of accountability. It is doubtful whether audit committee members of all municipalities possess knowledge of legislation, or at the very least, a rudimentary comprehension of them. Further, it is doubtful whether the council will be able to assemble an audit committee comprising individuals with the required skill set in all municipalities. An aspect that emerges is the apparent difficulty faced by municipalities in rural South Africa in attracting the appropriate composition of members.

## ■ Municipal environment affecting competencies

### ■ Contextualising

Intergovernmental relations pertain to the associations among governments or organs of state when carrying out their respective responsibilities to coordinate and execute initiatives concerning issues of national significance (RSA 2005b, s. 11). The overarching goal is to foster collaboration among the governmental bodies to effectively tackle matters of national interest. Therefore, it is crucial that all levels of government operate as a unified entity, with the national, provincial and local governments cooperating and providing mutual support (RSA 1996, ss. 40, 41), to accomplish their intended mission for the public good (national interest).

Enhanced infrastructure, service provision, poverty reduction, economic expansion and capacity building are a few of the matters of national interest that are intrinsic to the municipal environment (RSA 2011; Tshishonga 2016). Hence, the audit committee must possess an adequate understanding of intergovernmental relations and support to offer valuable recommendations that will avert the municipality from incurring unnecessary costs and squandering resources on redundant work. Effective coordination among

governmental domains serves to mitigate conflicts, unnecessary redundancy and rivalry (RSA 1998b, ss. c[1.1]-[1.2]).

Existing intergovernmental support includes the establishment of the facilitators and promoters of intergovernmental relations, CoGTA and SALGA by the South African government aimed to promote intergovernmental relations and ensure compliance with the law (RSA 1996, s. 41[2][a]). Further, it is the responsibility of the premiers of provinces to ensure that intergovernmental relations-facilitating structures and organisations function effectively in their provinces (RSA 2005b, s. 22[1]). On the municipal level, the local government at the municipal level is advised by the national and provincial governments on how to assist one another (RSA 1998b, ss. c[1.3.1], [1.3.2]). The *1998 White Paper on Local Government* enumerates the national and provincial governments and specifies the manner in which they can provide assistance to local government (RSA 1998b, s. c[2.1]). It provides guidance on how national and provincial government can support the local government (RSA 1998b, ss. c[1.3.1], [1.3.2]), listing national government departments and stipulating how they can support local government (RSA 1998b, s. c[2.1]). It is also the responsibility of the national and provincial governments to aid local governments in their endeavours to resolve financial challenges and enhance their capacity (RSA 2003, ss. 34[1], [2]). It is permitted for municipalities to establish district intergovernmental forums such as a consultative forum comprising mayors or administrators who exchange information and best practices pertaining to municipal strategy, plans, objectives and problem-solving (RSA 2005b, ss. 24, 25, 26). Audit committees would be endowed with knowledge and insight pertaining to the operations of the municipalities if audit committee chairs were permitted to attend such forum meetings.

## ■ Understanding challenges

Research on intergovernmental cooperation, while generally positive and cognisant of its noble intentions, highlights the practical obstacles that impede its implementation. Notwithstanding its benevolent intentions, scholarly investigations into intergovernmental relations recognise pragmatic obstacles in the pursuit of their goals. These challenges include the following (Malan 2012; Mamabolo 2016; Mello & Maserumule 2010): (1) Synergy planning poses a challenge in the development and execution of coordinated strategies that span all three spheres of government. (2) The challenges of coordinating budgets, programmes and projects across various tiers of government are addressed through budget mapping. (3) The inherent complexities of the structures and operations of local government. (4) Intergovernmental initiatives are governed by insufficient and ineffectual



monitoring mechanisms. (5) Shortcomings in the level of support provided by provincial and national governments to municipalities. (6) Challenges stemming from the diverse composition of the involved parties in intergovernmental relations.

Considering these intricacies, audit committees must prioritise ongoing education and comprehension of pertinent legislation, intergovernmental relations and support systems. With this understanding, they can provide well-informed advice regarding the resolution of intergovernmental issues, which ultimately contributes to the enhancement of municipal service provision.

## ■ Location of municipalities

The municipal council must give due consideration to all relevant competencies when selecting members for the audit committee. Nevertheless, certain small and medium-sized municipalities, particularly those situated in more rural areas, encounter challenges in recruiting council members who possess the requisite expertise (IoDSA 2013). Certain municipalities are experiencing financial difficulties because of substantial debts and inadequate cash inflow (Omarjee 2018a). As a result, they might find it difficult to procure competent audit committee members at competitive rates. Thus, according to the findings of focus group 1, the location of the municipality is a significant determinant of whether an audit committee is successful or unsuccessful in its duties.

## □ Historical context

Political factors have contributed to the establishment of homelands and townships, as well as the dearth of resources in rural regions, which provide a comprehensive understanding of the disparities between urban and rural areas in South Africa. The political policies implemented under the *Native Land Act of 1913* enforced racial segregation and led to the division of land into towns, cities and townships, neglected homelands, townships and rural areas designated for specific racial groups (Department of Rural Development and Land Reform [DRDLR] 2013). As a result, only towns and cities experienced substantial progress (Manyaka 2014; Ndabeni 2013). Because of this inherited poverty and lack of resources, municipalities situated in those regions are unable to implement and provide the expected and necessary services, even though most of the local population is impoverished (Msutwana, Nyawo & Mashau 2019). Like South Africa, other nations, including the United States, also experience rural poverty and inequality (Goetz, Partridge & Stephens 2018).



## □ Regional growth

Despite the reports of the Organisation for Economic Co-operation and Development (OECD) Development Centre and the African Union's Commission (AUC) for Economic Affairs, which assess the continent's advancement stating that poverty in the African countries of the Southern Hemisphere decreased from 43.8% in 1990 to 35.6% in 2013, these nations continue to be the most impoverished globally because of significant income inequality and substantial disparities between rural and urban areas. An additional factor that exacerbates poverty in South Africa is unemployment (Cowling, 2023). Despite the implementation of numerous programmes aimed at promoting rural development, poverty continues to persist and has even escalated in some nations, except for rural areas endowed with substantial natural resources, including oil and minerals (Goetz et al. 2018; Muhyiddin & Miskiyah 2017). Despite this, most rural inhabitants continue to reside in poverty, deprivation that denies them economic advantages and fundamentals including shelter, electricity, food, water and sanitation (DRDLR 2013; Muloiwa, Zvinowanda & Dinka 2017). The inhabitants express dissatisfaction with municipal services, which include inadequate sanitation, sewage and toilet facilities, unreliable water supply and exorbitant electricity expenses (StatsSA 2016). As problems have intensified, load shedding of electricity, a national crisis, has added to the problems (Crisis 2023). Because these municipal services require improvement, competent audit committees should offer recommendations to enhance the delivery of essential municipal services.

## □ Challenges and effect of rural location

The reasons for the unreliable provision of services in rural municipalities have been uncovered. Firstly, financial limitations, inadequate or non-existent infrastructure and challenges related to HR (Van Der Mescht & Van Jaarsveld 2013). An instance of an electricity tariff increase surpassing the inflation rate leads to consumer unaffordability, which subsequently manifests as non-payment of municipal accounts and unauthorised electricity connections (Kumar 2017). Eskom is the entity responsible for supplying electricity to municipalities in South Africa for distribution to households and businesses (Eskom 2018). Delinquent municipal debt to Eskom reached R58.5 billion by the end of March 2023, reflecting a significant 30% escalation on an annual basis compared to R44.7 billion in March 2022 (Eskom 2023).

Eskom resolves to disconnect the supply of electricity to municipalities that default on payment by their residents (*News24Wire* 2015; Phakathi 2019).

Even though the interruptions are the result of residents' nonpayment, the disconnection of electricity to municipalities results in the cessation of power supply to municipal households and subsequent allegations of inadequate service delivery directed at the municipalities. Legal action was undertaken by municipalities to prevent Eskom from disconnecting its electricity supply; however, the court ruled in Eskom's favour and ordered municipalities to assume liability for its payment defaults (*Fin24* 2017). The government has resolved to assist municipalities through the National Treasury debt relief programme (Eskom 2023).

Secondly, significant numbers of rural municipalities are in the provinces with the highest levels of debt (Omarjee 2018b). Hence, it is critical that audit committees possess the requisite expertise to provide practical recommendations regarding how to alleviate the municipalities' deplorable income situation resulting from non-payment of residential bills.

Thirdly, infrastructure deficiencies or nonexistence, coupled with a substandard educational system (Goetz et al. 2018; Zulu & Mubangizi 2014), is a concern. In rural areas, only 20–40% of the infrastructure is operational and municipalities lack the technical skills for water and sanitation needs, resulting in poor service delivery (Infrastructure Dialogues 2015). Studies indicate that lack of funds and inadequate budgets for the maintenance of infrastructure contribute to the problem of non-operational infrastructure. The fact that only 20–40% of the infrastructure in rural areas is operational and that municipalities lack the technical expertise in water and sanitation, which leads to inadequate implementation, are causes for concern.

Fourthly, insufficient financial resources and inadequate maintenance budgets are factors that contribute to the non-operational infrastructure problem (Van der Mescht & Van Jaarsveld 2013). This includes the deterioration of filters and outdated water pumps, which result in the community being deprived of water (Ngwenya 2014). The breakdown of filters and old water pumps leaves the community without water resulting in protests in the municipality for water shortage in township areas such as Ekangala and Rethabiseng in Gauteng province (Ngwenya 2014; *Pretoria News* 2024). Hence, it is indisputable that inadequate or non-existent infrastructure has an adverse impact not only on the provision of services but also on the collection of revenue. It is, therefore, apparent that the poor or lack of infrastructure negatively influences not only service delivery but also revenue collection.

Fifthly, revenue collections by rural municipalities are experiencing a decline. This is because the majority of impoverished households in the rural and township areas are exempt from paying municipal service fees, resulting in an insufficient revenue base (Manyaka 2014). Certain municipalities, particularly those in rural areas are reliant on government

grants (Infrastructure Dialogues 2015, p. 3; Moffat, Bikam & Anyumba 2017; Van der Mescht & Van Jaarsveld 2013). These households survive on social grants from the government and inadequate wages from informal commerce and farming (Zulu & Mubangizi 2014). The land is not utilised to its full commercial potential, and the population is highly uneducated and unemployed (Moffat et al. 2017). Furthermore, the lack of valuation of properties in rural regions hinders the collection of property rates, which consequently leads to a comparatively lower collection of property tax in rural areas when compared to urban areas (Lewis & Alton 2015; Manyaka 2014; Moffat et al. 2017).

Sixthly, the precarious financial condition of municipalities implies that they might lack the financial means to offer competitive remuneration rates for audit committee members. Similar concerns are expressed by Van der Mescht and Van Jaarsveld (2013) concerning the challenge of recruiting skilled and experienced individuals to rural regions. Ultimately, individuals with exceptional qualifications for audit committee memberships might be deterred from seeking employment in rural regions because of inadequate infrastructure, inadequate remuneration, power outages, water scarcity and sewage system deficiencies.

Seventhly, audit committee meetings may be postponed or halted because of these deficiencies. Consequently, it is indisputable that the rural-urban developmental dichotomy has produced an imbalance, and it is necessary to implement strategies to improve rural areas. Kumar (2017) and Moffat et al. (2017) proposed subsequent approaches to augment the economic capacity of rural municipalities to bolster their revenue. The proposed initiatives encompass the execution of operational infrastructure plans utilising pre-existing resources; municipal campaigns aimed at educating and persuading residents to pay rates and taxes; national government incentives; investigation of supplementary avenues for augmenting the revenue stream; enforcement of disconnection for households failing to pay electricity; establishment of a debt collection policy; and formulation of an efficient debt management strategy encompassing a streamlined metering and billing system.

