UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Gordon Institute of Business Science
University of Pretoria

The effect of the composition of the audit committee of a company on the quality of the annual report

Prajay Maharaj

14443946

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

9 November 2015

Abstract

The audit committee of an organisation plays a critical role in the quality of the annual report, the risk management process and governance within an organisation. The annual report of an organisation is used by numerous stakeholders including investors to make investment decisions. The composition of the audit committee with respect to the type of expertise and experience represented on the committee as well as individual characteristics of the audit committee members influences the effectiveness of the audit committee and hence the quality of the annual report and the risk management process. The investigation conducted by the researcher included an analysis of the audit committees of twelve South African companies across three industries which were banking, mining and retail. In addition three Indian companies were also reviewed, one from each industry and a comparison conducted between the South African and Indian companies. The analysis looked at the expertise represented on the audit committee, the diversity of the audit committee, and the functioning of the audit committee. The researcher analysed the individual characteristics of the members of the audit committee including the independence, remuneration, tenure and number of directorships of the members. The outcome of this investigation suggested that the effectiveness of the audit committee is not only dependent on the composition of the audit committee but also on the structure of the audit committee meetings and other factors which could include leadership.

Keywords

Audit committee

Enterprise risk management

King III

JSE Listing Requirements

Expertise

Abbreviations

ABIL	African Bank Investments Limited
Clicks	Clicks Group Limited
Companies Act	Companies Act 71 of 2008
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
IODSA	Institute of Directors Southern Africa
JSE	Johannesburg Stock Exchange
King III	King Report on Governance 3
King IV	King Report on Governance 4
KIOCL	Kudremukh Iron Ore Company Limited
Kumba	Kumba Iron Ore Limited
Lonmin	Lonmin Plc
Pick n Pay	Pick n Pay Holdings Limited
RMB	RMB Holdings
SAICA	South African Institute of Chartered Accountants
SBG	Standard Bank Group
SIC	Standards Interpretation Committee
SPAR	The SPAR Group Limited
TFG	The Foschini Group

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorization and consent to carry out this research.

______________ 9th November 2015

P. Maharaj Date

Contents

Chapter 1: Introduction

The annual financial statements of an organization are relied upon by a number of users to determine the financial performance, for a particular financial period as well as the financial position of a company at a given date. These users include shareholders and other investors, financiers, suppliers, customers and communities, amongst others. The financial statements are included in the integrated report in South Africa, as required by King III Report (KPMG, 2009). The Sustainability Report of the company forms part of the integrated report. South African companies must comply with the Companies Act 71, of 2008 (Republic of South Africa, 2009), which requires a company to establish an audit committee that has at least three independent directors as members and has specific responsibilities that are set out in the act. These requirements are in line with King III Report and the JSE listing requirements (KPMG, 2009; Republic of South Africa, 2009; KPMG, 2013).

The responsibilities of the audit committee are directly linked to the quality of the information included in the integrated report, especially the information relating to the financial performance and financial position of the company. These responsibilities includes the management of the combined risk assurance function that comprises of both internal and external assurance functions, the review of internal financial controls and the annual internal audit plan of the company which is required to be risk based (IODSA, 2009). There are also certain elements of risk that need to be managed by the audit committee which include the management of financial risks associated with financial reporting, internal financial controls, fraud and information technology (IODSA, 2009). Given the responsibilities around financial risk, the researcher investigated whether there was representation of the audit committee on the risk committee of the companies investigated and representation of the risk committee on the audit committee, in companies where a risk committee was established.

In this investigation the researcher examined companies that were listed on the JSE within the top 100 in 2013 and formed part of the EY Excellence in Integrated Reporting 2014 (EY, 2014). This report ranked the top 100 listed companies and 10 state owned entities based on the quality of their integrated reports. The report sets out companies in four categories which are: excellent; good; average and needs improvement. Where possible the companies selected per industry were one from each of these categories, thereby ensuring comparability between composition of the audit committee and the ranking of the integrated report. The companies chosen were from 3 main industries namely Mining, Retail and Banking. This allowed for the comparison of companies within industries, as well as across industries to determine the effect of the composition of the audit committee of the quality of the integrated report. A further sample of Brazilian listed companies were selected, one from each industry, and a comparison conducted between these companies and their South African counterparts.

The researcher in this study also compared the risks identified in the integrated report to the risks identified by the risk experts for the specific industry to determine if the risks identified by the board and the management team were in line with those identified by the risk experts. The composition of the audit committee and the relationship between the audit committee and the risk committee, if established, were used to determine whether or not the audit committee was effective when managing key risks facing the business. The role of the audit committee in risk management was considered key since the audit committee is responsible for risk based internal audit plan and for the combined assurance function within the company (IODSA, 2009).

In determining the criteria used for the analysis of the composition of the audit committee the researcher used the results of previous investigations conducted by various researchers. Kamolsakulchai (2015) suggested that the effectiveness of the audit committee is determined by the independence, size and frequency of meetings and expertise of the audit committee. It is suggested that the greater the number of independent board members, the higher the quality of financial reporting. It was found that an increased number of members in the audit committee, increase the expertise represented on the committee and therefore increase the quality of the financial reporting. However the number of members needed to be within an appropriate level beyond which the audit committee loses effectiveness and the quality of the financial reporting reduces.

The expertise represented on the audit committee, specifically financial and legal expertise have been the subject of numerous investigations, which suggested that the presence of financial (Iyer, Bamber and Griffin, 2013; Keune and Johnstone, 2012; Bedard, Chtourou and Courteau, 2004; Defond, Hann and Hu, 2005) and legal (Krishnan, Wen and Zhao,

2011) expertise on the audit committee improves the committee's effectiveness. However, the investigation into the effect of the presence of industry specific expertise on the audit committee relative to the effectiveness of the committee has not been conducted until recently (Cohen, Hoitash, Krishnamoorthy and Wright, 2014). It was found by Cohen, Hoitash, Krishnamoorthy and Wright (2014) that the presence of industry specific expertise on the audit committee improves the effectiveness of the committee.

In addition there has been research that indicated that audit committees with members that hold multiple directorships, as well as have long tenure are not as effective (Sharma and Iselin, 2012). It was suggested that the effectiveness of the audit committee was reduced due to the members not having enough time to focus on all the companies and hence allowed material misstatements to be included in reports without being detected. The long tenure of members of the audit committee resulted in reduced independence of the audit committee members as the interaction between the audit committee and management resulted in personal relations being developed that made it difficult for the members of the audit committee to reprimand management when necessary.

The amount, type and duration of the remuneration of the members of the audit committee had an impact on the effectiveness of the audit committee and the individual members. This type and duration of the remuneration affected the independence of the members while the amount of remuneration was a determinant of the time spent by the member on the delivering in terms of their responsibilities to a specific company (Bierstaker, Cohen, DeZoort and Hermanson, 2012). The importance of the time spent by members on the effectiveness of the audit committee is further supported by the work conducted by Kamolsakulchai (2015).

The status of the audit committee member which includes number of directorships and the academic institution attended was used by management as a basis for the perceived competence of the specific member (Badolato, Donelson and Ege, 2013). This perception had an impact on the ability of the specific audit committee member to deliver on his/her responsibility. In this study it was found that the greater the number of directorships, the greater the perceived competence of the audit committee member, however this is contrary to the findings of Sharma and Iselin (2012) that an increased number of directorships reduced the available time the audit committee member has to spend on the business of the specific company, which reduced the members effectiveness.

Salvioni, Bosetti and Almici (2013) found that Brazil, Russia, India and China (BRIC) have a similar corporate governance framework, as South Africa, in place which consisted of laws as well as guidelines or codes that set out the requirements, roles and responsibilities of the audit committee in ensuring proper corporate governance. The importance of corporate governance in emerging economies was further emphasized by the work conducted by Bennedsen, Nielsen and Nielsen (2012) that found that investor protection is crucial to economic growth and financial development. However Millar (2014) suggested that corporate governance is dynamic instead of static and needs to evolve as the business environment changes.

Based on the responsibilities assigned to the audit committee by current legislation and governance regulations, it is evident that companies need to appoint an audit committee that is effective in order to ensure high quality reporting and financial risk management. The composition of the audit committee is currently not prescribed by legislation or regulation except for the membership not being lower than 3, the chairman of the Board cannot be the chairman of the audit committee (KPMG, 2009; KPMG, 2013; Republic of South Africa, 2009) and that the members need to be appropriately qualified (Republic of South Africa, 2009). The appropriate qualification is not clear in current theory and to date most of the studies focused on the legal and financial expertise of the audit committee (Cohen, Hoitash, Krishnamoorthy and Wright, 2014).

The purpose of this study is to compare the composition of the audit committees of companies within the same industry, as well as across industries to determine if significant differences in composition exist and if so, does the quality of the integrated report also differ. The need for this study in a South African and BRICS environment is deem to be important due to the need in these economies for investment (BertelsmannStiftung, 2011) and is further supported by work conducted by Bennedsen, Nielsen and Nielsen (2012). Good corporate governance which results affect financial reporting is required to provide investors with quality financial and sustainable information that is reliable and accurate on which to base investment decisions. Since the audit committee plays a key role in ensuring appropriate financial risk management, internal and external audit management and reporting, it is proposed that the composition of the audit committee is a key enabler to effective corporate governance.

An analysis of the audit committee of one company per selected industry from one of the BRIC's countries – in this case Brazil was conducted and the composition of audit committee of the companies compared to the South African companies in the respective industry. Most of the studies identified have been conducted in the United States of America where the provisions of the Sarbanes-Oxley Act (Agoglia, Doupnik and Tsakumis, 2011) have to be adhered to. This act is more rules based rather than principle based as is the case with the International Financial Reporting Standards (SAICA, 2014) or the King III Report that regulate financial reporting (IODSA, 2009) and disclosure in South Africa. Millar (2014) suggested that patterns of development in emerging economies are not aligned to those of developed economies and that corporate governance rules based on Anglo-American rules often resulted in companies in emerging economies trying to circumvent them. Hence this study was designed to test whether work conducted in other economies was relevant in a South African and BRIC's (specifically India) context.

This study also provides information to companies as to the criteria that affect the composition of an effective audit committee, which will allow the board to nominate directors to the audit committee that meet the necessary criteria. The study provides regulators with appropriate information to provide more guidance either in the form of revised guidelines or legislation, which will ensure that the composition of the audit committee promotes its effectiveness.

The remainder of this document consists of:

Chapter 2: A review of the theory and literature around the audit committee, especially in South Africa and the respective regulations and legislations that govern the functioning of the committee;

Chapter 3: A discussion of the propositions investigated by the researcher;

Chapter 4: The proposed research methodology and design to be used in conducting this study which includes:

- Choice of methodology
- Population
- Unit of analysis
- Sampling method and size
- Measurement instrument
- Data gathering process
- Limitations

Chapter 5: The results of the analysis of the data;

Chapter 6: A discussion of the results; and

Chapter 7: Conclusion including a discussion of the limitations of the investigation.

Chapter 2: Literature review

2.1. Audit Committees in South Africa

There are four key contributors to the theory around the audit committee and its roles and responsibilities. These include the Companies Act 71 of 2008 (Republic of South Africa, 2009), the King Code for Governance for South Africa 2009 (IODSA, 2009), the Listing requirements of the JSE (KPMG, 2013) and the International Financial Reporting Standards (SAICA, 2014). The first three contributors determine the roles and responsibilities of the audit committee as well as the membership of the committee, while IFRS provides the standards that are to be used when preparing and maintaining the accounting records of the company as well as when preparing the annual financial statements of the company.

2.1.1. Companies Act 71, of 2008

The Companies Act 71, of 2008 was enacted in South Africa on 9 April 2009 and replaced Companies Act 61, of 1973 and the Closed Corporation Act 69, of 1984. Section 30 of the Companies act sets out the requirements of the annual financial statements of the company and requires these to be audited in the case of a public company. The public company is defined in the Companies Act as "a profit making company that is not a state-owned company, a private company or a personal liability company" (Republic of South Africa, 2009). Part C of Chapter 3 of the act sets out the provisions that govern the appointment, rotation rights and restrictions of the auditor and also provides for the resignation of auditors and how to deal with a vacancy.

Section 94 of the act requires all companies to have an audit committee, unless the specific exclusions as set out in subsection 1 and 2, are met (this exclusion apply to banks and companies that do not provide for an audit committee in its memorandum of association). The composition of the audit committee has to comply with the provisions of section 94 (4) of the act which includes the following (Republic of South Africa, 2009):

- The committee must consist of at least three members that are directors of the company and meet the minimum qualification as determined by the minister;
- The members must not be involved in the day to day management of the company;

- The members are not full time employees or prescribed officers (as defined in the act) of the company and have not been for the previous three years.
- The member is not a material supplier or customer of the company, which could result in the independence of such a director being questioned.

