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An application of the audit committee effectiveness framework on JSE listed companies in South Africa

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An application of the audit committee effectiveness framework on JSE listed companies in South Africa

A research report submitted by

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Master of Commerce

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Declaration

I, Tanyaradzwa Sigauke, hereby declare that the work contained in this research report is my own. It is submitted in partial fulfilment of the degree of Master of Commerce at the University of the Witwatersrand.

Tanyaradzwa Sigauke

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26 August 2020

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III. ABSTRACT

The purpose of this study is to determine which characteristics of audit committee effectiveness (ACE) listed companies are disclosing. This study also assesses whether the identified characteristics are supportive of ACE. A disclosure index developed using the framework of Dezoort , Hermanson, Archambeault, and Reed (2002), prior literature, the reporting guidelines of King IV and the Companies Act was used to identify the audit committee (AC) characteristics. The research methodology is quantitative in nature and content analysis was used to identify the AC characteristics in the company's annual, integrated, sustainability and AC reports. The results found that the most frequently disclosed AC characteristic is AC size. This may be because of companies' awareness that size shows the resource and power of the AC. Additionally, the industrials sector was perceived to be most supportive of ACE as it scored the highest perceived audit committee effectiveness (PACE). The companies in the industrials sector are subjected to immense pressure from consumers and the press (Van Zijl, Wöstmann, & Maroun, 2017). As a result, the high PACE score may be an attempt to reduce information asymmetry which is achieved by disclosing to investor's quality of the management of risks.

Keywords: Audit committee, content analysis, audit committee characteristics, King IV, integrated reporting

CHAPTER 1 - INTRODUCTION

1.1 Introduction

Audit committees (ACs) were formed as early as 1872 by the Great Western Railway Company in the United Kingdom (Collier & Gregory, 1999; Spira, 2007). In South Africa, the concept of an AC is well established, having originated in the late 1980s (Marx, 2008). The role of an AC was to assist boards in meeting their monitoring responsibilities for financial reporting and the external audit function (Turley & Zaman, 2007; Van der Nest, 2008). ACs have evolved since and currently their responsibilities include ensuring the integrity of the business reports and the effectiveness of internal audit services and the finance function (Deloitte, 2017; IoDSA, 2016).

Both Dezoort et al. (2002) and Ghafran and O'Sullivan (2013) suggest that ACs have evolved as a result of numerous developments in corporate governance codes and legislation both locally and abroad. The UK Cadbury report of 1992 contained the first codified requirements and recommendations for ACs. This impacted the development of ACs in other countries such as South Africa. Cadbury (1992); Kakabadse and Korac-Kakabadse (2001); Rossouw, Van der Watt, and Rossouw (2002) provide evidence of the similarities between the Cadbury report and the King Report on Corporate Governance (King I).

Over the last decade, ACs have seen an increase in their roles and responsibilities with each version of King Code. King II, published in 2002, gave the AC with reviewing the company's compliance with legal and regulatory requirements and the responsibility for risk management (Kakabadse & Korac-Kakabadse, 2001; Rossouw et al., 2002). Following King II, King III changed the role of the AC to meet the requirements of the Companies Act No 71 of 2008 (Companies Act) (IoDSA, 2009; Marx, 2008). The Companies Act was amended in 2008 and among the changes was the requirement for specific companies[1] to appoint an AC. This is to ensure the enhancement of the accountability and transparency requirements as set out in Chapter 3 of the Companies Act (Deloitte, 2017; SAICA, 2016; Sibanda, Heymans, & Humphries, 2018).

[1]The Companies Act requires a public company, a state-owned company or a company required by its Memorandum of Incorporation to appoint an AC (Deloitte, 2017; SAICA, 2016). For companies listed on the Johannesburg Securities Exchange (JSE), the appointment of an AC is in line with the requirements of the Companies Act and the recommended practices of King IV (Deloitte, 2017; IoDSA, 2016; SAICA, 2016).

Although ACs are given by the Companies Act and the King Code the responsibility of ensuring the integrity of financial statements and the independence of the auditor (IoDSA, 2016; SAICA, 2016), several recent corporate scandals involving accounting irregularities, auditor inefficiency and a lack of auditor independence in companies such as Steinhoff, Hullet Tongaat, VBS Mutual Bank (Lungisa, 2017; Motau, 2018; Stoddard, 2019) and their respective audit firms, Deloitte and KPMG, indicate that an AC may not be performing its duties effectively (Carroll & Buchholtz, 2014; Marx, 2008).

As an AC is an integral component of an entity's corporate governance structure, it is important to be able to assess the effectiveness of the AC to evaluate the efficacy of the entire corporate governance structure. As ACE is challenging to measure, mechanisms can be put in place to promote ACE. Dezoort et al. (2002 pg 41) developed a framework for ACE in which ACE is achieved when an AC has "qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts." Multiple studies, including Adams and Ferreira (2009); Agyei-Mensah (2019); Goodwin-Stewart and Kent (2006); Rochmah Ika and Mohd Ghazali (2012); Sultana, Singh, and Rahman (2019), suggest that ACs may be more effective if they have the correct AC characteristics. These include independence, qualifications, age, gender and the roles and responsibilities which are clearly supported by the board. The recent corporate scandals may be highlighting inappropriate AC characteristics (Aldamen, Duncan, Kelly, McNamara, & Nagel, 2012; Dezoort et al., 2002; Marx, 2008).

1.2 Research problem and research purpose

Although ACs are well established in South Africa and other countries, corporate failures which overlap AC responsibilities are still occurring. This may because ACs do not have the right characteristics that allow for effectiveness (Ammer & Ahmad-Zaluki, 2017; Lisic, Myers, Seidel, & Zhou, 2019 ; Wu, 2012). The purpose of the study is to apply the ACE framework developed by Dezoort et al. (2002) to assess ACE based on company disclosures.

1.3 Significance of the study

This study will add to the prior literature by using criteria of AC characteristics such as expertise, independence and tenure to develop an ACE score (Ghafran & O'Sullivan, 2013; Rochmah Ika & Mohd Ghazali, 2012). The development of the score is based on the ACE framework defined by Dezoort et al. (2002). The framework of Dezoort et al. (2002) comprises requirements related to composition, authority, resources and diligence of the AC which have not been used to assess ACE in a South African context.

This study is significant as an effective AC is an essential element of good corporate governance and this is in line with prior research and the King Codes (Carroll & Buchholtz, 2014; DeZoort & Salterio, 2001; IoDSA, 2016; IoDSA, 2009; Turley & Zaman, 2007; Van der Nest, 2008). The study responds to a call by Carroll and Buchholtz (2014) to assess ACE in light of the recent scandals which have occurred in companies where an AC is present (Ammer & Ahmad-Zaluki, 2017; Lisic et al., 2019; Wu, 2012). The findings of this study may be used by future researchers to compare the ACE scores of different jurisdictions; to identify which jurisdictions are most effective and to identify areas needing improvement.

This paper is one of the few to assess ACE in South Africa using the recommended practices in King IV. Most of the previous studies focus on the guidelines of King II and King III (Marx, 2008; Marx, 2009; Motubatse, Ngwakwe, & Sebola, 2017).

Finally, the findings from this study will be useful to investors, regulators and standard setters in determining compliance with codes of governance and the Companies Act, as well as evaluating internal corporate governance mechanisms. For example, in 2019, the Johannesburg Stock Exchange (JSE) published for comment proposed amendments to its Listings Requirements to strengthen the regulation of primary listings and secondary listings. The findings of this study may assist the decision making of the JSE as the proposed amendment's included introducing a requirement that boards establish and publish a policy on board diversity; mandatory training for AC members and specific responsibilities for the CEO and the financial director in respect of the establishment and maintenance of internal controls (Burger & Maume, 2018; JSE, 2019; Maume & du Toit, 2019).

1.4 Research questions

The following research questions are addressed:

1. Which characteristics of ACE are listed companies disclosing?

2. Are the identified AC characteristics supportive of ACE?

1.5 Limitations, delimitations and assumptions of the study

The assessment is limited to the AC disclosures of the top 120 JSE listed companies as defined by market capitalisation. Larger companies tend to disclose more information (Cho, Michelon, Patten, & Roberts, 2015) because they have greater economic resources at their disposal and more stakeholder scrutiny (Bowrin, 2013; Qiu, Shaukat, & Tharyan, 2016). This

has distorted the results of the study and may not provide a complete account of the state of ACE for all South African companies (Pitrakkos & Maroun, 2019; Raemaekers & Maroun, 2014). In addition, the study will not observe the relationship between ACE and financial reporting quality, external audit quality or internal audit quality.

There are also limitations inherent in the content analysis technique which was used to collect data in the reports of the listed companies. Firstly, it captures the quantity of the characteristics (in terms of frequency and volume of reporting) rather than the quality. As a result, there is a risk that the researcher will capture an incomplete picture of the company's business (Guthrie & Abeysekera, 2006; Unerman, 2000). Secondly, the technique is subjective in that it is capturing various narratives in the reports as a representation of ACE. There is a risk that the researcher will obtain an incomplete or an inaccurate understanding of the company's intended message and that the results of this study will not be easily generalised (Guthrie & Abeysekera, 2006; Unerman, 2000).

Despite the inherent limitations of content analysis, numerous studies including Maroun, Usher, Mansoor, and Management (2018); Pitrakkos and Maroun (2019); Raemaekers and Maroun (2014); Rochmah Ika and Mohd Ghazali (2012) recognise content analysis as an analytical technique which can be applied effectively to corporate governance research. This is because the technique is particularly useful for extracting information which is not explicitly presented in a quantified and structured format but is implicit in the text. When executed systematically and transparently, content analysis enhances the understanding of corporate communication within an organisation (Krippendorff, 2018; Raemaekers & Maroun, 2014) (see Section 3.3).

This study consists of several descriptive statistics. Descriptive statistics are limited in that they only allow the researcher to make summations about the samples measured and the results cannot be easily generalised.

The researcher assumes that, firstly, the nature of disclosures can be reliably assessed using existing disclosure frameworks based on prior academic and professional literature. Secondly, the research will rely on the information disclosed in the financial reports as it assumes that company disclosures are true and accurate (Dezoort et al., 2002; Rochmah Ika & Mohd Ghazali, 2012). Finally, this research assumes that ACE lies ultimately in the composition and conduct of the committee members.

The remainder of this paper is structured as follows: Chapter 2 reviews the literature, beginning with an analysis of both the agency and signalling theories. The next section examines the role of the AC and its changes in the past decade because of corporate governance developments. The chapter concludes by identifying the determinants of ACE. Chapter 3 details the research methodology used in this study, the research instrument and the data collection procedures. Chapter 4 reviews the results from the data analysis, examines the overall ACE scores and the disclosures according to prior literature. Finally, Chapter 5 concludes and makes recommendations for future research.

CHAPTER 2 – LITERATURE REVIEW

2.1 Theoretical framework

Research on ACs is based mainly on the agency theory proposed by Fama and Jensen (1983) and Jensen and Meckling (1976). According to agency theory, because of separation and divergence of interest between management (agents) and shareholders (principals), agents may not always act in the best interest of principals (Fama & Jensen, 1983). This creates agency problems which are costly to an entity. Eisenhardt (1989) specifies mechanisms to reduce agency costs. These include incentive schemes for managers that reward them financially for maximising shareholder return and appointing non-executive directors who are independent of management, committees of the board comprising non-executive directors to be concerned with audit, nomination of new directors (Fama, 1980; Piot, 2004). For example, a nomination committee will ensure the appointment of non-executive directors whose interests are aligned with those of the shareholders and an independent AC will enhance the boards' ability to monitor management which will help reduce agency costs (Bradbury, 1990; Pincus, Rusbarsky, & Wong, 1989; Rainsbury, Bradbury, & Cahan, 2008; Turley & Zaman, 2004).

Agency theory extends to corporate governance because managers will not act to maximise returns to shareholders unless appropriate governance structures are in place (Rainsbury et al., 2008; Turley & Zaman, 2004). As the role of the AC has been the focal point of international corporate governance reform for many years (Carroll & Buchholtz, 2014; DeZoort & Salterio, 2001; IoDSA, 2016; IoDSA, 2009; Turley & Zaman, 2007; Van der Nest, 2008), it is said that ACs exist to protect shareholders' interests through their monitoring responsibility in the areas of financial reporting, internal controls, and external audit activities (Farber, 2005; Turley & Zaman, 2004). AC disclosures can be used to reduce agency costs and information

asymmetry found between owners and managers (Ghafran & O'Sullivan, 2013; Kibiya, Che-Ahmad, & Amran, 2016)

Information asymmetry can be reduced when the party with more information signals it to others, referred to as Signalling Theory (Akerlof, 1970; Ross, 1977). This signalling involves communicating firm 'quality' or value through communication channels such as voluntary disclosures, product warranties or the financial accounts (Collett & Hrasky, 2005; Cotter, Lokman, & Najah, 2011; Mallin & Ow-Yong). In the corporate governance context, ACs which are primarily responsible for monitoring the financial reporting process are likely to send important signals to capital market participants (Appuhami, 2018; Bédard, Coulombe, & Courteau, 2008). When the credibility of information is an issue, financial providers are more concerned with AC characteristics as necessary signals about the reliability of internal monitoring processes. For example, Goodwin-Stewart and Kent (2006) and Archambeault and DeZoort (2001) argue that ACs who hold frequent meetings will have more time to undertake their role of monitoring the corporate reporting process efficiently. AC meeting frequency signals the effectiveness of the monitoring role of the AC and the credibility of disclosures (Appuhami, 2018). The lack of credible information can negatively impact the value financial providers place on the companies. This signalling value of AC characteristics can alleviate the concern of financial providers about the truthfulness of a company's disclosure.

2.2 The role of ACs

The origin of ACs can be traced back to the early 1900s when both the New York Stock Exchange (NYSE) and the U.S. Securities and Exchange Commission (SEC) recommended the formation of ACs following McKesson and Robbins Inc. case on fraudulent financial reporting (Collier, 1996; Kalbers, 1992; Spira, 1999). ACs came into existence as the NYSE and SEC, together with multiple studies including Abbott, Park, and Parker (2000); Bédard, Chtourou, and Courteau (2004); Rochmah Ika and Mohd Ghazali (2012), discovered that a separate committee would enable non-executive directors to play a decisive role in an area for which they are particularly fitted.