In the eighth place, the severe shortage of certified engineers poses a significant challenge for municipalities throughout South Africa. According to Nkosazana Dlamini, the Minister of CoGTA, a mere 168 duly accredited engineers are appointed to municipal positions across the nation. This constituted approximately 19% of the 1,026 individuals who are appointed to engineering positions nationwide (*Pretoria News* 2023). Through political manoeuvring and nepotism, municipal leaders have been

accused of appointing unqualified individuals to critical positions, including engineering positions (Gqaji, Proches & Green 2016). Such actions have an adverse effect on service delivery and ought to be avoided at all costs, as should anything that hinders the healthy development of the municipalities. Thus, audit committees ought to discourage the appointment of unqualified candidates and promote disciplinary actions against individuals who exhibit subpar performance. Accountability and disciplinary measures must extend beyond municipal employees and encompass any individual or group impeding progress within the municipalities.

Ninthly, rural-urban linkages, which ensure a continuous flow of people, goods and money from one region to the other to improve the economic, social, cultural and political well-being of both areas, are a remedy for some of the issues (Muhyiddin & Miskiyah 2017). For instance, rural regions can stimulate economic growth by exporting their agricultural products to urban centres, thereby contributing to the alleviation of poverty. Interdependence and urban-rural connectivity can benefit the economy if rural regions have adequate road infrastructure (Mamabolo 2016). Consequently, competent audit committee members and other urban skilled labourers may be inclined to commute from their urban residences to more rural regions.

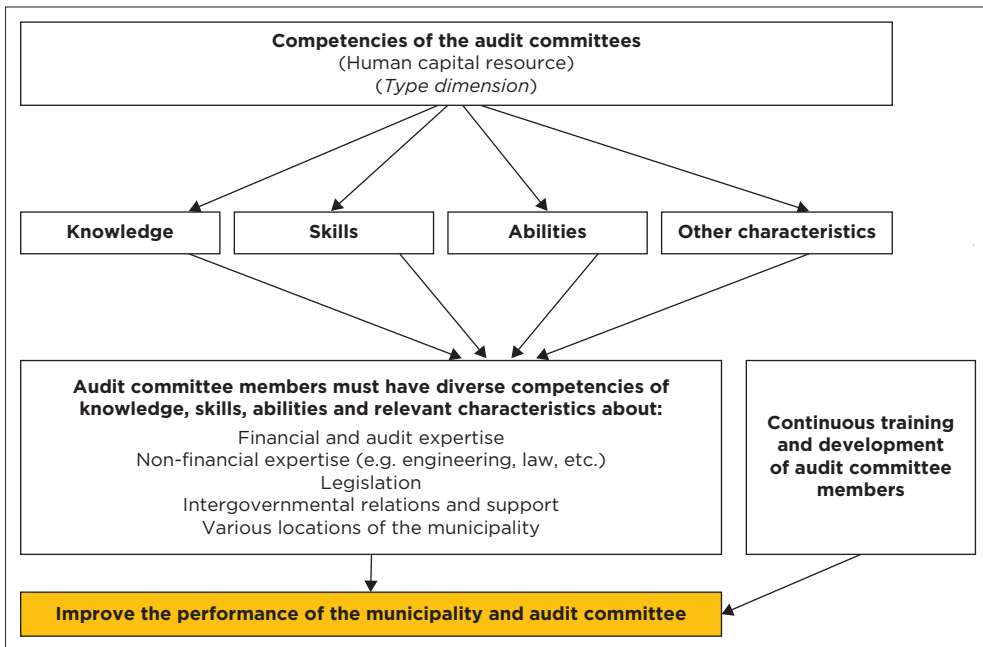
Tenthly, the Rural Development Framework and the National Development Plan (NDP) 2030 aim to promote the progress of rural areas by facilitating the development of rural enterprise and financing facilities, as well as enhancing economic, social and political opportunities (DRDLR 2013; RSA 2011). Moreover, by fostering the growth of intermediary cities and improving the quality of life in existing small towns, rural regions can alleviate poverty (AUC/OECD 2018). Additionally, enhancements in education, competencies and job prospects are essential components that fortify the regional economy (Niyimbanira & Madzivhandila 2019).

Lastly, given the challenges' impact on rural residents, it is imperative to ensure that audit committee members possess comprehensive knowledge of the municipality's geographical context and the obstacles it faces. This will empower them to offer valuable insights that will facilitate enhancements. Gaining an understanding of the municipality's geographic location may encourage the tolerance of substandard residential infrastructure and low educational standards. As economically impoverished rural municipalities progress, it is incumbent upon the government to formulate a strategy that speeds up recruiting and paying capable audit committee members to the diverse rural regions.

The significance of audit committee members possessing pertinent and varied competencies, such as knowledge of the municipality’s location, is illustrated in Figure 6.2. In addition to finance, audit, financial management and project management, the audit committee should possess expertise in engineering, legislation, intergovernmental affairs, finance, IT and other pertinent non-financial domains. They must be experts in their respective fields and possess the knowledge, skills, abilities and other qualities necessary to offer expert advice. Member development and training of audit committees can help in the acquisition of essential competencies (IoDSA 2013).

## Emerging concepts

Through the integration of findings from focus group discussions and the literature review, a framework is constructed to present emerging concepts with the objective of enhancing the efficacy of audit committees in municipalities located in South Africa. Tables 6.1 and 6.2 are frameworks for audit committee and municipalities, respectively, derived from focus groups and literature.



Source: Legodi, AH 2021, p. 216.

**FIGURE 6.2:** Competencies of the audit committees.

## ■ Framework for audit committees

**TABLE 6.1:** Framework for audit committees – competencies of audit committee.

<b>Competencies of audit committee members</b>
1. Members of the audit committee should be cognizant of their roles and responsibilities, in addition to possessing the necessary knowledge, skills, abilities and attitude to carry out their responsibilities
2. Members of the audit committee are required to participate in training that contributes to their ongoing professional development with respect to municipal affairs, including pertinent legislation
3. It is imperative that the audit committee consist of members who possess an appropriate combination of financial and non-financial expertise
4. A financial expert is required to serve on the audit committee
5. An audit committee should comprise members with the following core competencies: Legal, audit, accounting, performance management, information and ICT, risk management, economics, business continuity management, anti-corruption, engineering and environmental
6. The audit committee must be knowledgeable and current on the structures, authorities and functions of other key institutions affiliated with the municipality
7. The audit committee must hold sufficient knowledge concerning intergovernmental relations and support, to provide useful advice to the municipality
8. The chair of the audit committee should attend forums pertaining to municipal governance. The audit committee ought to possess adequate expertise to provide valuable advice concerning the following: <ol style="list-style-type: none"> <li>a) Municipal services</li> <li>b) Revenue collection and debt recovery from municipal debtors</li> <li>c) Infrastructure owned and maintained by municipalities</li> <li>d) Information and communication technology and information security</li> <li>e) Governance</li> <li>f) Risk management portfolio including the combined assurance model</li> <li>g) Business continuity management</li> <li>h) Anti-fraud and corruption measures</li> <li>i) Disciplinary actions.</li> </ol>
9. To provide guidance on strategies to augment (increase) revenue for the municipality, the audit committee must possess an adequate level of expertise

Source: Legodi, AH 2021, pp. 436–440.

Key: ICT, information and communications technology.

## ■ Framework for municipalities

**TABLE 6.2:** Framework for municipalities – competencies of audit committee.

<b>Competencies of audit committee members</b>
1. Experts possessing the appropriate blend of financial and non-financial knowledge must be appointed by the council
2. Experts with fundamental proficiencies in legal, accounting, audit, performance management, information and ICT, risk management, economics, business continuity management, anti-corruption, engineering and environmental are required to be appointed by the council to serve on the audit committee

Table 6.2 continues on the next page→

**TABLE 6.2 (cont.):** Framework for municipalities – competencies of audit committee.

<p>3. It is imperative that the council designate an audit committee that possesses the following understandings and knowledge:</p> <ul style="list-style-type: none"><li>a) The legislative and risk landscape of the municipality</li><li>b) The rural environment, if the municipality is situated in a rural area</li><li>c) Infrastructure</li><li>d) Methods for attracting competent human resources to the municipality</li><li>e) Structures, powers and functions of all institutions affiliated with the municipality (including intergovernmental support)</li><li>f) Service delivery</li><li>g) Municipal income and debt collection.</li></ul>
<p>4. Members of the audit committee must receive in-person and online training from the municipality concerning legislation and the intergovernmental support structures that the municipality operates within</p>
<p>5. It is imperative that the council grant the audit committee chair permission to participate in meetings pertaining to municipal governance affairs</p>

Source: Legodi, AH 2021, pp. 473-475.

Key: ICT, information and communications technology.

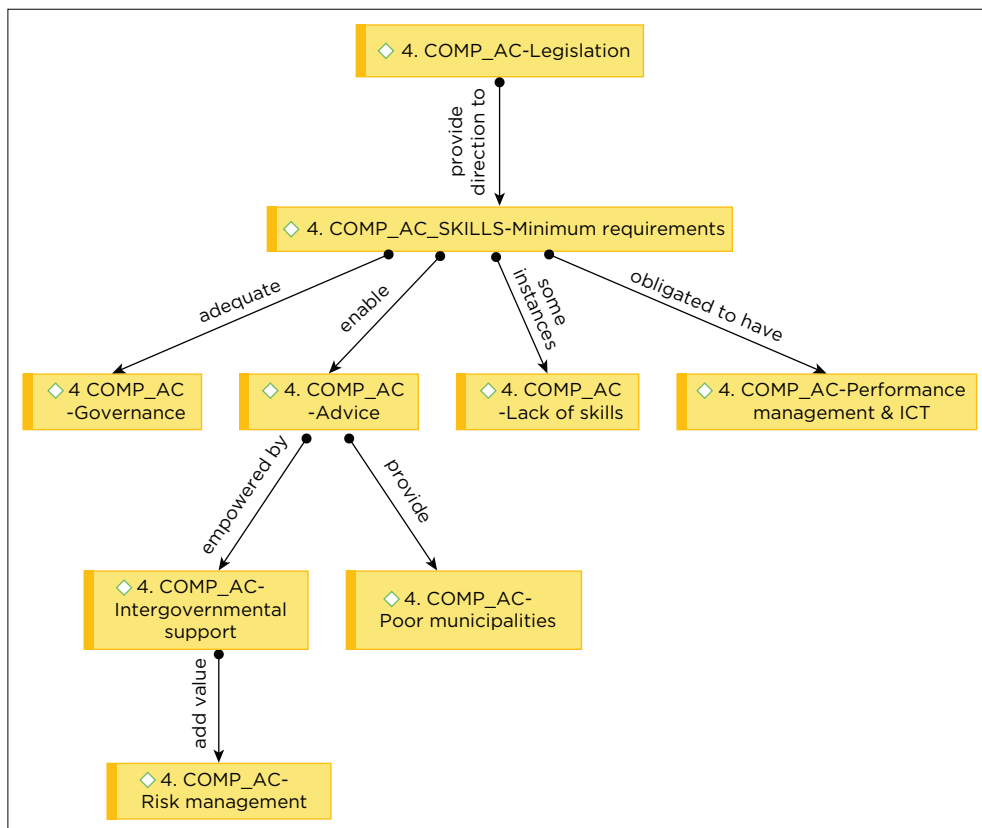
## ■ Validation of the framework concepts

In testing the concepts identified for the framework, and based on the interviews conducted with various stakeholders, the following support was obtained.

### ■ Audit committee framework: Competencies of the audit committees

All the concepts gathered from the participants with respect to the competencies of audit committees are depicted in Figure 6.3.

It is critical that legislation establishes guidelines regarding the bare minimum competencies that ought to be regarded as optimal for audit committees. As an integral component of the governance framework, the audit committees are obligated to possess the bare minimum of diverse skills or competencies necessary to furnish municipalities with adequate advice. In certain circumstances, municipalities, such as those that are smaller or more remote, may lack the bare minimum of necessary skills. It is imperative that audit committees be required to possess proficiency in performance management in addition to information and communications technology (ICT). The assistance provided by intergovernmental support to municipalities is beneficial, and members of the audit committee should be cognisant of this. The audit committees are tasked with offering guidance on how impoverished municipalities can attract the requisite expertise.



Source: Legodi, AH 2021, p. 259.

Key: COMP AC, competencies of audit committees; ICT, information and communications technology.