The duties of the audit committee are set out in section 94 (7) of the act and in summary are as follows (Republic of South African, 2009):

- Appoint the independent auditor;
- Determine the fees to be paid to the auditor in respect of audit fees;
- Pre-approve any provision of non-audit services to the company by the auditors;
- Prepare a report that forms part of the annual financial statements that describes how the audit committee carried out its function, stating its satisfaction or not of the independence of the auditors, and comment on the financial statements, accounting practices and internal financial controls of the company;
- To deal with any complaints or concerns from within or outside the company relating to the control environment including internal financial controls, and the annual financial statements or the auditing thereof;
- To report to the Board on financial policies, controls, records or reporting;
- To develop and implement a policy and plan for systematically evaluating and improving risk management, control and governance processes.

The act also sets out the criteria to be used when determining the independence of the auditors which are set out below (Republic of South Africa, 2009; Republic of South Africa, 2011)

- The auditors do not receive any direct or indirect remuneration from the company other than that for audit services and pre-approved non-audit services;
- The auditor's independence is not prejudiced by a previous appointment as auditor or as a consultant, advisor or other work undertaken by the audit company;
- Use other criteria as set out in the Independent Regulatory Board for Auditors which is governed by the Auditing Professions Act.

Companies that fall under the Bank Act 94, of 1990 are exempt from the provision of the Companies Act provided they have an Audit Committee that meets the requirements of section 64 of the said act (Republic of South Africa, 2009).

2.1.2. King code of governance for South Africa 2009 (King III Report)

The King code of corporate governance 2009 is the third rendition of the King code. The report has been developed under the guidance of the chairman of the King Committee, Mervyn King in association with the IODSA of South Africa. The King Committee was established in 1992, with the committee and the code developed being internationally recognized. The code has been developed on a 'comply or explain' principle which requires companies to disclose their compliance to the code in their annual report (IODSA, 2009). The provisions of the King III report require that an audit committee be established, the membership requirements of which are aligned with that of the Companies Act. The responsibility for the approval of the external auditors and reviewing of their independence is also in line with that of the Companies Act (KPMG, 2009; IODSA, 2009).

There are however additional responsibilities assigned to the audit committee by the King III report. This includes the responsibility for the review and comment on the annual financial statements included in the integrated report. The audit committee is also required to consider the factors and risks that specifically influences the financial reporting of the company. The sustainability report that forms part of the integrated report must be reviewed by the audit committee to ensure that the financial information in the sustainability report does not conflict with other financial information (IODSA, 2009).

The responsibility for the combined assurance model of the company is assigned to the audit committee in terms of King III (KPMG, 2009). This implies that the audit committee is responsible for ensuring that the combined assurance model, employed by the company, is appropriate to address significant risks faced by the company. The relationship between the external auditor and the company must be monitored by the audit committee to ensure that the independence of the external auditor is maintained. The oversight of the internal assurance function of the company falls within the ambit of the audit committee. This includes the appointment, performance assessment and dismissal of the chief audit executives (CAE), as well as an independent quality review of the internal audit function and approval of the internal audit plan. The committee is also required to carry out an annual review of the Finance function within the company and report on the outcome of the review (KPMG, 2009).

The audit committee should form part of the risk management process and should have oversight of the following risks and controls that have an impact on financial reporting (IODSA, 2009):

- Financial reporting risk;
- Internal financial controls;
- Fraud risks; and
- Information technology risks.

King III also recommends reporting requirements for the audit committee which include the following (IODSA, 2009):

- report to the Board on its statutory duties as well as on any other duties assigned to it;
- report to shareholders on its statutory duties on how the duties were carried out, that it is satisfied with the independence of the auditors, its view of the financial statements and the accounting practices, and effectiveness of the internal financial controls;
- provide details of its role, composition, number of meetings and activities; and
- should recommend the integrated report for approval by the Board.

The King III report requires a company to prepare an Integrated Report on an annual basis, which should be prepared in an environment where there are adequate controls to ensure that the integrity can be verified and safeguarded (IODSA, 2009). The integrated report should include sufficient financial and sustainability information and should focus on substance over form. The integrated report should include commentary on the company's financial results, that the company is a going concern, the main sources of income for the company and the positive and negative impacts of the business activities. The report should disclose plans to reduce or to alleviate negative effects and improve on positive effects during the following year (IODSA, 2009).

2.1.3. JSE listing requirements

Similar to the King III report and the companies act, the JSE requires the audit committee to have at least three non-executive directors as members. However the JSE provides that the non-executive chairman of the Board can be a member of the audit committee provided that he/she is not the chairman of the audit committee, the dual role is disclosed to the shareholders and the shareholders must approve the appointment of the chairman of the Board to the audit committee (KPMG, 2013).

In addition the audit committee must have a policy that governs the provision of non-audit services by the auditors. The audit committee is also required to consider the experience and expertise of the financial director on an annual basis and to disclose this in the annual report. A similar process and disclosure is required by the audit committee on the competence of the company secretary and a statement confirming that there is an arms-length relation between the audit committee and the company secretary (KPMG, 2013).

2.1.4. International financial reporting standards

The preparation of annual financial statement of South African companies is informed by the International Financial Reporting Standards which consist of 28 IAS statements, 26 IFRIC and SIC interpretations and 14 IFRS statements (SAICA, 2014). The IAS and IFRS statements set out the principles that need to be followed by companies when preparing financial statements including the accounting and disclosure of specific transactions, assets and liabilities. The interpretations provide further guidance on how the standards should be implemented when preparing financial records and reports. Though most of the statements apply to companies in all industries that have the specific balance sheet item or transaction, there are statements and interpretations that are industry specific for example IAS 11 on Construction Contracts, IAS 41 on Agriculture and IFRIC 20 on Open Pit Mining (SAICA, 2014). As per the Companies Act and King III the audit committee is responsible for the quality of the financial statements, reports and records, hence the audit committee should be familiar with the accounting standards and the required disclosure.

2.2. Audit committees in BRIC countries

Similar to the corporate governance framework in South Africa; Brazil, Russia, India and China (BRIC) have laws as well as guidelines or codes that set out the requirements for companies (Salvioni, Bosetti and Almici, 2013). The laws and regulations of the respective countries are as follows.

2.2.1. Brazil

The company law that is applicable in Brazil is Law 6404 of December 15, 1976 which has been enacted by the Brazilian government, the Recommendation on Corporate Governance issued by the Securities and Exchange Commission of Brazil in 2002, and the Code of Best Practice of Corporate Governance issued by the Brazilian Institute of Corporate Governance in 2009 provide the corporate governance framework in Brazil (Salvioni, Bosetti and Almici, 2013).

The provisions of the above framework require the audit committee to be the custodian of the relationship with the auditors, review the financial statements, promote and encourage financial accountability to ensure effective internal controls and to ensure compliance with the company's code of conduct. The audit committee should consist of only directors, preferably independent directors with one member representing minority interests (Salvioni, Bosetti and Almici, 2013).

2.2.2. Russia

The corporate governance framework in Russia consists of the Federal Law of the Russian Federation No. 208 – F2 of December 26, 1995 and the Corporate Governance Code issued by the Federal Commission of Security Markets in 2002. This framework requires that the board of directors appoint an audit committee that consists of only independent directors, or if not possible, should be chaired by an independent director and all members should be non-executive directors. The audit committee is required to control the financial and business operations and to make recommendations with respect to the selection of an independent auditor (Salvioni, Bosetti and Almici, 2013).

2.2.3. India

The Companies Act (1956) as amended, Clause 49 of the Listing Agreement introduced by the Securities and Exchange Board of India in 2000 (revised on numerous occasions until 2008) and the Corporate Governance Voluntary Guidelines issued by the Ministry of Corporate Affairs in 2009 form the corporate governance framework in India. This framework requires all companies that have a paid up capital of 50 million rupees to set up a qualified and independent audit committee. The audit committee should consist of at least three directors with the majority being independent. The chairperson must be independent and at least one member should have accounting or financial expertise. The audit committee is responsible for oversight over the financial reporting and review of the financial statements, including the statement of related party transactions. In addition the audit committee is required to monitor the performance of internal and statutory auditors, to review internal audit findings, investigate and implement corrective actions as well as to correct internal control weaknesses (Salvioni, Bosetti and Almici, 2013).

2.2.4. China

In China the governance framework consists of the Companies Law of the Peoples Republic of China promulgated on 1 January 2006, Code of Corporate Governance for listed companies in China which was issued by the China Securities Regulatory Commission (CSRC) and the State Economic and Trade Commission in 2001, Establishment of Independent Director System by Listed Companies Guiding Opinion issued by the CSRC in 2001 and the Code of Corporate Governance Practices, Appendix 14 of the Hong Kong Stock Exchange Listing Rules. In terms of this framework, the board of directors may establish an audit committee consisting of only directors with the majority being independent, an independent chairperson and at least one independent member that has accounting expertise. The audit committee is responsible for recommending the appointment or replacement of the external auditor, the management of the relationship between the internal and external auditors, review and monitor the internal control system, and review of financial information and disclosure (Salvioni, Bosetti and Almici, 2013).

2.3. Current literature

The composition of the audit committee plays an important role in its effectiveness. The composition determines various factors which include, amongst others, independence, expertise and experience (Dobija, 2015). There have been numerous studies completed, some of them in recent years that suggest that the performance of the audit committee is affected by the financial expertise (Iyer, Bamber and Griffin, 2013; Keune and Johnstone, 2012; Bedard, Chtourou and Courteau, 2004; Defond, Hann and Hu, 2005), legal expertise (Krishnan, Wen and Zhao, 2011) and industrial expertise (Cohen, Hoitash, Krishnamoorthy and Wright, 2014). In the paper published by Cohen, Hoitash, Krishnamoorthy and Wright (2014), it is suggested that it is one of the first papers to deal with industry expertise of the audit committee and the effect it has on the performance of the committee. It is suggested that the industry expertise allows the audit committee to be in a better position to evaluate the accuracy of accruals and provisions as well as sustainability of the company. Industry expertise are also necessary when the audit committee is assessing the risks associated with the company, as it is believed that the individuals with industry experience and expertise would be able to identify key risks more effectively and be able to assess the controls in place to mitigate such risks. In addition Sultana, Singh and Van der Zahn (2014) suggest that prior experience of members on audit committees has a positive effect on the quality of the financial reporting of a company.

Diversity of the board of directors was investigated by numerous researchers with the effect of age and gender on the performance of the company (Marimuthu, 2008). It was suggested by Marimuthu (2008) that the diversity on the board reduces the groupthink of the board of directors. This was further reinforced by the Haniffa and Cooke (2005) that found that cultural diversity on the board of directors improves the cultural social disclosure in the sustainability report of an organisation. This was further supported by Salleh and Haat (2012) that found that the presence of only one Malay director on the audit committee has a negative effective on the earnings of Malaysian companies. EY (2013) suggested that cultural diversity on the audit committee is imperative for effective functioning of the audit committee however companies must also be sensitive to the cultural norms of the countries in which they operate.

The independence of the audit committee has been the subject of various studies conducted by researchers. Carcello and Neal (2000) suggested that the greater the number of independent directors there are on the audit committee, the higher the probability that the auditor would issue a going concern report. This study was further supported by Klein (2002) that found that a reduction in the audit independence of the audit committee results in an increase in abnormal accruals. This effect is more evident in companies that have a minority of outside directors on the board. Lee (2014) found that there is a positive correlation between expertise and independence and the effectiveness of the audit committee.

Bierstaker, Cohen, DeZoort and Hermanson (2012) found that the remuneration of the audit committee, both the amount and duration over which the remuneration vests, determines the aggressiveness of decisions made by the audit committee, especially in cases where there are disagreements between management and the auditors. It is suggested that when the audit committee has a short term view of the business, the audit committee is more likely to be aggressive in the decisions taken around earnings of the company while a longer view will encourage a less aggressive approach.

Badolato, Donelson and Ege (2013) found that the status of the audit committee is key to it performing its functions. It is suggested that management is more likely to accept the guidance of a committee that has high status, which is determined by the education level of the committee members as well as the number of directorships that members hold. The higher the status of the audit committee the more effective it is. However Sharma and Iselin (2012) found that the number of directorships has an adverse effect on the effectiveness of the audit committee. It is also suggested that the tenure of a member is inversely proportionate to the effectiveness of the member. There is evidence that suggests that the director’s capacity becomes overburdened as the number of directorships increases which means that the individual cannot pay adequate attention to the duties assigned to him/her which results in potential misstatements being undetected. An extended tenure of the directors, on the audit committee, results in them developing personal relationships with management which could affect the independence of the directors and thus reduce their capability to perform the duties as needed by the audit committee and the Board.

