Audit committees' communication on internal audit to boards of directors

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ABSTRACT

Audit committees are expected to communicate effectively as trusted relationships are created when high quality communication takes place. Very little research has been performed on communication between audit committees and boards of directors and no studies have been performed on audit committees' communication of internal audit information to boards of directors. In closing the gap this article examines the effectiveness of the process of communicating internal audit information between the audit committee and the board, and is useful as previous audit committee studies focussed predominantly on the diligence, resources, authority, and composition of the audit committee and not on the actual process of communication. A case study of three JSE listed mining companies operating in the South African gold, platinum, coal and energy sectors was performed to understand whether communication processes between their audit committees and boards of directors were effective. This involved understanding the views of the chairpersons of the audit committee and board, non-executive directors and chief audit executives for the three companies concerned, because these parties are important role players in communicating internal audit information between their corresponding committees. The findings of the study identified strengths and weaknesses of internal audit information to be communicated and considered the communication process. Barriers, such as board dynamics, culture and language, and the conduct of members were identified. The study showed the importance of the role of the chairperson of the audit committee to promote effective communication and to fulfil such a role, identified attributes are needed.

Key words

Internal audit; audit committees; board of directors; communication; mining; South Africa; internal audit function; chairperson of the audit committee; communication process; effective communication

1 INTRODUCTION

The 2008 financial crises and recent worldwide corporate failures have brought into stark relief the efficacy of audit committees (Aldamen, Duncan, Kelly, McNamara & Nagel 2012). As a statutory committee, the audit committee is task with an "oversight role to assist directors in meeting their financial reporting, risk management and control- and audit related responsibilities" (Marx 2009:33). Risks related to safety, labour and community relations, social development, transformation and environmental impacts make up a significant portion of risk profiles of mining companies such as Lonmin Plc (2013). The tragic event on 16th August 2012 when 36 Lonmin Plc employees were killed and 78 wounded by police officers during the Marikana miners' strike (Twala, 2012) casts doubt on the efficacy of the company's risk management process. It raises the question whether such failures of risk management was found in audit committee communications to the board of directors.

The audit committee has a duty to effectively communicate internal audit information to the board (IoD 2009). High quality communication creates trusted relationships between the internal audit function (IAF), the audit committee and the board (Abdolmohammadi, Ramamoorti, & Sarens, 2013: xi). Studies, however, have raised concerns about the effectiveness of audit committee communication (Turley & Zaman 2007; Cohen, Krishnamoorthy & Wright 2002).

This research article examines the effectiveness of the process of communicating internal audit information between the audit committee and the board. It adds to the current knowledge on communication between boards and audit committees because previous studies considering audit committee reporting focussed on the composition, authority, resources and the diligence of the audit committee and not on the communication process itself (Barua, Rama & Sharma 2010; Abbott, Parker & Peters 2004; DeZoort, Hermanson, Archambeault & Reed 2002). The literature on how an audit committee should effectively communicate internal audit information to the board remains scant, but drawing on communication literature such communication should build rapport, share strategic goals, clarrify assumptions and build trust by the congruency with word and action (Adler, 2012; Colquitt, Scott, & LePine 2007; Hubbard 2000).

The remainder of this article is organised as follows: the next section presents the objectives, significance, and limitations underpinning the study. The sections that follow describe the theoretical background of the article, the methodology applied, and the findings and deductions. Conclusions drawn from the study and areas identified for future research are presented in the final section.

2 OBJECTIVE, SIGNIFICANCE AND LIMITATIONS

The objective of this study is to examine the effectiveness of the communication process between audit committees and their boards on internal audit information at three mining companies listed on the Johannesburg Stock Exchange (JSE).

There is anecdotal evidence that internal audit information may be omitted, diluted or misrepresented to the board due to a variety of reasons. One such reason postulated is that members of the audit committees may not have the knowledge of internal audit theory and practice to effectively provide such information to the board. As a consequence; there is a concern that the board may not optimise the resource of internal audit information and act upon its findings and recommendations (Paterakis & Cefaratti 2014; Drent 2002). As there is limited research into the communication process on internal audit information between the audit committee and its board and as the aforementioned perceptions have not been investigated the findings of this study add a pragmatic perspective.

The findings of the study could provide audit committees and boards with guidance on how to improve procedures to ensure complete, accurate and useful communication protocols on internal audit information. IAFs could become aware of how their information is being communicated by audit committees to boards, knowledge which may impact on their reporting processes. The internal audit profession could benefit through informed guidance by the Institute of Internal Auditors (IIA) on how internal audit information should be presented to audit committees to promote effective communication when such information is shared with boards.

3 LITERATURE REVIEW

An increasing number of overseas earnings restatements along with accusations of financial statement fraud by companies like Enron, Parmalat, WorldCom, Adelphia, and Global Crossing have damaged public confidence in corporate governance (Kirkpatrick 2009; Melis 2005; Clarke 2004). This has spurred discussion on whether the communication of audit committee information between audit committees and boards of directors is effective (Paterakis & Cefaratti 2014; Rezaee, Olibe, & Minmier 2003).

In terms of laws and regulations, certain boards of director functions are delegated to well-structured committees without renouncing their responsibilities (Lenz & Sarens 2012; Marx & Voogt 2010; Charan 2005; DeZoort *et al* 2002). One such committee is the audit committee and together with the board, they are important governance role players (Coetzee & Fourie 2009; Davies 2008; Charan 2005). Mallin (2003) believes the audit committee has become the most significant sub-committee of the board of directors.

Audit committees are well established in South Africa (Marx & Voogt 2010; Marx 2009; Van der Nest 2008). Together with the Companies Act 71 of 2008 that incorporates into statute issues of corporate governance, the King Reports (IoDSA 1994; 2002; 2009; RSA 2009) set out the duties and responsibilities of an audit committee (King 2010). These include traditional responsibilities of overseeing external audit, financial reporting, internal control and risk management together with emerging issues such as sustainability reporting and ethics compliance (Marx 2009). In terms of the draft King IV Report (IoDSA 2016), an audit committee should provide independent oversight of audit and assurance requirements, independence of the auditor and other assurance providers in the combined assurance model (including internal audit), audit quality and integrity or reliability and usefulness of reports.

A well-functioning audit committee and IAF are the primary mechanisms to limit agency risk due to their importance in the corporate governance mosaic (Eulerich, Theis, Velte & Stigtbauer 2013; Davies 2008; Cohen, Gaynor, Krishnamoorthy & Wright 2007; Abbott & Parker 2000). Due to the separation of management and ownership, shareholders require protection as management does not always behave in the best interest of shareholders (Abbott & Parker 2000; Fama & Jensen 1983; Jensen & Meckling 1976). Non-executive directors are at a disadvantage as they suffer from asymmetrical knowledge in contrast with executive directors who have a deep understanding of the business through their direct involvement (King 2006; Adamsb1994; Watts & Zimmerman 1983). In this regard agency costs are incurred which leads to monitoring mechanisms such as the use of internal audit and an audit committee (Goodwin-Stewart & Kent 2006; Adams 1994). Both these mechanisms rely on effective communication processes (King 2006:70-71) as the audit committee is required to effectively communicate internal audit information to the board (IoD 2009).