**FIGURE 6.3:** Audit committee framework – competencies of the audit committees.

**TABLE 6.3:** Participants feedback on the framework – competencies of audit committees.

Aspect	Feedback from participants	Change to framework
Members of the audit committee should be cognizant of their roles and responsibilities, as well as possess the necessary knowledge, skills, abilities and disposition to carry out their responsibilities	All agreed	No further action
The composition of the audit committee should encompass a suitable combination of financial and non-financial expertise	All agreed Participant 2E: 'Performance management, audit and ICT [are] prerequisites in terms of competency' Participants 2E and 3C shared this viewpoint under the risk management category. They stated that 'legal, finance, internal audit and performance management' as essential proficiencies. Nevertheless, their perspective is restricted to internal auditing, and the competencies ought to encompass external auditing as well.	-

Source: Authors' own work.

Key: ICT, information and communications technology.



In addition to affirming the importance of legal competencies, Participant 1C further emphasised the value of economic and environmental competencies. The finance expertise must incorporate economic competencies. Scientists and engineers who are authorities on environmental issues are necessary to fulfil the environmental competencies. Another core competency was mentioned by Participant 1C, as 'engineering'. 'You need engineers on the audit committee because there are technical issues that committees need to advise council on' (Participant 1C, male, black, 04 June 2020). The view that audit committees ought to consist of engineers was supported by Participants 3B and 4A. Nevertheless, a concern arose that 'there isn't necessarily enough engineers' (Participant 3B, male, coloured, 28 May 2020). This suggests that audit committees are deficient in fundamental ability. In developing the framework, every single competency proposed by the participants was considered. Participant 2E emphasised the significance of audit committees possessing risk management competencies within the risk management category and capable of offering authoritative guidance 'the risk management portfolio such as the combined assurance model as well as business continuity management and anti-fraud and corruption' (Participant 2E, male, coloured, 10 June 2020). The perspective was incorporated into the framework.

Everyone agreed that the audit committee should consist of a member with expertise in finance. All participants reached a consensus regarding whether the audit committee should have knowledge and comprehension of the following: the municipal environment, risks and legislation; and the structures, powers and functions of all institutions affiliated with the municipalities. All participants reached a consensus regarding whether the audit committee ought to possess adequate knowledge pertaining to intergovernmental relations and support to offer practical advice to the municipality. To gain an understanding of the municipality and intergovernmental affairs, it is recommended that the chair of the audit committee participate in intergovernmental forums where mayors or administrators exchange knowledge and best practices pertaining to strategy, plans, objectives and problem-solving approaches for municipalities.

One participant expressed disagreement, while 13 others agreed. Because of the operational nature of the subject matter, which falls outside the audit committee's jurisdiction, Participant 2A is opposed to the proposed course of action. She suggested that the 'audit committee chair can attend seminars where all stakeholders attend to discuss and share information of specific issues of common interest relating to governance' (Participant 2A, female, black, 01 June 2020). The action was reworded to restrict itself to intergovernmental forums and omit any specificity.

To provide valuable advice, the audit committee ought to possess an adequate level of expertise concerning the following: Municipal services; revenue collection and debt recovery from municipal debtors (residents); maintenance and operation of municipal infrastructure; and the disciplinary actions that would be taken against inappropriately appointed and underperforming municipal employees, every participant expressed agreement with the proposed measures.

Participant 4B mentioned that 'municipal debtors can include other people as well', not solely residents. In order to circumvent the restriction, the term 'residents' that was used in the draft framework was omitted from the final framework to include 'debtors'.

He raised another valid point that 'there are many other areas there that can also trigger disciplinarys' (Participant 4B, male, white, 01 May 2020). Hence, it is imperative that the framework extend beyond mere 'unqualified appointments' and 'poor performance' to accommodate a broader scope. The specified causes of disciplinary measures were eliminated after this viewpoint was considered.

Each participant reached a consensus concerning whether the audit committee of impoverished rural municipalities should possess adequate expertise to provide guidance on the following matters: Strategies to augment the municipality's revenue and methods to recruit capable personnel, including audit committee members. Although Participant 4B contended that the action ought to encompass more than audit committees of impoverished rural municipalities but 'audit committees of any type of municipality should be able to do that specific advice and actually do it' (Participant 4B, male, white, 01 May 2020). The amendment to the action incorporated audit committees representing all the municipalities.

Another opinion was that audit committees should not be involved in municipal human resource matters, given that oversight structures for such matters are already in place.

Participant 1C expressed apprehension regarding the notion of legislation that 'the MFMA circular only speak about an audit committee must have appropriate experience but experience is not defined' (Participant 1C, male, black, 04 June 2020). However, the skills and experience necessary for audit committees are outlined in MFMA Circular No. 65; therefore, no additional modifications were implemented to the framework.

According to Participant 3A, audit committees:

'[N]eed to be aware of all legislation and they need to make sure that they are maintaining their CPD [continuous professional development] in that respect because they are being paid for the knowledge and experience that they have.' (Participant 3A, female, Indian, 07 April 2020)

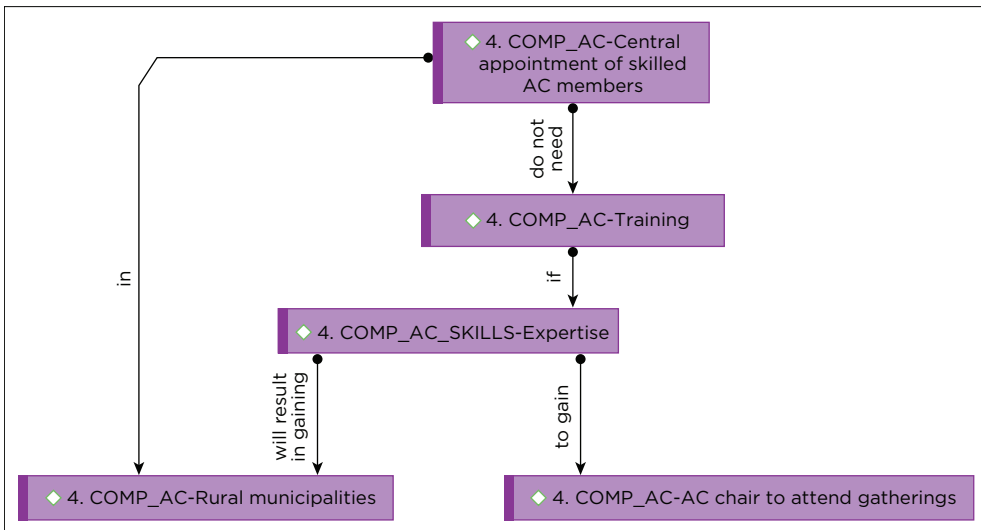
The actions in this category have been supplemented with a novel notion of ongoing professional development.

## ■ Municipal framework: Competencies of the audit committee

All the concepts gathered from the participants with respect to the competencies of audit committees are depicted in Figure 6.4.

If the process of recruiting and appointing members is centralised by provincial treasuries, audit committees comprising the requisite expertise will be secured for rural municipalities. The audit committee chair may acquire the requisite knowledge and skills for his or her position by participating in pertinent conferences. While training can certainly be necessary to enhance the skills of audit committees, an opposing viewpoint was received maintaining that training would be unnecessary if audit committee members were appointed with prior expertise.

Most of the participants expressed agreement that it is incumbent upon the municipality to furnish audit committee members with training pertaining to legislation and the intergovernmental support systems that the municipality operates. Further, the majority also agreed that the council is required to grant permission for the chair of the audit committee to participate in intergovernmental forums where mayors or administrators exchange insights and optimal approaches pertaining to municipal strategy, plans, objectives and resolutions.



Source: Legodi, AH 2021, p. 304.

Key: AC, audit committee; COMP AC, competencies of the audit committees.

**FIGURE 6.4:** Municipal framework – competencies of the audit committees.

It is possible, according to Participant 4A, for small and rural municipalities to have audit committees comprising the appropriate mix of expertise if ‘a pool of audit committees that is [sic] based on their provincial treasuries’ (meaning the skilled members) are sourced centrally (Participant 4A, male, black, 02 April 2020).

It was proposed by Participants 1C, 2A, 2C and 3C to incorporate additional skills, such as ‘risk management, information systems, legal, performance management and environmental issues etc.’ (Participant 2A, female, black, 01 June 2020). Enumerated competencies were incorporated into the final municipality framework.

Participant 4B proposed to ‘just leave it at disciplinary measures, so that it can include HR [human resources] and supply chain management and legal and other areas in municipalities as well’ (Participant 4B, male, white, 01 May 2020). The proposal is sound and was considered in the framework.

Participant 3B proposed ‘online training’ to reduce expenditures. Participant 2D stated the following: ‘[I]f the correctly skilled individuals are appointed, this training will not be necessary’ (Participant 2D, male, black, 09 June 2020). The implementation of online training was integrated into the framework.

As suggested by Participant 4B, ‘audit committee should also attend the municipality’s own strategic planning session, not just governmental forums’ (Participant 4B, male, white, 01 May 2020). Considering the operational nature of attending such meetings, it was decided that the audit committee would rely on internal audit assurance reports rather than physically present for strategic municipal matters. The framework was revised to permit the chair of the audit committee to participate in supplementary gatherings.

## ■ Conclusion

Audit committee members must grasp their duties and exhibit the right attitude. Continuing professional development of knowledge and skills is necessary to ensure up-to-date knowledge of municipal matters and relevant legislation. Therefore, comprehensive face-to-face and online training, including intergovernmental knowledge, is crucial. The municipality should appoint members with a balanced blend of financial and non-financial expertise that is aligned with the needs of the municipality. The core experts such as finance, audit, risk management, legal, ICT, engineering (infrastructure) and environmental fields must be included in the competencies of the members. The committee must be capable of advising on income enhancement strategies, especially for

impoverished municipalities. The chair of the audit committee should be highly competent and involved in improving the performance of the municipalities. Core competencies: Ensure the committee includes experts in financial, legal, audit, management, engineering and environmental fields. Conforming to these principles, the performance of municipalities can improve.

# Audit committee challenges when executing their mandate

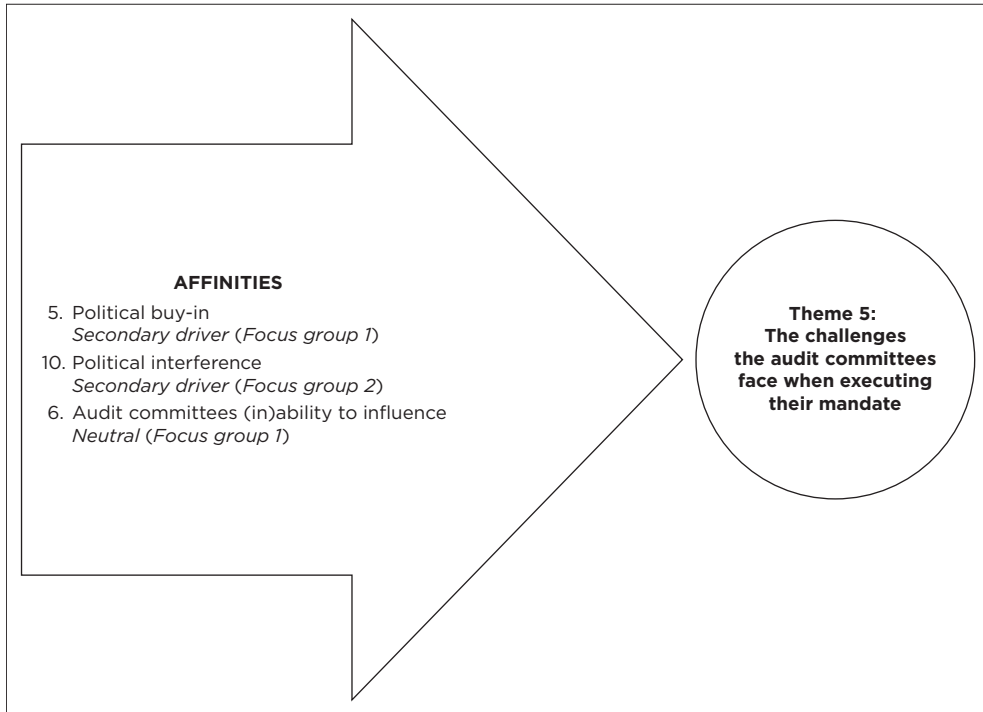
## ■ Introduction

In this chapter, the fifth and last theme, namely, the challenges faced by the audit committee when executing its mandate, is presented. Firstly, the three affinities linked to this theme are briefly introduced in the context of the overall theme. Thereafter, the concepts of political buy-in and political interference in relation to this study are debated. Following the presentation of the affinities, emerging concepts arising from the affinities are presented for the audit committee, the municipality and National Treasury or provincial treasuries and SALGA, in a format of a framework. Lastly, each framework has been validated by stakeholders, and the views of participants are presented in the final section of the chapter.