The oversight of the internal audit function is one of the key responsibilities assigned to the audit committee. Tusek (2015) found that the relationship between the internal audit function and the audit committee is directly related to the quality of the performance of the internal audit function. Given the importance of the internal audit function as suggested by the companies act, King III Report and JSE listing requirements (Republic of South Africa, 2009; KPMG, 2009; KPMG, 2013), it can be concluded that this relationship should be nurtured to ensure that the controls are properly evaluated and assessed by the internal audit function. This relation is improved with more frequent meetings between the audit committee and the internal auditors (Alzeban and Sawan, 2015). This would result in weaknesses being timeously identified and corrective actions implemented to ensure the risks are mitigated and potential financial losses reduced. Current literature also suggests that the reliance of external auditors on independent work conducted by the internal audit function could result in higher quality financial reports that are prepared in a shorter period (Pizzini, Lin and Ziegenfuss, 2015).

The frequency and duration of the audit committee meetings affect the effectiveness of the audit committee (Dobija, 2015). It is also suggested that the audit committee should meet at least four times per year for several hours in order to be effective. However Oktorina and Wedari (2015) suggest that external auditors perceive companies that have more audit committee meetings to have greater risk and therefore they conduct more audit work and hence increase the audit fees. Based on the work conducted it is argued that the optimal frequency of audit committee meetings needs to be determined to allow effective functioning of the audit committee while managing the perception of the level of risk exposure of the organization.

The audit committee is the committee that is most frequently used to manage risk within an organization. It is therefore imperative that the audit committee has the appropriate expertise, beyond financial expertise, to be able to manage risk effectively. It is suggested that the quality of the risk management function has a bearing on the management process and on the future performance of the share price of a company (Ittner and Keusch, 2015). Risk management committees are also used by certain organizations to effectively manage organizational risk, however Hine and Peters (2015) argue that the formation of a voluntary risk committee does not improve operations or performance within an organization but rather fulfils a symbolic role and increased perception of responsible risk management. In contrast, the implementation of enterprise risk management within an organization results in effective management performance and creates an integrated approach to risk management which reduces the cost of implementation and increases effectiveness. The importance of an effective risk management process is further reinforced by the increased requirement for companies to disclose their risk and risk management processes in the annual reports, by regulatory authorities (Hoyt and Liebenberg, 2015).

Agoglia, Doupnik and Tsakumis (2011) suggest that in a principle based environment, where for example IFRS is applied, the pressure on management to be aggressive in their reporting is less than in rules based environment. Sarbanes-Oxley Act, which is rule based, is applied in the USA where most of the research into audit committees has been conducted. It is also suggested that in an environment where the principle based policy is followed the strength of the audit committee has no effect on the aggressiveness of management when reporting (Agoglia, Doupnik and Tsakumis, 2011). This is further supported by Millar (2014) who argues that in emerging economies that adopt Anglo-American rules in corporate governance, local companies try to circumvent said rules. Bennedsen, Nielsen and Nielsen (2012) found that investor protection is key for economic and financial growth in developing and emerging markets which is reinforced by the legal and regulatory requirements for the composition, powers and responsibilities for audit committees in BRIC countries (Salvioni, Bosetti and Almici, 2013) and South Africa (Republic of South Africa, 2009; KPMG, 2009; KPMG, 2013).

Due to the importance of the audit committee for effective corporate governance in an organization and the need for investor protection for economic and financial development, the researcher investigated the propositions relating to the composition of the audit committee and its effectiveness, as justified in Chapter 3.

Chapter 3: Propositions

The propositions investigated are set out below with justification from previous research conducted in various countries.

<u>Proposition 1: The composition of the audit committee of an organization has an effect on the quality of the integrated report.</u>

The expertise that exist within the audit committee have been subject to numerous studies (Cohen, Hoitash, Krishnamoorthy and Wright, 2014). Legal and financial expertise have been found to be two of the key expertise needed by the committee (Iyer, Bamber and Griffin, 2013; Keune and Johnstone, 2012; Bedard, Chtourou and Courteau, 2004; Defond, Hann and Hu, 2005; Krishnan, Wen and Zhao, 2011). In addition laws and regulations in South Africa (KPMG, 2009; KPMG, 2013; Republic of South Africa, 2009) and the BRIC countries (Salvioni, Bosetti and Almici, 2013) set out the minimum requirements for the audit committee. This literature suggests that the composition of the audit committee is crucial to the effectiveness of the committee. In this study the researcher compared the composition of the audit committee to the quality of the integrated report to identify if there were differences in the composition of audit committee that could result in improved integrated reports.

<u>Proposition 2: The structure of the audit committee meetings determines the effectiveness of the audit committee</u>

The structure of the audit committee meetings, with respect to the frequency of the meetings (Alzeban and Sawan, 2015; Dobija, 2015) as evidenced by the number of meetings held per annum, duration of the meetings (Dobija, 2015) and the skills, experience and knowledge represented on the committee (Dobija, 2015) have been identified as key enablers for an effective audit committee that delivers on its mandate. In this study the attendance at the meetings was used as an indication of the skills represented at the meetings. This proposition was investigated to provide evidence of this in the South African and BRICs environment. The outcome of this investigation could be used to identify areas of improvement that could be focused on to improve the effectiveness of the audit committee.

Proposition 3: The composition of the audit committee differs across industries in order to improve effectiveness.

Previous work conducted on audit committees have not focused on the difference between the compositions of audit committees in different industries. Given the work conducted by Cohen, Hoitash, Krishnamoorthy and Wright (2014) on industry specific expertise required on the audit committee and the work by Dobija (2015) which suggests that the audit committee requires sufficient knowledge, skills and expertise to be effective, a comparison of the audit committee across industries was deemed to be necessary to identify if such differences did exist and if so did these differences affect the effectiveness of the audit committee.

Proposition 4: The effectiveness of the risk identification and risk management process in a company is determined by the expertise of the audit committee.

The audit committee is the most frequently used committee for risk management by companies (Ittner and Keusch, 2015). Effective risk management is key for investor protection which is required to ensure that there is economic growth and financial development in emerging markets (Bennedson, Nielson and Nielson, 2012). For an audit committee to be effective at risk management, the committee needs to have appropriate expertise that are beyond financial expertise (Ittner and Keusch, 2015). Based on this it was deemed appropriate to investigate whether there are any expertise that can be identified that improve the effectiveness of the audit committee, when managing risk.

Proposition 5: The individual qualities of audit committee members has an effect on the effectiveness of the committee.

The independence of the members of the audit committee has been identified as a key contributor to the effectiveness of the audit committee (Carcello and Neal, 2000; Klein, 2002; Lee, 2014). The remuneration of the members of the audit committee was identified by Bierstaker, Cohen, DeZoort and Hermanson (2012) as a factor that affects the decisions made by the audit committee. Badolato, Donelson and Ege (2013) found that the status of the member of the audit committee plays a role in the effectiveness of the member. Status includes the number of directorships held by the member and the educational institution attended by the member. However Sharma and Iselin (2012) found that the number of directorships held by a member has an adverse effect on the effectiveness of the audit committee. Prior experience of the member of the audit committee also plays a role in the quality of the financial reporting of the company (Sultana, Singh and Van der Zahn, 2014). This coupled with the appropriate and sufficient knowledge, skills and expertise will contribute to the effectiveness of the audit committee (Dobija, 2015). The researcher investigated the individual qualities of the members of the audit committee to establish if they were independent, amount of remuneration earned, experience, expertise, highest qualification, the number of committees on which the director serves and number of directorships to identify if there were differences between effective and ineffective audit committees.

The research methodology used by the research is set out in Chapter 4: Research Methodology section of this document. This section sets out the following:

- Choice of methodology
- Population
- Unit of analysis
- Sampling method and size
- Measurement instrument
- Data gathering process
- Limitations

Chapter 4: Research Methodology

4.1. Choice of Methodology

A qualitative investigation was conducted by the researcher, in which the integrated report of selected companies within the Mining, Retail and Banking industries were selected and analysed. The analysis focused on the composition and functions of the audit committee. The quality of the integrated reports of the selected companies was determined using an independent report, prepared by EY an independent third party that has the necessary knowledge and expertise to critically evaluate the integrated reports and rank these reports accordingly. In particular the EY Excellence in Integrated Reporting 2014, a report compiled by EY in which the top 100 companies on the JSE are ranked based on the integrated report published for a specific financial year (EY, 2014). The report sets out companies in five categories which are: top 10; excellent; good; average and needs improvement. Where possible the companies selected per industry were one from each of these categories, thereby ensuring comparability between composition of the audit committee and the ranking of the integrated report.

In addition the risks identified in the integrated report were compared to the industry specific risk reports compiled by independent organizations, with the required knowledge and expertise. These included the Business risk facing mining and metals 2013 -2014 (EY, 2013); Risk management in the banking industry (International Finance Magazine, 2013); and turn risk and opportunity into results retail sector top 10 risks (EY, 2014). A comparison of the risks identified by companies to the independent reports was used as a proxy for the effectiveness of the risk management process in the company and hence the effectiveness of the audit committee.

The individual members of the audit committees were identified and further investigation into the independence, remuneration, number of directorships, qualifications, experience and expertise of the members was conducted. This was completed by conducting online searches into the individuals and using biographies from accredited/recognized public sources such as Bloomberg. This information was then compared to the ranking of the integrated reports and the risk management assessment conducted to determine if any of these factors could be identified as possible factors that had an effect on the effectiveness of the audit committee.

4.2. Population

The population for this study, as defined by Saunders and Lewis (2012), were publicly listed companies in South Africa that were within the top 100 companies listed on the JSE as identified in the report: EY Excellence in Integrated Reporting 2014 (EY, 2014). The sectors chosen for this study, being mining, banking and retail have numerous companies that were ranked in the report within the various categories. By selecting these companies from the various categories it was possible to identify a relationship between the composition of the audit committee and the effectiveness, both within a specific industry and between industries. The companies included in the report were used due to the availability of public information relating to these companies and the fact that the integrated reports of these companies were already analysed and ranked during the study conducted by EY.

In addition a sample of three companies from India were chosen as part of this study. These companies, one from each of the selected industries, are listed companies and have financial information available on the official company website. An analysis of the audit committee of each of these companies was conducted using the same criteria as used when analysing the audit committee of the South African companies. The composition of the audit committee was also compared to the legal and regulatory requirements within India.

The sampling method used in this study could be classified as convenience sampling which is identified as a limitation to this study. However since this study is exploratory in nature this method can be used effectively when identifying areas for further studies in order to gather conclusive evidence to support well formulated hypotheses in the future (Saunders and Lewis, 2012).

4.3. Unit of Analysis

The composition of the audit committee, the functioning of the audit committee and characteristics of individual members were analysed using criteria that were identified by previous researchers as set out in chapter 2 and chapter 3. The audit committee is a body that is composed of individual members that have varying characteristics which could affect the effectiveness of the committee. It was therefore considered crucial that the individual members were also investigated, using recognized public sources. The individual directors that formed part of this investigation were those that formed part of the audit committee as identified in the integrated reports of the respective companies.

4.4. Sample method and Size

Stratified random sampling (Saunders and Lewis, 2012) was used to select a sample of companies from the top 100 companies listed on the JSE, as ranked by EY (2014). The companies were chosen from the categories set out in the report namely, top 10; excellent, good, average and needs improvement. The companies were chosen from specific industries which were mining, banking, and retail. These industries had companies within at least four of the five each of the categories and hence formed part of the study. Four companies per industry were chosen, with at least one per category, where possible to ensure that comparable data was used. In addition one listed Indian company per industry was chosen. In identifying the company, it was established that the company was a leading listed company in the specific industry and that the financial report of the company was available to be downloaded from the company’s website. In total fifteen companies were investigated during this study across three industries and 2 emerging economies – South Africa and India.

4.5. Measurement Instrument

The effectiveness of the audit committee was established using two indicators as proxies to the relative effectiveness – quality of the integrated report as established by EY (2014) and the risks identified in the integrated report compared to the industry specific risks published by the risk experts (EY, 2013; International Finance Magazine, 2013 and EY, 2014). The composition of the audit committee was then compared to the quality of the integrated report and the quality of the risk management to determine if the composition between effective and ineffective audit committees was different. This comparison was conducted between companies in the same industry as well as companies across industries.