The 2008 financial crisis and recent worldwide corporate failures focussed the spot light on what constitutes an effective audit committee and board communication (Paterakis & Cefaratti 2014; Financial Crisis Inquiry Commission 2011). The argument was made that members of audit committees were ill prepared, did not understand, nor communicate the risks assumed to the board (Braiotta, Gazzaway, Colson & Ramamoorti 2010:356). Audit committees report to their boards on various matters. These include commenting on and making submissions on the company's annual financial statements, accounting practices, financial systems of internal controls, reporting, and financial policy (PCAOB 2012; IIA 2011; South Africa 2010; IoD 2009). As such an audit committee needs to communicate to the board and be their "oversight watchdog" on the process of financial reporting, risk management and internal control to enable them to make informed decisions (Marx & Voogt 2010; Charan 2005:59).

The literature supports the view that good communication to boards enhances the effectiveness of audit committees (Paterakis & Cefaratti 2014; Zaman & Sarens 2013). Effectiveness of audit committees has been widely explored in the literature and relate to its composition (Lary & Taylor 2012; Klein 2002; Archambeault & DeZoort 2001; Beasley & Salterio 2001; Scarborough, Rama & Raghunandan 1998; DeZoort 1997; Kalbers 1992(b), authority, (DeZoort *et al* 2002; Abdolmohammadi & Levy 1992; Kalbers 1992(a); and Kalbers & Fogarty 1993), resources, (De Zoort, Hermanson & Houston 2003; De Zoort *et al* 2002; Raghunandan, Read and Rama 2001; Cohen & Hanno 2000) and the diligence with which audit committee members exercise their duties and responsibilities (DeZoort *et al* 2002; Carcello, Hermanson & Neal 2002; Archambeault & DeZoort 2001; Abbott & Parker 2000; Collier & Gregory 1999). Diligence is regarded as the process interaction of incentive, motivation and perseverance between members to achieve communication effectiveness (DeZoort *et al* 2002). Audit committee effectiveness will be achieved when there are honest and independent members that are financially literate, have the authority of legislation to act, have timely access to management information and communicate well with all relevant role players (DeZoort *et al* 2002).

A review of the literature yields discussion on audit committee communications relating to quality of financial reporting, earnings management, reinstatements and fraudulent financial reporting but little on the benefits of effective communication (Barua *et al* 2010; Abbott *et al* 2004; Klein 2002; Beasley, Carcello, Hermanson & Lapides 2000; Abbott & Parker 2000; Abbott, Park & Parker 2000; DeZoort 1997). Though audit committees have been in existence for many years and there are high expectations on them to deliver, there is little known about their communication effectiveness (Pomeranz 1997). Avison and Cowton (2012) concur and state that compared to the board, little attention has been given to communication between board sub-committees and the board.

Internal audit studies have highlighted the benefits of good communication (Paterakis & Cefaratti 2014). Internal auditors who effectively communicate enlarge their significance to companies and help boards to manage risk (Drent 2002). Open communications with key stakeholders develop an understanding of the internal auditor's role (Paterakis & Cefaratti 2014; Drent 2002). Existing research in the literature offers little insight into operational situations surrounding audit committee activity and its interaction with the board. One study investigated communication between an audit committee, its members, executives, internal auditors and external auditors (Turley & Zaman 2007). The study examined formal and informal processes and power relationships (Turley & Zaman 2007). They found that communication and governance are not improved by a sole reliance on a standardized process, and the audit committee has an influence on the power relationships between company participants (Turley & Zaman 2007).

Although, as indicated above, guidance is provided on what type of internal audit information gets communicated to the board (for example quarterly and annual reports, and audit committee charters) (Spencer-Pickett 2010:960), there is little literature on the interpersonal oral, written and non-verbal interaction between the audit committee and the board and whether the communication was effective (IoD 2009; IIA 2011). Consequently, communication literature is drawn on to determine indicators for effective communications.

Interpersonal communication can be classified as oral, written and non-verbal (Rashotte 2002; Robbins & Judge 2013; Tubbs 2010). Indicators of effective interpersonal communication are rapport, sharing, listening, clarifying, congruency with words and action and empathy (Adler 2012:15; Hubbard 2000). Adler (2012:13-14) explains that the communication process involves a communicator sending a message to a receiver which is encoded, decoded and filtered. By building rapport, the sharing of strategic goals, engaging in active listening, clarifying assumptions, and ensuring congruency of words with body language, effective communication can occur (Adler 2012; Hubbard 2000).

The key to management communication is to elicit action and this involves upward, downward and lateral communication (Robbins & Judge 2013; Siegel & Schultz 2011). There are psychological and physiological filters that cause dysfunctional communications and trait variables need to be considered, such as perception, gender, self-esteem and shyness (Tubbs 2010:37-38). Tubbs (2010:35-65) explains that incorrect perceptions of others causes barriers that could lead to a dysfunctional communication process. Tubbs (2010:62) argues the key to active listening and thus communication is empathy, being aware of the receiver's perceptions. These could be considered by removing gender and cultural barriers in the workplace. The use of gender-neutral terms should be used to prevent offence and language should be free of bias. This requires the avoidance of the use of generic terms and all genders should be addressed equally (Shober 2008:138-139).

Trust is built by congruency with words and action and the characteristics of integrity, benevolence and ability (Colquitt *et al* 2007). As effective communication with action, builds trust and the inverse destroys it. The organizational climate between the audit committee and the board should be trusting and supportive (Puth 2002:46). Clear messages, clarifying assumptions, should be sent. This means that messages verbal and non-verbal should be interesting, organized, purposeful, specific and concise. (Adler 2012:45-56). These would allow boards to elicit action thus constructively using communication (Siegel & Schultz 2011).

The literature supports the view that for communication to be effective it is required to be supported by a process - during and after a meeting

(Tuggle, Schnatterly & Johnson 2010; Romano & Nunamaker 2001; Volkema & Niederman 1996). Planning for effective communication is important. It is important to plan organisational meetings to ensure that human resources invested in such meetings are maximised to produce effective communication and audit committee meeting goal achievement (Volkema & Niederman 1996). Scholars concurred that communication would be effective where meetings are supported by the advanced distribution of agendas and minutes of previous meetings allowing the participants to prepare the necessary in committee questions, purposes are clear and there is widespread attendee participation (Rogelberg, Leach, Warr & Burnfield 2006; Rogelberg, Scott & Kello 2007; Volkema & Niederman 1996). Such pre-meeting documents epitomize a powerful tool for audit committee members.