## ■ Affinities

Figure 7.1 illustrates affinities contributing to the theme of the challenges the audit committees face when executing their mandate

**How to cite:** Legodi, AH & Coetzee, P 2025, 'Audit committee challenges when executing their mandate', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 173–194. <https://doi.org/10.4102/aosis.2025.BK479.07>



Source: Legodi, AH 2021, p. 140.

**FIGURE 7.1:** The challenges the audit committee face when executing their mandate.

The theme, named the challenges the audit committee faces when executing their mandate, consists of two secondary driver affinities and one neutral affinity:

This theme explores the following:

- The secondary drivers' affinities of the effective audit committee are the intricate interplay between *political interference* and *political buy-in*.
- *The influence, or lack thereof*, of the audit committee is a neutral affinity.

The theme, indicating the source of the affinities, is illustrated in Figure 7.1 and discussed while viewed through the lens of applicable micro theories.

Political buy-in affinities and political interference are determinants of whether the audit committee can exert influence over the municipality. Political interference within a municipality occurs when individuals holding political office, including councillors and mayors, disrupt the administrative functions carried out by the municipality's management, staff and accounting officer (Civil Engineering 2019). In addition to disrupting the administration, political office bearers also interfere with the audit committee (Purcell, Francis & Clark 2014). Political interference has the

potential to corrupt and incapacitate individuals (Pretorius 2017); therefore, the audit committee must address this challenge. While there have been recommendations for councillors to be trained to prevent political interference (Pretorius 2017; Surty 2010), it is equally crucial that the chair of the audit committee has sufficient authority to motivate political office-bearers to act in a positive manner and gain the political support of the council in order to advance the audit committee's mission.

## ■ The political interference versus political buy-in

### ■ Defining political interference

Political interference occurs when those in political positions of authority utilise power or processes beyond their authorised jurisdiction to advance their own agenda (Mngomezulu 2020; Pretorius 2017). Political interference is defined by Batalla, Torneo and Magno (2018) as 'illegitimate interventions' that exert pressure on government officials to act contrary to government policies, laws and procedures. Such conduct induces uncertainty and instability within an organisation (Cambini & Rondi 2017).

### ■ Impact of political interference on municipalities

The presence of political interference in a municipal setting can potentially yield negative consequences. Councillors frequently face allegations of meddling in municipal administration (De Visser 2009). It has come to light that the council's involvement is primarily concentrated in supply chain affairs, specifically tender allocations and staff appointments (De Visser 2009). In tender proceedings, council members ought to recuse and disclose their interests (Sibanda, Zindi & Maramura 2020). In accordance with Section 118 of MFMA and Schedule 1 of the Code of Conduct in the *Local Government: Municipal Systems Act 32 of 2000*, council members are not permitted to engage in political interference with the administration of municipal affairs, particularly tenders (RSA 2000, 2003, s. 118).

In addition to tender-related corruption, political interference resulted in the appointment to key administrative positions of many unqualified individuals incapable of providing services to the local community. Chief Justice Raymond Zondo agreed to this statement and mentioned that such incompetent people exacerbate poor performance in municipalities (Malesele 2023). This interference renders the municipalities highly susceptible to corruption and capture by interest groups with political ties. Therefore, in situations where the selection of personnel, including the accounting officer, is influenced by political considerations, they are



shielded from any regulatory oversight, which undermines the effectiveness of consequence management and the audit committee's authority (AGSA 2018). As a result, should the council engage in corrupt practices, such as intervening in tender processes, there is a significant likelihood that it will resist and disregard any recommendations put forth by the audit committee aimed at eliminating or tackling corruption.

Municipalities must, therefore, have MPAC that is sufficiently equipped with the requisite knowledge to carry out their oversight responsibilities (Botlhoko 2017). Nonetheless, the fact that some municipalities undermine MPAC and that some MPAC members are ignorant of their governance responsibilities is cause for concern (Mofolo & Adonis 2021). In addition, there are no considerations of municipal policies or financial management. Furthermore, the ability of councillors to inappropriately intervene in the affairs of the municipalities is influenced by the micromanagement of their respective political parties (Civil Engineering 2019; Ntliziywana 2011). On certain occasions, politicians and political parties face allegations that they place personal gain above all else to win political battles, including manipulating municipal councillors (Spicer 2015). Administrative and political tensions may result from the council's competing interests, which may include those of their political parties (Nzo 2016). When councillors make decisions that are solely advantageous to their respective political parties, the electorate's best interests are thus compromised.

In some instances, the council is blamed for exerting control over audit committees by manipulating the audit committee agenda and withholding information (Purcell et al. 2014). Furthermore, the focus group participants were concerned that political conflicts are occasionally portrayed negatively in the media, which damages the reputation of municipalities.

A multitude of adverse consequences ensue from political interference, including the compromise of the audit committee's operational efficacy. Political interference results in investment forfeiture and subpar organisational performance (Correa et al. 2019). A breakdown in the relationship between councillors (motivated by politics) and the local community (electorate) may stem from political interference, which also strains relations between the audit committee, management and the council. This, in turn, may result in the community perceiving the municipalities as underperforming (Rapoo & Richard 2010). A culture of high ethical standards must, therefore, be ingrained in the municipal leadership and administration (Nzama 2022). An effective whistleblowing anti-corruption tool can enhance ethical behaviour. It is a concern that audit committees do not actively participate in the whistleblowing procedure (Khemakhem et al. 2023). They must initiate participation by receiving reports and offering the required advice.

## ■ Combating political interference

As an accountability mechanism to reduce political interference, all stakeholders regarding public sector institutions must comply with their legislative mandate (Liechti & Finger 2019). Diverse parties have an obligation to prevent political interference in the municipality. Certain actions will prevent or at least reduce political interference, such as the following: (1) It is critical that audit committees make decisions independently of the council. It is of utmost importance to ensure that audit committees are independent and there is a separation of duties between them and municipal administration. Also, they are free from unwarranted interference by the council. Also, the segregation of duties between the administration and council is essential for the municipality to operate as intended and effectively (Pretorius 2017). (2) As mentioned before, the functions of the audit committee and the administration must remain distinct from one another (RSA 1996, s. 151[2], 1998a, ss. 19[2], [3], 2003, ss. 62, 166[2]). Although these functions ought to remain distinct, they ought to operate in unison. (3) To encourage reporting to higher authorities, implementing policies and sanctions is recommended as strategies to promote segregation of duties and limit the council's political interference in the audit committee's activities. Stipulations that restrict political interference in organisational policies are of the utmost importance (Cambini & Rondi 2017). Sanctions can serve as a deterrent against those who engage in such interference (Groza 2018). (4) In the same way that the accounting officer is legally permitted to notify the chair of the council and the speaker of any political interference (RSA 2003, s. 103), the chair of the audit committee ought to be authorised to notify a higher authority, such as the Member of the Executive Council (MEC) and minister in case the governing body is guilty of undue interference. (5) The capability of the audit committee to overcome political influence, secure political support and exert influence within the municipality could potentially constitute an additional critical approach, competencies of the audit committee to obtain political buy-in. (6) The audit committee must possess information and procedures (knowledge) to prevent political interference, gain political support and persuade the council to adopt their recommendations. (7) The audit committee must be able to apply the acquired knowledge practically to prevent political interference, meaning they must have the persuasive skills to curb political interference and gain political buy-in (skills). (8) It is imperative that the audit committee possesses the cognitive capacity to impede political interference (ability). In addition to 'attitudes', the audit committee must possess the character and qualities necessary to prevent political interference (other characteristics).

Political will, mentalising and participatory governance are aspects that avert political interference and can be advanced through the application of one's knowledge, skills, abilities and other distinguishing qualities.

## ■ **The ability to influence**

### □ **Political will**

The concept of political will pertains to the deliberate intention of political actors to successfully achieve the intended objectives of the government (Ankamah & Khoda 2017; Brinkerhoff 2000; Stapenhurst, Johnston & Pellizo 2006). Councillors of the municipalities are, as previously stated, political actors that the audit committee must persuade to accept its recommendations to ensure the municipality's success.

Audit committees must comprehend the three factors influencing political will to exert influence. The political will (desire to act), the political capability (available capacity) and the political duty (obligation to act) (Malena 2009). These factors indicate that the audit committee must exert sufficient pressure on the council to convince it to support them and adopt its recommendations. The political determination of councillors to heed the recommendations of audit committees may prove to be the most formidable of the three to attain, given that councillors frequently exhibit scepticism, opposition and a lack of political will out of fear of losing power (Malena 2009).

The second component necessitates that the audit committee be informed of the municipality's council's capacity to execute audit committee recommendations. The third component requires the audit committee chair to compel the council and management to adopt the committee's recommendations by utilising the available policies and legislation. Furthermore, mentalising and participatory governance are additional critical components.

### □ **Mentalise**

In conjunction with political determination, the audit committee must possess the capacity to mentalise to effectively persuade and influence the council and other political office bearers (Baek & Falk 2018). The capacity to perceive and decode the mental states of others, including their emotions, needs and intentions, is known as 'mentalising' (Asen & Fonagy 2017). Therefore, to be a successful persuader, one must evaluate the recipient's emotions and respond accordingly, adjusting their approach to suit the various phases of the recipient's decision-making process (Franke & Park 2006; Limbu et al. 2016; Weitz 1978). As a result, the audit committee must establish a strong rapport with the council and other interested parties to gain insight into the council's reasoning and its various stages of rational decision-making.

Audit committees ought to possess the discernment necessary to comprehend the process by which recipients decide whether to accept the advice. The social judgement theory elucidates the various elements that influence the recipient's decision-making process (Sherif, Sherif & Nebergall 1965). Whether or not the recipient accepts the message may be determined by their ego involvement or anchor point (Sherif et al. 1965). The anchor point serves as the fundamental basis for the attitude and ego of the recipient, determining whether the message is accepted, rejected, or received impartially without any personal investment on the part of the recipient (Salazar 2017; Sherif et al. 1965). Hence, to exert influence, audit committee members must possess a comprehensive understanding of the recipients, including council members, management and other pertinent stakeholders. They must comprehend how these recipients arrive at their decisions and the factors that support their attitudes and egos for the audit committee to construct convincing arguments that can alter the recipient's opinion and make it more receptive.

Consequently, the audit committee must provide the recipient with persuasive writing and a substantial message or argument. A justified reason can convince the recipient to commit (Scott Armstrong 2010). One plausible justification that the audit committee may put forth is to substantiate the assertion that its recommendations have previously generated favourable outcomes. In addition, persuasive individuals who are successful consider social factors and adapt their conduct to the social environment (Dietvorst et al. 2009; Falk et al. 2013; Twomey & O'Reilly 2018). Hence, to maintain their impartiality and ethical integrity, audit committees must remain cognisant of social factors prevalent in the municipalities and adjust their approaches accordingly. Effective persuaders are exceptionally self-aware and are vigilant observers who monitor their actions (Kilduff & Day 1994; Twomey & O'Reilly 2018). Therefore, it is incumbent upon the audit committee members to consistently assess their conduct and determine its continued applicability within the societal framework of the municipality and its stakeholders.