In the UK, AC formation occurred in the early 1900s through the issue of the report of the Cadbury Committee (Cadbury, 1992; Collier & Gregory, 1999; Dezoort et al., 2002). Cadbury (1992 pg 29) recommended that all listed companies establish "properly constituted ACs comprising of a minimum of three members as an important step in raising standards of corporate governance." The standards would be raised as the AC would conduct a thorough and detailed review of audit matters and it would offer the auditors a direct link with the non-

executive directors (Cohen, Krishnamoorthy, & Wright, 2002; Cohen & Hanno, 2000; DeZoort & Salterio, 2001).

Following the Cadbury Committee report, the King I report on Corporate Governance (IoDSA, 1994) was established in South Africa by the King Committee (Cadbury, 1992; Kakabadse & Korac-Kakabadse, 2001; Rossouw et al., 2002). The King I report recommended the establishment of an AC with its written terms confirmed by the board (IoDSA, 1994). Due to the growing number of financial reporting scandals involving companies such as Tollgate, Masterbond, and CapeInvestment Bank, together with the increasing demand for more accountability by management (Kakabadse & Korac-Kakabadse, 2001; Marx, 2008; Marx, 2009), the AC was tasked by King I report the responsibility of monitoring the internal and external audit and the finance function (IoDSA, 1994). The monitoring function was achieved through regular AC meetings which were attended by the head of internal audit, external audit and the financial director. The head of the internal audit and external audit had unrestricted access to the AC chair and was encouraged to bring all significant findings from audit activities to the attention of the AC (IoDSA, 1994).

Despite the presence of a significant level of AC self-regulation, the dramatic failure of Enron in 2001 forced regulators and governments throughout the world to rethink the role of the AC (Ghafran & O'Sullivan, 2013; Marx, 2009; Song & Windram, 2004). In response to the Enron scandal, the US House of Representatives Committee on Financial Services required that every public company's AC comprise of independent directors and that, at least one member, either through education or experience, qualify as a financial expert (Sarbanes, 2002) as this would result in high-quality financial statements (Abbott et al., 2000; Abbott, Parker, & Peters, 2004).

Similarly, the response of the UK was the establishment of the Smith Report which provided a detailed set of recommendations for improving the governance role of ACs. The Smith Report recommended that all AC members be independent directors, at least one member have the recent and relevant financial experience. The recommendations were subsequently included in the revised version of the Combined Code published in 2003 (Al-Lehaidan, 2006; Marx, 2009).

South Africa issued The King II report on Corporate Governance (King II) which also responded to the criticism of the King I report. The King II report was much more principles based than King I, which followed a "tick-box" approach (IoDSA, 2002; Marx, 2009; Rossouw

et al., 2002). The composition of the AC changed through the introduction of an “independent director” by the report (IoDSA, 2002). The responsibility of the AC in relation to internal audit expanded as the AC had to approve any decision to appoint or remove the head of the internal audit and the internal audit plan was to be approved by the AC. In terms of external audit, the AC was to approve the policy on non-audit fees. The AC was to determine whether interim results were to be audited and if not, report to the board the reasons to enhance the integrity of financial reporting (IoDSA, 2002).

In 2009, the King III report on Corporate Governance (IoDSA, 2009) came into effect following the new Auditing Profession Act and the Prevention and Combating of Corrupt Activities Act, as well as amendments to the Companies Act and the Broad-Based Black Economic Empowerment Code of Good Practice (IoDSA, 2009; Marx, 2008). King III emphasized that ACs were vital for ensuring the integrity of integrated reporting and internal financial controls (IoDSA, 2009). King III tasked the AC with ensuring the integrity of integrated reporting and reviewing the disclosure of sustainability issues in the integrated report to ensure that sustainability reports did not conflict with the financial information. A new role of reviewing the finance function was given to the AC which was achieved when the AC satisfied itself with the expertise, resources and experience of the company’s finance function (IoDSA, 2009).

King IV Report on Corporate Governance (King IV) for South Africa was released by the King Committee on 1 November 2016. Unlike the previous version, the new Code adopts an “apply and explain” basis, which requires companies to apply all principles and explain how the principles are applied (IoDSA, 2016; PwC, 2017). Considering that most of the King III principles have been retained in King IV, the focus of King IV is on the governing body’s responsibility in determining the structures and delegation frameworks appropriate for the organisation. Consequently, many of the King IV recommendations allow for more flexibility than King III. For example, in terms of the AC, King IV does not address the minimum number of meetings to be held per year whereas King III requires at least two meetings per year. King IV does not automatically ascribe responsibility for monitoring the integrated report and sustainability disclosures to the AC but requires the governing body to determine the appropriate committee to assist with its duty of ensuring the integrity of external reports (IoDSA, 2016; PwC, 2017).

King IV proposes that the AC makes several disclosures in addition to the disclosures required in terms of the Companies Act (SAICA, 2016). The intention is to demonstrate accountability and transparency and provide stakeholders with a level of assurance that the AC fulfils its

function diligently (Deloitte, 2017; IoDSA, 2009; SAICA, 2016; Sibanda et al., 2018). The appointment of the AC in terms of the JSE Listings Requirements should be considered in accordance with the recommended practices in King IV (Deloitte, 2017; IoDSA, 2016).

It should be noted that similar regulatory initiatives were introduced in many other countries. For example, the responsibilities of ACs in Australia, New Zealand, Spain, Indonesia, Malaysia and China include recommending the appointment of external and internal auditors; regulating the entity-auditor relationship and promoting the integrity of the entity's financial reporting (Al-Lehaidan, 2006; Ghafran & O'Sullivan, 2013; Rochmah Ika & Mohd Ghazali, 2012; Wu, 2012). Appendix A provides the roles and responsibilities of the AC in terms of the Companies Act, King IV and the Johannesburg Stock Exchange (JSE) listing requirement.

2.3 Determinants of ACE

Most of the ACE literature has focused on one or more of the fundamental determinants of ACE, namely, composition, authority, resources, diligence and power. Weber (1978) defined power as the ability to act successfully, even against the resistance of others. Pfeffer (1982) described power as an implicit element in the control of organisational action. Kalbers and Fogarty (1993) investigated AC power and determined that components of organisations, such as ACs, must possess the power to discharge their responsibilities effectively (Al-Lehaidan, 2006; Kalbers & Fogarty, 1993).

French, Raven, and Cartwright (1959) developed a typology of power which approaches the construct by classification and illustration. In their original work, they identified five power types: reward, coercive, legitimate, expert and referent. There have been many attempts to define and classify types of power which indicates the importance of the typology of power (Kalbers & Fogarty, 1993). Although a consensus is not reached, there is significant agreement that power represents control over resources (reward and coercive), control over information and its content (information), personal attributes (expert and referent) and formal mandates (legitimate). Mintzberg and Mintzberg (1983) combined reward and coercive powers into one type of power called sanctionary. In addition, Kalbers and Fogarty (1993) renamed information power to institutional support and willpower to diligence.

In the context of ACs, Kalbers and Fogarty (1993) identified six types of power which may affect ACE. ACs are established through delegations of responsibility from corporate boards of directors, who themselves are charged with ultimate accountability for corporate

management (IoDSA, 2016; IoDSA, 2009; SAICA, 2016). Although the board may review the exercise of this charge, Kalbers and Fogarty (1993), found that ACs have important decision-making authority (i.e., legitimate power). These decisions can have the effect of bestowing rewards and punishments to other parties such as corporate officers, the internal auditors, and external auditors, which was viewed as sanctionary power by Kalbers and Fogarty (1993) and Mintzberg and Mintzberg (1983).

As AC members are most often independent directors, they are dependent on management, internal auditors, and external auditors for information. The success of such committee depends on the institutional support that it will get from all the three parties (DeZoort, Hermanson, & Houston, 2003; Felo, Krishnamurthy, & Solieri, 2003; Sarens, De Beelde, & Everaert, 2009).

Members' qualities and skills need to be considered as well. Members with skills (expert power) in areas such as accounting, finance and corporate relations could be expected to contribute to the effectiveness of such committees (Lisic et al., 2019; Rochmah Ika & Mohd Ghazali, 2012; Song & Windram, 2004). Similarly, members with personalities capable of influencing others are likely to contribute to ACE (Dezoort et al., 2002; Kalbers & Fogarty, 1993). Kalbers and Fogarty (1993) found that the desire to do the work of the AC with a high level of involvement and concern is an important factor in determining ACE (diligence). Legitimate power results from the fact that an AC is established through delegations of responsibility from the corporate board of directors (Bédard et al., 2004; Carcello, Hermanson, & Neal, 2002; Deloitte, 2017; Rochmah Ika & Mohd Ghazali, 2012). However, the board of directors is charged with ultimate accountability for corporate management (IoDSA, 2016; IoDSA, 2009; SAICA, 2016). Finally, sanctionary power results from the ability of the AC in making decisions which can have an impact on rewards and punishments to other parties such as corporate officers, the internal auditors and external auditors (Al-Lehaidan, 2006; Kalbers & Fogarty, 1993). The types of power mentioned are related to various AC characteristics and will influence ACE (as indicated by Table 1 below).

Table 1: The impact of AC power on ACE

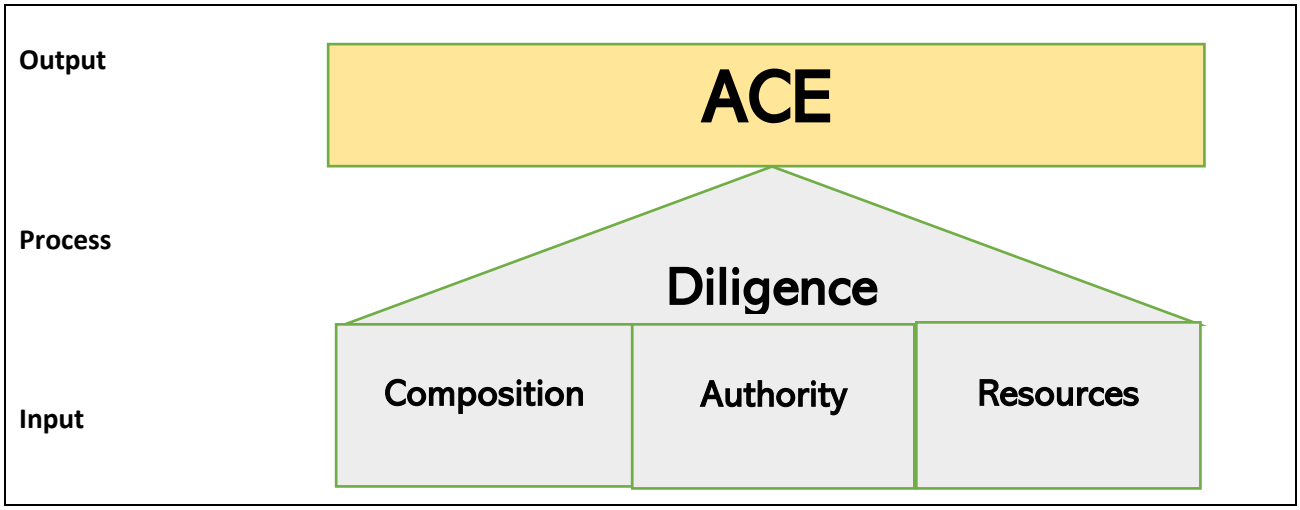
Type of power	Relation to AC characteristics and impact on AC effectiveness
Sanctionary power	Kalbers and Fogarty (1993) found that sanctionary power (e.g., the review of audit fees and audit scope and nominating independent auditor) was directly associated with external audit effectiveness. This suggests that the AC's authority over external auditors' actions and compensation is a critical link to the committees' effectiveness in handling audit problems and ensuring audit quality (Goodwin-Stewart & Kent, 2006; Hoitash, Hoitash, & Bedard, 2009; Lee, Mande, & Ortman, 2004).
Legitimate power	Kalbers and Fogarty (1993) found that legitimate power was related to financial reporting, external audit and internal audit quality. This supports the important nature of a written charter. The AC Charter has become an increasingly important document for helping AC members understand and effectively discharge their specific responsibilities (Bédard et al., 2004; Deloitte, 2017; Rochmah Ika & Mohd Ghazali, 2012)
Expert power	Kalbers and Fogarty (1993) found that expert power was significantly related to financial reporting effectiveness. He concluded that financial reporting difficulties would entail the highest level of technical detail. As a result, it was logical that this suggested the need for at least one AC member to be knowledgeable about the accounting standards. Similarly, recent studies, including Lisic et al. (2019); Rochmah Ika and Mohd Ghazali (2012); Song and Windram (2004) have supported the need for experts in accounting and finance to reduce financial reporting problems such as earnings management.
Institutional support	Decisions made by the AC are rationally influenced by the members' ability to obtain information from management, the external and internal auditor and to use it in a way most likely to accomplish AC objectives. Kalbers and Fogarty (1993) found that institutional support was closely related to external audit effectiveness. This supports Cohen and Hanno (2000) and Cohen et al. (2002) who found that external auditors were not effective in their duties (i.e. made less favourable audit planning judgements) in cases where the AC lacked regular access to the internal and external auditor.

Referent power	The AC chair often assumes a leadership role; other leaders and dominant personalities can emerge in a way which impacts ACE. For example, a member with a dominant personality but limited financial monitoring ability may monopolise meeting time and prevent the AC from functioning effectively. ACs may rely too heavily on one financial expert so that the other committee members add little value or fail to address issues themselves (Alarussi & Shamki, 2016; Dezoort et al., 2002)
Diligence	Kalbers and Fogarty (1993) found that diligence was strongly related to internal audit effectiveness. One reasonable interpretation of the effect of diligence is that financial reporting and the annual audit by external auditors are likely to have the highest visibility and importance for ACs (Archambeault & DeZoort, 2001; Goodwin-Stewart & Kent, 2006; Krishnan & Visvanathan, 2007). More elaborate procedures and reports related to financial reporting and the external auditors are likely to be in place (ASX, 2019; IoDSA, 2016; SAICA, 2016). So, attention to internal controls and internal auditors is appropriate to require more diligence on the part of AC members for valid results (Hoitash et al., 2009; Parker, Dao, Huang, & Yan, 2017; Sarens et al., 2009).

Similar to Kalbers and Fogarty (1993), Dezoort et al. (2002, pg 41) defined ACE as an AC which has "qualified members with the authority and resources to protect stakeholder interests." The AC, through its diligent monitoring efforts, ensures reliable financial reporting, internal controls, and risk management. Consequently, Dezoort et al. (2002) identified the composition, authority and resources of the AC as inputs of ACE and diligence as the processing factor for ACE (as illustrated in Figure 1).