A further study was conducted using three listed Indian companies, one from each of the selected industries to determine if the composition and powers of these companies differed from that of the South African companies. The inclusion of Indian companies and the subsequent analysis was included to identify if there are key differences that need to be addressed in order to improve the effectiveness of the audit committee in emerging economies and thereby improving corporate governance which is required to increase economic and financial growth in emerging economies (Bennedson, Nielson and Nielson, 2012).

4.6. Data Gathering Process

The list of the top 100 companies as ranked by EY (2014) formed the basis of the study as detailed in the sample method and size section above. The integrated report of the selected companies were downloaded from the official website of the companies. These documents were then reviewed to identify the members of the audit committee, the number of meetings of the audit committee, the attendance at these meetings, and the remuneration of the members. Once the members were identified, these individuals were further researched to determine experience, qualifications, expertise and other directorships held. This research was carried out using recognized/credible on line sources such as Bloomberg.

In addition the risks identified and discussed in the integrated report were compared to the risks per the listing compiled by the industry experts (EY, 2013; International Finance Magazine, 2014 and EY, 2014). This comparison was used to determine the effectiveness of the audit committee in managing industry specific risk. This analysis was then compared to the composition of the audit committee to establish whether or not the composition of the audit committee had a bearing on the effectiveness of the risk management.

The data used in this study is secondary data that was publically available. The data used was not corroborated in any way and therefore the conclusions drawn from this data can only be used as an indication of possible relationships which would need to be investigated using primary data that is gathered using different methods.

4.7. Analysis Approach

<u>Proposition 1: The composition of the audit committee of an organization has an effect on the quality of the integrated report.</u>

A qualitative review was conducted on the composition of the audit committee per criteria, including amongst others, number, tenure, qualification and experience and expertise of members, which were compared to the ranking of the quality of the integrated report in the independent ranking. The significance of the variances between effective and ineffective audit committees was not determined as statistical methods were not utilised in the analysis. This analysis was conduct per industry to ensure that effect of factors that were not industry specific were eliminated. Further research could be undertaken in the future to determine significance of the composition of the audit committee on the effectiveness of the committee.

<u>Proposition 2: The structure of the audit committee meetings determines the effectiveness of the audit committee</u>

The structure and functioning of the audit committee was analysed by reviewing the integrated report to establish the frequency of meetings, the attendance at these meetings, the remuneration of committee members and the skills, competencies and experience represented at the meetings. These have all been identified in literature as key enablers for the effective functioning of the audit committee (as discussed in chapter 3 of this document). The information per company was compared to the ranking of the integrated report and the assessment of the risk management process, to determine if any of these factors could result in improved effectiveness of the audit committee. However as indicated for proposition 1, the analysis conducted will provide an indication of focus areas for further investigation.

<u>Proposition 3: The composition of the audit committee differs across industries in order to improve effectiveness.</u>

To test this proposition the audit committee of the companies were compared across industries to determine if there were apparent differences between the audit committees. For this proposition the companies were grouped per the ranking of the integrated report as opposed to the industry. This ensured that differences that were related to the industries could be identified and highlighted, which would allow for further investigation. The analysis conducted for this proposition was similar to that used for proposition 1, in that the same criteria was used and the review was of a qualitative nature. Statistical methods were not utilised in this investigation therefore the significance of the variance were not established. (Field, 2013). The results of this investigation can be used to develop further studies in the future with respect to the composition of industry specific audit committees.

Proposition 4: The effectiveness of the risk identification and risk management process in a company is determined by the expertise of the audit committee.

The effectiveness of the risk management process was determined by comparing the major risks identified by the company in its integrated report, to the industry specific risks identified by industry risk experts. Legal, financial and industry expertise of the members of the audit committee were analysed to determine if the presence of these will ensure an effective risk management process. In addition the experience of the member within the industry was analysed to determine if this had an effect on the risk management process. Based on the results of the comparison a conclusion was drawn on whether or not any of these criteria have an effect on the risk identification or risk management process of the company. As previously stated the results of this study are only an indication of a possible relationship, the validity of which would have to be further investigated in future studies.

Proposition 5: The individual qualities of audit committee members has an effect on the effectiveness of the committee.

The individual qualities that were analysed in this study included the independence of the member, the number of directorships held, the remuneration, expertise, experience, highest qualification, number of committees on which the member serves and tenure of the specific audit committee. All of these characteristics have been identified by previous researches as possible influences on the effectiveness of an audit committee member. These characteristics were compared to the ranking of the integrated report and the assessment of the risk management process of the respective companies to identify if these characteristics have an influence on the effectiveness of the member. As the analysis conducted was of a qualitative nature, the output from this study can be used to design further in-depth studies into each of these characteristics or a combination thereof.

4.8. Limitations

The study was based on analysis of secondary data that is publicly available. There is no primary information gathered from interviews or questionnaires with the identified audit committee members hence the information is not verified. This limitation is mitigated by using information from reputable, recognized sources. The use of third party reports to determine the quality of the integrated report and the effectiveness of the risk management process may be considered a limitation but the use of independent reports from recognized audit and risk experts reduce the effect of bias on the study.

The use of convenience sampling could result in bias as the information used is not random and hence not representative of the population. The risk of this was reduced due to the companies sampled being ranked by an independent organization and the fact that the companies from various industries were chosen. This coupled with the use of only qualitative methods in this study, suggest that the results are only indicative and would require further studies in order for conclusive, unbiased evidence to be obtained. These studies would have to be quantitative in nature and will have to track the performance of the companies over a number of financial periods.

The results of the analysis conducted is set out in chapter 5 and the discussion of the results are set out in chapter 6 of this document.

Chapter 5: Results

5.1. Description of sample and data gathered

The companies that formed the basis of this study were identified from the top 100 companies listed on the JSE as identified in the report: EY Excellence in Integrated Reporting 2014 (EY, 2014). Four companies per industry were chosen from three industries which were mining, retail and banking. The companies were chosen based on their respective ranking in the report. The ranks were based on the quality of the integrated report for the 2013 financial year, as determined by EY in 2014.

There were 5 categories identified by EY based on the quality of the report, namely:

- Top 10
- Excellent
- Good
- Average
- Need improvement

When selecting the companies to be analysed, the researcher tried as far as possible to identify at least one company per category to be analysed. This was envisaged as a result of the need to perform an analysis within, as well as, across industries so that the analysis could be performed in such a way that the effect of industry specific factors could be included or eliminated. The companies were allocated a value based on its ranking within the report where top 10 companies were awarded 5, excellent companies 4; good companies 3; average companies 2 and need improvement companies 1.

In addition the risk ratings of the selected companies were determined using a comparison of the risks identified in the company's integrated report to the risks identified by independent experts for the specific industry. The industry specific risks were obtained from reports published by EY (2013) for mining, EY (2014) retail and the International Finance Magazine (2014) for banking.

The keys risks per industry used in the analysis are set out below.

Mining industry (EY, 2103)

1. Capital allocation and access
2. Margin protection and productivity
3. Resource nationalisation
4. Social licence to operate
5. Skills shortage
6. Price and currency volatility
7. Capital project execution
8. Sharing the benefits
9. Infrastructure access
10. Threat of substitutes

Retail industry (EY, 2014)

1. Low growth consumer markets
2. Regulation and compliance
3. Inability to control costs/input prices
4. Inability to benefit from e-commerce
5. Wrong price image
6. Supply chain disruptions
7. Inability to penetrate emerging markets
8. Failure to respond to shifting consumer behaviour
9. Sourcing
10. Volatility in commercial real estate market

Banking industry (International Finance Magazine, 2013)

1. Credit risk
2. Equity risk
3. Interest rate risk
4. Currency risk
5. Commodity risk
6. Investment risk

7. Internal fraud
8. Health and safety
9. Client products and business practice
10. Business disruption and systems failures

In determining the risk rating of the organisation, the researcher determined the number of risks identified by the company that appeared on the list of industry specific risks. The percentage of the number of common risks based on the top 10 risks was calculated and resulting value was used as a risk rating. The risk rating was used as an indication of the effectiveness of the risk management system that the company had in place when the integrated reports were published.

Table 1: List of companies reviewed

Name of company	**Industry**	**Country**	**EY ranking**	**Risk rating**
Kumba	Mining	South Africa	5	80
Lonmin	Mining	South Africa	4	70
Assore	Mining	South Africa	2	40
GlencoreXstrata	Mining	South Africa	3	60
Clicks	Retail	South Africa	5	60
SPAR	Retail	South Africa	1	60
Pick n Pay	Retail	South Africa	2	40
TFG	Retail	South Africa	3	60
Investec	Banking	South Africa	3	80
RMB Holdings	Banking	South Africa	1	60
SBG	Banking	South Africa	5	90
ABIL	Banking	South Africa	3	60
KIOCL	Mining	India	-	50
Future Retail	Retail	India	-	40
Corporation Bank	Banking	India	-	80

Three Indian companies were selected, one from each of the industries identified in this study. Even though the annual reports of these organisations were not part of the EY review and therefore not ranked, the researcher used the risks identified above and those listed in the annual report to determine the risk rating of the companies as set out above. Table 1 above illustrates the companies selected for this study, their respective industry, country, EY ranking and risk rating. In addition the annual reports of three Brazilian companies were reviewed and the disclosure with respect of the audit committee were compared to that of the South Africa and Indian companies. The Brazilian companies reviewed were Vale S.A. (mining), Banco do Brasil (banking) and GPA (retail).

The integrated reports for the South African companies and the annual reports for the Indian companies were downloaded from the official website of the respective companies. An analysis of the audit committee was conducted based on the information contained in the reports and where necessary this was further supplemented by using information from other online sources such as Bloomberg. The following criteria were used when analysing the information:

- Ranking of the Integrated report
- Does the company have a risk committee
- If so does the risk committee have representation on the audit committee and does the audit committee have representation on the risk committee
- Number of members
- Number of independent members
- Age of the members
- Race of the members
- Gender of the members
- Nationality of the members
- Highest qualification of the members
- Professional membership of the members
- Number of directorships per member
- Number of other committees the members sits on
- Legal expertise
- Financial expertise
- Industry expertise
- Industry experience
- Tenure of the member
- Number of meetings
- Attendance at the meetings
- Remuneration
- Key risks identified
- Whether or not the audit committee performed the functions as prescribed by the corporate governance frameworks applicable to South Africa and India.

5.2. Composition of the audit committee per company

The governance frameworks in both South Africa and India set out the requirements for independence of the directors and the number of directors that are nominated to the audit committee. In South Africa the audit committee is required to have a minimum of three independent members (KPMG, 2009) while in India companies require three members, the majority of which must be independent (Salvioni, Bosetti and Almici, 2013).

Table 2: Independence of members of the audit committee per company

Company	Independent (%)	Members	Ranking
Kumba Iron Ore Ltd	100	4	5
Lonmin	100	3	4
Assore	100	3	2
GlencoreXstrata	100	3	3
Clicks	100	3	5
Pick n Pay	100	4	2
The SPAR Group Ltd	100	3	1
TFG	100	3	3
Investec	100	5	3
RMB Holdings	100	3	1
SBG	100	5	5
African Bank Investments Ltd	100	3	3
KIOCL	67	3	-
Future Retail	100	3	-
Corporation Bank	67	6	-

As displayed in Table 2 above, all the South African companies that were reviewed in this study had three or more directors with Investec and SBG having five directors, Pick n Pay and Kumba having four members and the other companies having three members. All the members on the audit committee of South African companies were independent. The Indian companies reviewed also had a minimum of three members with Corporation Bank having six members, KIOCL and Future Retail three members each. All the members of the audit committee of Future Retail were independent directors while 67% of the members of KIOCL and Corporation Bank were independent.

Legislation and regulations governing the audit committee in South Africa required the members to have sufficient qualifications to deliver on the mandate of the committee. This included the relevant expertise and experience required to make the appropriate decisions. These criteria allowed the audit committee to effectively deliver on its mandate. Table 3 below sets out the results of the analysis conducted on the expertise and experience of the audit committees of the companies. The information contained in the table relates to the percentage of audit committee members that have financial, legal and industry expertise and industry experience, based on the total number of members on the audit committee, which was compared to the ranking of the company. In determining the financial, legal and industry expertise, the researcher determined the percentage of audit committee members that had either a related academic qualification or professional membership in the relevant field (financial, legal and/or industry). The experience in the specific industry was determined from either their tenure on the specific board or the experience within the industry as indicated by their respective biographies. In cases where this information was not available in the integrated or annual reports, it was determined using biographies available on sources such as Bloomberg or Who's Who websites.