## □ Participatory governance

Engaging the public and community stakeholders in decision-making, particularly regarding budget allocation, is an approach to participative governance that promotes democracy and transparency (Basurto 2013; Cornwall & Shankland 2008; Geddes 2006; Michels & Graaf 2010). Public participation and transparency enhance municipal performance (Nzama, Moloji & Marx 2023). This implies that unwarranted interference by

the council, management or any other entity can be restrained through community participation in decision-making. Public officials and, more specifically, middle management hold the belief that their expertise is adequate to implement appropriate programmes, which is in opposition to the concept of community participation (Waheduzzaman & Van Gramberg 2018). However, beyond their personal apprehensions regarding power-sharing and self-interest, public officials and councillors should prioritise the advantages of enhanced governance and a stronger rapport with the local community.

Measures have been implemented in South Africa to engage the local community in municipal affairs. Section 16(1) of the *Municipal Systems Act 32 of 2000* mentions participatory governance. It is the responsibility of the municipalities to establish frameworks, mechanisms, processes and protocols that encourage community engagement (RSA 2000, s. 17[1]). Participatory governance practices include budgeting, planning, policymaking, project selection, social contract administration and municipal information (Malena 2009, p. 4; RSA 2000, s. 20[2]). The local community may engage in these activities. These procedures grant the local populace unrestricted access to all requisite information and the management. Members of the local community are granted permission to attend council meetings (RSA 2000, s. 20[1]). Additionally, council meetings may be attended and participated in by traditional community leaders (RSA 1998, ss. 81[1], 81[2]). Similarly, the Ward Committee, a statutory entity presided over by a councillor-chairperson and charged with addressing matters pertinent to the ward or community, allows for public participation (RSA 1998, s. 72[b]).

Nevertheless, this legislation advocating for participatory governance is not without its limitations. While members of the local community, including traditional leaders, are permitted to attend council and ward meetings, they do not possess the right to vote. They are a non-authoritative advisory body (Piper & Deacon 2009). An unhealthy relationship and further division between the community and councillors may result from the absence of voting rights (Mathenjwa & Makama 2016), as tensions may increase if councillors fail to vote in accordance with the community's advice and opinion.

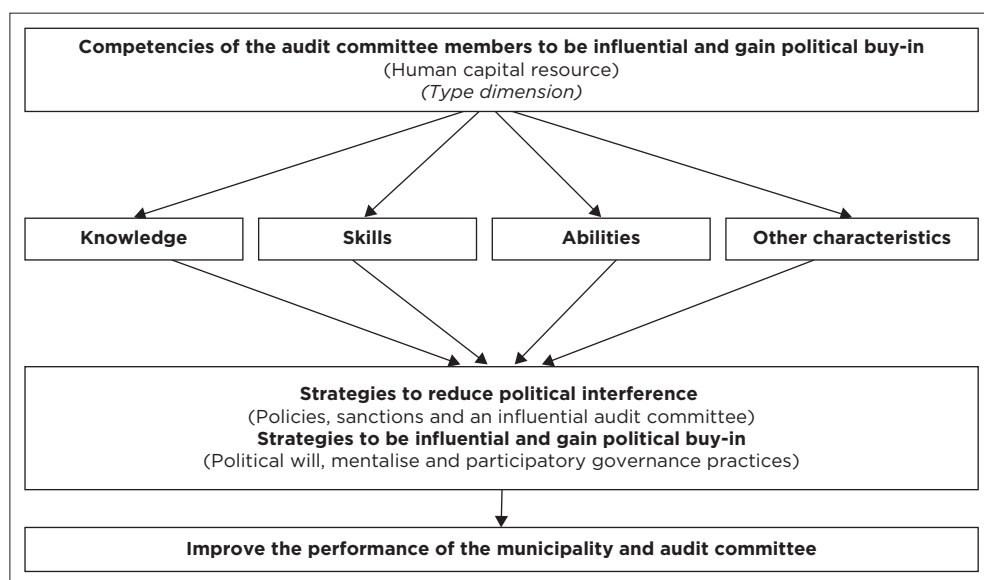
Teaching the community, management and councillors the significance of participatory governance with an emphasis on municipal and community development could prove to be advantageous (Waheduzzaman & Van Gramberg 2018). Training councillors and management should aim to instil in them the political will to prioritise residents and facilitate their participation in governance practices.

It is imperative that the quarterly audit committee reports, which are presented to the council by the chair of the audit committee, be promptly made available to the local community. The council should afford the community the opportunity to engage in dialogue concerning the audit committee's recommendations and jointly contribute to a decision-making process concerning their adoption and implementation.

A community with a voting right in a joint decision-making process regarding whether to accept or reject the audit committee's recommendations could provide support to the committee, which is having difficulty gaining political support from councillors.

Political interference will be diminished because of consequence management for the council and public officials' failure to implement participatory governance. According to Ankamah and Khoda (2017) and Malena (2009), credible sanctions ought to be imposed on those individuals who lack the political will to ensure that the municipality achieves its objectives, including adherence to participatory governance practices.

Figure 7.2 succinctly illustrates the correlation between the audit committee, political interference and political buy-in to enhance the municipality's performance.



Source: Legodi, AH 2021, p. 225.

**FIGURE 7.2:** Strategies to curb political interference and be influential to gain political buy-in.

## ■ Emerging concepts

By synthesising insights from both focus group discussions and the literature review, emerging concepts are presented in a framework, aiming to bolster the effectiveness of audit committees within South African municipalities.

## ■ Framework for audit committees

Tables 7.1–7.3 comprise the framework for audit committees, municipalities, treasuries and SALGA derived from the focus groups and literature.

**TABLE 7.1:** Framework for audit committees – ability to influence and political buy-in.

<p><b>Political interference</b></p> <ol style="list-style-type: none"> <li>1. The audit committee chair should not allow council and municipal management to manipulate its meeting agenda</li> <li>2. When councillors and municipal staff members attend the audit committee meeting, the chair should read aloud the segments of the code of conduct for councillors and those for staff members that promote noninterference</li> <li>3. The audit committee should be independent in its deliberations and decision-making</li> <li>4. The audit committee chair should have the authority to report unwarranted interference by the council, municipal staff members and stakeholders, to a structure that holds charter-assigned authority over the alleged perpetrators</li> </ol> <p><b>Ability to influence and gain political buy-in</b></p> <ol style="list-style-type: none"> <li>1. The audit committee must render expert advice on policies and sanctions that oppose political interference. The role must be within their legislated right and in the approved charter. Even so, they should not engage with operational matters concerning the implementation of policies and those sanctions.</li> <li>2. The audit committee must:             <ol style="list-style-type: none"> <li>a) Possess information and procedures (<i>knowledge</i>) to curb political interference, to influence the council to adopt its advice and to gain political buy-in</li> <li>b) Effectively implement the knowledge to prevent political interference and acquire political support/political buy-in <i>skills</i>.</li> <li>c) Exhibit the cognitive (mental) capacity to impede political interference and exert influence in securing political support <i>ability</i>.</li> <li>d) Demonstrate the requisite character and qualities to safeguard against political interference and exert influence in order to secure political support (<i>other characteristics/attitude</i>).</li> </ol> </li> </ol>
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Source: Legodi, AH 2021, pp. 443–448.

## ■ Framework for municipalities

**TABLE 7.2:** Framework for municipalities – ability to influence, political buy-in and political interference.

<p><b>Political interference</b></p> <ol style="list-style-type: none"> <li>1. The functions of the audit committee, administrators and council must be adequately segregated</li> <li>2. It is imperative that the council abide by applicable laws, policies and procedures while refraining from unwarranted interference with functions that fall outside their purview, such as audit committee activities, operations and administration</li> </ol>
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Table 7.2 continues on the next page→

**TABLE 7.2 (cont.):** Framework for municipalities – ability to influence, political buy-in and political interference.

3. The municipal list of policies must include sanctions for undue interference and misuse of authority
4. It is necessary to administer disciplinary measures to the council, management and any individual who disrupts or interferes with the audit committee's duties in an improper manner
5. To foster ethical behaviour and prevent undue interference with audit committee operations, municipal staff and council members are required to consistently adhere to their applicable statutory codes of conduct
6. It is not acceptable for management and council to withhold information from the audit committee

**Ability to influence and gain political buy-in**

1. To cultivate a relationship with the audit committee, executive municipal employees such as the mayor, speaker, chairperson of finance and chairperson of MPAC should attend audit committee meetings on a regular basis while avoiding undue interference. Consequently, the audit committee will acquire political support and influence within the municipality
2. There is a need to enforce participatory governance practices (involvement of municipal constituents, particularly the community, in the governance process)
3. Municipal staff must be educated on how to engage in community-based participatory governance
4. It is recommended that the municipality establish frameworks, operations, mechanisms and protocols that facilitate participatory governance
5. Concerning participatory governance practices, the internal audit function is obligated to furnish the audit committee with assurance reports
6. The council is encouraged to incorporate the audit committee's insightful expert opinion concerning participatory governance practices
7. When required, consequence management should be implemented in relation to employees who fail to engage in participatory governance, in accordance with consequence management policy and standard operating procedures
8. Sanctions be imposed against individuals who demonstrate a lack of determination to achieve the goals of the municipality or refuse to engage in participatory governance practices

Source: Legodi, AH 2021, pp. 480-484.

Key: MPAC, Municipal Public Accounts Committee.

## ■ Framework for National Treasury, provincial treasuries and South African Local Government Association

**TABLE 7.3:** Framework for National Treasury, provincial treasuries and South African Local Government Association – political interference.**Political interference**

1. A minimum level of formal education must be mandated for councillors by the government through an amendment to existing legislation

Source: Legodi, AH 2021, p. 486.

## ■ Validation of the framework concepts

In testing the concepts identified for the framework and based on the interviews conducted with various stakeholders, the following support was obtained.



## ■ Audit committee framework

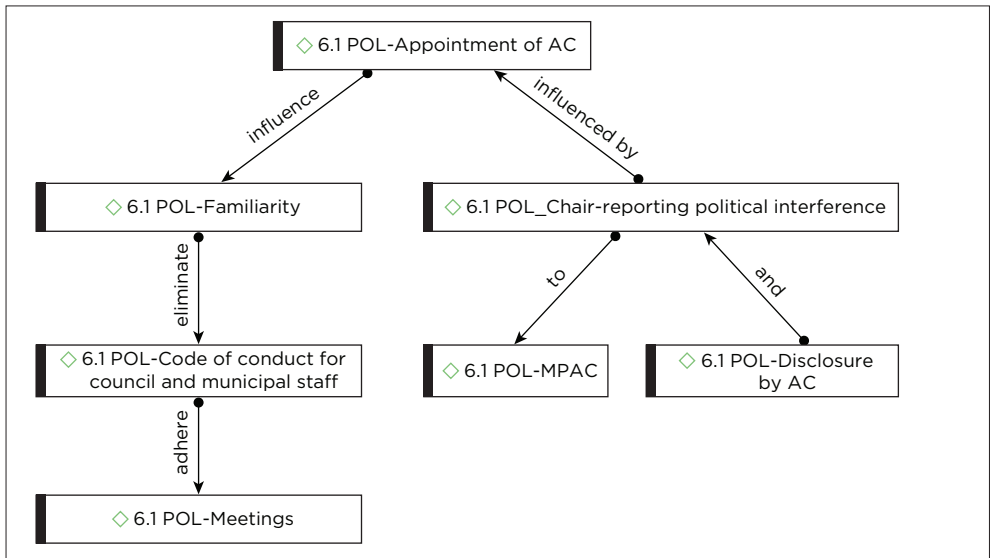
### □ Political interference

Each participant-contributed notion regarding political interference is summarised in Figure 7.3.

This is a summary of the participants’ discourse regarding the different facets of the theme, supplemented with participant quotations.

The risk of familiarity may be heightened if audit committee members are appointed in an inappropriate manner. The parties that appoint the audit committee’s members exert an influence over the determination of whether to disclose instances of undue political interference. The council’s unjustified political interference ought to be escalated to higher authorities, including the speaker and MPAC. Higher authorities, including the minister and the MEC, should be notified in the event of a compromised speaker. The provision of a code of conduct for municipal staff and council members during meetings will effectively mitigate the potential for undue influence on impact audit committee proceedings.

The feedback from interview participants on aspects of the framework of political interference is listed in Table 7.4.



Source: Legodi, AH 2021, p. 270.

Key: AC, audit committee; MPAC, Municipal Public Accounts Committee; POL, political interference.