Numerous studies have also used the AC characteristics to determine ACE (See Agyei-Mensah, 2019; Aldamen, Hollindale, & Ziegelmayer, 2018; Hidayah, Sukirman, & Mahmud, 2018; Kibiya et al., 2016; Kwakye, Owusu, & Bekoe, 2018; Lisic et al., 2019; Martinov-Bennie, Soh, & Tweedie, 2015; Mohd Saleh, Mohd Iskandar, & Mohid Rahmat, 2007).

Figure 1: Determinants of ACE



Adapted from Dezoort et al. (2002 pg 43)

2.3.1 Diligence

Most studies focus on the number of AC meetings per year as a proxy for diligence because greater meeting frequency is associated with greater audit quality (Archambeault & DeZoort, 2001; Goodwin-Stewart & Kent, 2006; Krishnan & Visvanathan, 2007) and fewer financial reporting problems (Koh, Laplante, & Tong, 2007; Owens-Jackson, Robinson, & Waller Shelton, 2009). Past research has provided mixed evidence on the relationship between ACE and number of meetings. Frequent AC meetings are significantly associated with a reduction in the perceived level of risk (Sharma & Iselin, 2012); fewer suspicious auditor switches (DeZoort & Salterio, 2001) and higher audit fees are consistent with an increased demand for higher audit quality by ACs (Goodwin-Stewart & Kent, 2006; Hoitash et al., 2009; Lee et al., 2004). Koh et al. (2007); Owens-Jackson et al. (2009); Rochmah Ika and Mohd Ghazali (2012) found that an AC which meets more frequently is less likely to issue fraudulent and misleading statements. However, Bédard et al. (2004) and Davidson, Goodwin-Stewart, and Kent (2005) found no association between AC meetings and financial reporting quality. In contrast, Abdul Rahman and Haneem Mohamed Ali (2006); Mohd Saleh et al. (2007) found that fewer AC meetings improved the financial performance of the firm as it reduced the additional cost incurred with every meeting.

Other studies such as Carcello and Neal (2003); Pandit, Subrahmanyam, and Conway (2006); Rochmah Ika and Mohd Ghazali (2012) used voluntary disclosures in AC reports as a proxy for diligence, finding that voluntary disclosures are more common for depository institutions, larger companies, NYSE listed companies and companies with more independent ACs. There is an expectation that ACs who voluntarily disclose in their reports are more likely to be

effective (Akhtaruddin & Haron, 2010; Hoitash et al., 2009) resulting in a company that is more likely to produce financial statements on a timely basis (Rochmah Ika & Mohd Ghazali, 2012). Voluntary disclosure is that which is not required by the Companies Act, JSE or King IV.

2.3.2 Composition

Prior literature has defined an expert as a member with professional accounting qualifications or certification (e.g. a Certified Chartered Accountant); professional law qualifications; a senior executive with a background in finance – including CEO or CFOs; members with prior AC or venture capitalist experience and members who are financially literate. (Abbott et al., 2004; Bédard et al., 2004; Lisic et al., 2019; Marx, 2008; Rochmah Ika & Mohd Ghazali, 2012; Song & Windram, 2004).

Despite the broad definition of an expert, prior literature generally indicates that ACs with members who are experts are likely to be effective. However, some studies found neither a positive relationship nor an association between AC experts and ACE (Bédard et al., 2008; DeZoort et al., 2003; Krishnan, 2005). This may be explained as the contradictory effect of AC expertise.

Abbott, Parker, Peters, and Raghunandan (2003); Goodwin-Stewart and Kent (2006); Hoitash et al. (2009) found that ACs with financial expertise charge higher audit fees because they are more likely to seek a higher level of audit assurance. Experts are more willing to support external auditors during auditor-management disputes over accounting policies (DeZoort & Salterio, 2001; Dezoort et al., 2002) which results in fewer auditor resignations (Lee et al., 2004). Hoitash et al. (2009); Krishnan (2005); Lisic et al. (2019) found that AC accounting expertise is important for enhancing internal audit quality as it may motivate internal auditors to conduct thorough internal control audits because expert members safeguard auditors from dismissal following adverse internal controls. In contrast, Chen, Moroney, and Houghton (2005) argued that the proportion of audit committee members with financial qualifications was not related to the use of an industry specialist audit firm.

Abbott et al. (2000); Abbott et al. (2004) found that ACs with financial expertise produce high quality financial statements. In contrast, Bédard et al. (2008); Yang and Krishnan (2005) found no association between financial expertise and financial reporting quality which indicates that the qualifications or experience of members does not influence financial reporting quality. McDaniel, Martin, and Maines (2002) found that in terms of identifying accounting treatment issues, financial experts tended to focus more on recurring, less prominent issues, while literates focused on prominent non-recurring issues. As a result, BRC (1999); Coates, Marais,

and Weil (2007); IoDSA (2016); Marx (2008) have recommended that AC members be financially literate (i.e. be able to read and understand financial statements) because their inability to do so may undermine ACE.

When assessing AC expertise, prior literature (Archambeault & DeZoort, 2001; DeZoort & Salterio, 2001; Rochmah Ika & Mohd Ghazali, 2012; Vafeas, 2005) determined whether AC members had experience in accounting or finance. Similarly, the Companies Act requires a third of AC members to have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management (SAICA, 2016).

Consequently, to determine the experience of individuals, several studies have looked at the number of outside directorships held by a member, AC members' age and tenure. Song and Windram (2004) found that multiple outside directorships had opposing effects on the directors monitoring efficiency. Carcello and Neal (2003); Yang and Krishnan (2005) concluded that outside directorships reduce earnings management and auditor dismissals following a going concern audit opinion and improved firm performance (Aldamen et al., 2012; Ferris & Liao, 2019) because of the experience gained by management from working for multiple companies (Song & Windram, 2004). Conversely, the independent non-executive director faces severe time constraints which will have an adverse effect on directors' ability to monitor effectively (Beasley, 1996; Carpenter & Westphal, 2001; Fich & Shivdasani, 2006; Lipton & Lorsch, 1992), resulting in financial misstatements (Norziaton & Hafizah, 2019; Sharma & Iselin, 2012).

Although there is no generally accepted guideline for the number of board positions which would result in "overboardedness"[2], previous authors have suggested that three or more outside directorships are likely to have an adverse effect on director's time (Fich & Shivdasani, 2006; Lee & Lee, 2014). Research from López Iturriaga and Morrós Rodríguez (2014); Mans-Kemp et al. (2018); Stuart (2017) suggests that the maximum number of outside directorships should be four. López Iturriaga and Morrós Rodríguez (2014) found that Spanish directors who served on a limited number of boards enhanced their skills and had more incentives to perform directorial duties, with a resulting positive impact on a firm's financial performance. However, after a threshold of four boards was reached, most directors became overwhelmed as they had too many responsibilities.

[2] The term ''overboardedness'' refers to directors who serve on too many boards at the same time (Harris & Shimizu, 2004; Mans-Kemp, Viviers, & Collins, 2018).

In terms of AC age, psychology shows that individuals adopt a more risk-averse attitude as they get older (Chaouali & Souiden, 2019; Pålsson, 1996). Dao, Huang, and Zhu (2013); Sultana et al. (2019) found that age could be used as proxy for AC members' experience in that the older an AC member is, the more likely it is that he/she has accumulated a long period of service and gained an understanding of the business and its industry. Sultana et al. (2019) argue that older AC members are more conservative than younger AC members because older members are at risk of reputational loss and are subject to litigation if there is a material financial misstatement (Abbott et al., 2003; Dezoort et al., 2002). However, becoming older may bring disadvantages to the AC as AC members may generate lower productivity from an absence of spirit, competition and adaptability (Magd, 2003; Steinberg, Donald, Najman, & Skerman, 1996). Given arguments in favour and against older member's monitoring effectiveness, studies have proposed a non-directional hypothesis between member's age and ACE.

Regarding AC tenure, several studies have documented evidence of a positive relationship between directors' board tenure and their monitoring effectiveness in areas such as earnings management and accruals quality. Bédard et al. (2004); Dhaliwal, Naiker, and Navissi (2010); Yang and Krishnan (2005) found AC members with longer tenure are more informed about the firm's internal and external environment, financial reporting and risk management processes, internal control systems and are better placed to challenge management when necessary (Gray & Nowland, 2013; Sharma & Iselin, 2012). This is a result of members accumulating firm-specific expertise and procedural knowledge during their tenure.

Conversely, it is possible that the longer the tenure, the more likely that AC member independence deteriorates over time as friendships develop and strengthen between AC members and management during a member's tenure on the AC (Council, 2016; He, Pittman, Rui, & Wu, 2017; Sultana et al., 2019). This is supported by King IV, which allows a non-executive member to serve on the board for longer than nine years if it is concluded that the member is objective and has no interest or relationship which will unduly influence or cause bias in decision making (IoDSA, 2016). Prior studies (Agyei-Mensah, 2019; Norziaton & Hafizah, 2019) have supported the notion that ACs will not perform their duties adequately if they are not independent. Various codes of corporate governance in countries such as the England, Australia, Malaysia and South Africa have requested that the AC consist of independent members (ASX, 2019; Council, 2016; IoDSA, 2016; Norziaton & Hafizah, 2019).

The relationship between AC members' independence and ACE is mixed. For example, Davidson et al. (2005); Ghosh, Marra, and Moon (2010) found no association between AC

independence and the level of earnings management. This suggests AC independence does not influence financial reporting quality. In contrast, Lee et al. (2004) found a positive relationship between AC independence and audit quality. Lee et al. (2004) found that independent audit and board committees are more likely to exert considerable effort when working with audit firms and independent members are less likely to appoint former firms as auditors (Christensen, Omer, Shelley, & Wong, 2018; Lennox & Park, 2007). This is because they are more concerned about harming their reputation than inside or gray[3] members (Abbott et al., 2000; Abbott et al., 2003). Additionally, companies with independent ACs are less likely to receive a qualified audit report (Pucheta-Martínez & De Fuentes, 2007), are more likely reduce the level of abnormal accruals and earnings management (Koh et al., 2007; Vafeas, 2005) which results in improved financial reporting quality (Kibiya et al., 2016; Owens-Jackson et al., 2009).

Studies by Abbott et al. (2000); Beasley (1996); Lee et al. (2004); Song and Windram (2004) have identified the independence of the main board as a key element affecting ACE. This is because independent board members ensure the appointment of independent AC members (Cotter & Silvester, 2003; Ruiz-Barbadillo, Biedma-López, & Gómez-Aguilar, 2007) and ensure that the AC follows best practice when executing its duties (Rainsbury et al., 2008). In order to determine AC independence, several studies have used share ownership as a proxy for independence. Carcello and Neal (2003) and Song and Windram (2004) argued that when the AC's share ownership is high its independence in monitoring the financial reporting process may be compromised. Their high percentage of shareholding may be used to influence a firm's operations to protect their investments (Kibiya et al., 2016; Lavelle, 2002) or they may attempt to exert undue influence on the removal of an external auditor following a going concern opinion to protect their interests (Carcello & Neal, 2003) .

Whereas Kibiya et al. (2016); Mangena and Pike (2005); Shivdasani (1993); Vafeas (2005) argue that the consequences of having AC members with share ownership may lead to higher vigilance and greater monitoring which may ultimately reduce agency costs as they are motivated to ensure company performance.

[3]Gray members include former officers or employees of the company or of a related entity, relatives of management, professional advisors to the company (e.g., consultants, bank officers, legal counsel), officers of significant suppliers or customers of the company and interlocking directors (Abbott et al., 2000; Carcello & Neal, 2003; Raghunandan, Rama, & Read, 2001)

Recent studies have reported that gender diversity of ACs plays an important role in corporate governance (Gavious, Segev, & Yosef, 2012; Ittonen, Miettinen, & Vähämaa, 2010; Thiruvadi & Huang, 2011).

Adams and Ferreira (2009) have shown that female directors have better attendance records than male directors and that women are more likely to join monitoring committees such as ACs. ACs with female members are more intensive in their monitoring functions and are likely to demand higher audit quality by engaging industry specialist auditors (Aldamen et al., 2018; Lai, Srinidhi, Gul, & Tsui, 2017; Parker et al., 2017; Srinidhi, Gul, & Tsui, 2011). However, other studies have shown that there is an insignificant relationship between gender diversity and AC expertise (Hidayah et al., 2018) and firm performance (Ammer & Ahmad-Zaluki, 2017; Carter, D'Souza, Simkins, & Simpson, 2010; Chapple & Humphrey, 2014). This suggests that AC diversity has no impact on the committees' monitoring effectiveness.

A number of studies have found that boards of ethnic diversity positively impact the monitoring function of the AC (Carter, Simkins, & Simpson, 2003; Milliken & Martins, 1996). In 2019, the JSE proposed introducing a requirement that boards establish and publish a policy regarding board diversity in terms of race, knowledge, skills, experience, age, culture and gender in order to enhance the diversity of views and independence in the boardroom (Burger & Maume, 2018; Maume & du Toit, 2019). However, the proposal was not implemented because shareholder's argued that they already had the power to approve the composition of the board through their votes on director's appointments (Burger & Maume, 2018; Maume & du Toit, 2019).

Ethnic diversity is also encouraged in the workplace through the implementation of the Broad-Based Black Economic Empowerment Act 53 of 2003 (B-BBEE Act). The purpose of B-BBEE is to promote skills development and to increase the number of black people[4] who own, manage and control enterprises (Forbes & Rust, 2019; Viviers, Mans-Kemp, & Fawcett, 2017). B-BBEE compliance is measured using a scorecard and companies that are B-BBEE compliant obtain a certificate (Agency, 2016; EconoServ, 2018). The benefits of having a B-BBEE certificate include being able to conduct business with government sectors and having a better chance of securing contracts with large companies and big industry names because they are encouraged to do business with smaller BBBEE-compliant companies (Forbes & Rust, 2019; Viviers et al., 2017).

[4]Black people include African black, Coloured, Chinese or Indian people (further referred to as people of colour) who are South African citizens by birth or became South African citizens before 27th April 1994 (Agency, 2016; EconoServ, 2018).