Table 3: Expertise represented on the audit committee per company as a percentage of total number of members on the committee

Company	Ranking	Total No of Members	Financial expert (%)	Legal expert (%)	Ind expert (%)	Ind experience (%)
The SPAR Group Ltd	1	3	33	-	33	100
RMB Holdings	1	3	33	67	33	100
Assore	2	3	67	33	-	67
Pick n Pay	2	4	25	100	-	100
GlencoreXstrata	3	3	67	-	-	67
TFG	3	3	67	-	33	100
Investec	3	5	80	-	80	80
African Bank Investments Ltd	3	3	100	33	100	100
Lonmin	4	3	67	33	67	33
Clicks	5	3	67	-	33	100
SBG	5	5	60	-	80	100
Kumba	5	4	50	25	25	100
KIOCL	-	3	67	33	100	100
Future Retail	-	3	33	33	33	100
Corporation Bank	-	6	50	-	83	100

The percentage financial expertise was calculated using the number of members with financial qualifications on the audit committee as a percentage of the total number of members on the committee. Similarly the percentage of individuals on the audit committee that held legal qualifications was determined using the total number of members. The percentage of industry expertise and industry experience were determined by calculating the number of members on the audit committee that had qualifications relating to the specific industry, as well as the number of members that had experience in the specific industry as a percentage of the total number of members. For the mining industry expertise was defined as a tertiary qualification in the science field for example at least an undergraduate degree and in terms of banking and retail a qualification in the commerce field. The experience in the industry was determined by the number of years the specific member worked in the industry or served on the boards of companies in the industry.

From this analysis it was evident that all companies, both in South Africa and India had financial expertise represented on the audit committee. The percentage however varied from a low of 25% for Pick n Pay to a high of 100% for African Bank Investment Limited. The comparison of the ranking to the percentage financial expertise represented does not correlate as Kumba had 50% of its audit committee having financial expertise and ranked in the top 10 while African Bank Investment Limited had 100% financial expertise representation but ranked as good. The Indian companies also had varying representation with a low of 30% for Corporation Bank and a high of 67% for KIOCL. The analysis also revealed that the chairperson of the audit committee for all the companies, both South African and Indian, had financial expertise.

Six of the twelve South African companies and two of the three Indian companies had legal representation on the audit committee. The percentage representation for these companies ranged from a low of 25% for Kumba to a high of 100% for Pick n Pay. From this analysis it was evident that the presence and ratio of legal expertise does not necessarily relate to the ranking of the company as Kumba which had 25% legal expertise represented on its audit committee was ranked in the top 10, but so was SBG that had no legal representation on its audit committee.

Nine of the twelve South African companies and all of the Indian companies had industry expertise represented on the audit committee however the percentage representation varied from 25% for Kumba to 100% for ABIL and KIOCL. Similar to financial and legal expertise, the percentage of industry expertise represented on the audit committee does not link to the ranking. This is evidenced in the fact that Clicks that had 33%, Kumba that had 25% and Standard Bank Limited that had 80% industry expertise represented on the audit committee were all rated as top 10, while ABIL which was rated as good had a 100% representation. All the companies both Indian and South African had industry experience represented on the audit committees. Of the fifteen companies reviewed eleven had 100% industry experience represented on the audit committee, while the other four companies had representation of between 33% and 80%. However of the eight South African companies that had 100% representation, two were ranked as need improvement, one was ranked as average, two were ranked as good and three were ranked as top 10. All the Indian companies had 100% industry experience representation on the audit committee.

Table 4: Analysis of the diversity of the audit committee per company based on the average age, percentage white, male and South African members

Company	EY Ranking	Average Age (years)	White (%)	Male (%)	South African (%)
The SPAR Group Ltd	1	65	67	100	100
RMB Holdings	1	56	67	67	100
Assore	2	61	67	100	100
Pick n Pay	2	60	50	75	100
GlencoreXstrata	3	62	100	100	-
TFG	3	61	67	67	100
Investec	3	63	100	80	60
African Bank Investments Ltd	3	49	67	100	100
Lonmin	4	61	67	67	33
Clicks Group Ltd	5	60	33	67	100
SBG	5	64	80	100	60
Kumba Iron Ore Ltd	5	57	25	25	100
KIOCL	-	60	-	100	-
Future Retail	-	66	-	100	-
Corporation Bank	-	54	-	100	-

Diversity on the audit committee was also analysed by the researcher, as illustrated in Table 4 above. The criteria used to determine the diversity included the average age of the members in years, the percentage of white members, the percentage of males and the percentage of South Africans on the audit committee which was calculated on total number of members.

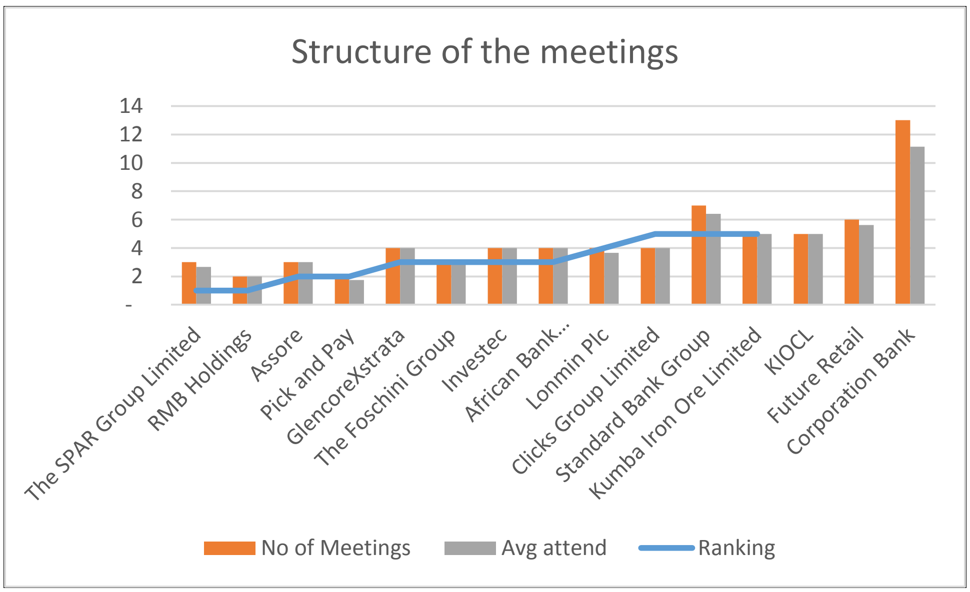
The average age of the audit committee members of eleven companies ranged between 60 and 66 years old, three were between 50 and 60 years old and one company had an average age of 49 years old. A clear relationship between average age of the members and the ranking of the company's integrated report could not be determined as evidenced by the fact that RMB Holdings with an average age of 56 years old was ranked as needs improvement while Kumba was ranked as top 10 but had an average age of 57 years old. From table 4, it is evident that for all the audit committees, except for Kumba, Clicks and Pick n Pay, the majority of the members on the audit committees were white. All the audit committees with the exception of Kumba Iron Ore had a majority of male members and all the companies except Lonmin and Glencore had a majority of South Africans on the audit committee. Lonmin had three members on the audit committee of which one was South African, one was Dutch and the other was British. GlencoreXstrata did not have any South African members but two Americans and a German. Investec had two British members and three South African members on their audit committee while SBG had three South Africans, one British and one Australian member. For the Indian companies that formed part of the study all the members of the audit committees were male and of Indian nationality. There were no white or other races represented except for Indians.

5.3. Structure of the audit committee meetings per company

Previous studies suggest that the number of audit committee meetings and the experience and qualifications of the members influenced the effectiveness of the committee (Dobija, 2015). In this study the number of meetings and the average attendance at the meetings was used to determine the structure of the audit committee. The average attendance at the meeting was used as an indication of the expertise and experience represented at each meeting. Figure 1 below is a graphic display of the data analysed by the researcher.

The number of meetings held by the South African companies ranged from two for the year in the case of RMB Holdings and Pick n Pay to a high of seven meetings for the year in the case of SBG. All the companies that ranked as good or better had at least four meetings for the year except for TFG and Clicks that held three meetings each. The lowest attendance was 88% for Spar Group (2.7/3 meetings attended) and Pick n Pay (1.8/2 meetings attended) while the highest was 100% for eight of the companies analysed. Lonmin (3.7/4 meetings attended) and SBG (6.4/7 meetings attended) had an average attendance of 91%. From this it is apparent that a possible relationship existed between the number of meetings and the attendance at the meeting and the ranking of the company.

Figure 1: Number of meetings per annum and average attendance



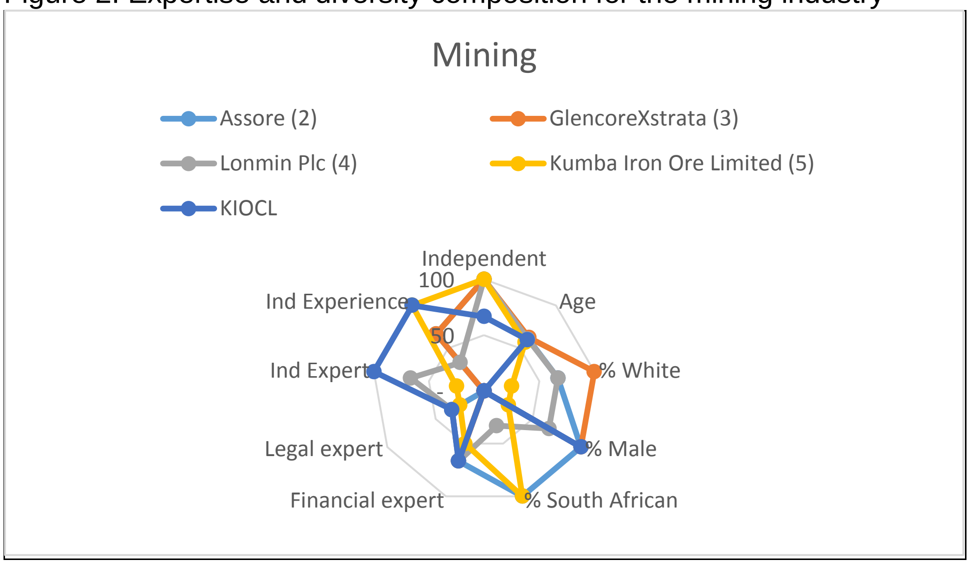
The Indian companies had a low of five meetings for the year for KIOCL and a high of 13 meetings for Corporation Bank. The attendance ranged from 85% (average attendance of 11/13 meetings) for Corporation Bank to a high of 100% (average attendance of 5/5 meetings) for KIOCL. Since there was no ranking available for the Indian companies, the relationship between the structure and effectiveness of the audit committee could not be determined.

5.4. Composition of the audit committee per industry

5.4.1. Mining

Figure 2 below represents the analysis conducted on the mining companies with respect to expertise, experience and diversity of the audit committee. As previously stated all the South African companies had 100% independent directors on their audit committees while KIOCL in Indian had 67% of the members being independent. In terms of diversity all the companies had an average age of approximately 60 years old – highest age of 62 years old and a lowest of 57 years old. All the South African mining companies analysed except for Kumba had a majority of white members and male members on their audit committees. KIOCL the Indian company forming part of this study only had Indian males on the audit committee. Both Kumba and Assore had only South Africans represented on their audit committees while Lonmin had one South African, one Dutch and one British representative. GlencoreXstrata did not have any South African representation with two of the members been American and one German. KIOCL only had Indian representation on their audit committee.