**FIGURE 7.3:** Audit committee framework – political interference.

**TABLE 7.4:** Participants' feedback on the audit committee framework – political interference.

Aspect	Participants	Action
The chair of the audit committee should prohibit municipal and council management from influencing the agenda of audit committee meetings	13 = agreed 1 = no comment Participant 1C: '[7]he audit committee chair should not allow council management or the municipality to participate to influence their meeting agenda' (Participant 1C, male, black, 04 June 2020).	Unchanged
The audit committee's deliberations and decisions ought to be conducted in an impartial manner	13 = agreed 1 = no comment Participants 1C and 3C: Believe that interference predominantly transpires at the outset, throughout the appointment process. The remarks made by the individual indicate that audit committees appointed for the wrong reasons may encounter challenges in maintaining their independence. Audit committees are 'appointed by council with a different mandate'. Also: '[A]udit committees are appointed by municipal managers. And therefore, it becomes very easy for audit committee members to be threatened with dismissal or terminating their contract'. Participant 3B: When 'the audit committee members [ <i>term</i> ] is too long, they become familiar with the politicians and management' (Participant 3B, male, coloured, 28 May 2020). To mitigate the risk of familiarity, emphasise the necessity of terminating the service of members who have completed their maximum allowable term.	Included in the theme on the independence of audit committee
The chair of the audit committee ought to possess the jurisdiction to notify a higher authority regarding the perpetrators of any council, management or stakeholder who interferes with the process	13 = agree 1 = no comment Advocated the audit committee chair's practise of notifying higher authorities of unwarranted interference: 'Oversight of political interference is important, that it is pitched at a higher level, and even just at municipal structures' (Participant 1B, male, black, 27 April 2020). They recommended such reporting of interference to the speaker, MPAC, MEC or even the minister.	The sentence was improved but the meaning remained unchanged
Additional suggestion	Participant 3C: The 'code of conduct [ <i>for councillors</i> ] must always be brought up and read before the audit committee meeting starts to prevent any political or administrative interference with work of the audit committee' (male, black, 09 June 2020)	Added
Additional suggestion	Participant 2C: '[D]isclose the recommendations that were not implemented, you must also disclose the reasons for non-implementation, what was the reason. You should be able to disclose that as well' (Participant 2C, male, black, 03 June 2020).	Added to audit committee mandate
Additional suggestion	Participant 3A: '[A]udit committees need to meet with the executive authorities at least once per annum', referring to the MECs as executive authorities of the provinces (Participant 3A, female, Indian, 07 April 2020).	Added

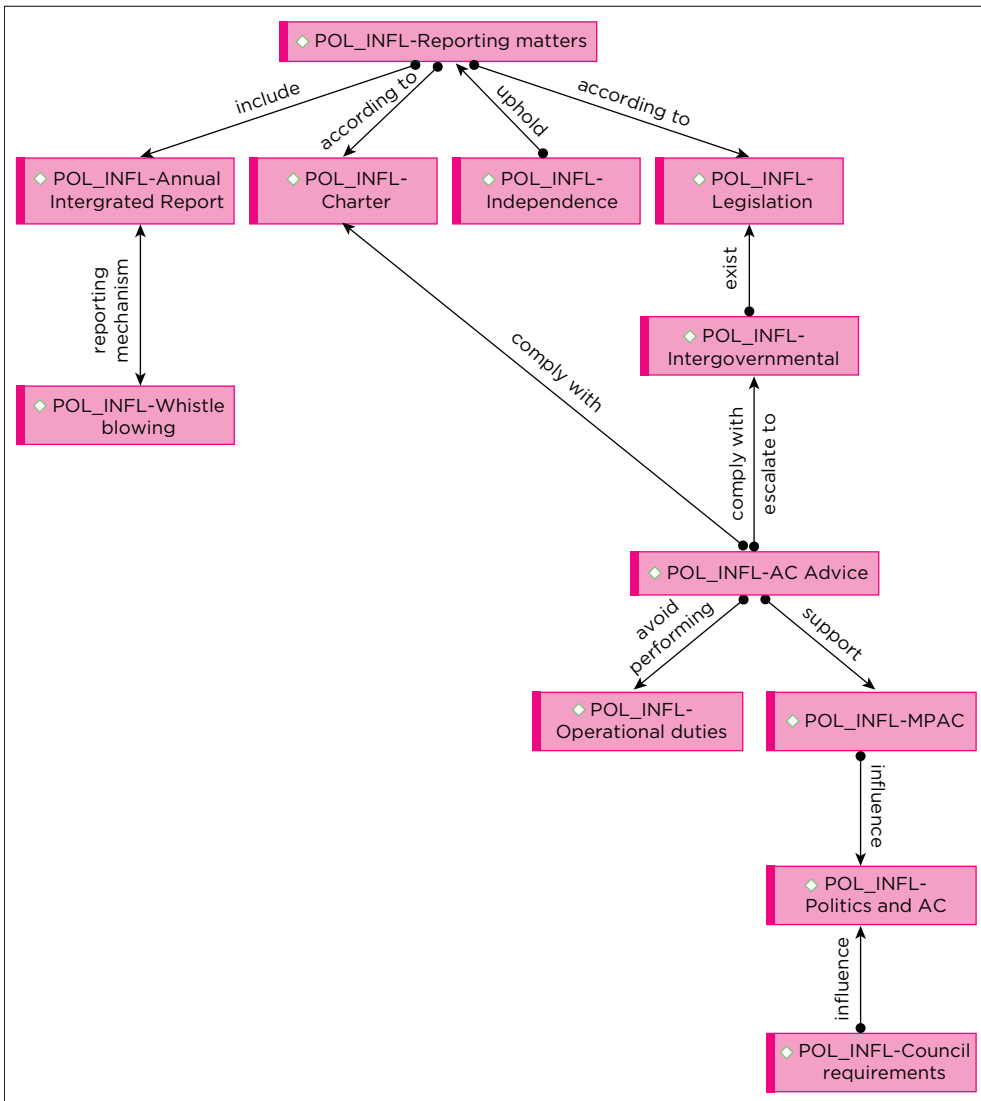
Source: Authors' own work.

Key: MEC, Member of the Executive Council; MPAC, Municipal Public Accounts Committee.

## □ Ability to influence and gain political buy-in

Figure 7.4 illustrates all the ideas conveyed by the participants regarding the capacity to exert influence and acquire political buy-in.

The subsequent section provides a synopsis of the participants' discourse regarding the diverse facets encompassed by the theme, supplemented with participant quotations.



Source: Legodi, AH 2021, p. 274.

Key: AC, audit committee; MPAC, Municipal Public Accounts Committee; POL INFL, political influence.

**FIGURE 7.4:** Audit committee framework - ability to influence and gain political buy-in.

The audit committee is obligated to maintain objectivity in their reporting. The execution of the audit committee report must adhere to the provisions of the charter and current legislation. The reporting matters from the annual audit committee report are incorporated into the municipal annual integrated report. By utilising the annual audit committee report as a means of reporting whistleblowing, the chair may disclose significant and useful recommendations that were disregarded by the municipality. Legislation already includes reporting mechanisms to address the council's unjustified rejection of audit committee advice; for instance, the audit committee chair may escalate the matter to intergovernmental structures that aid the municipalities.

Adhering to legislation and the charter, the audit committee can provide counsel that aids in exerting influence and minimising unwarranted interference. It should refrain from carrying out operational responsibilities, such as policy adoption. The audit committee may utilise MPAC as a structure to acquire support and influence on secure political buy-in. Certain issues related to undue interference by the audit committee and politics might be mitigated if eligibility for council membership required a minimum level of education.

**TABLE 7.5:** Participants' feedback on the audit committee framework – ability to influence and gain political buy-in.

Aspect	Participants	Action
Expert advice must be provided by the audit committee regarding policies and sanctions that oppose political interference	<p>13 = agree</p> <p>1 = no comment</p> <p>Participant 3C: 'We need to be aware of the environment local government operates in. It is one sphere of government that is heavily politicised. So it's difficult to prevent councillors from interfering in the administration of the municipality because sometimes they just disguise their actions as oversight' (male, black, 09 June 2020).</p> <p>Participant 2A: Cautioned against audit committees becoming functionally operational, when the proposed action to curb political interference is implemented. 'Policy adoption is an operational process. Audit committee should advise on adequacy and effectiveness of policy, but they shouldn't really get involved in the implementation or in the recommendation of adoption of any form of policy. That is an operational matter. They must have oversight' (female, black, 01 June 2020).</p> <p>Participant 2E: Audit committees must advise on policies and sanctions 'if it's within their legislative responsibility and their charter' (male, coloured, 10 June 2020)</p>	Revised

Table 7.5 continues on the next page→

**TABLE 7.5 (cont.):** Participants’ feedback on the audit committee framework – ability to influence and gain political buy-in.

Aspect	Participants	Action
In order to achieve political buy-in and prevent political interference, the audit committee is required to fulfil the following criteria: (1) Comprise the knowledge necessary to effectively employ the information and persuade the council to adopt its recommendations. (2) Demonstrate practical proficiency in utilising the information to impede political interference and exert influence. (3) Possess the mental capacity to withstand political interference and exert influence. (4) Exhibit the character and qualities essential for preventing political interference and exerting influence to secure political support (other characteristics/attitude).	12 = agree 2 = disagree 1 = no comment  Participant 1C: Audit committees should pursue the ‘ability to make council comply with regulations instead of political influence or gain political buy-in’ (Participant 1C, male, black, 04 June 2020)  Participant 1A: An audit committee member is ‘there to advise, I am not there to lobby issues. I am not there to get political buy-in. If they discard my advice, so be it’ (Participant 1A, male, white, 10 April 2020).  Although it is true that audit committees cannot force the council to adopt its advice, it is necessary that the committees possess skills of persuasion	Unchanged
To fulfil their responsibilities, the audit committee chair should satisfy the following criteria:  (1) Have legislative authorisation to report instances of political interference to a higher authority (2) Possess persuasive strategies and competencies (3) Use legislation and policies to compel the council and management to adopt the audit committee’s recommendations (4) Capacity for mental acuity (5) Own the judgement skills necessary to comprehend how the recipient makes decisions (6) Capable of constructing persuasive arguments (7) Conduct preliminary investigations	(1) = 11 agree, 2 disagree, 1 no comment (3) = 12 agree, 1 disagree, 1 no comment  All other = 13 agree, 1 no comment  Participant 2A ‘they shouldn’t be given legislative powers. However, there can be that intergovernmental relationship where they can escalate matters’ (female, black, 01 June 2020)  Participant 1C mentioned that legislation such as MFMA and GRAP already accommodates such reporting, authorising audit committees to report to external auditors and the police service  Participant 2A: ‘Audit committee cannot compel council to adopt their advice’ (female, black, 01 June 2020)	(1) and (3) removed
Expert advice must be provided by the audit committee regarding the policies and implementation of participatory governance practices	12 = agree 1 = disagree 1 = no comment  Participant 2A: The audit committees should not become operational by getting involved in the implementation of the policy (female, black, 01 June 2020)	Removed

Table 7.5 continues on the next page→

**TABLE 7.5 (cont.):** Participants' feedback on the audit committee framework – ability to influence and gain political buy-in.

Aspect	Participants	Action
The audit committee must expose municipal maladministration through the annual reports using their disclosure authority	13 = agree 1 = no comment	Two points combined
The public should be informed of the audit committee's recommendations [advice] that the municipality has not implemented in order to ensure accountability	Participant 2A: 'Audit committee has an opportunity to report to council concerns. If that is not addressed, the audit committee report forms part of the annual integrated report. The chairperson can include any governance concerns in that report which would be published to the public. So that is a mechanism for them to whistle blow should there be concerns in the annual integrated report and if for instance whatever they've written in that report is not included as they have indicated, then they can take that matter to the MEC of intergovernmental [ <i>sic</i> ] relations and also the auditor-general [ <i>sic</i> ] from a government perspective' (female, black, 01 June 2020).	Added: To promote the independence of the audit committee and to address the unwarranted interference in the annual audit committee report
Additional suggestion	Participant 3C: 'I'm proposing SALGA should look into the issue of education requirements for politicians. In other words, government should introduce educational requirements as one of the key aspects to be become a councillor' (male, black, 09 June 2020). Although the concept can be helpful, it does not guarantee the restriction of political interference.	Not added
Additional suggestion	Participant 4A: The use of MPAC to gain political buy-in. 'MPAC is a key structure to facilitate the activities of the audit committee to the council' (male, black, 02 April 2020)	Added

Source: Authors' own work.