Similarly, prior literature finds that people of colour may possess different sensitivities and behavioural traits from Caucasian directors because of different socialization experiences (Cox, Lobel, & McLeod, 1991; Robinson & Dechant, 1997). They are more likely to have experienced discrimination which makes them more sensitive towards unfairness. This may result in stronger objection to agency problems which benefit management at the expense of other stakeholders, such as misapplication of accounting policies and CEOs not being replaced despite underperformance (Hillman, Cannella Jr, & Harris, 2002; Watson, Kumar, & Michaelsen, 1993). Finally, minority directors have weaker social relations with Caucasian executives, are often recruited from outside the executive ranks and are more independent of the 'old boys club' (Hillman et al., 2002).

In contrast, the theory of tokenism (Kanter, 1977) points a neutralising effect on board outcomes. Where an out-group member is in a numerical minority they may be constantly watched. The diverse backgrounds of minority directors may result in conflict or less trust with Caucasian directors and may limit communication and cohesiveness, lowering board effectiveness and the supervisory function (Ferreira, 2010). Such conflict could negate either the group monitoring benefits or the ability of individual minority directors to be stronger monitors on an individual basis. If minority directors are appointed predominantly for their minority status and the supply of qualified minority candidates is insufficient, those selected may be of lower quality and underperform their monitoring function (Ferreira, 2010).

From the above, a diverse AC with independent members who have accounting, or finance expertise are more likely to make better judgements resulting in better financial reporting and audit quality.

2.3.3 Authority

Effectiveness is associated with the role and responsibility of the AC. There is still uncertainty as to whether ACs are effectively discharging their responsibilities (Kalbers, 1992; Marx, 2008). The Public Oversight Board attributed this uncertainty to AC members not understanding their responsibilities (Kalbers, 1992; Marx, 2008).

In response to this, prior literature and audit firms have guided the responsibilities which can be performed by the AC (Deloitte, 2017; Dezoort et al., 2002; Rochmah Ika & Mohd Ghazali, 2012). The AC Charter has become an important document for outlining the AC roles and responsibilities and provides a reference for stakeholders to assess the roles and responsibilities of the AC (Bédard et al., 2004; Carcello et al., 2002; Deloitte, 2017; Rochmah Ika & Mohd Ghazali, 2012).

AC responsibilities consist of three primary duties identified by prior literature: these include the monitoring of the financial statements, the external audit and the internal control system. For example, empirical studies have documented that there is a relationship between components of ACE and internal control quality (Hoitash et al., 2009; Krishnan & Visvanathan, 2007; Krishnan, 2005; Lisic et al., 2019). Similarly, there is a relation between AC quality and external auditor services (Chen & Zhou, 2007; Foo, NG, Leong, & Pang, 2009; Goodwin-Stewart & Kent, 2006; Lee et al., 2004; Lennox & Park, 2007). Finally, the study of the relationship between AC characteristics and financial reporting quality indicates that financial reporting is an important responsibility of the AC (Abbott et al., 2004; Bédard et al., 2004; Koh et al., 2007; Owens-Jackson et al., 2009; Rochmah Ika & Mohd Ghazali, 2012).

2.3.4 Resources

AC resources include external auditors, internal auditors and management (IoDSA, 2016; IoDSA, 2009). Several studies have emphasised the critical role which external auditors play in strengthening ACE. For example, Cohen et al. (2002); Cohen and Hanno (2000) found that external auditors made less favourable audit planning judgements in cases where the AC lacked regular access to the internal and external auditor. Similarly, DeZoort et al. (2003); DeZoort and Salterio (2001) evidenced the value of an external auditor as they found that ACs support the external auditor in auditor management disputes.

ACs also seek assurance over the control environment and the internal controls (Hoitash et al., 2009; Krishnan & Visvanathan, 2007; Parker et al., 2017; Sarens et al., 2009). Internal auditors' unique knowledge about risk management and internal control, combined with appropriate inter-personal and behavioural skills, enables them to provide this assurance (Sarens et al., 2009). ACs desire to communicate with internal auditors may improve the quality of corporate governance (Dezoort, Friedberg, & Reisch, 2000; Gramling, Maletta, Schneider, & Church, 2004; Zaman & Sarens, 2013).

A few studies and codes of corporate governance have highlighted the impact of AC size on the ACE in different contexts. For example, Al-Lehaidan (2006); Felo et al. (2003) found that, the more members on the AC, the better the financial reporting quality, and the lower the suspicious auditor switches (Archambeault & DeZoort, 2001). It may be argued that a larger AC might be more effective in monitoring financial reporting and audit quality because the company has greater resources to appoint members with relevant and complementary expertise and skills (IoDSA, 2016). Alternatively, as in any large group, a larger AC may create a diminished sense of individual responsibility and could undermine its effectiveness (Dezoort

et al., 2002). Jensen (1993) however argues that a smaller board of directors is more likely to play a more controlling function. Beasley (1996) also found evidence to support the argument for a smaller board. He noted that as board size increases the likelihood of financial statement fraud increases. Similarly, Karamanou and Vafeas (2005) concluded that larger ACs were negatively associated with forecast-induced returns for firms in the USA.

Small boards may be able to play a more controlling function. However, it is important that the size of the board does not fall to a level that results in there not being enough members to fulfil their roles effectively. As a result, the BRC (1999) and NACD (1999) recommended that ACs consist of at least three to six members. This is supported by the Companies Act and King IV which require that the AC consist of at least three members (IoDSA, 2016; SAICA, 2016).

2.4 Summary

The researcher identified that there is a lot of international research on ACs and their effectiveness. However, little is known about the effectiveness of ACs in South Africa, particularly after the implementation of King IV in 2017 (IoDSA, 2016). This research will provide an opportunity for investors, regulators and standard setters to determine compliance with the new Code of Corporate Governance. The next chapter will detail the methodology used to answer the research question, followed by results in Chapter 4 and the conclusion in Chapter 5.

CHAPTER 3 - METHODOLOGY

3.1 Research methodology

The research method indicates the research process, tools and procedures used to collect and analyse data (Creswell & Clark, 2017). This study adopted a quantitative research approach. The goal is to identify which characteristics of ACE listed companies are disclosing and to conclude on whether they are supportive of ACE. This is achieved by quantifying the AC characteristics relating to composition; authority; resources and diligence and subjecting them to statistical treatment (Al-Lehaidan, 2006; McCusker & Gunaydin, 2015). The study is also descriptive as it observed ACs as they exist and determined the AC characteristics disclosed by companies (Marx, 2008; Marx, 2009). The disclosed AC characteristics were identified through content analysis of a company's annual, sustainability, integrated and AC reports.

3.2 Population, sample size and sample selection

The population was all companies listed on the JSE. The study used purposive sampling (Creswell & Clark, 2017). The sample consisted of the largest 120 companies ranked by market capitalisation on the JSE's All-Share Index as of 31 December 2018. The sample was selected as these are all public interest entities and are required to publish their reports annually by the JSE (EY, 2018). Companies on the JSE are also required to make public an integrated report. In addition, the firms represent over 94% of the market capitalisation and give a spread of the small, medium and large capitalisation which is representative of the population (EY, 2018). The sample was reduced to 118 companies as two of the companies' reports were not publicly available because they listed after their 2018 year-end.

The study is cross-sectional as it examines AC characteristics and ACE at a point in time, which is the 2018 financial year. 2018 was chosen as the test period because it had the most recent data for this research. The latest Code of Corporate Governance in South Africa, King IV, was published on 1 November 2016 (IoDSA, 2016). As a result, it was thought necessary to give listed companies at least one year to comply with the new King IV recommendations regarding ACs (Al-Lehaidan, 2006; IoDSA, 2016). Although King IV was released on 1 November 2016, the recommendations only become compulsory for companies listed on the JSE with financial years starting on or after 1 April 2017 (IoDSA, 2016). Listed companies with a 31 December 2018 financial year-end were to comply with King IV recommendations

regarding ACs to meet JSE listed requirements. The 2019 annual, integrated, sustainability and AC reports were not available at the time of data collection.

3.3 Data collection

The research used content analysis to collect and analyse data relating to AC disclosures. Content analysis is a research technique used to make replicable and valid inferences by interpreting and coding textual material. By systematically evaluating texts (e.g., documents, oral communication, and graphics), qualitative data can be converted into quantitative data. Deductive content analysis was used as the aim of the research was to test previous theories on ACE in a different situation, in this case, on listed JSE companies (Raemaekers & Maroun, 2014; Unerman, 2000). This method is frequently used within corporate reporting research (Mansoor & Maroun, 2016; Marx & Van Der Watt, 2011; Raemaekers & Maroun, 2014).

Unerman (2000) referred to content analysis as being used to condense raw data into various categories through deduction and interpretation. This process begins with the underlying theory and relevant research being thoroughly understood through a literature review and is followed by a set of systematic and transparent procedures that serve to interrogate the data and sort into the relevant categories (Krippendorff, 2018; Unerman, 2000). This research follows a similar approach to Unerman (2000).

Prior literature on ACE and AC practices was reviewed and summarised by the researcher. The process began with a detailed reading of the relevant corporate governance literature to provide a theoretical frame of reference (see Section 2.1 to Section 2.3). The relevant academic and professional literature was then reviewed systematically to identify preliminary disclosure themes or categories (Unerman, 2000). The researcher identified and used the framework of Dezoort et al. (2002) to form the disclosure themes. The disclosure themes are composition, authority, resources and diligence (see Figure 1). The researcher then concentrated on prior studies, regulation and King-IV to identify the recommended AC characteristics and practices which are supportive of ACE (Appendix A). In terms of King IV, the researcher focused on the practices included in Principle 8 ‘Committees of the governing body’ chapter. The entire chapter was interrogated on a line-by-line basis, with each practice being analysed in detail and formulated into several statements.

The AC characteristics emerging from literature, regulation and King IV were then aligned to the disclosure themes and incorporated into the disclosure index to form the research instrument (Appendix B).

The sampled companies reports were read in detail to identify the AC characteristics in the research instrument (Makiwane & Padia, 2013; Van Zijl et al., 2017). The AC characteristics in the data collection instrument were observed from multiple documents such as the AC report; annual financial statements; integrated reports; sustainability reports and the *Iress Expert* database. The reports were obtained from each company's website.

If the AC characteristic was disclosed, such as the number of AC meetings, the company was awarded a score of 1 and a score of 0 if the characteristic was not disclosed. The researcher also documented the details of the disclosure, such as the number of AC members. The company was awarded a score based on the detail of AC characteristics. This data was documented in an excel spreadsheet. Finally, the scorecard entries of the sampled data were grouped into the themes as determined by Dezoort et al. (2002).

3.4 Data analysis

Data was analysed using content analysis. The researcher read the relevant reports to gain a sense of overall content and structure (Maroun et al., 2018; Van Zijl et al., 2017). The content analysis and coding process (Section 3.3) allowed the researcher to complete a disclosure score. This numerical score allows conclusions regarding AC disclosure practices and perceived ACE to be drawn (Marx & Van Der Watt, 2011; Solomon & Maroun, 2012).

Research question 1: Which characteristics of ACE are listed companies disclosing?

The prior literature examined forms the basis for the theoretical framework used as part of the research methodology. The different Codes of Corporate Governance, the ACE framework (Dezoort et al., 2002) and the power theory (Kalbers & Fogarty, 1993) highlighted the role of the AC and the factors that might influence its effectiveness. They considered skills, gender, literacy, independence, race, authority, institutional support, size and diligence as important AC characteristics which affect its effectiveness. In order to answer the first research question, the reports were analysed in detail to identify statements which indicated the relevant characteristics (Makiwane & Padia, 2013; Van Zijl et al., 2017). As this study is descriptive in nature, Hallebone and Priest (2008) gathered that in descriptive studies, the general descriptive statistics adopted are frequency tables and variation tables. As presented in the

results, descriptive statistics such as the frequency, minimum, maximum and mean of AC characteristics were used to analyse the data. The frequency statistic was used to identify which AC characteristic was prominently disclosed.

Research question 2: Are the identified AC characteristics supportive of ACE?

Despite the mixed evidence, the review indicates that ACs are considered effective when they have the appropriate mix of skills, gender, and are financially literate and independent. Additionally, ACs are better able to execute their duties when they are given authority to monitor the external auditor, internal auditor and management. Lastly, ACs are effective when they have institutional support from management, internal auditors and external auditors and when the AC is willing to fulfil its responsibilities. This evidence supports the disclosure collection instrument (Appendix B). In response to the last research question, based on the disclosures made by companies, a disclosure score, adapted from Hossain (2002) and using the framework of Dezoort et al. (2002) was calculated to represent the theoretical ACE. Companies with a higher score were assessed as more likely, in theory, to be effective (Rochmah Ika & Mohd Ghazali, 2012). The score will be the sum of the disclosures of AC characteristics and the weighted score of the details of the disclosure. The weighted scores of specifics are presented in Appendix D. The disclosure score for each company will be calculated as follows:

PACE = Composition + Function + Resources + Diligence

$$PACE = \sum_{i=1}^{n} \frac{CD}{n} + \frac{FD}{n} + \frac{RD}{n} + \frac{DD}{n} + WS$$

Table 2: PACE formula

PACE=	Perceived audit committee effectiveness
	CD= Composition disclosures FD= Function disclosures RD= Resource disclosures DD= Diligence disclosures Company is awarded a score of 1 when CD, FD, RD or DD are disclosed and a score of 0 if the item is not disclosed. WS= Weighted score. Formulas for weighted scores are in Appendix D.

n=	The number of disclosure items in the composition, function, resources or diligence.

A Spearman's Rank Order Correlation (rho) was used to calculate the strength of the relationship between the sets of data. Spearman's rho is a non-parametric alternative to Pearson's product-moment correlation and makes no assumption regarding the distributions of variables in the population (Bishara & Hittner, 2012; Ramsey, 1989). Spearman's rho was selected to determine if there was any correlation between the disclosure themes in Appendix B. Spearman's rho was also selected as a calibration exercise to determine whether South African ACs align with findings of international studies. Different authors suggest different interpretations of the correlation coefficient. Guidelines as suggested by Cohen (1988) were used for this analysis as follows: r=.10 to .29 or r=-.10 to -.29 represents a small significance; r=.30 to .49 or r=-.30 to -.49 represents a medium significance and r=.50 to 1.00 or r=-.50 to -1.00 represents a large significance (Cohen, 1988).

3.5 Validity and reliability

Given the degree of subjectivity involved when identifying AC disclosures through content analysis (Makiwane & Padia, 2013; Van Zijl et al., 2017), for valid inferences to be drawn, subjectivity has been addressed by ensuring the validity and reliability of the study.