A process during committee meetings is important to ensure goal clarity, focussed communication and team communication effectiveness (Bang, Fuglesang, Ovesen & Eilertsen 2010). Team effectiveness is positively related with goal clarity and focussed communication and that disharmony and lack of trust between parties causes the inverse. Goals direct attention, effort and action toward goal-relevant actions (Locke & Latham 2006). The chairpersons of both audit and board committees should therefore incalcate at the beginning of a meeting a process of clear meeting goals identification. Important is speaking up during the meeting when a goal or communication is not understood to ensure members remain focussed. Such process will improve task performance, quality of member relationships, audit and board committee member satisfaction and focussed communications (Bang *et al* 2010).

The process of communication does not end after the meeting. To ensure audit committee and board accountability the following six practices will foster effective communication and accountability after the meetings. These are (1) setting clear expectations, (2) developing and using policies regarding conflicts of interest, (3) maintaining effective communications with constituencies, (4) conducting audit committee and (5) board performance assessments and (6) experimenting with new communication methods (Tuggle *et al* 2010; Holland 2002; Romano & Nunamaker 2001).

4 METHODOLOGY AND RESEARCH DESIGN

The objective of this study is to examine the effectiveness of the communication processes between audit committees and their boards on internal audit information at three mining companies listed on the JSE. This involved investigating the perceptions of the chairperson of audit committees (CACs), the chairperson of the boards (BCs), one non-executive director (NED) from each company and the chief audit executives (CAEs) because all these parties are pivotal in communicating internal audit information at and between their respective committees as part of good governance (Paterakis & Cefaratti 2014). In total eleven interviews were held. The mining sector was selected for this study due to its past and present importance to the South African developing economy (Hirsch 2005:20). Also due to the current economic turbulence where a strike in the mining sector negatively impacted on the country's economy (Bisseker 2014). Three mining companies were selected from the JSE which allowed for access to other information (such as board and audit committee minutes) to promote tiangulation opportunities.

The research objective has been reached using qualitative research to examine the effectiveness of the communication process between audit committees and their boards on internal audit information at three mining companies listed on the JSE. It requires a deep understanding of the effectiveness of the communication process on internal audit information (Sekaran & Bougie 2013:336). A case study method was selected as it allows for such an in-depth understanding (Creswell 2009). A limitation of a case study is that the findings cannot be generalised and the results of this study should be considered against this limitation. In order to ensure triangulation of data to strengthen the integrity of the data multiple cases were selected and data sources varied. Data sources involved data triangulation of audit committee and board minutes, reports to the board and data sources of transcripts of interviews held with the participants. This has ensured that the research was addressed from multiple perspectives (Sekaran & Bougie 2013: 104). Table 1 provides an overview of the three mining companies selected as cases for this study.

Table 1: Overview of mine A, B and C

	Company A	Company B	Company C
Year end	30 June 2013	31 December 2013	31 March 2014
Type of mine	Mid-tier gold	Platinum start-up	Mining services
Sector	Gold	Platinum	Coal and energy
Region of operations in Africa	South Africa	South Africa	South Africa and Sub Saharan Africa
Mining Start up	No	Yes	No
Profit / (loss) for the year in South African Rand (millions)	559	(11)	(576)
Earnings / (loss) per share in South African cents	35	(0.55)	(92)
Listing	AIM / JSE	JSE	JSE

The three mines were selected for their variety of type, sector, and region of operations, lifecycle and profitability to provide a varied picture of mining operation in South Africa. Eleven semi structured interviews were held. These were three participating CACs, two BCs (Company A and C), one NED from each of the participating companies and the CAE from each of the three companies selected. The semi-structured interviews were based on interview questions (refer to Annexure A) informed by the literature review and were held during the months of October 2014 to May 2015. The full audit committee and board of director meeting minutes were selected for review in each relevant year. Written documents of these meetings were compared with each other to establish whether they corroborated the interviews. Interviews were recorded and independently transcribed. As the data obtained through qualitative analysis involved interview notes, transcripts of interviews, and data analysis and interpretation; this research was focussed on making the correct inferences from the data (Creswell 2009). The data was analysed according to themes and perspectives, by generating categories of information, positioning them in the literature and drawing conclusions (Creswell 2009; Miles & Huberman 1994). Prior to the study ethical clearance was obtained for the research, the participants were made aware of the research and were willing participants in the research. Formal consent was obtained from the participants concerned.

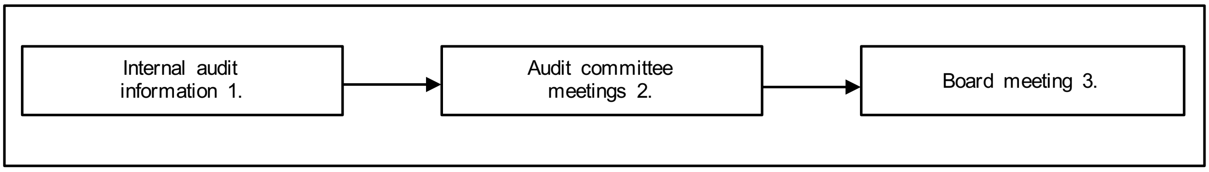
5 PRESENTATION OF FINDINGS

The findings of the study are presented in accordance with the interview questions (refer to Annexure A) which have been informed by the literature review.

What internal audit information is included in the board packs and how is this information communicated to board members? (Interview questions 1 and 2)

The planning of meetings is important (Rogelberg *et al* 2006; Rogelberg *et al* 2007; Volkema & Niederman 1996) and the meetings referred to in the findings were supported by the advanced distribution of agendas and subsequent minutes of the meetings followed. Figure 1 shows the process followed by participants to report internal audit information.

Figure 1: Process followed to report internal audit information



1 The CAE's were responsible to prepare internal audit information based on the internal audit work performed for a specific period.

2 The CAE's presented the internal audit information to the audit committees.

3 The CAC's presented the internal audit information to board members. The CAE's did not attend board meetings.

The CAE's were not present during board meetings (CACs presented the internal audit information to the board) and their views, which follow in the discussions below are based on perceptions from compiling internal audit information and presenting it to the members of the audit committees.

For all participating companies the CAC's were also board members and therefore attended board meetings in that capacity even if they presented internal audit information discussed during audit committee meetings. The other members of the audit committees were also board members. Company A had three board members who were not audit committee members, while for Company B and C there were five and four board members who were not audit committee members respectively.

Earnings restatements and accusations of fraud have undermined public confidence in corporate governance, eliciting discussion on whether communication of internal audit information between audit committees and boards are effective (Paterakis & Cefaratti, 2014; Rezaee *et al* 2003). Questions one and two noted in Annexure A address effective communication with reference to the type of information and the manner in which it is provided. The findings for Company A, B, and C were as follows:

CAC participants

Based on the views shared by CAC participants Company A included internal audit information in audit committee minutes that formed part of the board pack. This was not the case for Company B where no audit committee information, including internal audit information and minutes of the audit committee meeting were submitted in the board pack. Company C distributed the complete audit committee pack, which included the internal audit reports and executive summaries to the board members for information purposes prior to the board meeting. No written summarized audit committee reports were included in the board packs of the three companies. In all instances, only verbal feedback was provided to the board.