Key: GRAP, generally recognised accounting practice; MFMA, *Municipal Finance Management Act*; MPAC, Municipal Public Accounts Committee; MEC, Member of the Executive Council; SALGA, South African Local Government Association.

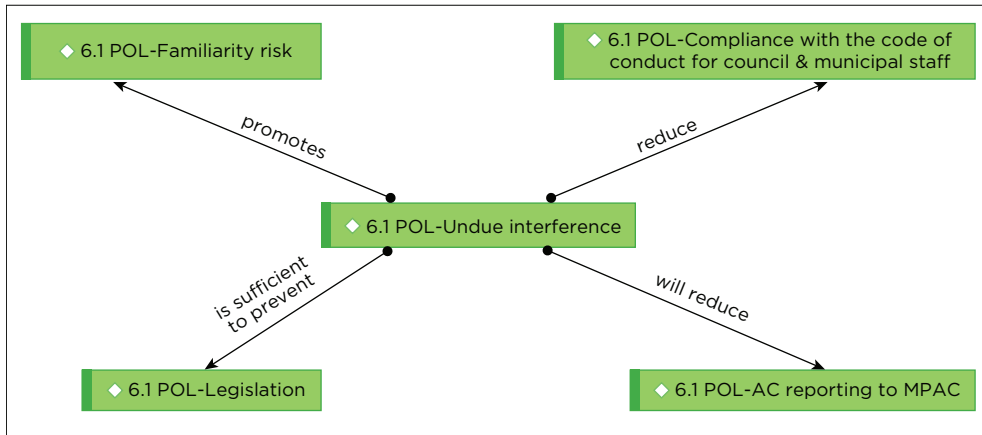
## ■ Municipal framework

### ■ Political interference

The previous table provides a synopsis of the participants' discourse regarding the diverse facets encompassed by the theme, supplemented with participant quotations.

All the concepts gathered from the participants regarding political interference are depicted in Figure 7.5.

The potential for unwarranted interference arises from the audit committee's familiarity with the council and municipal employees. By adhering to the code of conduct, municipal and council employees can prevent unwarranted



Source: Legodi, AH 2021, p. 310.

Key: AC, audit committee; MPAC, Municipal Public Accounts Committee, POL, political.

**FIGURE 7.5:** Municipal framework - political interference.

**TABLE 7.6:** Participants' feedback on the municipal framework - political interference.

Aspect	Participants	Action
1. An imperative principle is the segregation of duties among the audit committee, administrators and council	(1) to (6): 13 = agree, 1 = no comment	(2) Amended (3) The word 'political' interference was changed to 'undue' interference,
2. Particularly concerning supply chain issues and personnel appointments, the council should refrain from interfering with administrative functions	(7) = 8 agree, 5 = disagree, 1 = no comment	(4) and (5) consolidated (7) removed
3. Incorporating sanctions for political interference into council policies is imperative	Participants 1A and 3A: 'We are basically limiting ourselves with issues of supply chain management and appointment of staff. What about any other operational activities?'	
4. Measures to be implemented against the council, management and any individual who unreasonably disrupts the audit committee's operations	Participant 1A and 1B: Action is 'counter-productive to a democratic state' and the impossible 'practicalities' of applying the action	
5. Other stakeholders of the municipality, including the council, accounting officer, management and staff, should refrain from interfering with the audit committees' operations	Participant 2A: It is unnecessary to amend the legislation, as the citizens exercised their democratic right to vote for their representative and therefore the public voice is heard through their elected representatives:	
6. Information should not be withheld from the audit committee by the council or management	'The community can hold council accountable to [using the] current structures provided' (female, black, 01 June 2020)	
7. To reduce decisions influenced by political interference, legislation should be amended to grant the local community the right to vote in council and ward meetings		

Table 7.6 continues on the next page→

**TABLE 7.6 (cont.):** Participants' feedback on the municipal framework – political interference.

Aspect	Participants	Action
Additional suggestion	<p>Participant 3B: 'Audit committee members' friends are councillors' and, in some instances, 'audit committee member[s] that sit[s] longer than six years' [<i>which is their maximum legislated term</i>], by which independence of audit committees can be impaired (male, coloured, 28 May 2020)</p> <p>Participant 3C: 'The code of conduct for officials and councillors must be read every time when the audit committee has a meeting to remind all role players that the audit committee is an independent body' (male, black, 09 June 2020)</p> <p>Participant 4A: The audit committee 'should not anywhere else [<i>sic</i>] get to interact directly with their politicians which are the councillors. They must have a bridging governance which is MPAC' (male, black, 02 April 2020).</p>	Included in the framework

Source: Authors' own work.

Key: MPAC, Municipal Public Accounts Committee.

interference. To prevent unwarranted councillor interference, an intriguing new idea was proposed: the audit committee should interact with and report to MPAC rather than the councillors. However, a subset of the participants maintains the belief that the current legislative framework adequately safeguards against political meddling.

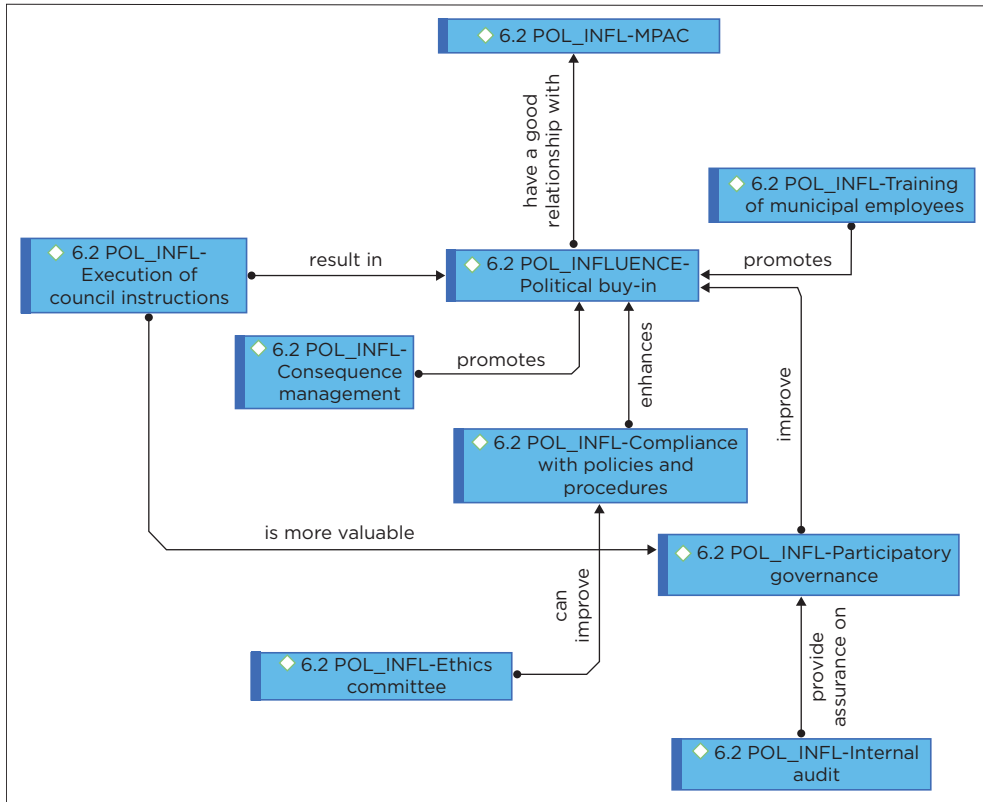
## ■ Ability to influence and gain political buy-in

All the concepts gathered from the participants regarding the audit committee's capacity to exert influence and secure political support in the municipalities are presented in Figure 7.6.

The discussion of participants on the various aspects of the theme is summarised in Table 7.7, with some direct quotes from participants.

One participant is adamant that municipal employees carrying out council directives is more beneficial than participatory governance which aims to stimulate public support for the council to implement the audit committees' beneficial recommendations. Additionally, it was noted that securing political support and endorsement for audit committees is possible through affiliations with influential executive figures, including the mayor and the chairperson of MPAC. Participatory governance practices additionally enhance political support and influence by increasing the likelihood that





Source: Legodi, AH 2021, p. 313.  
Key: POL INFL, political influence.

**FIGURE 7.6:** Municipal framework - ability to influence and gain political buy-in.

**TABLE 7.7:** Participants' feedback on the municipal framework - ability to influence and gain political buy-in.

Aspect	Participants	Action
1. The enforcement of participatory governance practices (participation of stakeholders of the municipality, especially the community)	1-3 and 5-6: 12 = agree, 1 = disagree, 1 = no comment 4: 12 = agree; 2 = disagree	(3) Amended to replace 'political will' with 'will' (4) Amended (6) Amended
2. It is necessary to educate municipal personnel on how to engage in participatory governance with the community	Participant 1A: 'Administrators are there to execute the policies of council and if you want to start lobbying and creating political buy-in, then you are participating in political activities whereas you should be focusing on administrative matters' (male, white, 10 April 2020)	
3. It is imperative to enforce credible sanctions upon individuals who lack the political determination to accomplish the goals of the municipality or refuse to engage in participatory governance practices	Participant 4B: 'That this might not be relevant in the audit committee context' (male, white, 01 May 2020)	

Table 7.7 continues on the next page→

**TABLE 7.7 (cont.):** Participants' feedback on the municipal framework – ability to influence and gain political buy-in.

Aspect	Participants	Action
4. Municipalities ought to establish frameworks, mechanisms, processes and protocols that facilitate the engagement of the local community in governance	Participant 3B supported that the municipal employees must receive training regarding participatory governance practices 'from School of Governance' (male, coloured, 28 May 2020)	
5. Council to accept the audit committee's insightful expert recommendation regarding participatory governance practices	Participant 1A: 'An administrator should never be allowed to have political will' but rather 'execute the instructions of council' (male, white, 10 April 2020)	
6. In light of the failure to execute participatory governance, consequence management ought to be implemented	Participant 1B suggested that the internal audit function should provide assurance on 'the extent to which the municipality implements this issue of participatory governance' (male, black, 27 April 2020)  Participant 2A stated that the action should be performed 'as accommodated in the consequence management policy and standard operating procedures' (female, black, 01 June 2020)	
Additional suggestion	Participant 4A: 'MPAC is the only structure that can assist [the audit committee] to be heard at the council level'; and Participant 1A: 'get the mayor, the speaker, the chairperson of Finance and the chairperson of MPAC attend to audit committees and thereby create a relationship with your political office bearer that in turn may influence the political buy-in process' (Participant 4A, male, black, 02 April 2020 Participant 1A, male, white, 10 April 2020)	Added
Additional suggestion	Participant 3B: 'Appointing a champion and a committee, an ethics champion and a committee' will improve compliance to policies by the municipalities (male, coloured, 28 May 2020)	Added

Source: Authors' own work.

Key: MPAC, Municipal Public Accounts Committee.

the council will adopt valuable recommendations put forth by audit committees. Hence, it is imperative to provide municipal staff with training on participatory governance practices in order to foster political engagement and public influence. Additionally, the internal audit function must provide audit committees with assurance regarding participatory governance practices.

Compliance with policies and procedures can be enhanced further by the ethics committee and ethics champion. Political buy-in and audit

committee influence are strengthened through municipal employee and council adherence to policies. Consequently, to increase audit committee influence and political buy-in, it is essential to implement consequence management for non-compliant municipal members and staff.

## ■ Conclusion

Political interference poses a significant threat to the effectiveness of audit committees in municipalities. The efficacy of municipal audit committees is considerably jeopardised by political interference. Municipalities can foster an atmosphere conducive to the independent operation of audit committees, which can subsequently offer invaluable advisory services and contribute to enhanced governance, through the implementation of the strategies. By implementing the abovementioned strategies, municipalities can create an environment where audit committees can function independently, provide valuable advisory roles and contribute to improved governance.