Figure 2: Expertise and diversity composition for the mining industry



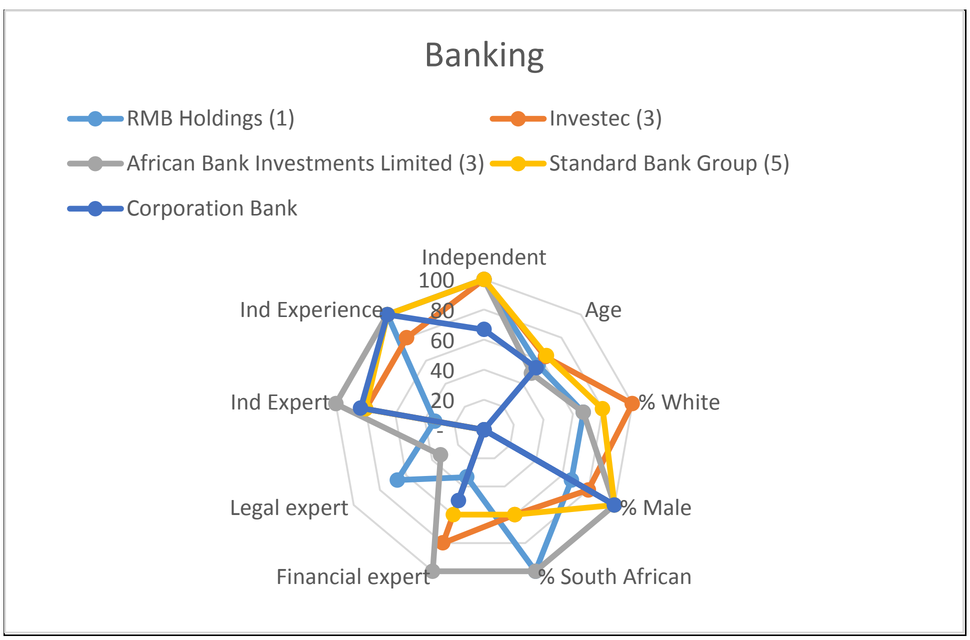
All the audit committees within the mining industry had financial expertise and industry experience represented in their respective audit committees however the ratio ranged from

50% to 67% for financial expertise and 33% and 100% for industry experience. Four of the five mining companies had legal expertise represented on their audit committees which ranged from 25% to 33% and three companies had industry expertise represented on the audit committees which ranged from 25% to 100%. It must be noted that two of the four South African companies had industry expertise represented on the audit committee which were Kumba which was ranked as top 10 and Lonmin which was ranked as excellent.

5.4.2. Banking

Figure 3 below represents the results of the analysis conducted on the audit committee of the companies in the banking industry with respect to expertise, experience and diversity. The average age of the members of the audit committee of the companies within the banking industry had a wide range with a low of 49 years old for ABIL to a high of 64 years old for SBG. All the banks had a majority of males on the audit committee with the South African banks having majority white representatives and the Indian banks only having Indian representation.

Figure 3: Expertise and diversity composition in the banking industry

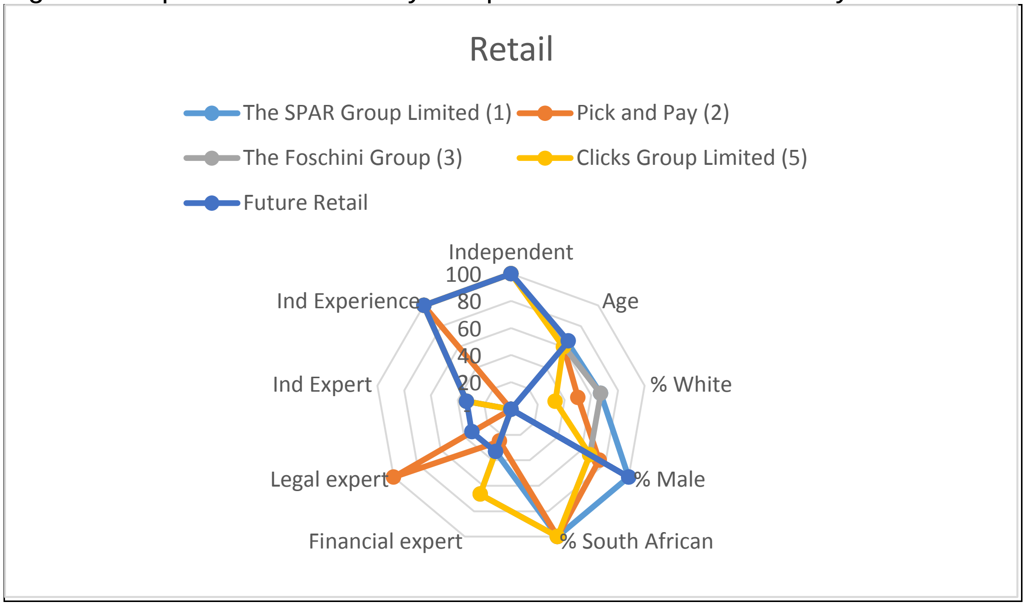


All the banks reviewed had financial and industry expertise and industry experience represented on the audit committee however only two of the companies had legal expertise on the audit committee. The companies that had legal expertise on the audit committee were ABIL which ranked as good and RMB Holdings that ranked as needs improvement. RMB Holdings that was ranked as needs improvement had the lowest level of industry expertise on the audit committee however all the companies had a high level of industry experience represented on the audit committee. All the South African banks had South African members on the audit committee however ABIL and RMB Holdings were the only two that had 100% South African members. Investec and SBG both had 60% South African members with two of the five Investec members being British and SBG had one British and one Australian on the audit committee.

5.4.3. Retail

Figure 4 below illustrates the results of the analysis conducted on the companies in the retail industry. As can be seen from the graph, the average age of the members of the audit committee ranged from 60 to 65 years old. All the South African companies in the retail industry had a majority of white members on the audit committee except for Clicks which had 33% white representation. All the South African companies had a majority of males represented on the audit committee and all the members were South African. All the members for the Indian companies were male and of Indian nationality and race. From this comparison it was clear that in terms of race and gender, the South African companies were more diverse than the Indian companies.

Figure 4: Expertise and diversity composition in the retail industry



All the companies in the retail industry had financial expertise, which ranged from 25% to 67%, and industry experience, which was 100% for all the companies, represented on the audit committee. Four of the five companies had industry expertise at 33% while only two companies had legal expertise – Pick n Pay had 100% representation and Future Retail had 33% representation.

5.5. Composition of the audit committee per ranking category

Further analysis was conducted by the researcher to determine if there were common attributes between companies that ranked in the same category across industries, which could assist the boards of various companies when nominating members of the audit committee. In this analysis graphic representations of the composition of the audit committee per category were created and common areas identified.

5.5.1. Needs improvement

Figure 5: Comparison of expertise and diversity composition in companies that are ranked as need improvement

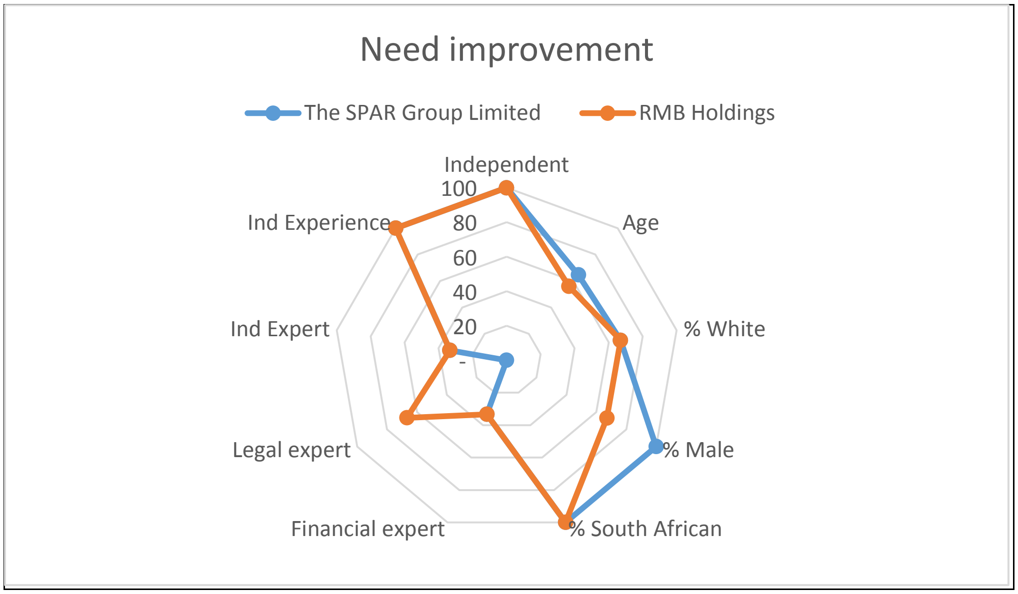
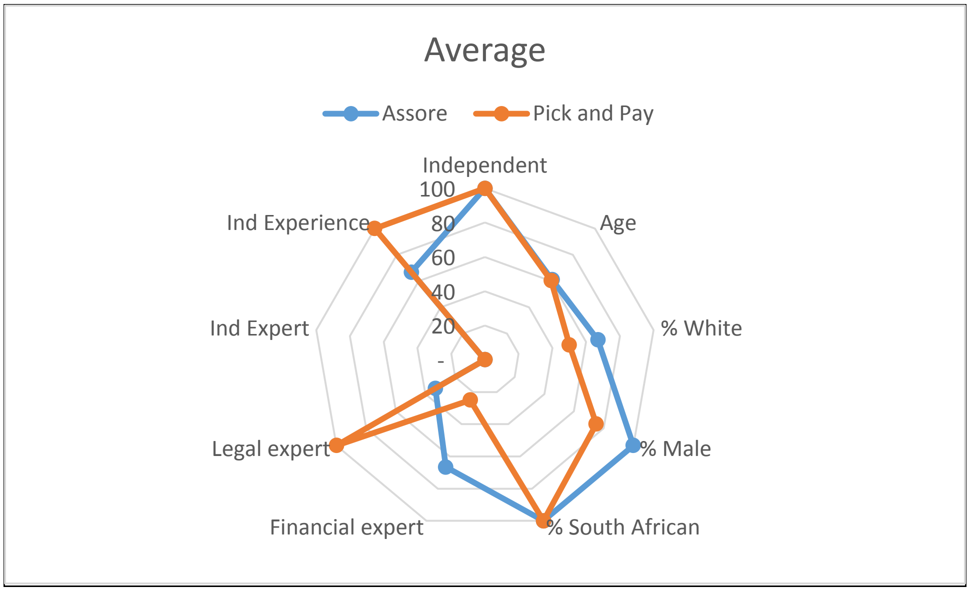


Figure 5 above displays the data relating to the companies that formed part of the study that were ranked as needs improvement. There were only two companies in this category which were RMB Holdings and SPAR. As illustrated in figure 5, the composition of the audit committee was identical for all the criteria for diversity and expertise except for average age of the members (SPAR Group had an average age of 65 and RMB Holdings an average of 56), the representation of legal expertise (SPAR Group had no legal expertise while RMB Holdings had 67%) and the percentage of male members (The SPAR Group had 100% males while RMB Holdings had 67%) on the audit committee.

5.5.2. Average

Figure 6: Comparison of expertise and diversity composition of companies that are ranked as average

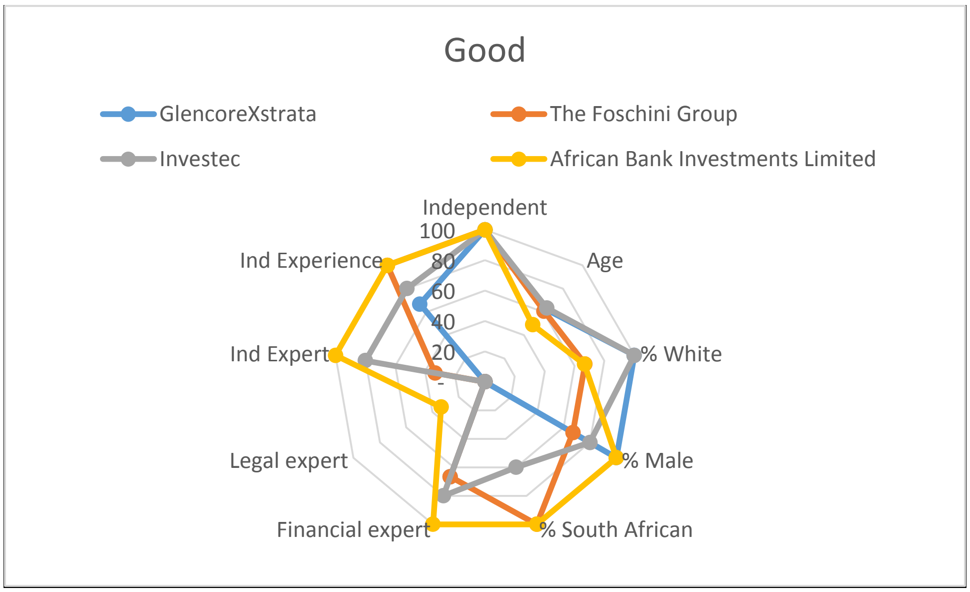


There were two companies in the study that ranked as average. These were Assore in the mining industry and Pick n Pay in the retail industry. These companies were also very similar in their composition which was indicated by all the members being independent, the average age was 60 for Pick n Pay and 61 for Assore, both companies did not have industry expertise represented on the audit committee and both companies only had one nationality represented on the board. However with gender diversity, Pick n Pay was more diverse than Assore, since it had 50% white representation and 75% male representation on the audit committee while Assore had 67% white and 100% male representation. Figure 6 above is a graphic representation of the data.