BC participants

The BC of Company A concurred that all internal audit reports issued by the internal auditors were included in the board packs. He/she also mentioned that an audit committee summary report including the internal audit information was prepared by the group financial director (FD), approved by the CAC and verbally presented to the board. For Company C the BC participant confirmed that no written audit committee report was included in the board pack and that the minutes of the audit committee meetings were not available. He/she claimed that the board was working six months in arrears with regard to audit committee minutes and relied on the CAC to give verbal feedback to the board. He/she also reported that known critical risks to the business were not communicated to the board and therefore concluded that the risk management was not functional within the Company.

NED participants
NED participants report that for Company A, the CAC verbally presented internal audit information to the board based upon self-prepared notes during the audit committee meeting. For Company B, a short summary of internal audit information obtained by the chairperson during the previous day's audit committee meeting was verbally presented to the board. For Company C the NEDs corroborated that the board pack did not contain any internal audit information. Such information was verbally reported to the board by the CAC.

In order to triangulate the views expressed by the CACs the NEDs and the BC participants of the three selected companies, the minutes of audit committee meetings, and board meetings for the financial year were reviewed. The views of the CAEs were also obtained. Information obtained during the review process is presented in Tables 2, 3 and 4.

Table 2: Internal audit information presented by the CAEs at audit committee meetings

	Company A	Company B	Company C
Meetings	3	4	4
Meeting 1	• Two-year rolling internal audit plan. Areas of review were financial and financial follow up reviews of the previous year. • Plans were not aligned to the risks of the business, as there is no enterprise risk register in operation at the mine.	• The CAE presented no internal status update.	• The 2013 executive summary and detailed internal audit reports over 21 financial processes. • The company has a strategic risk register. Operational risks were not aligned to the internal audit plan.
Meeting 2	• Internal audit engagement letter. The 2013/14 internal audit plan and engagement letter was approved.	• Approved was the half-year internal audit status update and the remaining six months internal audit plan. • The internal auditors developed a financial procedure over a single financial cycle in isolation of the risk register.	• The 2014 internal audit plan and fees presented and approved.
Meeting 3	• Progress against 2013/2014 plan was presented. Progress was on track with the plan. • Internal audit reports on financial process were presented. • Opinions on the adequacy and effectiveness of the systems of internal control were provided.	• Presented and approved was the internal audit status update and the internal audit plan for the remainder of 2013. • No internal audit reviews were performed as agreed in meeting 2.	• No internal audit status update was presented as internal audit work was designed to be performed in the last quarter of the year so that external audit could place possible reliance on the company's systems of financial control.
Meeting 4	• Not meeting held.	• Internal audit status update presented. • Results of internal audits approved in meeting 2 and 3 were discussed. These were two financial cycle reviews.	• The strategic enterprise risk management report was presented. • The 2014 internal audit plan progress update was presented.
Communi-cation style	• The written internal audit plans, progress reports and detailed internal audit reports were clear and concise. • The CAE.to members of the audit committee provided a detailed verbal feedback.	• The written internal audit plans, progress reports and detailed internal audit reports were clear and concise. • The CAE.to members of the audit committee provided a detailed verbal feedback.	• The written internal audit plans, progress reports and detailed internal audit reports were clear and concise. • The CAE provided a detailed verbal feedback to members of the audit committee.
Timing of meeting	• One day before the board meeting.	• One day before the board meeting.	• One week before board meeting.

CAE participants
The CAE for all three companies concurred with the internal audit information presented at audit committees in Table 2. Company A's CAE advised that pre-meetings are held with the CACs which strengthens his/her understanding and conclusions of the information. As Company B was a start-up mine, the focus of internal audit was to develop financial procedures. The CAE of Company B reported the internal audit plan was developed via "*consultation based work where we had developed policies and procedures for them*" to assist management in policy and procedure development and subsequently provide assurance services. A concern raised by the CAE was that their executive summaries were translated into foreign languages and concern was raised on inadvertent misrepresentation of information to the main shareholder as no feedback verification loop was provided. Company C's CAE had no pre-meetings with the CAC and verbally presented their executive summary at the audit committee meeting.

Internal audit information for all companies included financial reviews that were planned, executed and clearly presented by the CAE's within required timelines at the audit committee meetings. An opinion on the adequacy and effectiveness of the systems of internal control was provided in reports and verbally presented. For Company A and C the internal audit plans were not aligned to the risks of the business and operational reviews were not planned and executed.

Table 3: Internal audit information from minutes of audit committee meetings

	Company A	Company B	Company C
Number of meetings	3	4	4
Meeting 1	• No opinion provided on the adequacy and effectiveness of the systems of internal control. • The internal audit plans were debated, but not aligned to the risks of the business.	• Internal auditors requested to work closely with risk management.	• Detailed internal audit information was not aligned to the company risk register. • Processes discussed were information technology, general controls, disaster recovery plans, stock, procurement and asset management reviews.
Meeting 2	• The previous internal audit reports were debated. • Previous internal audit action plans were debated. • Operational internal audit plans were not discussed.	• Internal audit plan, fees and combined assurance plans were discussed and approved.	• Internal audit plans and fees were approved.
Meeting 3	• Internal audit was required to give an opinion on the adequacy and effectiveness of the systems of internal control. • Critical financial internal control weaknesses were presented and debated.	• Revised internal audit plans were discussed and approved.	• The audit committee minutes were not available in the minute book. They could not be found.
Meeting 4	• No meeting held.	• Feedback provided by internal auditors was debated.	• The internal audit plan was not discussed but taken "as read". • Challenges regarding operational risk were noted.
Style of communication	• Written audit committee minutes were cryptic and unstructured. • Verbal feedback was provided to the board by the CAC.	• The CAC did not prepare a written report to the board. • Verbal feedback provided to the board by the chairperson or surrogate.	• The CAC did not prepare a written report to the board. • Verbal feedback provided to the board by the CAC.
Timing of meeting	• One day before the board meeting.	• One day before the board meeting.	• One week before board meeting.