The following types of validity were addressed in this study: external, face, content and construct validity. The companies selected represent approximately over 94% of the market capitalisation of the JSE in 2018 (EY, 2018). From these statistics, it is evident that the companies included in the sample represent the largest companies in market value on the JSE and so would represent the population and confirm external validity (Leedy & Ormrod, 2005).

To confirm content validity, the instrument was sent out to academics in the Auditing division to determine whether the components sufficiently and adequately provided evidence on the research questions. When constructing the instrument, several sources were considered. Prior studies such as Dezoort et al. (2002); Song and Windram (2004); Sultana et al. (2019) and the reporting guidelines in King IV and the Companies Act were used to construct the disclosure instrument to ensure its validity. To confirm reliability, accuracy and completeness of the data, the researcher compared the characteristics of the AC as identified in the reports to characteristics identified on the *Iress Expert* database. The data collection method and

procedures followed were methodical, this would produce reliable and consistent findings if the research were duplicated another year or by a different researcher.

The following section contains the results and the discussion of the analysis performed.

CHAPTER 4 – RESULTS AND DISCUSSION

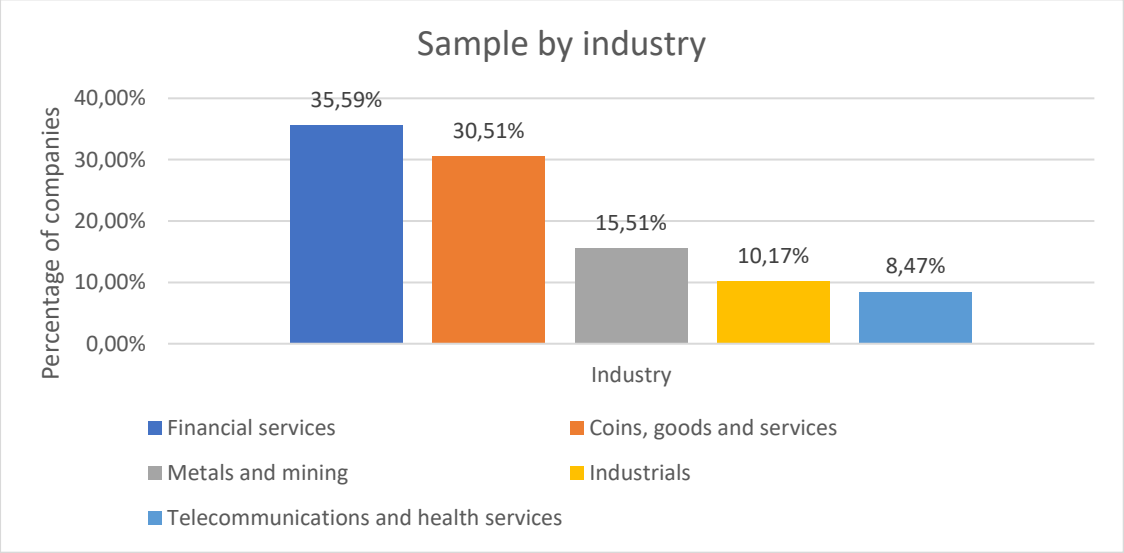
4.1 Chapter outline

This section is divided into two sections. In the first, a descriptive analysis is performed on the AC characteristics and responsibilities disclosed. The overall PACE scores and the scores of the disclosure themes are compared among different industries. Other variables, including the attendance rate of AC members and the racial composition were used to create various ratios to contribute to the discussion. The section concludes with Spearman's rho analysis, examining the relationships among AC disclosure themes.

4.2 Descriptive statistics

Figure 2 shows the composition of companies analysed by industry according to the JSE. Most of the companies are in financial services (35.59%), followed by coins, goods and services firms (30.51%). Telecommunications and health services comprise the smallest industry (8.47%).

Figure 2: Sample by industries



The objective of Table 3 (page 36) is to explore what ACs are disclosing and to explore sufficiency of such disclosure. The most frequently disclosed AC characteristic is the number of members on the AC (100%). The average AC size is 3.82 and the minimum AC size is 3 (Table 4, page 40). The AC size exceeds the Companies Act requirement of at least three AC

members (SAICA, 2016). In addition, the average AC size of 3,82 members is in line with the average of three members in the UK (Deloitte, 2018; Lin, Li, & Yang, 2006).

The above findings support ACE as they suggest that companies are aware that a slightly bigger AC allows for the effective functioning (SAICA, 2016). A larger AC results in effective succession planning and rotation, prevents a statutory vacancy where one member resigns or is removed from the committee (IoDSA, 2016) and provides access to a deeper pool of skills and experience for the committee as a collective which inevitably enhances the quality of the discussions and decisions (Al-Lehaidan, 2006; Bédard et al., 2004; Felo et al., 2003).

In contrast, the least frequently disclosed AC characteristic (18%) is whether members are financially literate (Table 3). This is lower than that of Marx (2008) who found that 35% of the companies stated their AC members were financially literate. Despite this, using the qualifications disclosed by AC members, 62.30% (Table 3) of the AC members were seen to be financially literate[5]. The above two findings indicate that approximately 80% of AC members have expert power in the form of financial literacy. This may be seen to not be in line with King IV which recommends that the AC have the necessary financial literacy to execute their duties effectively (SAICA, 2016). Lastly, it is worrying that only 18% (Table 3) of the companies were prepared to state that their members were financially literate as this raises concerns regarding the perceived effectiveness of ACs.

In terms of authority, approximately 95% (Table 3) of the companies stated in their reports that they have an AC Charter or a term of reference. As the Charter is a document used to help AC members understand the roles and responsibilities delegated to them by the board of directors (Bédard et al., 2004; Deloitte, 2017; Rochmah Ika & Mohd Ghazali, 2012), it may signal that the committees are effective as they have legitimate power (Kalbers & Fogarty, 1993). It is a concern that not all companies indicated that the Charter was available on the company's website. Referring to this in the AC reports could strengthen the quality of AC disclosure and reduce information asymmetry as stakeholders will be given the opportunity to understand the responsibilities of the AC.

[5] Using qualifications to determine whether members are financially literate is consistent with Coates et al. (2007), members with accounting qualifications, such as Chartered Accountants, were determined be financially literate, i.e. ability to read and understand financial statements, as it is a skill they developed and applied throughout their training.

Table 3: Disclosure of AC characteristics and responsibilities

ACC characteristics disclosed	Frequency mean
AC qualifications	0,94
Financially literate members	0,18
Years of prior experience	0,73
Number of AC members who are independent	0,97
Number of AC members who are non-executive directors	0,98
AC member's age	0,92
Number of multiple directorships held by members	0,85
AC tenure	0,98
AC gender	0,89
Number of shares held by members	0,97
Number of meetings held	0,98
Number of members	1,00
AC has a charter or the terms of reference	0,95
Review of the internal audit function	0,92
Review of the external audit function	0,98
Nominate independent auditor	0,97
Determine audit fees and terms of engagement	0,97
Ensures appointment of auditor complies with Companies Act and other laws	0,52
Preapproves provision of non-audit services	0,96
Receives and deals with concerns relating to the accounting practices and internal audit of the company	0,93
Receives and deals with concerns relating to the content or auditing of the company's financial statements	0,98
Receives and deals with concerns relating to any other matter	0,98
Makes submissions to the board on any matter concerning the company's accounting policies, financial control, records and reporting	0,75
Design and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the company	0,96
Reviews finance function	0,88

ACC characteristics disclosed	Frequency mean
Monitors the integrity of annual financial statements	0,98
Monitors the integrity of external reports	0,92
Reviews compliance with laws and regulations	0,86
Responsible for governance of IT risk	0,63
Meets annually with the external auditor without management present	0,61
Meets annually with the internal auditor without management present	0,56
Chief audit executive has access to the AC chair for reasons of independence	0,43
Chief audit executive reports to the AC on its performance of duties and functions which relate to internal audit	0,64
AC considers to only appoint an auditor and reporting accountant who is accredited as such on the JSE list of Auditors and Accounting Specialists and to appoint an individual auditor who does not appear on the JSE list of disqualified individual auditors	0,51
Report regularly to the board of directors regarding the execution of duties and responsibilities	0,81
Policy, controls which address non-audit services and nature of services	0,96
Tenure of external audit firm	0,92
Rotation of audit partner	0,55
Significant changes in management to mitigate familiarity threat	0,22
Significant matters in annual financial statements and how they are addressed	0,69
View on quality of external auditors	0,96
Views on the effectiveness of chief audit executive and arrangements for internal audit	0,91
Views on the effectiveness of design & implementation of internal financial controls and any respective weaknesses which resulted in financial losses	0,97
Views of the effectiveness of CFO and finance function	0,83
Arrangements for combined assurance and its effectiveness	0,64
A statement that the AC is satisfied with the experience and expertise of financial director.	0,82

ACC characteristics disclosed	Frequency mean
Established financial reporting procedures and these procedures are operating	0,98
A statement that they have requested from the audit firm information which says the audit firm or designated partner is suitable for reappointment	0,92
AC report disclosed in annual financial statements	0,93
External advisers or invitees invited	0,90
AC report describes how the AC carried out its functions	0,97
AC report stating whether the AC is satisfied that the auditor was independent of the company	0,95
Key areas of focus during the reporting period	0,95
AC Satisfied it has fulfilled its responsibilities in terms of the charter or terms of reference	0,90
Voluntary disclosures	1,00

As indicated in Section 2.2, ACs have numerous roles and responsibilities. In one instance, King IV recommends that the finance function be reviewed annually by the AC. The analysis in Table 3 revealed that 88% of the reports included such disclosure. In terms of the JSE Listing Requirements, the integrated report must confirm that the AC is satisfied with the appropriateness of the expertise and experience of the financial director. 83% of the reports assessed included this confirmation. Only 93.22% of the sample complied with the statutory requirement by including the AC report in the annual financial statements. The remaining 6.78% did not include the report in the annual financial statements but elsewhere in the integrated report. Inclusion of the AC report in the body of the integrated report does not constitute compliance with the Companies Act requirements (SAICA, 2016). Interestingly, some companies included an AC report in both the annual financial statements and in the integrated report (usually within the 'governance report'). This suggests that companies do not know where to disclose the AC report or are trying to provide stakeholders with the same information in different reports in order to reduce information asymmetry problems (Ross, 1977).

Similarly, the frequency of disclosures regarding the internal audit function is low compared to disclosures regarding the financial reporting and external audit function. For example, a chief audit executive has access to the AC chair for reasons of independence (43%); the AC meets

annually with the internal auditor without management present (56%) and the chief audit executive reports to the AC on its performance of duties and functions which relate to internal audit (64%). The internal audit is an important responsibility of the AC as their effectiveness includes monitoring the internal audit function (Kalbers & Fogarty, 1993) amd . The inadequate disclosures raise concern as to whether the AC is effectively monitoring the internal audit function and effectively planning for combined assurance (64%) (Maroun, 2018). Using Kalbers and Fogarty (1993) power theory, the inadequate disclosures raise concern as to whether the AC receives institutional support from the internal auditor which is necessary to its effective functioning.

In contrast, the results suggest that AC disclosures are robust as they indicate that ACs may have the ability to make decisions which can reward or punish external auditors and management (sanctionary power) (Al-Lehaidan, 2006; Kalbers & Fogarty, 1993). For example, 97% of the ACs are responsible for nominating an independent auditor, reviewing audit fees and agreeing on terms of engagement; 96% of the companies are responsible for preapproving the provision of non-audit services and 98% of the ACs receive and deal appropriately with concerns relating to any matter. The high percentages suggest that companies are aware that sanctionary power is necessary for external audit effectiveness (Kalbers & Fogarty, 1993) as it mitigates issues which negatively impact audit quality. For example, if an AC is not given the authority to nominate an independent auditor and to limit the level of non-audit purchases, it may result in a lack of auditor independence and poor audit quality (Abbott, Parker, Peters, & Raghunandan, 2003; Goodwin-Stewart & Kent, 2006).

All the companies included disclosures which were not required by King IV, the Companies Act or the JSE listing requirements. This supports Carcello and Neal (2003); Pandit et al. (2006); Rochmah Ika and Mohd Ghazali (2012) who used voluntary disclosures in AC reports as a proxy for diligence and found that voluntary disclosures are more common for larger companies (sample selected represents over 94% of market capitalisation), NYSE listed companies (companies are listed on the JSE) and companies with more independent ACs (95.29% of companies had independent ACs) (Table 3).

In addition to the voluntary disclosures, it was noted that some AC reports included detailed commentary on risk management and the committee's assessment of going concern. Some of the reports which included disclosures and discussions on the entire range of functions and activities of the committee during the year were more insightful than those which applied a "tick-box" approach by merely including statutory disclosures (Akhtaruddin & Haron, 2010;

Deloitte, 2018; Hoitash et al., 2009). This level of transparency increases the level of trust and confidence in the AC among shareholders (Deloitte, 2017; SAICA, 2016; Sibanda et al., 2018).

In contrast, the above findings show infrequent AC disclosures, for example, 3% of the ACs did not describe how they carried out their functions, and 5% of the ACs did not specifically state whether they were satisfied that their external auditor was independent for the year under review. Of the 5%, several ACs (7%) stated that they assessed the external auditor's independence, both in terms of the statutory audit and for non-audit services provided but no specific statement was made that they were satisfied that the external auditors were independent for the year under review.

Table 4: AC characteristics specifics

ACC characteristics specifics	Mean	Minimum	Maximum	STD
Number of members AC financial or accounting qualifications/ members who are financially literate	2.38	0	5	1.00
Years of prior experience	24.27	2	40	19.77
Number of AC members who are independent	3.64	0	7	1.05
Number of AC members who are non-executive directors	3.76	0	7	0.96
AC members' age	58.39	35	77	8.68
Number of multiple directorships held by members	6.62	0	37	6.06
AC tenure	6.42	1	43	5.13
AC gender	0.34	0	3	0.82
Number of shares held by members	0.01	0	0.70	0.08
Number of meetings held	4.83	2	32	3.33
Number of members	3.82	3	7	0.85
Diversity	1.61	0	5	1.14

The purpose of table 4 is to assess whether the identified characteristics (composition) are supportive of ACE. On average, 3.64 out 3.84 members were determined as independent non-executive directors (95.29%). This is not in line with King IV and the Sarbanes Oxley Act in the US which recommends that ACs consist of only independent non-executive directors (IoDSA, 2016). The average AC age of 58.39 is supportive of ACE as multiple studies including Chaouali and Souiden (2019); Sultana et al. (2019) find that older members are more

likely to have accumulated years of experience and to have gained an understanding of the business. However, the maximum age of 77 of concern. It is past the retirement age of 65 years in South Africa and there is a risk that the AC member may generate lower productivity from an absence of spirit, competition and adaptability (Magd, 2003; Steinberg et al., 1996).