5.5.3. Good

Figure 7 below displays the results for the companies ranked as good by EY. With respect to the average age the average for three companies ranged between 61 and 63 years old while ABIL had an average age of 49 years old. The race diversity of this group was split with two companies, GlencoreXstrata and Investec having 100% white representation on the audit committee and TFG and ABIL having 67%. Similarly GlencoreXstrata and ABIL had 100% male representation while TFG had 67% and Investec 80%. ABIL and TFG only had South Africans on the audit committee while Investec had 60% South Africans and GlencoreXstrata no South Africans. Of the non-South African members Investec had two British members while GlencoreXstrata had two Americans and one German member. All the companies had financial expertise and industry experience represented on the audit committees while three of the four had industry expertise and one had legal expertise.

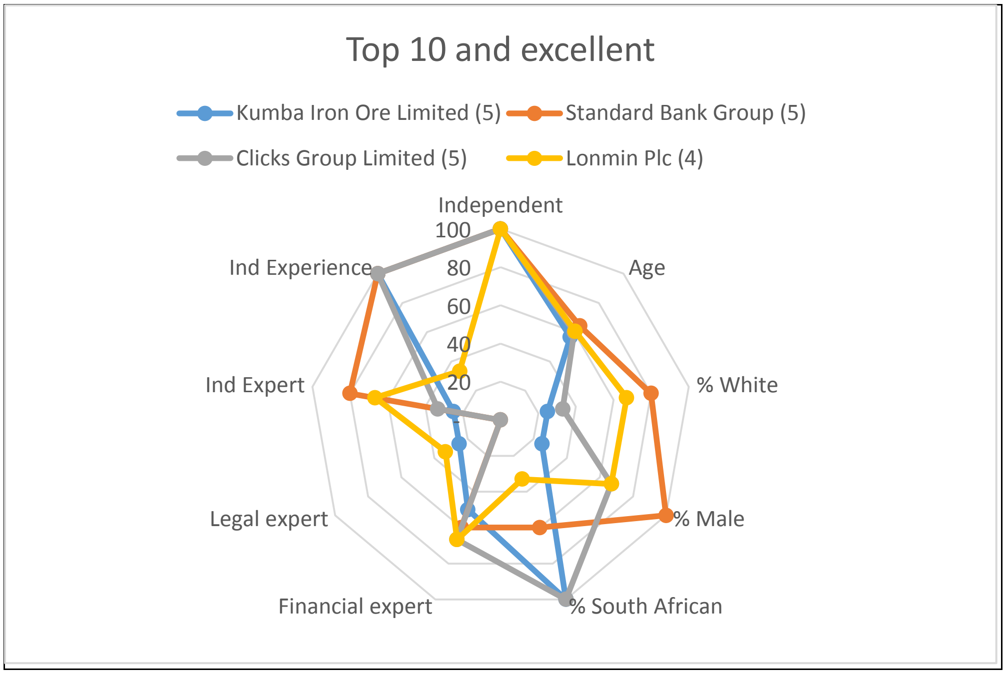
Figure 7: Comparison of expertise and diversity composition of companies that were ranked as good



5.5.4 Top 10 and excellent

When conducting the analysis, the researcher grouped the top 10 ranked companies and the excellent companies into one set of data, as there were three top 10 companies sampled and only one excellent company, which was Lonmin. The average age of the members of the audit committee in the grouping ranged from 57 years old for Kumba to 64 years old for SBG which resulted in an average age of 60 years old. All the companies had multiracial audit committees however the degree of representation of white varied from 25% for Kumba Iron Ore to 80% for SBG with none of the audit committees being fully representative.

Figure 8: Comparison of expertise and diversity composition of companies that were ranked as top 10 and excellent



Three of the four companies had full gender representation on the audit committee while SBG had 100% male representation. Kumba had 25% male representation on the audit committee while Clicks and Lonmin had 67% representation. Kumba and Clicks had only South Africans on the audit committee while Standard Bank had 60% South Africans and Lonmin 33% South Africans. The other nationalities represented were a Dutch and British director for Lonmin and a British and Australian director for SBG. All the companies had financial expertise, industry expertise and industry experience on the audit committee while only Kumba and Lonmin had legal expertise represented. The percentage of the representation of expertise and experience amongst the companies varied. This information is illustrated graphically in figure 8 above.

5.5.5. Comparison of the average per ranking category

Figure 9: Comparison of the average per ranking category

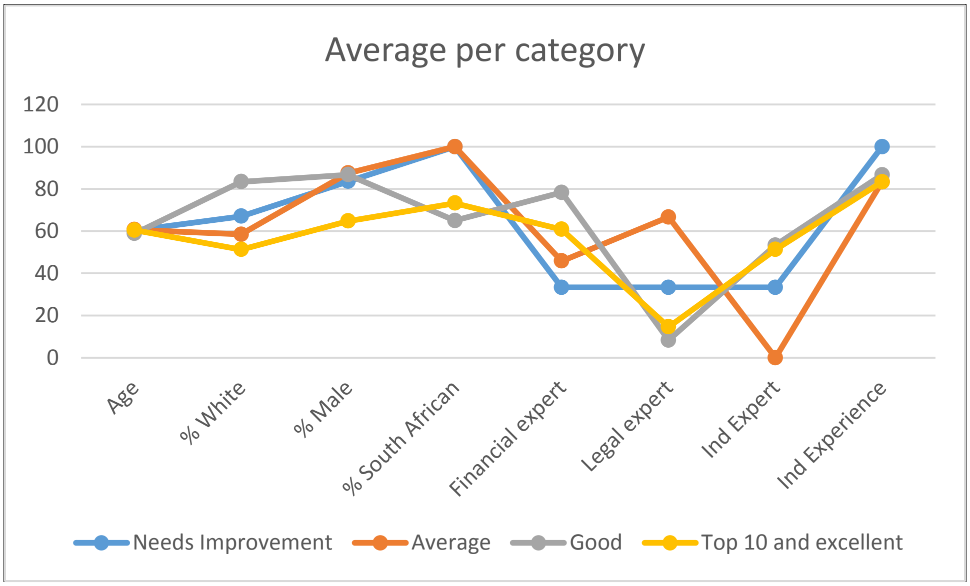


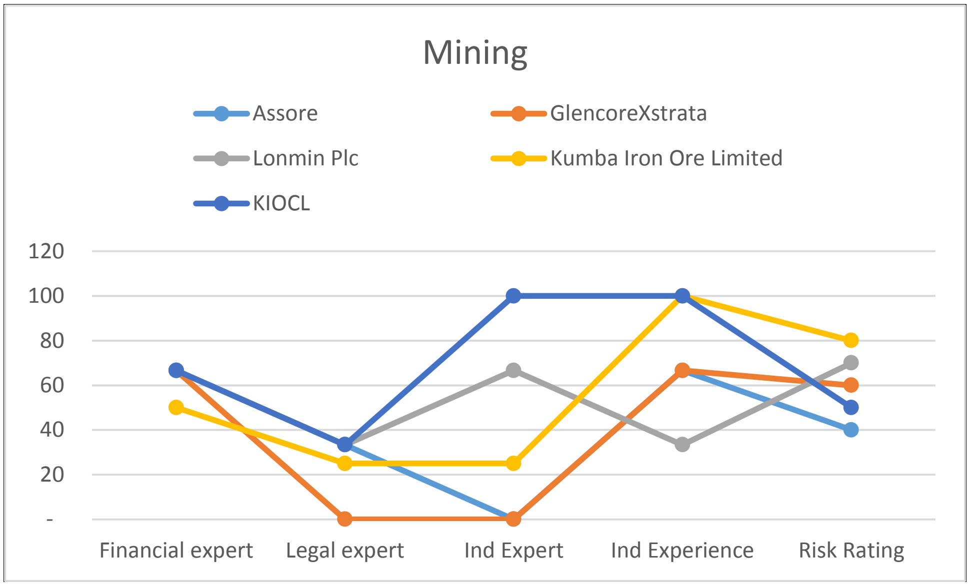
Figure 9 above sets out the plot of the averages per category for the diversity and qualification criteria used. From this it was apparent that industry experience even though important, could not compensate for deficiencies in other areas. The good, top 10 rated and excellent companies all had a higher level of legal expertise than need improvement companies and average companies, which did not have any industry expertise. Legal expertise though required need not be represented in as high a ratio as financial expertise for the audit committee to be effective. Gender diversity and race diversity appear to have had an impact on the effectiveness of the audit committee as top 10 and excellent companies on average had a more diverse composition in respect of gender and race, as indicated by the lower percentage of males and whites on the audit committee. It was clear that the average age of the members of the audit committee were not as key to their effectiveness since all the companies had an average age which was approximately 60 years old.

5.6. Analysis of the expertise of the audit committee versus the risk rating per industry

When reviewing the companies in this study, the researcher first identified the companies that had risk committees that were independent of the audit committee. When such instances were identified, the researcher then compared the members of the risk committee to that of the audit committee to establish if there was a link between the committees. From the data analysed, it was established that only five of the fifteen companies in this study had risk committees independent of the audit committee. These were The SPAR Group, TFG, ABIL, Kumba and Standard Bank Limited, all of which were South African companies and all had representation from the risk committee on the audit committee. The risk rating of these companies ranged from 60 for The SPAR Group and TFG to 90 for SBG.

5.6.1. Mining

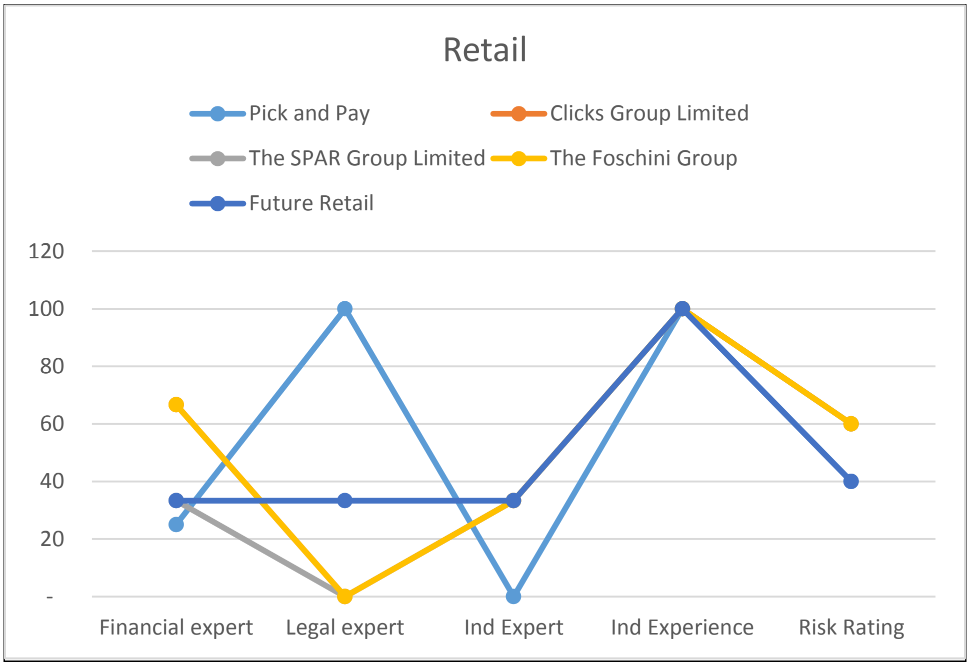
Figure 10: The expertise represented per company in the mining industry compared to the risk rating



From figure 10 it was evident that most of the companies reviewed had all the expertise (legal, financial and Industry) except for GlencoreXstrata which did not have legal and industry expertise and Assore which did not have industry expertise. All the companies had industry experience with the best risk rating – Kumba did not have the highest rating except for industry experience of 100% which was equalled by KIOCL, which had the second lowest risk rating of 50.

5.6.2. Retail

Figure 11: The expertise represented per company in the retail industry compared to the risk rating



In the retail industry the graphs for three of the five companies, Clicks, TFG and SPAR, were identical with respect to risk rating, industry expertise and legal expertise. All the companies had 100% industry experience represented on their respective audit committees and all had financial expertise, however the percentage representation varied. Pick n Pay was the only company in the retail industry that did not have industry expertise represented on the audit committee. Figure 11 below represents the data graphically.