Table 4: Internal audit information from minutes of board meetings

	Company A	Company B	Company C
Number of meetings	5 but only 3 related to the audit committee meetings.	4	4
Meeting 1	• There was no formal feedback on internal audit information. Minutes state, "The feedback was taken as read".	• Internal audit information reported did not corroborate with the audit committee meeting minutes.	• Internal audit information per Table 3 (meeting 1) was not included in the board minutes.
Meeting 2	• No discussion on internal audit information though there was extensive debate at the audit committee meeting (refer to Table 3 meeting 2).	• No discussion of internal audit information (refer to Table 3, meeting 2). • Minutes stated "board committee considered and noted various reports" but these were not specified.	• Internal audit information per Table 3 (meeting 2) was not included in the board minutes.
Meeting 3	• Critical financial internal control breakdowns discussed at the audit committee meeting was not discussed at the board meeting (refer to Table 3, meeting 3).	• Internal audit plan was approved.	• No discussion of internal audit information (refer to Table 3, meeting 3).
Meeting 4	• Not applicable.	• Internal audit plan for the fourth coming year was approved.	• The internal audit plan was communicated. • Challenges regarding operation risk were not mentioned.
Meeting 5	• Not applicable.	• Not applicable.	• Not applicable.
Style of communication.	• Chairperson of audit committee gave verbal feedback. No written feedback report prepared.	• Chairperson of audit committee gave verbal feedback. • In some instances, this was delegated to a surrogate who had no experience of internal audit.	• The chairperson of audit committee gave verbal feedback and presented a written report. However, these written reports could not be obtained.

For all companies fragmented internal audit information was included in the audit committee minutes and based on the minutes internal audit reports and plans were debated. It was however confirmed that these were not aligned with the companies risk registers. No operational internal audits were performed. The CACs did not prepare a written report and gave a verbal feedback to the board.

Based on a summary of the board minutes (refer to Table 4), it appears that internal audit information was not discussed and board members relied on the verbal feedback provided by the CAC. The minutes did not report whether the board members debated the verbally reported internal audit information.

Summary
Internal audit information included in board packs varied and ranged from the inclusion of internal audit reports with supported summaries to a disregard of internal audit information. For Company A and B no written report on internal audit information to the board was included in board packs and only verbal feedback was presented by the CACs. For Company B a surrogate to the chairperson was used to present audit committee information and he/she had no experience in internal audit which could lead to information loss. The reasons mentioned for verbal presentations are that board meetings are held the day after the audit committee meeting and there was no time to prepare a written report. Information noted in audit committee meeting minutes did not corroborate to that recorded in board minutes further corroborating weak upward internal audit information dissemination to the board. Such the effectiveness of internal audit information communicated between the audit committee and the board of directors is questionable.

What are the strengths and weaknesses of the information and how does the board act upon it? (Interview questions 3 and 4)

Stakeholders require boards of directors to be well informed on important risk areas and matters relating to the strategic objectives of their companies. This information is obtained through effective communication from a well-functioning audit committee (IoD 2009; Davies 2008; Cohen *et al* 2007; Mallin, 2003). The key to management communication is to elicit action (Robbins & Judge 2013; Siegel & Schultz 2011) and therefore strengths and weaknesses of internal audit information and how the board acts upon it are important questions to ask (Paterakis & Cefaratti 2014). Adler (2012:15) maintains a strength of the content of the communicated information represents a shared strategic goal.

CAC participants
The CAC at Company A perceived awareness that the IAF reviewed the accounting processes of the company as a strength of internal audit information. It provided assurance on the adequacy and effectiveness of the financial controls of the company, consequently the board partially relied on internal audit information. An information weakness identified by the CAC was that internal audit plans were not based upon formal risk assessments as the internal audit work plan was compiled from discussions with the executive management and the chair of the audit committee. The CAC further asserted, "*the internal audit information did not address the adequacy and effectiveness of operational controls of the company and mining operations and risk registers were not considered in the internal audit work plan*". This resulted in significant risks not being communicated to the board. The CAC believed that although internal audit information was verbally communicated, it was accurate and complete as it was obtained the previous day (the board meeting was followed by the audit committee meeting). He/she however acknowledged that this information was verbally presented, that errors of interpretation, accuracy and specifics may occur which could compromise the accuracy validity and completeness of the reported information. The verbal presentation to the board was not validated to the minutes of the audit committee meeting. At Company C, the complete audit committee pack that includes the internal audit information was presented to the board. The CAC expressed some reservations because there was a lack of understanding of risk management, on how to inculcate it into the business and how to link it to the internal audit work plan which he/she ascribed to management and the board not understanding risk. He/she then confirmed that the board was uncertain that all risks from the mine were communicated to the audit committee and the board. Another weakness identified by the CAC was that communication and issues discussed and considered at the audit committee were repeated at board meetings, resulting in a repetition of what was previously discussed. He/she however maintained that this practice afforded the board with a good understanding of the internal audit findings and recommendations arising from the audit committee meetings.

BC participants
The BC at Company A perceived that information presented by the CAC was debated and understood although these were not minuted, (refer to Table 4). As the CAC was perceived to be competent and experienced, the quality of the information was not questioned. However, the information did not identify significant *top ten* risks that could harm the business financially and damage its reputation. The BC attributed this to the possibility that the internal auditor does not communicate significant findings to the audit committee and thus to the board. A mitigating factor according to the BC of Company A was that the majority of board members sat in audit committee meetings and consequently, all recommendations for improvement in the systems of internal control provided by the internal auditors were indirectly communicated to board members. The BC at Company C reported that only internal audit financial information was reported to the board. The BC at Company C mentioned that "*the banks were on our back, they were saying, covenants were being broken, are we going to survive?*" The internal audit information was not deemed valuable as the board was more concerned about financial sustainability. Due to significant stock write offs the company almost went out of business. The BC at Company C perceived the IAF to be used by the company as a

tick box, as *form over substance*. Consequently, the risks identified by the IAF were not critical to the business. Furthermore, the function did not report on operational information and as management had not implemented an effective risk management process the IAF could not align its work coverage plan to high-risk areas of the business.

NED participants

The NED of Company A perceived the strength of internal audit information lay in its independence and the CAE's verbal presentation to the audit committee. Issues are debated (not minuted as such, refer to Table 4) at a board level and where serious acted upon. A further strength is that all three NEDs preside on both board and audit committee meetings. Weaknesses according to the NEDs relate to lack of discussion on technical information, no pre-committee involvement and no feedback from the board to the audit committee. Company B was a start-up so there was a vacuum in the systems of internal control that the internal audit information addressed through the development of policy and procedures. The integrity and the quality of the internal audit information was not questioned and according to the NED, the board debated and acted on issues. (These debates are not reflected in the minutes. Refer Table 4). A weakness according to the NED participant at Company B was that the internal auditors did not adhere to their internal audit plan due to policy and procedure development. He/she reported that the internal audit reviews agreed in their second meeting were not completed by meeting three. The NED participant at Company C could not adequately address the question, which indicated limited access or understanding of internal audit information and risk though he/he conceded that debate of these issues at both committee meetings assisted in the understanding of company risk. (Also not reflected in the minutes. Refer Table 4).