In terms of gender, ACs are predominately male (66.4%). The percentage has decreased over the years (Deloitte, 2018; Marx, 2008). 85% of the ACs included at least one woman on the committee which is up from 70% when compared to the trend analysis conducted by Deloitte (2018). Of the committees which did include women, the average female presence was approximately one member (1.55) on the committee which indicates a lack of gender diversity in the sample. The low number of female members on ACs is not supportive of ACE as multiple studies including Aldamen et al. (2018); Lai et al. (2017); Parker et al. (2017); Srinidhi et al. (2011) highlight that female members are more intensive in their monitoring functions.

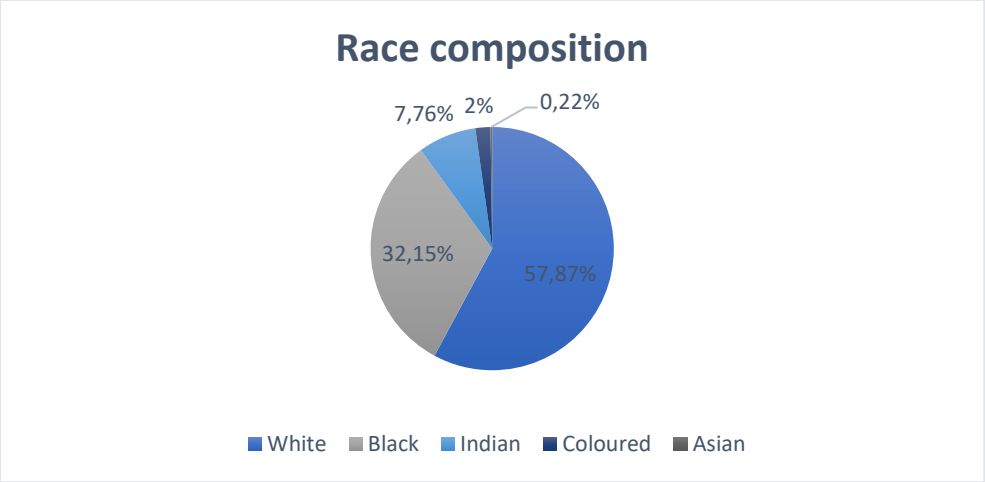
In terms of education, most of the members (62.30%) have financial or accounting qualifications and meet the requirements as financial experts on the AC. The high percentage supports Abbott et al. (2003); Goodwin-Stewart and Kent (2006); Hoitash et al. (2009) who have found financial expertise to be the most important type of expertise within the AC. This may be due to ACs' role in ensuring the integrity of the organisation's financial reporting, especially in light of the recent corporate scandals involving accounting irregularities (Carroll & Buchholtz, 2014). Consequently, the disclosure of expert power (94%) in the form of financial experts may signal the ACs' ability to resolve financial reporting difficulties (Abbott et al., 2004; IoDSA, 2016; Rochmah Ika & Mohd Ghazali, 2012).

In terms of experience, the average number of multiple directorships held (6.62) is viewed as high. It suggests that directors will become overwhelmed and not execute their duties effectively as they have more than three (Fich & Shivdasani, 2006; Lee & Lee, 2014), four (Mans-Kemp et al., 2018; Stuart, 2017) or five directorships (Institutional Shareholder Services, 2017). The maximum AC tenure of 43 years is high and not supportive of ACE. Despite the member being perceived to be more informed about the firm's internal and external environment, financial reporting and risk management processes, the long tenure may impair independence. The member may have developed friendships with management, external and internal auditors resulting in the member lacking independence (He et al., 2017; Sultana et al., 2019). This is of concern as independent members enhance the boards' ability to monitor management which may help reduce agency costs (Bradbury; Pincus et al., 1989; Rainsbury et al., 2008; Turley & Zaman, 2004).

The average AC share ownership of 1% is low. This is supportive of ACE as it suggests that companies are attempting to protect the independence of their members. Companies may be aware that a larger share ownership results in members not making decisions which are in the best interest of the company as they are biased (Carcello & Neal, 2003; Song & Windram, 2004).

Finally, in terms of diligence, the average number of meetings held by ACs was 4.83 which is supportive of ACE as many studies including Stewart and Munro (2007) have suggested that ACs meet at least 4 times a year. Stewart and Munro (2007) observed that AC meetings should occur 2 to 6 times a year, with twice in a year being too infrequent to allow for effectiveness and meeting about 6 times in a year being too frequent and cost ineffective. As a result, they advocated for a midpoint of 4 times in a year. These findings are in line with those of Deloitte (2018) who found that the average number of meetings for companies in South Africa is 4,6.

Figure 3: Race composition



As shown in Figure 3, ACs were predominantly white (57.87%) with other members being black (32.15%), coloured (2%), Indian (7.76%) and Asian (0.22%). This finding is in line with that of Marx (2008) who reported that South African ACs are dominated by white males. The percentage of black members on the AC has increased to 32.15% when compared to 18.1% of Marx (2008). This may be due to companies realising that diversity improves ACE or companies merely applying the reform principles of B-BBEE (Forbes & Rust, 2019; Viviers et al., 2017). As mentioned in section 2.3.1, ethnic diversity promotes the consideration of various perspectives because the directors are from different backgrounds. This, in turn, facilitates open discussions and effective decision-making by the AC (Carter et al., 2003;

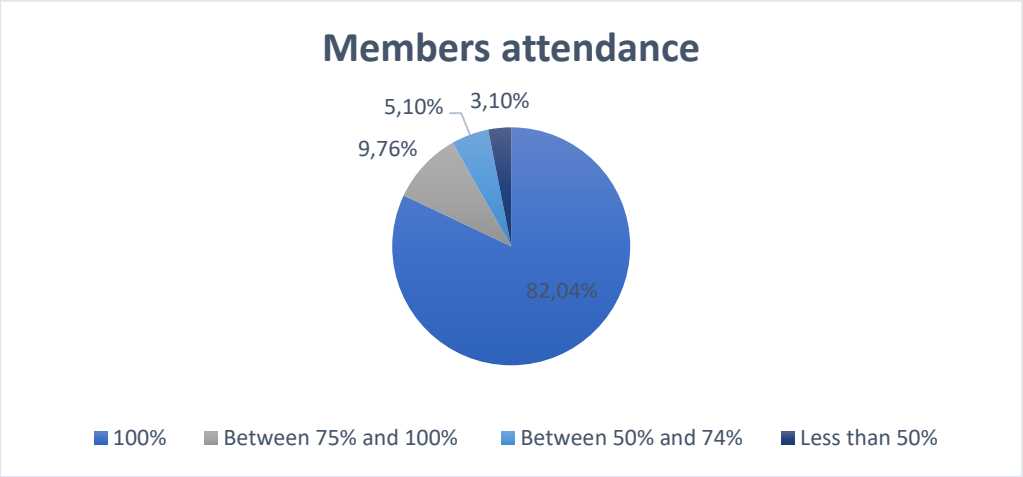
Gavious et al., 2012; Thiruvadi & Huang, 2011). However, if people of colour are appointed primarily for their minority status, i.e., to qualify for a certain BBEE score, and the supply of qualified minority candidates is insufficient, then those selected may lack expert power, resulting in the AC underperforming its monitoring function (Ferreira, 2010).

Table 5: AC chairperson characteristics

AC chairperson characteristics	Number	Percentage
Gender	118	100,00%
Female	34	28,81%
Male	94	79,66%
Race	118	100,00%
Black	24	20,34%
White	80	67,80%
Indian	10	8,47%
Coloured	4	3,39%
Asian	0	0,00%
Type of director	118	100,00%
Executive	0	0,00%
Non-executive	117	99,15%
Independent non-executive	114	96,61%

In line with the findings of figure 3, table 5 indicates that the lack of diversity is more when looking at AC chairpersons. Table 5 indicates that AC chairpersons are mostly male (79.66%) and predominantly white (67.8%), with some being black (20.34%), Indian (8.47%) and coloured (3.39%). It is a concern that 2.5% of the non-executive directors are not independent as it may impair the AC's independence, objectivity and perceived effectiveness. This is also in direct contrast with best practice and corporate governance recommendations, such as the King IV Report, which recommends that the AC chair should be an independent non-executive director. The findings suggest that AC diversity is weak despite shareholders having the power to approve the appointment of directors. The JSE may want to reconsider their decision not to pursue a requirement that is that boards establish and publish a policy on board diversity (Burger & Maume, 2018; Maume & du Toit, 2019).

Figure 4: Members attendance rate



The findings of Figure 4 are very encouraging because they indicate that AC members, in general, are diligently attending AC meetings, as 82.5% have attended 100% of the meetings and 91.6% (82.5% plus 9.1%) attended 75% or more of the meetings. The high attendance rate signals the intention of members to remain informed and vigilant which may improve the quality of their monitoring (Appuhami, 2018).

Table 6: PACE scores

		Mean Score				
Industry	Number of companies	Composition score	Diligence score	Resource score	Function score	PACE score
Financial services	42	2,50	1,91	2,19	0,79	7,39
Coins, goods and services	36	2,30	1,83	2,11	0,83	7,08
Metals and mining	18	2,64	1,96	2,37	0,84	7,81
Industrials	12	3,48	1,46	2,13	0,87	7,94
Telecommunications and health services	10	2,73	1,91	2,18	0,87	7,68
Total/ Average	118	2,58	1,85	2,18	0,83	7,44

Table 7: Rankings

	Rankings				
	Composition score	Diligence score	Resource score	Function score	PACE score
Financial services	4th	2nd	2nd	5th	4th
Coins, goods and services	5th	4th	5th	4th	5th
Metals and mining	3rd	1st	1st	3rd	2nd
Industrials	1st	5th	4th	2nd	1st
Telecommunications and health services	2nd	3rd	3rd	1st	3rd

Table 6 and 7 show that metals and mining have the highest mean diligence score (1.96), followed by financial services (1.91) and telecommunications and health and services industries (1.91). The coins, goods and services (1.83) and industrial (1.46) industries have the lowest diligence score. In terms of the resource score, financial services industry has the highest score of 2.19 while industrials (2.13) and coins, goods and services (2.11) have the lowest score. In contrast, industrial companies (3.48) have the highest composition score with telecommunications and health services (3.73) and metals and mining (2.64) ranking second and third, respectively.

Industrials may be perceived to be the most supportive of ACE as they had the highest PACE score of (7.94) followed by metals and mining (7.81) with the coins, goods and services (7.08) ranking last. The industrial sector consists of companies with diversified lines of business (e.g. includes companies in the manufacturing, basic materials and utilities industry). In South Africa, the basic materials and manufacturing industry were the most severely hit by the global financial crisis (Tshipa, Brummer, Wolmarans, & Du Toit, 2018). Due to diversification and the global financial crisis, it is expected that the number of risk disclosures will be more for industrial companies (Raemaekers & Maroun, 2014; Tshipa et al., 2018). Therefore, the high PACE score may signal to investors the quality of the ACs management of the risks which affect the integrity of external reports. However, this result may be distorted as there were only 12 companies in the industrials industry.

The metals and mining division ranking as one of the industries with the highest PACE score (2nd) was to be expected because of their reputation for producing excellent reports. For example, the EY's Excellency in integrated awards analysis showed that almost 80% of the

mining companies included in the survey are included in “Excellent” and “Good” categories (EY, 2018). As explained by the IRC (2018), IoDSA (2016) and Appuhami (2018), preparing such reports is an important means of signalling an organisation’s credibility and securing its position as a respected industry leader. Companies in the financial services and metals and mining sector had the highest diligence and resource score. The precise reason for the high score cannot be explained but it may be that companies in the two industries are more likely to be subjected to consumer pressure and criticism in the press than are the other industries (Van Zijl et al., 2017). This creates a need for them to disclose their institutional support and diligence in order to lower information asymmetry (Akerlof, 1970; Kalbers & Fogarty, 1993).

4.3 Spearman’s Rank Order Correlation

Table 8 presents the Spearman’s correlation analysis. Spearman’s rho was used to support the findings on PACE and determine if South African ACs are consistent with international studies. A strong correlation, significant at the 5% level ($p < 0.05$), exists between reporting and function (0.533). This suggests that ACs play an important role in reporting which is consistent with King IV. King IV gives the AC the responsibility of ensuring the integrity of financial statements and external reports (IoDSA, 2016). King IV also recommends that an AC exercises its judgement when deciding which of the issues considered in relation to the financial statements were significant (IoDSA, 2016). The study found that 68.64% (Table 3) of companies surveyed disclosed significant matters pertaining to the financial statements. This suggests that the disclosure of significant matters is an important function of the AC which is supported by the medium correlation between significant matters and function (0.373) and reporting (0.360).

In one instance, significant matters provide the AC with an ideal opportunity to respond to the key audit matters raised by the external auditor in their report (Deloitte, 2018). The study found that 47% of the companies which disclosed significant matters did not discuss the key audit matters. The study also found an important relationship between reporting and key audit matters (0.316). The poor disclosure raises concern as to whether the AC is effectively responding to key audit matters. Reporting on significant matters and key audit matters may reduce information asymmetry when those matters arise. Reporting on these matters signals to the public that the AC has reviewed the auditor’s report. It signals that the AC has questioned disclosures in the financial statements and the annual report (Cordoş & Fülöp, 2015). The increased disclosure will enhance the confidence of the public in the company (Reid, 2015).

In terms of AC disclosure themes, responsibilities and cumulative experience are positively correlated at 0.216. This suggests that members with many years of experience are more informed about the internal and external environment, financial reporting and risk management processes and are better able to execute their responsibilities (Archambeault & DeZoort, 2001; DeZoort & Salterio, 2001; Rochmah Ika & Mohd Ghazali, 2012; Vafeas, 2005). Experienced members may be seen to be more diligent as indicated by the positive relationship between diligence and age (0.197). Older AC members are more experienced because they are more likely to have accumulated a long period of service and gained an understanding of the business and its industry (Chaouali & Souiden, 2019; Sultana et al., 2019). As a result of the experience gained over the years, AC members may be seen to ask demanding questions during meetings and to demand quality answers which Dezoort et al. (2002) and Gendron and Bédard (2006) have observed as important traits of diligent members.