# Considerations that impact the effectiveness of the audit committee

## ■ Introduction

This study was motivated by the persisting malpractice, maladministration and poor service delivery by South African municipalities that are receiving advisory services from audit committees, yet the problem remains. It seems that the audit committee's advisory role does not possess the authority to compel municipalities to comply with policies and legislation. The power of municipal audit committees' function to enhance organisational governance, risk management and internal control systems through advisory is debatable. This research has identified potential avenues for improving the efficacy of the audit committee function. A comprehensive framework may enhance audit committees' effectiveness in South African municipalities, which was the main objective of the study. High-level summaries of findings that impact the efficacy of the audit committee are provided in this chapter, and subsequently, the potential contribution of the study.

**How to cite:** Legodi, AH & Coetzee, P 2025, 'Considerations that impact the effectiveness of the audit committee', in *Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities*, AOSIS Books, Cape Town, pp. 195-202. <https://doi.org/10.4102/aosis.2025.BK479.08>

## ■ High-level summaries of findings

Firstly, it was interesting to note that the affinities identified by the two focus groups highlighted the location of the municipality (affecting the members and working of the committee) and the legislative environment (affecting the knowledge of members on the municipal environment). Secondly, based on the 25 affinities identified, five themes were developed (refer to Chapters 3–7 for a detailed discussion of each), namely:

### ○ **Theme 1: Municipal administration**

Under this section, six aspects were highlighted, namely:

- Municipality administration function
- Management of municipalities
- Organisational maturity
- Risk management
- Internal audit function
- Assurance providers.

For the audit committee to be effective in its role, it will require a competent, skilled, effective and supportive council; municipal management; internal audit function; and the equivalent qualities from other relevant assurance providers. It was concluded that some municipalities have not matured as organisations, as staff members lack institutional knowledge and experience, resulting in the lack of competent municipal staff to develop and implement risk management plans, thus leading to non-execution of audit committee advice that impacts good governance. It was also established that some municipalities hold dysfunctional internal audit functions – unable to provide proper services to the municipality and quality reports to the audit committee.

### ○ **Theme 2: Audit committee mandate**

Five key aspects were identified that influence the audit committee mandate, namely:

- Audit committee ToR
- The role of the audit committee chairperson
- Audit committee’s understanding of its mandate
- Municipality’s understanding of audit committee mandate and preparation
- Participation of audit committee members (to give effect to their mandate).

It was concluded that the role of the audit committee is not always understood by its members, as well as by the municipal council and management. New members of the audit committee do not receive

induction, and there are no sufficient training programmes and continuous learning programmes for audit committees in local government.

The participants also commented that, in several municipalities, the role of the audit committee is not documented in a charter. In certain instances, the audit committee does not comply with its ToR. For example, several audit committee members are not well prepared for their meetings to provide valuable input, while others do not attend meetings regularly. For the audit committee to be effective, it requires strong leadership skills from its chairperson.

### o **Theme 3: Appointment of audit committee members**

The following four aspects were identified, namely:

- The recruitment, selection and appointment of audit committee members
- Remuneration of audit committee members
- Ethics of audit committee members as well as their ethical conduct
- Their independence.

The participants declared that the process of recruiting, selecting and appointing audit committee members must be executed by the councils, as legislated, to reduce the risk of members' independence being compromised when performing their roles. Further, the councils should appoint ethical members who will comply with the ToR of the audit committee. To enhance ethical behaviour, it was pointed out that the councils should consider appointing members who are allied to professional bodies and who are liable to comply with their respective professional bodies' codes of conduct. It is concerning that unskilled audit committee members are often appointed by poverty-stricken and rural municipalities owing to a low remuneration rate. The metropolitan municipalities habitually acquire skilled members because of the higher payment. Therefore, the inconsistency of remuneration rates among municipalities influences the quality of members and, subsequently, the effectiveness of the committee. The effectiveness is also impacted by members who do not provide quality input as they are overcommitted by serving on several other committees at the same time for the purpose of receiving higher aggregate remuneration.

### o **Theme 4: Competencies of audit committees**

Factors relating to the competencies of the audit committee influencing its effectiveness include:

- Location of the municipality
- Understanding of the legislative framework
- Intergovernmental support
- Diversity of audit committee skills.

The audit committees of remote and rural municipalities often possess members who are unskilled, incompetent and inexperienced. For audit committees to be effective, they must comprise members with diverse skills and experience. Also, the audit committee members must understand the legislative framework and attendant know-how in terms of how the law and regulations of the municipality should be applied. They must also have knowledge of available intergovernmental support for the municipalities from other governmental organisations.

o **Theme 5: Challenges of the audit committee when executing their mandate**

The following challenges were identified:

- Political interference
- Audit committees' inability to influence and gain political buy-in.

The causes for audit committees' ineffectiveness are the lack of councils' support for their role and councils' interference with the operations of the audit committee. Hence, the audit committee chairpersons must have strong leadership skills and not tolerate any compromise of their independence, as well as persuasion skills to influence and gain councils' political buy-in. Lack of influence is *inter alia* caused by audit committees that do not exercise their disclosure power in annual reports.

## ■ Contribution

Various parties can benefit from the framework. Firstly, key stakeholders within the South African municipal environment are discussed, after which a few *ad hoc* parties are mentioned.

### 1. Audit committees

The framework provides guidelines for municipal audit committees on how to perform their role effectively and how to behave ethically in conducting their tasks. The audit committee's understanding of the role of MPAC, the council, the internal audit function and management will deepen through its engagement with its mandate and the guidelines offered here, further educating it regarding its support of and engagement with the audit functions.

### 2. Management of the municipalities

Audit committee effectiveness can be enhanced when municipal management:

- Understands the role of the audit committee

- Supports the role of the audit committee, by adopting relevant actions from the framework
- Appoints competent members who will create and implement a useful risk management framework to reduce the risk of the municipality
- Appoints an ethics champion and ethics committee that will enforce the ethical conduct of both the staff members of the municipality and audit committee members
- Appoints a qualified and competent CAE and staff members to the internal audit function
- Arranges training for staff members lacking the necessary skills.

### **3. Regulators such as National Treasury, provincial treasuries, CoGTA and SALGA**

The audit committee and internal audit can be improved by the regulators including the following actions:

- Virtual audit committee meetings
- Online training of audit committees
- Prescribe minimum qualifications for the CAE and internal auditors
- Regulations on how to deal with political interference and gain influence and political buy-in.

These virtual meetings and training sessions will reduce municipal expenditure and increase the attendance of audit committee members. Qualified internal auditors will improve the effectiveness of the internal audit function. Furthermore, the CoGTA and SALGA should develop specific guidelines and training for audit committees to deepen their understanding of the structures that facilitate intergovernmental support for municipalities.

Also, regulators should centralise several of the functions to enhance the effectiveness of the audit committee:

- The appointment and remuneration of audit committee members to be performed by provincial treasuries or SALGA, to promote audit committee independence from the council and municipal management
- The National Treasury to review the remuneration rate by benchmarking with other countries
- The National Treasury should determine funding and funding organisation for a standard remuneration of audit committee members of poor and small municipalities
- The National Treasury should take responsibility for identifying the organisation that should assume provision for the training needs of audit committees
- The National Treasury should develop a code of conduct for audit committees



- The National Treasury to develop an improved, comprehensive risk management framework
- The National Treasury, provincial treasuries and SALGA to develop a competency framework for municipal staff members.

#### **4. The municipal public accounts committee**

The framework provides MPAC with a better understanding of the distinctive roles of the audit committee, council and management. The framework can be employed by MPAC:

- To create performance measurement criteria for the council and to hold the council accountable
- As a guideline for items that should be included in the annual integrated report.

#### **5. Municipal council**

The council can use the final framework to:

- Deepen their knowledge and understanding of the role of the audit committee and how to support the audit committee
- Recruit skilled members that will add value to the committee
- Determine the minimum requirements of competencies for audit committee members
- Create an adequate process for appointing new members to the audit committee
- Understand the ethical character and behavioural qualities to verify when recruiting new members
- Gain knowledge on how to promote the ethical behaviour and independence of the audit committee and its members
- Verify the accuracy and completeness of their respective audit committee charters
- Measure the performance of the audit committee against a comprehensive charter
- Learn how to avoid undue interference with audit committee activities.

#### **6. Human resource management of the municipalities**

The municipal HR departments can utilise the framework to:

- Improve the appointment process of the audit committee members
- Identify the core competencies needed for the audit committee
- Assess vacant positions in the municipality and fill them
- Address the training needs of the council, staff members of the municipality and audit committee members

- Implement virtual training that is accessible anywhere, irrespective of location, and that requires less expenditure.

## **7. Internal auditing**

The function can benefit as follows:

- The guidelines regarding the competencies of the CAE and internal auditors to ensure an effective internal audit function can be adopted from the study
- An improved approach to promote a good relationship between the internal audit function and the audit committee can be implemented, as suggested by the study
- The internal audit staff can have unrestricted access to the audit committee in the presence of the CAE and the audit committee chairperson, for constructive and structured meetings, as the study recommends.

## **8. External auditing**

Adoption of the framework by municipalities can:

- Deepen the knowledge of external auditors with respect to the clarifications of the roles of the audit committee, MPAC, council, internal audit function, risk management function and other functions within the municipality
- Cause external auditors to rely on the findings of competent internal auditors, resulting in less scope for external auditors owing to the elimination of duplication work, and lower audit fees for the municipality.

Some other parties that may also benefit from the framework include:

## **9. Local community**

Adoption of the framework by the municipality will result in:

- A mature municipality and effective risk management and internal audit functions
- Improved service delivery to the local community, resulting in fewer public protests.

## **10. Professional bodies**

Professional bodies such as the SAIGA, IIA-SA and SAICA can employ the study to:

- Expand their standards and code of ethics, to guide members who serve on audit committees

## **11. Training organisations**

Training organisations such as the National School of Government can use the study to:

- Identify training needs
- Inform the content for the training material regarding the effectiveness of the audit committee and how the council and the municipality can support the audit committees.

## **12. Best practices guidance bodies**

The existing best practices guidance bodies, such as the IoDSA developing document, including the King reports on governance for South Africa, can extend the content beyond the oversight role of audit committees. They can use the study to:

- Develop new aspects that are relevant to audit committees with an advisory role.

## **■ Conclusion**

In conclusion, the implementation of the framework in South African municipalities may improve audit committee effectiveness, which in turn may improve governance within municipalities, leading to improved service delivery to the citizens of the country. Municipalities must know that 'A satisfied customer is the best business strategy of all', by Michael LeBoeuf. They must ensure customer satisfaction is a top priority through governance enhancements. It is imperative that municipalities establish and maintain effective audit committees.

Although the study demonstrates areas where the current audit committee advisory function as legislated could be enhanced, the South African government must consider reclassifying it as oversight. A separate advisory committee of experts involved in operations should be established when necessary.

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Audit committees are formed to provide impartial advice on matters of governance, risk management, internal controls and audits, performance management, compliance and financial reporting. It is alarming to see communities deteriorating as a result of poor municipal services, despite the fact that existing audit committees serve as independent advisory boards. Accountability is key to the success of municipalities; individuals opposing the implementation of improved service delivery should be held accountable.

*Enhancing effective public sector governance: Effectiveness of audit committees in South African municipalities* examines the obstacles that hinder audit committees from effectively executing their duties, giving a thorough analysis and resolutions to the South African service delivery crisis. The book's use of the interactive qualitative analysis (IQA) method reveals overlooked variables that South African municipalities and audit committees must contemplate. This methodological contribution results in the construction of a literature framework to substantiate the focus of the study through the identified themes, as opposed to the conventional reliance on themes identified in the extant literature.

This book offers guidelines for municipal audit committees on executing their roles successfully and ethically. It also practically equips regulators, including the National Treasury, provincial treasuries, CoGTA and SALGA, with measures to enhance the efficacy of audit committees. Professional bodies and Best Practices Guidance bodies may augment their standards and ethical codes to guide members serving on audit committees.



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ISBN: 978-1-77995-338-4