CAE participants

CAEs of participating companies did not attend board meetings and therefore their views are based on information presented to audit committees and attendance at these meetings. The CAE of Company A believed pre-audit committee meetings greatly assisted in the understanding and communication of internal audit information to executive management and the CAC. Audit committee meetings were short however, providing limited opportunity for debate. NEDs did not debate issues at the audit committee meetings. The CAE was concerned about the lack of effective reporting on enterprise risk management and the inability to develop internal audit plans aligned to the significant risks of the business. According to the CAE of Company B, internal audit information provided assistance in the development of systems of internal control. This assisted the company to value internal audit. A weakness noted by the CAE of Company B was the inability of the company to implement an effective enterprise wide risk management system. Significant mine risks known by the internal auditors were not reflected on the company risk register and were not aligned to the internal audit plan. The CAE participant of Company C perceived the volume and timing of internal audit information to be a weakness because high demands are placed on the audit committee and board to consume it. For example, twenty one (21) financial processes were audited during the last quarter and reported in the first meeting of the following year. The CAE was concerned about the audit committee's ability to digest the information as borne out by the lack of questions raised in the first meeting and expressed doubt about its effective reporting to the board.

Summary

Although the board minutes of the three participating companies did not refer to debates on internal audit information, BCs and NEDs presented contrasting views. They asserted that board members debated such information. The fact that the internal audit information elicited actions from executive management could be regarded as a strength and agrees with the literature (Robbins & Judge 2013:573). However, two BC participants mentioned only partially reliance on the IAF due to limited operational process coverage. Internal audit plans were also not aligned to risks of the company and a recurring theme was the concern that significant operational risks were not communicated to the audit committee or board. It therefore appears as if strategic goal achievement was not emphasized in internal audit information and this could represent a weakness. For all companies, internal audit information was verbally communicated to the board. This was because the board generally met soon after the audit committee and there was no time to prepare a written report. Some concern was expressed that there could be errors of interpretation and accuracy in verbal presentations. Importantly, verbal presentations were inaccurate as information reported at Company B's audit committee meetings was incorrectly recorded in board minutes and did not agree with participants views that internal audit information was debated. The verbal presentation of such information therefore appears to be a weakness. For Company C, most communication discussed at audit committee meetings was repeated at board meetings and although the CAC expressed concern about such practice he/she acknowledged that the information produced was well understood by board members and acted upon. Company C's board was more concerned about sustainability, and significant asset write offs than internal audit information. It appears that communicating internal audit information was not a shared strategic goal (Adler 2012:15) and therefore carried less weight. This could also be regarded as a weakness. Table 5 summaries the findings of the strengths and weaknesses of the internal audit information presented to the board.

The fact that nearly all members of the participating companies' boards also sat on the audit committees and considered internal audit reports during audit committee meetings, could be regarded as a mitigating measure. CAEs were not invited to attend board meetings. The IAF was used as a *tick box* rather than, substance over form.

Table 5: Summary of the strengths and weaknesses of the internal audit information presented to the board

Strengths	Weaknesses
• The board acted on internal audit information presented.	• Internal audit information was not aligned with the risks of the business and industry. • Internal audit information was not considered a strategic goal – other matters were considered more significant. • Internal audit information as presented verbally could result in inaccuracies and omissions.

What do you consider the strengths, weaknesses and barriers in the communication process? (Interview questions 5 and 6)

Previous internal audit studies have emphasized the benefits of effective communication (Paterakis & Cefaratti 2014; Drent 2002). However, the literature offers little insight into operational situations surrounding audit committee interaction with the board. Effective communication indicators include rapport, sharing, listening, clarifying and trust built by congruency with words and action (Adler 2012; Colquitt *et al* 2007).

CAC participants

The CAC at Company A reported that in addition to the formal audit committee meetings, informal meetings were held between the CAC, the executive, external auditors and internal auditors. This practice was established because the previous chief executive officer (CEO) did not communicate effectively at board meetings. The communication was not open and transparent and was held in side sessions with individuals. The CAC mentioned lack of trust in the process as the previous CEO *"loved to play divide and rule"* The CAC at Company B reported that dominant board members stifled the flow of communication. Slow board resolutions took a lot of time because decisions were taken offshore. Another barrier identified was that some members of the audit committee and board did not speak English and they required translation services. The technical strengths of the translator were unknown by the members. Consequently, debate was slow, boring, and interruptions were frequent causing internal audit information to be lost in translation. The CAC of Company B believed that foreign hierarchical cultural barriers negatively affected the debate ("lack of debate") and level of trust in the debate between members. The CAC at Company C perceived the financial executive members of the Company were "not audit friendly". He/she perceived the chief financial officer (CFO) to be dominant, someone who switched auditors often and had a culture of blaming the auditors for weak systems of internal control. The CAC of company C stated that the CFO regarded *"each and every audit finding as a direct reflection on his ability".* Members of the executive took audit findings personally. He/she maintained that the culture at the audit committee was not transparent to discuss and resolve issues and this was exacerbated by disharmony in the relationships between the executive, a weak BC who could not resolve conflict with executive management and that the executive perceived there were more important issues to discuss than internal audit information. He/she supported the statement by claiming the risks facing the business were not communicated to the audit committee and consequently there was no debate around the risks facing the company. The internal auditors were required to assist the executive with a risk management report the day before the audit committee. He/she further believed there was a lack of informal interaction between the chair of the audit committee and the internal auditors.

BC participants

At Company A all board members but one NED were members of the audit committee and this practice promoted effective communication between the audit committee members and the board of directors. The audit committee meetings took place the day before the board meeting. There was no time for the CAC to write a formal audit committee report to the board of directors. When this occurred, a verbal presentation was presented. Consequently, the BC expressed concern that internal audit information was omitted or misconstrued. A mitigating factor is that nearly all board members also serve on the audit committee and were present when the CAE presented the internal audit information. The CAC however had delegated the writing of the audit committee report to the group FD. The BC perceived that some business issues were covered up and not reported to the board and stated *"if something goes wrong, that it is conceivable that it might be covered up".* He/she ascribed it to a lack of trust and fear that there would be negative consequences when the executives made errors. The BC mentioned that most of the board communication took place in informal settings outside of formal board meetings. For Company C the BC acknowledged that the board was dysfunctional and led to a practice of non-communication. He/she acknowledged that the FD "*wouldn't accept responsibility"* and we "*had a breakdown between the board, the audit committee and the executive".* The FD did not take responsibility for adequate and effective systems of internal control and the board was only made aware of significant losses after they had occurred. Due to a lack of supervision, this information was not timeously communicated. At the time, the IAF was restricted from reviewing known significant risks to the business and consequently risk management was not functional. The BC participant believed internal audit was a *tick box affair*. The audit committee spent much time discussing external audit matters and did not pay attention to internal audit information. The internal audit plan was financially orientated and driven by the FD. Reporting on operational information did not occur. The BC participant acknowledged that board members did not understand technical issues of the company and therefore some board members were not committed to the strategy of the company. The BC mentioned in some instances board communication channels were by-passed and they had out of board meetings by e-mail. He/she reported that members arriving late at board meetings which caused meeting interruption. The BC mentioned that he/she could not enter into and control a strategic debate due to dysfunctional relationships at the executive. Members of the executive acted *"without trust and argued at board meetings"*. He /she further believed that board members did not understand the company strategy and their roles and responsibilities in the company. This led to verbal and written disagreements break down in relationships and ineffective communication.