However, experience may be substituted by qualifications as indicated by the negative correlation between age and qualifications (0.313). This supports the Companies Act which requires AC members to have either academic qualifications or experience in areas such as finance, law, economics etc. (SAICA, 2016). This relationship may explain the lack of racial diversity in South African ACs as apartheid imposed racial segregation in terms of education, housing, and economic participation (Ntim & Soobaroyen, 2013; Swartz & Firer, 2005). Society would expect older white people to have more experience than do people of colour.

This is supported by the negative correlation between age and race, significant at the 5% level ($p < 0.05$) which suggests that older members are likely to be white. Similarly, the positive relationship between age and gender[6] (0.267) suggests that older members on the AC are likely to be male. This may be because of historic gender bias which have prevented women from obtaining an education (Bradley, 2000; Zamani, 2003).

[6] When interpreting data, the researcher mapped gender as the ratio of males to females. Therefore, a higher ratio indicates more males on the committee and a less diverse committee.

Table 8: Correlation analysis

Spearman	Reporting	Resource	Diligence	Composition	Function	Interest	Qualifications	Cumulative Experience	Age	Comm
Reporting	1,000	0,106	0,115	-0,058	**.533****	0,156	-0,050	-0,077	0,029	0,048
Resource	0,106	1,000	**.263****	0,020	0,095	0,027	-0,054	0,056	0,163	0,166
Diligence	0,115	.263**	1,000	0,031	0,162	-0,007	0,004	0,009	**.197***	0,045
Composition	-0,058	0,020	0,031	1,000	-0,032	**-.181***	0,139	0,048	-0,036	-0,110
Function	**.533****	0,095	0,162	-0,032	1,000	0,065	0,179	-0,114	-0,035	**.216***
Interest	0,156	0,027	-0,007	**-.181***	0,065	1,000	**-.325****	0,029	0,006	-0,074
Qualifications	-0,050	-0,054	0,004	0,139	0,179	**-.325****	1,000	-0,180	**-.313****	0,129
Cumulative Experience	-0,077	0,056	0,009	0,048	-0,114	0,029	-0,180	1,000	0,110	-0,109
Age	0,029	0,163	**.197***	-0,036	-0,035	0,006	-.313**	0,110	1,000	-0,094
Comm	0,048	0,166	0,045	-0,110	**.216***	-0,074	0,129	-0,109	-0,094	1,000
Directorships	0,102	**-.204***	-0,079	-0,033	0,074	0,076	0,169	0,017	-0,133	0,023
Tenure	0,167	-0,072	0,033	-0,129	0,150	0,162	-0,065	-0,137	0,179	-0,077
Independence	0,121	-0,082	-0,074	0,028	**.355****	-0,011	**.215***	-0,127	0,011	0,058
Race	0,088	0,076	-0,052	-0,070	**.255****	-0,137	**.339****	-0,164	**-.275****	0,060
Gender	-0,087	0,045	-0,016	-0,178	-0,114	0,112	-0,132	-0,055	**.267****	0,016
Pages	-0,053	0,140	**.338****	-0,021	0,007	0,100	-0,079	**.281****	0,125	0,176
Key audit matters	**.316****	0,047	0,049	0,143	**.296****	0,131	0,019	0,056	0,039	**.187***
Significant matters	**.360****	0,055	0,141	0,088	**.373****	**.206***	-0,063	-0,053	-0,044	0,071
Audit	0,031	0,064	0,152	-0,118	-0,003	0,087	0,021	-0,033	0,038	-0,007
Industry	0,170	0,052	-0,038	**.183***	**.214***	-0,124	0,080	-0,103	0,100	-0,132

Spearman	Directorships	Tenure	Independence	Race	Gender	Pages	Key audit matters	Significant matters	Audit	Industry
Reporting	0,102	0,167	0,121	0,088	-0,087	-0,053	**.316****	**.360****	0,031	0,170
Resource	**-.204***	-0,072	-0,082	0,076	0,045	0,140	0,047	0,055	0,064	0,052
Diligence	-0,079	0,033	-0,074	-0,052	-0,016	**.338****	0,049	0,141	0,152	-0,038
Composition	-0,033	-0,129	0,028	-0,070	-0,178	-0,021	0,143	0,088	-0,118	**.183***
Function	0,074	0,150	**.355****	**.255****	-0,114	0,007	**.296****	**.373****	-0,003	**.214***
Interest	0,076	0,162	-0,011	-0,137	0,112	0,100	0,131	**.206***	0,087	-0,124
Qualifications	0,169	-0,065	**.215***	**.339****	-0,132	-0,079	0,019	-0,063	0,021	0,080
Cumulative Experience	0,017	-0,137	-0,127	-0,164	-0,055	**.281****	0,056	-0,053	-0,033	-0,103
Age	-0,133	0,179	0,011	**-.275****	**.267****	0,125	0,039	-0,044	0,038	0,100
Comm	0,023	-0,077	0,058	0,060	0,016	0,176	**.187***	0,071	-0,007	-0,132
Directorships	1,000	.353**	0,123	**.196***	-0,133	-0,128	-0,059	-0,020	-0,100	-0,080
Tenure	**.353****	1,000	0,166	0,023	0,047	**-.188***	0,060	-0,169	-0,103	0,048
Independence	0,123	0,166	1,000	**.368****	-0,038	-0,138	0,112	-0,044	-0,080	0,126
Race	**.196***	0,023	**.368****	1,000	**-.261****	-0,170	-0,074	-0,152	-0,006	0,156
Gender	-0,133	0,047	-0,038	**-.261****	1,000	0,040	-0,006	-0,030	0,086	-0,078
Pages	-0,128	**-.188***	-0,138	-0,170	0,040	1,000	0,134	0,062	.192*	**-.218***
Key audit matters	-0,059	0,060	0,112	-0,074	-0,006	0,134	1,000	.203*	-0,027	0,138
Significant matters	-0,020	-0,169	-0,044	-0,152	-0,030	0,062	.203*	1,000	0,100	**.228***
Audit	-0,100	-0,103	-0,080	-0,006	0,086	**.192***	-0,027	0,100	1,000	-0,179
Industry	-0,080	0,048	0,126	0,156	-0,078	**-.218***	0,138	**.228***	-0,179	1,000

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The negative relationship between race and gender (0.261) suggests that people of colour are less likely to be male. This may be an attempt by companies to be B-BBEE compliant. The B-BBEE Act and its accompanying Codes of Good Practice partly promote the participation of black women in corporate decision-making. According to the B-BBEE Codes of Good Practice, a 25% compliance target was set for the exercisable voting rights of black female directors (as a percentage of all directors) and for black female executives (as a percentage of all executives). Compliance targets were also set for black female employees in senior, middle and junior management (Industry, 2013). Similarly, the weak correlation between race and independence of 0.368, significant at the 5% level ($p < 0.05$), may be attributed to Apartheid. As a result of the exclusion of people of colour from the economy it means that society is less likely to find independent people of colour (Hillman et al., 2002).

It is also worth noting that interest is negatively correlated to composition, significant at the 1% level ($p < 0.01$). The relationship supports the research of Krishnan (2005); Song and Windram (2004), who found that share ownership can compromise the independence of AC members. A high percentage of shareholding can be used to influence a firm's operations to protect their investments (Kibiya et al., 2016). Similarly, Carcello and Neal (2003) argued that AC members that hold a large number of shares may attempt to exert undue influence on the removal of an external auditor following a going concern opinion (report) to protect their interests. In contrast, a positive correlation exists between interest and significant matters, significant at the 1% level ($p < 0.01$). The relationship is explainable as by holding shares in the company, the AC is more invested in the entity (Kibiya et al., 2016; Mangena & Pike, 2005) and is likely to try to mitigate losses in share prices by going through all significant matters. Similarly, a positive correlation exists between qualification and independence, significant at the 1% level, ($p < 0.01$). This is possibly because of the requirement to belong to a professional body with codes of professional conduct and being aware of independence requirements (SAICA, 2016). Finally, a moderate correlation of 0,355 exists between function and independence. The correlation is consistent with numerous studies which found a positive relationship between AC independence and their respective functions which include ensuring integrity of financial reports by reducing earnings management (Koh et al., 2007; Vafeas, 2005); improving audit quality by having a low non-audit fee ratio (Abbott et al., 2003; Al-Lehaidan, 2006) and appointing industry specialist auditors (Abbott et al., 2000; Chen et al., 2005)

On a different note, this study found a significant relationship between diligence and pages (0.338) and cumulative experience and pages (0.281). It suggests that where the AC is diligent

and experienced, they are likely to disclose more information. The increased disclosure by the AC may be efforts to reduce information asymmetry (Collett & Hrasky, 2005; Cotter et al., 2011; Ross, 1977) and to signal ACE as there is an expectation that ACs who disclose in their reports are more likely to be effective (Akhtaruddin & Haron, 2010; Hoitash et al., 2009).

In contrast, a negative relationship was found between tenure and pages (0.188) and a positive relationship was found between directorships and tenure (0.353). This suggests that the longer the member serves as a director, the more directorships they hold and the fewer the pages of the AC report. This may be a result of institutional pressures which would drive organisations to adopt similar characteristics to organize themselves in a manner that is like other organizations in the same environment (DiMaggio & Powell, 1983). As the AC members are exposed to the activities of other companies, where they are directors, they are likely to want similar or the same disclosures.

As indicated by the relationship between diligence and resources (0.263), when the AC is diligent, they have more resources. This is in line with prior research which found that when the AC is diligent, financial reporting and the external audit are likely to have the highest priority of the AC (Goodwin-Stewart & Kent, 2006; Krishnan & Visvanathan, 2007). It follows that, to ensure the quality of financial reporting and the external audit, the AC will need to communicate with management, internal and external auditors (Felo et al., 2003; Zaman & Sarens, 2013).

However, communicating with management, internal and external auditors may be difficult when the AC members have numerous directorships. This study found a negative relationship between multiple directorships and resources, although weak and significant at the 1% level ($p < 0.01$). This may be as a result of directors facing severe time constraints when they have multiple directorships (Norziaton & Hafizah, 2019; Sharma & Iselin, 2012) which may result in their limited access to management, internal auditors and external auditors. The number of directorships is positively related to race, significant at the 1% level ($p < 0.01$) which suggests that people of colour are more likely to be on multiple boards. This may be due to increased opportunities for people of colour. As mentioned in section 4.2, the desire for companies to become B-BBEE compliant in order to secure government contracts may have created a demand for more black people on boards (Forbes & Rust, 2019; Viviers et al., 2017) which consequentially result in people of colour holding more directorships.

Finally, the correlation between composition and industry (0.214); significant matters and industry (0.228) is significant at the 1% level ($p < 0.01$). This suggests that the type of industry influences the AC structure and the significant matters disclosed. The negative correlation between industry and pages, significant at the 1% level ($p < 0.01$) suggests that AC pages differ amongst different industries. This is consistent with numerous studies that found a relationship between the composition of ACs and the industry. With Beasley, Carcello, Hermanson, and Lapides (2000) finding that ACs consisting solely of independent directors in the technology, healthcare and financial industry had a 50%; 38% and 17% chance of committing fraud. The following section will conclude and provide recommendations for future research.

CHAPTER 5 - CONCLUSION

5.1 Summary of findings

The purpose of this study was to determine which characteristics of ACE listed companies are disclosing and assess whether the identified characteristics were supportive of ACE after the implementation of King IV in 2017. This research identifies that, for the most part, companies are disclosing their AC characteristics. Many of the characteristics disclosed were viewed as supportive of ACE. For example, on average, most members were disclosed as independent non-executive directors. In an attempt protect its independence, the AC share ownership was low. This is because a larger share ownership may be used by members to influence the firm's operations to protect their investments (Carcello & Neal, 2003; Song & Windram, 2004).

The study found that members had many years of experience as indicated by their age and tenure. The average age and tenure are aligned to the recommended practices and are supportive of ACE. The findings also suggest that initiatives are being undertaken by ACs to improve the skills of its members. This is because most AC members were found to have financial or accounting qualifications and accordingly, expert power (Kalbers & Fogarty, 1993). In this regard, this study compliments prior research. Despite the experience gained from holding multiple directorships (Song & Windram, 2004), the research found that the number of directorships held was high. Consequently, members may not be able to execute their responsibilities effectively due to time constraints (Norziaton & Hafizah, 2019; Sharma & Iselin, 2012).

Companies appear to be compliant with King IV as they have an audit charter. This indicates that the majority of ACs were given the authority to execute their responsibilities as the Charter is a source of power for the AC and provides guidance concerning its duties (Bédard et al., 2004; Kalbers & Fogarty, 1993; Rochmah Ika & Mohd Ghazali, 2012). Most companies disclosed the ACs responsibility in monitoring the external audit function, particularly its responsibility to nominate an auditor who is independent of the company. They also disclosed the ACs role in ensuring the integrity of the financial statements. These disclosures are required by the Companies Act (SAICA, 2016) and because of the recent corporate scandals which involved a lack of auditor independence and accounting irregularities, these functions are likely to be the priority of ACs (Lungisa, 2017; Motau, 2018; Stoddard, 2019).

ACs had adequate resources and institutional support as indicated by their size and their access to management and external auditors. This is important as it suggests members' ability

to obtain information from management and the external auditors and to use it in a way most likely to accomplish AC objectives (Al-Lehaidan, 2006; IoDSA, 2016; Kalbers & Fogarty, 1993). Lastly, this study found that listed companies have diligent ACs. This was indicated by the frequent meetings held and the high attendance rate at those meetings. This suggests that AC members are willing to work together to fulfil their responsibilities (Bédard & Gendron, 2010; Dezoort et al., 2002). In conclusion, ACs of JSE listed companies may be viewed as supportive of ACE.

5.2 Research contributions, implications and recommendations

The study contributes to the existing body of knowledge on the characteristics which affect ACE. It also contributes new knowledge as the research reviews AC characteristics in JSE listed companies after the implementation of King IV. Despite its limitations, this study answers the call of Carroll and Buchholtz (2014) to assess ACE in light of the recent scandals which have occurred in companies where an AC is present (Lungisa, 2017; Motau, 2018; Stoddard, 2019).