NED participants

The NED participants at Company A were concerned that internal audit information was not regularly, throughout the year communicated and recommended regular reporting of findings would enhance communication. The NED of Company, A stated *"I think our worst thing, all of us, is time"* and *"not enough time is given to debate".* There was lack of time provided to debate findings. The NED at Company B advised that communication was open and enough time was given to discussions however, effective communication was severely slowed down due to foreign speaking members and recommended an English speaking FD who understood the South African legal and financial system. The NED of Company C was concerned that the audit committee minutes were not included in the board pack but that this was offset by adequate verbal communication. He/she did not perceive any barriers to the communication process.

CAE participants

CAEs of participating companies did not attend board meetings and their views relate to audit committee meetings. The CAE of Company A reported that the communication between him/her and the audit committee was mainly on an informal basis, which is a strength and weakness. A strength as communication takes place but a weakness as no mechanism is in place to ensure up and downward communication takes place between the audit committee and board. There is no loopback mechanism. Concern was raised that communication by the CAC to the board was verbal and there was potential for information loss from pre-audit committee meetings, to the audit committee to the board meeting. The CAE of Company B considered the audit committee communication process significantly weak due to foreign translation, culture, in-committee side meetings, and a lack of trust manifested as lack of transparency and infighting between South African and foreign members. The CAE of Company C considered formalized communication practices as a strength. Weaknesses noted were a dominant FD, limitation on internal audit scope, non-alignment of the internal audit plan to company risks and strategic objectives, weak risk management practices and a weak relationship with the CAC.

Summary

The communication process between the audit committee and the board is influenced by board dynamics. For example, ineffective communication of a previous CEO at Company A lead to a communication protocol driven by informal (one-on-one meetings) rather than formal meetings. With reference to past practices, various weaknesses in the former communication process were identified; not being open, transparent thus compromising trust building. The fact that communication by the CAC was verbal could result in internal audit information being omitted or misconstrued. This could be mitigated if the majority of board members sit on the audit committee as in the case of the participating companies. The final audit committee report was delegated to the group FD further risking loss of information. Company B had a weak communication process, which could be ascribed to cultural, and language barriers. There were dominant board members, slow board resolutions, members who did not understand English, the use of translation services, slow debate, interruptions, and a lack of trust in debate due to hierarchical cultural barriers. Consequently, most of the board communication took place outside formal board meetings, a strength that at least matters were communicated but also a weakness because the process was not open and transparent. Company C exhibited severe weakness in the communication process due to disharmony in relationships between the executive and a lack of trust. It exhibited the following dysfunctional communication barriers: pre-conceived perceptions that some executives were not audit friendly, a dominant FD who had a culture of blame and not taking responsibility and members of the executive who were overly sensitive towards internal audit findings. There were personal conflicts between the executives. Together these have resulted in a culture not to discuss and resolve issues. An interesting finding is that the CACs and BCs were quite outspoken about weaknesses and barriers in the communication process of all participating companies, while the NEDs had contrasting views and did not discuss board differences. The NEDs of company C for example did not perceive any barriers in the communication process. The BC of Company C however expressed some reservations on the understanding of board members of the knowledge of business and the company strategy. It could be questioned whether clear messages were sent which as Adler (2012:45-56) suggest should clarify assumptions. This is another weakness in the communication process. Table 6 summarizes the strengths, weaknesses and barriers of the communication process.

How do you debate controversial issues on breakdowns in the systems of internal control? (Interview question 7)

Management of controversial debate in board and audit committee is important to drive management action and effective communication elicits action (Robbins & Judge 2013; Siegel & Schultz 2011). Debating controversial issues effectively will build rapport, assist in the sharing of strategic goals, and ensure active listening which assists in clarifying debate (Adler 2012; Hubbard 2000).

Table 6: Summary of the strengths, weaknesses and barriers of the communication process

Strengths	Weaknesses	Barriers
• Informal sessions were held to discuss internal audit information.	• Instances were referred to where the communication process could not be considered effective because it did not make provision for: ○ open debates, ○ to be transparent, ○ to build trust, ○ clear messages to be portrayed. • The frequency of communicating internal audit information.	• Culture barriers. • Language. • Board dynamics: ○ dominance of a single board member, ○ disharmony in relationships of board members. • Preconceived perceptions about internal audit. • Conduct of board members: ○ Arriving late, ○ Interrupting debates, ○ Displaying limited understanding of internal audit matters.

CAC participants
Based on views expressed by the CAC at Company A, there was robust debate during audit committee meetings relating to weaknesses in systems of internal control. This enabled the audit committee to resolve issues and to report to the board. The CAC at Company B shared this sentiment and followed the same process. The CAC at Company C reported that controversial issues and breakdowns in the systems of internal control were debated and resolved during informal meetings. These meetings were held outside of the formal meetings of the audit committee and board. He/she acknowledged the need for greater informal interaction between the CAC and the internal auditors.

BC participants
The BC at Company A expressed favorable views. He/she reported that the CAC verbally presented the audit committee report after the controversial issues had been debated during the audit committee meeting. A strong CAC and FD further debated all issues related to systems of internal control during board meetings. From views expressed by the BC at Company C, debate during board meetings was poor particularly between the FD and board. He/she ascribed it to the fact the FD took matters personally and refused to accept the responsibility to correct weaknesses in the systems of internal control.

NED participants
NEDs of Company A and C concurred that controversial issues were debated and discussed effectively during the audit committee meetings. Where necessary management were excused to allow the CAEs to discuss points of contention freely. The NED of Company B reported that although time was allowed to debate any controversial issues during board meetings due to cultural, language differences and a dominant foreign shareholder these debates were not constructive.

CAE participants
CAEs did not attend board meetings and only reflected on audit committee meetings. The CAE of Company A expressed generally favorable views. In-committee debates were rare as controversial issues were debated and resolved through the CAC's involvement in meetings held prior to formal audit committee meetings. Debates in Company B were perceived as dysfunctional and were confrontational, as foreign audit committee and board members did not recognize internal audit findings as beneficial. The CAE ascribed it to cultural differences. The CAE of Company C confirmed that debate was poor between the FD and members of the audit committee and that there was tension between the executive, the CEO and the FD. The FD interrupted debates and the CAE mentioned that *"because of this aggressive behavior from individuals. Specifically the FD, it was as if the chair then just to avoid conflict rather would back off and then say okay well just prepare and come prepared next time"* the FD withheld information from the audit committee.