The study contributes to the limited research on ACE using the power theory of Kalbers and Fogarty (1993). For example, the research found that many ACs have sanctionary power. As discussed in Section 2.3, sanctionary power is the ACs ability to make decisions that could reward or punish external auditors (Kalbers & Fogarty, 1993). The sanctionary power of ACs on the JSE was identified through their responsibility to nominate an independent auditor and to review the audit and non-audit fees. This could punish the audit firm as the firm will not be re-appointed if it is not independent and the non-audit services provided by the firm will be limited to maintain its independence (IoDSA, 2016; SAICA, 2016).

The research found that most companies are yet to embrace diversity in terms of age, race and gender as ACs are predominantly male and white. ACs with people of colour are more likely to be independent as they are often appointed from outside the executive ranks club' (Hillman et al., 2002). In light of this, the JSE may want to reconsider their decision not to introduce a requirement that boards establish and publish a policy regarding diversity to enhance the diversity of views and independence in the boardroom (Burger & Maume, 2018; Maume & du Toit, 2019).

The findings also indicate that ACs are still to fully disclose how they monitor their company's internal controls. This is evident from the insufficient disclosure of the ACs responsibilities over

the internal audit function. The internal audit function is important for providing assurance that entities' risk management and internal control processes are operating effectively (IoDSA, 2016). The above finding is relevant given the JSE's increased focus on internal controls. The JSE intends to amend its requirements to include specific responsibilities for the CEO and the financial director in respect of the establishment and maintenance of internal controls (JSE, 2019). This may affect the reporting on the internal controls process in the AC report.

5.3 Limitations and areas for future research

A limitation of this study is that it focuses only on South African listed companies, AC disclosures in other jurisdictions or other South African entities can be considered for future research. The study collects data from multiple reports and the *Iress Expert database* for a one-year period and results may not be applicable to different time periods. Future research can extend a sample over a period to enable a complete and accurate assessment of AC disclosures. Future research may examine ACE from the perception of other key stakeholders such as management and internal auditors. The study consists of numerous descriptive statistics, future research may make use of inferential statistics to reach conclusions that extend beyond the immediate data alone. The disclosure index used in this study was based on the framework of Dezoort et al. (2002). There may be other aspects of ACE (for example, organizational context or personal traits of members) which have not been addressed in this study. Future research may consider and examine these other aspects in developing a more comprehensive index. Another limitation of the ACE framework used in this study is the likely overlap and interaction among the four components. Additional research is needed to explore such issues. For example, understanding of ACE could improve considerably from studies of how composition variables (e.g. independence and expertise) interact with authority variables (e.g. degree of board reliance on the audit committee) and resource variables (e.g. external and internal auditor support).

Board diversity includes many aspects that enhance the diversity of views and independence in the boardroom (Burger & Maume, 2018; Maume & du Toit, 2019). This study focused only on diversity in terms of age, gender and race only. Future studies could examine AC diversity in terms of knowledge, skills and experience to assist the JSE in identifying areas of improvement and determining whether the implementation of mandatory AC training is necessary for AC members

If ACs are to improve in their monitoring responsibilities, they may have to perform frequent evaluations. The members may conduct a self-evaluation or request that external independent parties perform the evaluation. Cohen, Gaynor, Krishnamoorthy, and Wright (2008) suggests that external auditors may contribute to this process because external auditors have the necessary expertise and knowledge from their interactions with the AC and because the auditor must consider the AC's effectiveness when assessing the organisation's control environment. Nonetheless, future research may need to understand what processes are being used to evaluate ACE and how frequent they are performed. As businesses are different for many reasons including industry, leverage, customer base, product, and store location and leadership style, it is expected that, over and above regulation and corporate governance codes, company-specific responsibilities may be allocated to the AC (Martinov-Bennie et al., 2015). Future research can identify other functions designated to the AC other than those prescribed by law or codes of corporate governance. A specific responsibility which future research might need to understand is the ACs role in key audit matters. There is very little research on this. The external auditor is required to report key audit matters to those charged with governance (SAICA, 2016) and multiple studies including Carroll and Buchholtz (2014); IoDSA (2016); Turley and Zaman (2007) consider the AC to form part of those charged with governance. Future research can also address how their composition and power may affect the key audit matter reporting process.

Based on the findings with regards to the internal audit function's activities not being appropriately disclosed, this can be an area for further research. King IV may not require internal audit's functions to be disclosed but from a combined assurance and an integrated reporting perspective the internal audit function would be responsible for implementing controls to manage an organisations risks in order to promote integrated thinking (Maroun, 2018). Such disclosures should have been apparent in the integrated report and the omission of these may speak to the effectiveness of internal audit functions of JSE listed companies.

Lastly, this research compliments prior research on ACs and provides an analysis of the disclosure made by ACs. Although the findings of this research indicate that majority of the ACs disclosures are supportive of ACE, the recent corporate failures suggest otherwise. The disparity raises concerns regarding a "tick-box" approach to disclosures that do not reflect the internal operations of the AC. More research is required to assess the disparity.

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Appendix A – Roles and Responsibilities of AC

Companies Act	King IV	JSE listing requirements
• Nominating an independent external auditor. • Determining the audit fee and the auditor's terms of engagement. • Ensuring that the appointment of the auditor complies with the Companies Act and other relevant legislation. • Determining the nature and extent of non-audit services. • Pre-approving any proposed agreement with the auditor for the provision of non-audit services. • Preparing a report to be included in the annual financial statements describing how the committee carried out its functions, stating whether the auditor was independent, and commenting on the financial statements,	• Monitoring the effectiveness of the organisation's assurance functions and services, specifically on combined assurance arrangements, including external audit and internal audit services and the finance function. • Ensuring the integrity of financial statements and other reports issued by the organisation. • Playing a key role in the risk management process by monitoring the management of financial risks and other risks which affect the integrity of external reports issued by the organisation. • ACs should meet annually with internal and external auditors without management present to facilitate a discussion that may not be appropriate in an open forum. • A summary of the role of the AC. • An indication that all the members of the committee comply with the statutory requirements as per the Companies Act, as well as the names and qualifications of all members of the AC during the period.	• Consider, on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the financial director. • Ensure that the issuer has established appropriate financial reporting procedures and that those procedures are operating. • Requesting relevant information from the auditors in order to assess the suitability for the appointment of the audit firm and designated individual partner • Ensuring that the proposed individual auditor does not appear on the JSE list of disqualified individual auditors when recommending an auditor for

accounting practices and internal financial control measures of the company. • Receiving and dealing with relevant complaints. • Making submissions to the board regarding the company's accounting policies, financial controls, records and reporting.	• The number of AC meetings, and the record of attendance of the different members • An overview of the results of the AC's performance evaluation. • A statement as to whether the AC is satisfied that the external auditor is independent of the organisation. The statement should specifically address: • The policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year. • The tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm. • The rotation of the designated external audit partner. • The AC's views on the quality of the external audit. An explanation of how the committee has assessed the effectiveness of the external audit process and of the approach adopted to the appointment or re-appointment of the external auditor; the length of tenure	appointment or re-appointment at the annual general meeting.

	of the current audit firm; the current audit partner name, and the tenure of the partner on client. • If the external auditor provides non-audit services, the committee's policy for approval of non-audit services; how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work and for each significant engagement, or category of engagements, explain what the services are and why the AC concluded that it was in the interests of the company to purchase them from the external auditor • Significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the risk of familiarity between the external auditor and management. • Significant matters which the AC has considered in relation to the annual financial statements and how these	

	were addressed by the committee having regard to matters communicated to it by the auditors. • AC's views on the effectiveness of the chief audit executive and the arrangements for internal audit. Including an explanation of how the committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business. • AC's views on the effectiveness of the design and implementation of internal financial controls. • AC's views on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls which resulted in material financial loss, fraud, corruption or error. • AC's views on the effectiveness of the CFO (required in terms of the JSE Listings Requirements) and the finance function. • The arrangements in place for combined assurance and the committee's views on their effectiveness.	

Appendix B - Disclosure collection instrument

Audit committee disclosures

1. AC qualifications
2. Number of AC members who are financially literate
3. Number of AC members who are independent, non-executive directors
4. Number of board members are independent non-executive directors
5. AC members age
6. Number of multiple directorships held by members
7. AC tenure
8. AC gender
9. Number of shares held by members
10. Number of meetings held
11. Voluntary disclosures
12. Number of members on AC
13. Number of meetings
14. Number of ordinary shares in issue
15. Number of members on the board
16. An evaluation of AC performed
17. Evaluation initiated by AC
18. AC communicates with management
19. AC communicates with external auditor
20. AC communicates with internal auditor

AC Members

1. Name
2. Name of the company where AC member is employed
3. Highest Qualification
4. Is member financially literate
5. Is the member the chair of the AC
6. Gender
7. AC tenure
8. Age
9. Numbers of shares held
10. Is the member an executive director
11. Is the member a non-executive director
12. Is the member an independent, non-executive director
13. Number of multiple directorships held
14. Number of meetings attended

Appendix C: Sample of Companies

- Anheuser-Busch Inbev sa/nv
- Naspers Ltd
- British American Tobacco plc
- BHP Billiton plc
- Compagnie Financiere Richemont sa
- Glencore plc
- Anglo American plc
- Firstrand Limited
- Standard Bank Group Limited
- Anglo American Platinum Limited
- Vodacom Group Limited
- MTN Group Limited
- Sasol Limited
- Sanlam Limited
- South 32 Limited
- Mondi Plc
- Kumba Iron Ore Limited
- Anglogold Ashanti Limited
- Capitec Bank Holdings Limited
- Absa Group Limited
- Nedbank Group Limited
- Bid Corporation Limited
- RMB Holdings Limited
- Remgro Limited
- Old Mutual Limited
- Shoprite Holdings Limited
- Nepi Rockcastle plc
- Discovery Limited
- Growthpoint Properties Limited
- Gold Fields Limited
- The Bidvest Group Limited
- Pepkor Holdings Limited
- Impala Platinum Holdings Limited
- Woolworths Holdings Limited
- Investec plc
- Sibanye Gold Limited
- Clicks Group Limited
- Reinet Investments s.c.a
- Exxaro Resources Limited
- Redefine Properties Limited
- Quilter plc
- Rand Merchant Investment Holdings Limited
- Mr Price Group Limited
- Telkom SA SOC Limited
- Assore Limited
- Mediclinic International plc
- Tiger Brands Limited
- African Rainbow Minerals Limited
- The Spar Group Limited
- The Foschini Group Limited
- Santam Limited
- Life Healthcare Group Holdings Limited
- Aspen Pharmacare Holdings Limited
- Capital & Counties Properties plc
- Pick n Pay stores Limited
- Liberty Holdings Limited
- Hammerson plc
- Avi Limited
- Northam Platinum Limited
- Distell Group Holdings Limited
- Vivo Energy Plc
- Fortress REIT Limited A
- Sappi Limited
- Investec Limited
- Harmony Gold Mining Company Limited
- Resilient REIT Limited
- Momentum Metropolitan Holdings Limited
- Barloworld Limited
- Truworths International Limited
- Pioneer Food Group Limited
- Netcare Limited
- Dis-chem Pharmacies Limited
- Vukile Property Fund Limited
- EPP n.v.
- Globe Trade Centre S.A.
- Hyprop Investments Limited
- Italtile Limited
- Tsogo Sun Gaming Limited
- Coronation Fund Managers Limited
- Kap Industrial Holdings Limited
- Reunert Limited
- Fortress REIT Limited B
- AECI
- Super Group Limited
- JSE Limited
- Adcock Ingram Holdings Limited
- Massmart Holdings Limited
- Imperial Logistics Limited
- Intu Properties plc
- Attacq Limited
- SA Corporate Real Estate Limited
- Braite SE
- Zambezi Platinum (RF) Limited
- Curro holdings limited
- Transaction Capital limited
- Investec Property Fund Limited
- Oceana Group Limited
- RDI REIT Plc
- Famous Brands Limited
- Nampak Limited
- African Oxygen Limited
- PPC Limited
- Equites Property Fund Limited
- Sun International Limited
- Advtech Limited
- Ayo Technology Solutions Limited
- Wilson Bayly Holmes-Ovcon Limited
- Emira Property Fund Limited
- Zeder Investments Limited
- Steinhoff International Holdings N.V.
- Cashbuild Limited
- PSG Konsult Limited
- RCL Foods Limited
- Hosken Consolidated Investments Limited
- Sirius Real Estate Limited
- Trustco Group Holdings Limited
- Mas Real Estate Inc
- Montauk Holdings Limited

Appendix D: AC weighted scores

AC components	Expectation	Score
Expertise	ACs with financial expertise and accounting expertise are more supportive of ACE	$+\frac{Number\ of\ employees\ with\ a\ financial\ or\ accounting\ qualification}{Total\ number\ of\ members}$
Financial literacy	ACs who are financially literate are more supportive of ACE	$+\frac{Number\ of\ employees\ with\ a\ financial\ or\ accounting\ qualification}{Total\ number\ of\ members}$
Multiple directorships	A higher number of multiple directorships is less supportive of ACE	$-\frac{Average\ number\ of\ directorships\ held}{4}$
Age	Older AC members are more supportive of ACE	$+\frac{Average\ age}{100}$
Tenure	A longer tenure is less supportive of ACE	$-\frac{Average\ AC\ tenure}{9}$
Independent non-executive AC members	Independent non-executive AC members are more supportive of ACE	$+\frac{Number\ of\ independent\ non-executive\ members}{Total\ number\ of\ members}$
Independent non-executive board members	Independent non-executive boards are more supportive of ACE	$+\frac{Number\ of\ independent\ non-executive\ board\ members}{Total\ number\ of\ members}$
AC share ownership	A larger share ownership is less supportive of ACE	$-\frac{Number\ of\ shares\ owned\ by\ AC\ members}{Total\ number\ of\ ordinary\ shares\ in\ issue}$
Gender diverse AC	ACs with more female members are supportive of ACE	$+\frac{Number\ of\ female\ members}{Total\ number\ of\ members}$
AC members	A larger number of AC members are more supportive of ACE	$+\frac{Number\ of\ AC\ members}{3}$
AC meetings	Frequent meetings are more supportive of ACE	$+\frac{Number\ of\ AC\ meetings}{4}$
Racial diversity	Different ethnic groups are more supportive of ACE	$+\frac{Number\ of\ non\ white\ members}{Total\ number\ of\ members}$