Summary
For all three companies an attempt was made to debate controversial issues. It appears that controversial issues on breakdowns in systems of internal control was mainly conducted at audit committee meetings during which the CAEs were present. Board dynamics, as previously reported again influenced the debate at Company B resulting in ineffective communication.

What is your perception of the interaction of the chairperson of the audit committee and members of the board and what attributes are needed? (Interview questions 8)

The key to management communication is to elicit action. This involves upward, downward and lateral communication (Robbins & Judge 2013; Siegel & Schultz 2011) during which CACs should have the necessary attributes to incalcate at the beginning of a meeting or process goals identification (Locke & Latham 2006).

CAC participants
The CAC at Company A believed that he/she could be regard as assertive and he/she was well respected by the board, especially by the FD and CEO. He/she identified the following important attributes: courage in communication, taking responsibility when there were company challenges, assertive, knowledgeable and being a coach to the audit committee or board of directors. CACs at Company B and C held similar views and added knowledge and skill of the subject matter, discipline, eloquence, being audible, un-emotional, displaying emotional intelligence particularly around sensitivities of culture and dealing with the issue and not the person were identified as needed attributes.

BC participants
The BC at Company A regarded the CAC as diligent and well prepared for meetings and able to debate issues with members of the board. He/she valued the following attributes: being knowledgeable, assertive and displaying strong leadership skills. The CAC should have a sound financial and operating knowledge of the business, and understand the mining industry. This will ensure effective communication. The BC at Company C expressed concern about the information tabled by the CAC, which in some instances was not understood by board members. He/she maintained that the CAC should not be domineering, and should participate in issues discussed. The chairperson should be the *conductor of the audit committee or board* and come across unnoticed, yet effectively communicate the issues raised by the members. The CAC should display empathy and understand his fellow member's personality and capabilities. The chairperson should be strategy and goals orientated, a coach and summarize long debates. Most importantly, the CAC should ensure proper minute taking is performed, as this is the only record of conversation the board has.

NED participants
The NED of company A regarded the CAC as a *strong, experienced and respected individual* who displayed courage to confront difficult issues. The NED of Company B perceived interaction between the CAC and board members to be *short yet precise* and for the NED as company C it was satisfactory. The NEDs of all companies recognized the CAC attributes of an ability to listen, technical knowledge, experience written, verbal and articulation skills, assertiveness and the ability to lead a strategic debate.

CAE participants
The CAE's of the three companies had similar views to the non-executive directors

Summary
Views expressed about the interaction of the CACs with board members mirrored participants perceptions about the effectiveness of communication. Where the latter was positive, the interaction was also perceived in a positive light. Although Company B and C had weak communication, participants of the three companies recognized the attributes needed by the CAC for effective communication. All agreed that knowledge of the subject matter, being assertive, courageous, taking responsibility, and displaying empathy are necessary. Being the conductor of the meeting, and instilling a strategic outcome debate was also deemed important. The effective minute takings of conversations were necessary.

6 CONCLUSIONS, RECOMMENDATIONS AND AREAS FOR FUTURE RESEARCH

This article examines audit committee's communication on internal audit to boards of directors, a topic that has come to the fore due to recent local and international corporate failures. Previous studies raised concern over effective audit committee communication, a relatively unexplored area. There is anecdotal evidence that internal audit information may be omitted, diluted or misrepresented to the board due to a variety of reasons and it forms the focus of this article. It adds to the current knowledge as the literature review revealed that most audit committee studies focus mainly on audit committee composition, its authority, resources and diligence and not on the actual process of communication (DeZoort *et al* 2002). The study had certain limitations. The research was limited to three listed companies on the JSE that were operating in the mining sector (chosen due to recent mining sector strikes that have affected the South African economy) which offered triangulation opportunities. The literature offers little insight into the operational situations surrounding audit committee communication and the manner of non-verbal, written, oral or interpersonal interaction between these committees and whether such communication was effective. Consequently; communication literature was drawn upon to determine effective communication indicators. Semi structured interviews were held to determine communication effectiveness with participating CACs, BCs, NEDs and CAEs and eight interview questions informed by the literature review were answered.

The findings of the study revealed that limited internal audit information was included in board packs and this information was poorly communicated. This weakness was mitigated as most board members participated in audit committee meeting. Information communicated did not always corroborate with the contents of the internal audit reports presented by the CAEs at the audit committee. Internal audit information reported in the minutes of board and audit committee minutes did not always agree. The CACs did not prepare a written report and only verbal feedback was provided to the board. The findings show that internal audit information presented to the board was limited to a review of the financial process and was not aligned with company risks. Significant operational risks were not communicated to the audit committee or the board and it therefore appears that strategic company goals were therefore not emphasized in the internal audit information. These could be considered as weaknesses while the strength of the information reported on was that it elicited board action.

The findings show that the communication processes had strengths, weaknesses and barriers were identified. A strength was that internal audit information was discussed, also in informal meetings other than audit committee and board meetings. Weaknesses identified were the lack of an open, transparent debate, which could build trust between members. Infrequent reporting of internal audit information was deemed as a further weakness. In some instances board dynamics such as established practices based on the past, conduct of dominant board members, and disharmony in relationships of board members acted as barriers. Culture and language barriers also resulted in ineffective communication processes. The conduct of members (arriving late for meetings, interrupting debates, and poor understanding) could also be regarded as barriers. Controversial issues on breakdowns in the systems of internal control were debated at all three participating companies but these were mainly held during audit committee meetings. Participants at all three of these companies recognized the attributes needed by a CAC for effective communication. These include having knowledge of the subject matter, being assertive, courageous, taking responsibility, and displaying empathy where necessary. Being the conductor of the meeting, and instilling a strategic outcome debate was important. The study found perceptions about the interactions of CACs with board members mirrored their views about the effectiveness of the communication process.

As this article was limited to three mining companies future research should explore a larger sample of companies, to determine whether the results from this study are endemic to the South African business community. Such research could focus on the required communication protocols to ensure useful, accurate and complete internal audit information is presented to the board of directors. Future studies should be undertaken to determine the control mechanisms necessary to ensure board pack information is complete. CAC communication practices need to be explored to decide whether communication conventions should be formalised. Attributes of effective communication between the CAC and board could be studied to determine whether they predict effective strategy implementation.

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ANNEXURE A – INTERVIEW QUESTIONS

1 What internal audit information is included in the board packs?

2 How is this information communicated to board members?

3 What do you consider the strengths and weaknesses of the information?

4 How does the board act on this information?

5 What do you consider the strengths and weaknesses of the communication process?

6 What do you perceive to be the barriers to the communication process?

7 How do you debate controversial issues on breakdowns in the systems of internal control?

8 What is your perception of the interaction of the chairperson of the audit committee and members of the board and what attributes are needed?