5.6.3. Banking

Figure 12: The expertise represented per company in the banking industry compared to the risk rating

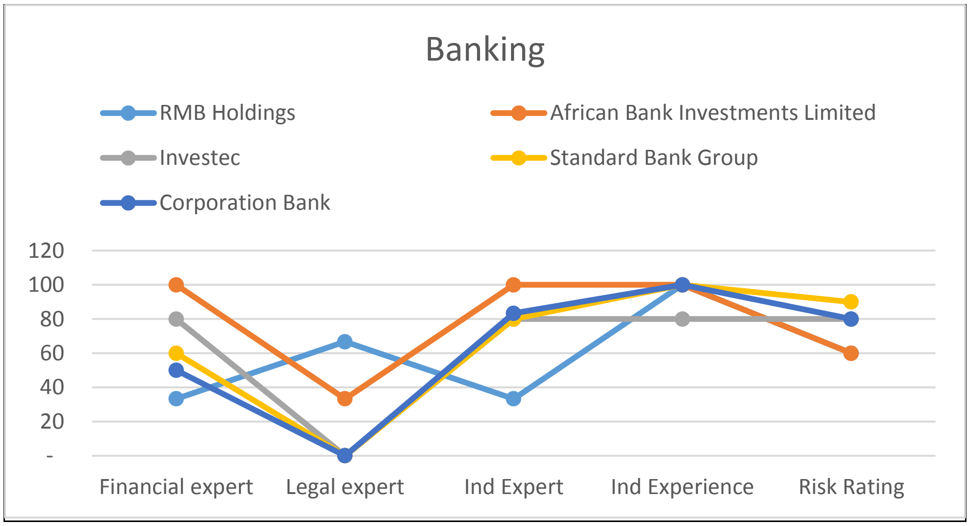


Figure 12 represented the results of the analysis of the audit committees in the banking industry. All these banking companies had financial expertise, industry expertise and industry experience represented on the audit committee, though the ratio of the representation varied. RMB Holdings and ABIL had legal and had a risk rating of 60 while the SBG, Investec and Corporation Bank did not have legal expertise and had a risk rating of 90, 80 and 80 respectively. SBG which had the highest risk rating had 100% industry experience, 80% industry expertise and 60% financial expertise.

5.7. Individual characteristics of audit committee members per industry

The individual characteristics of the audit committee members played a role in the effectiveness of the committee. Criteria such as the average remuneration of the members, the number of members with professional memberships, average number of directorships per member, average number of committees on which the member services other than the audit committee, number of members with industry experience and the average tenure of the audit committee members were used in this analysis. In calculating the remuneration of the audit committee members all amounts earned by the members from the companies were converted into South African Rand from other currencies such as US Dollar, Pound Sterling and Indian Rupee by using the average exchange rate for the 2013 calendar year. Table 5 below sets out the exchange rates used in the conversion to South African Rand.

The professional membership in the context of this study was defined as the memberships of professional bodies by the audit committee members. These professional bodies included registration with the Chartered Accountant Institutes in South Africa and India, membership of the Law Society, registration with Engineering Council or the membership of the Institute of Bankers, among others. The number of members holding professional memberships, the number of directorships and industry experience were determined from the biographies of the individuals and the annual/integrated reports. The number of other committees as well as the tenure of the member on the board of the specific company was determined from the annual/integrated reports of the respective companies.

Table 5: Exchange rates used to convert US Dollar, Pound Sterling and Indian Rupee to South African Rand for the 2013 calendar year

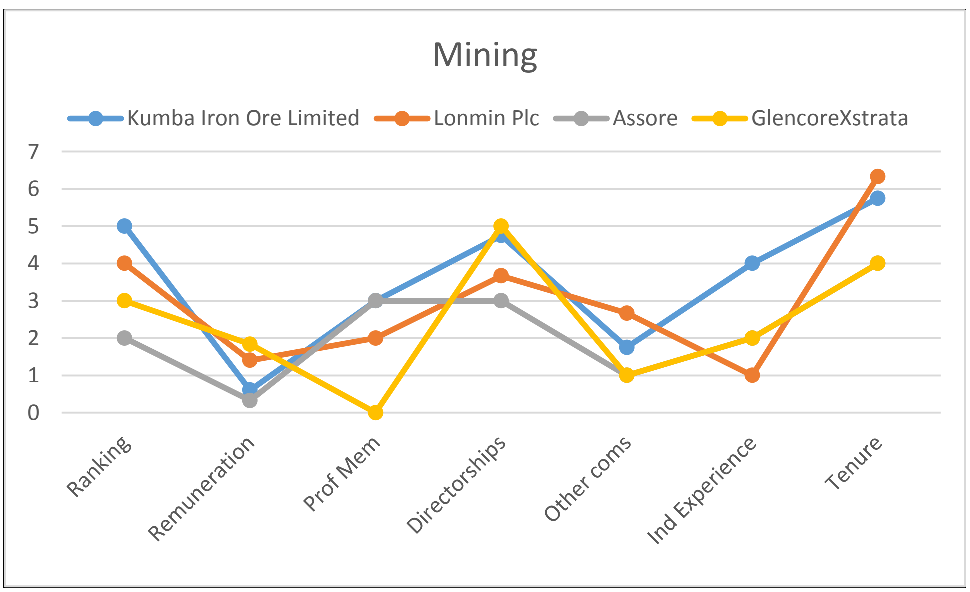
Month	**R/GBP**	**R/USD**	**R/INR**
Jan	14,04	8,79	0,16
Feb	13,74	8,87	0,16
Mar	13,86	9,19	0,16
Apr	13,93	9,10	0,16
May	14,27	9,33	0,16
Jun	15,47	10,00	0,17
Jul	15,06	9,93	0,16
Aug	15,59	10,06	0,16
Sep	15,84	9,98	0,15
Oct	15,92	9,90	0,16
Nov	16,43	10,21	0,16
Dec	16,97	10,36	0,16
Avg	**15,09**	**9,64**	**0,16**

Source: www.xrates.com

5.7.1. Mining

As presented in Figure 13 below, in the Mining industry the average remuneration for the members ranged from R300 000 per member for Assore to R1.8 million for Glencore Xstrata. Kumba which was ranked as top 10 paid an average of R600 000 per annum to the audit committee members. Kumba had three members with professional memberships which was the same for Assore, while Lonmin had two members with professional memberships. The number of directorships per member ranged from three to five with Kumba and Glencore Xstrata having five and Assore having three directorships. The average number of other committees, within the company on which the audit committee members serve ranged from one for Assore and GlencoreXstrata to three for Lonmin. Kumba had the highest number of members with industry experience at four, while Lonmin only had one member with industry experience while GlencoreXstrata and Assore had two members. Both GlencoreXstrata and Assore had an average tenure of four years while Kumba and Lonmin had an average of approximately six years.

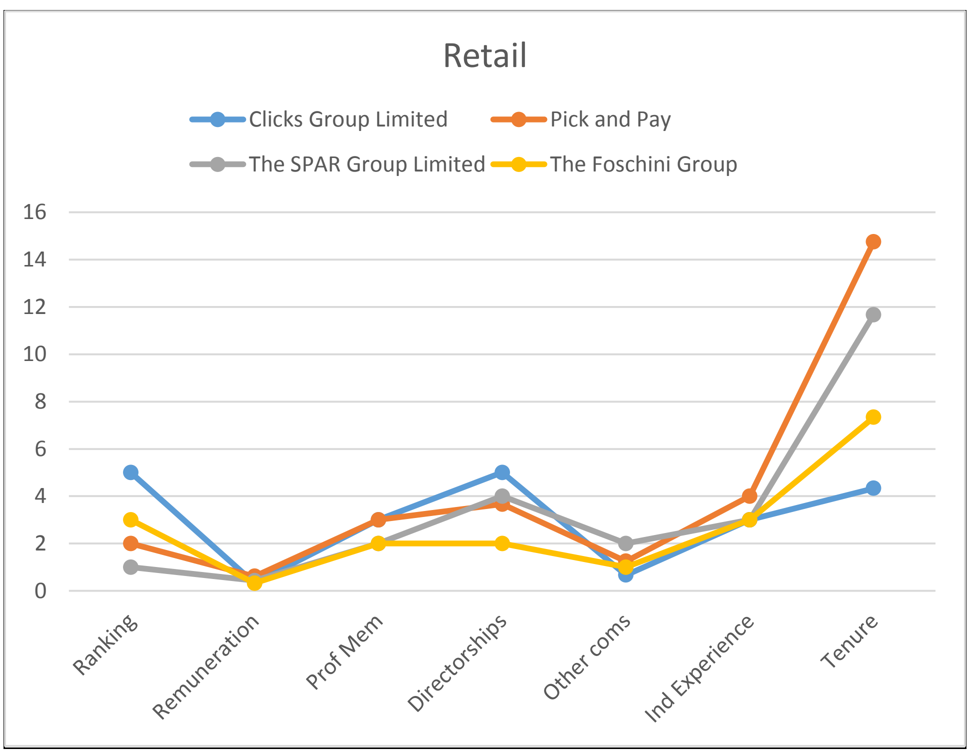
Figure 13: Individual qualities of members of companies in the mining industry compared to the ranking



5.7.2. Retail

The remuneration in the retail industry had a lower range than that of the mining industry as the retail had a low of R300 000 to a high of R600 000. Clicks and Pick n Pay both had three members with professional memberships while TFG and SPAR had two members with professional memberships. Directorships for the retail industry ranged from a low of two for TFG Limited to a high of five for Clicks. The members of SPAR had two other directorships while the other companies all had one directorship. All the companies had three members with industry experience except Pick n Pay which had four members with industry experience. The tenure of the audit committee members ranged from four years for Click Group Limited to a high of fifteen years for Pick n Pay while SPAR and TFG had an average tenure of twelve and seven years respectively. Figure 14 below is an illustration of the individual characteristics for the retail industry.

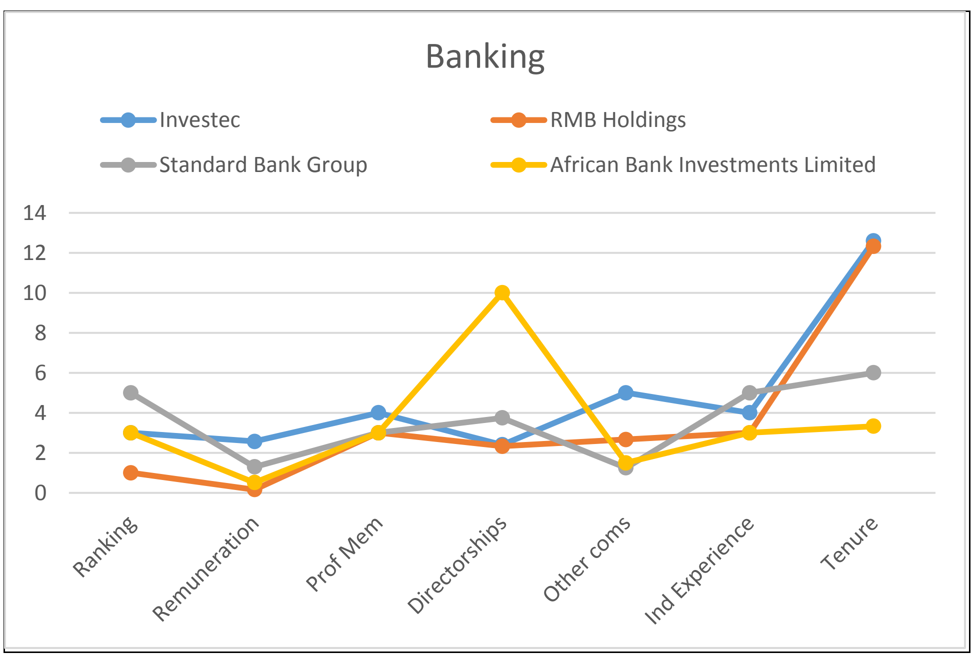
Figure 14: Individual qualities of members of companies in the retail industry compared to the ranking



5.7.3. Banking

Figure 15 below graphically depicts the information relating to the analysis of companies in the banking industry. The range for the remuneration in the banking industry was the largest from the industries studied with a low of R200 000 for RMB Holdings to a high of R2 600 000 for Investec. Four members of the audit committee of Investec held professional memberships while the other companies all had three members with professional memberships. ABIL audit committee members had an average of ten directorships while Investec and RMB Holding audit committee members had two directorships and SBG four directorships. The membership on other committees ranged from one in the case of ABIL and SBG to five for Investec. All the companies had members that had industry experience ranging from three to five years. RMB Holdings and Investec both had an average tenure for the audit committee members of thirteen years while SBG had an average tenure of six years and African Bank Limited had an average tenure of three years.

Figure 15: Individual qualities of members of companies in the banking industry compared to the ranking



5.7.4. Indian companies

Figure 16: Individual qualities of members of Indian companies

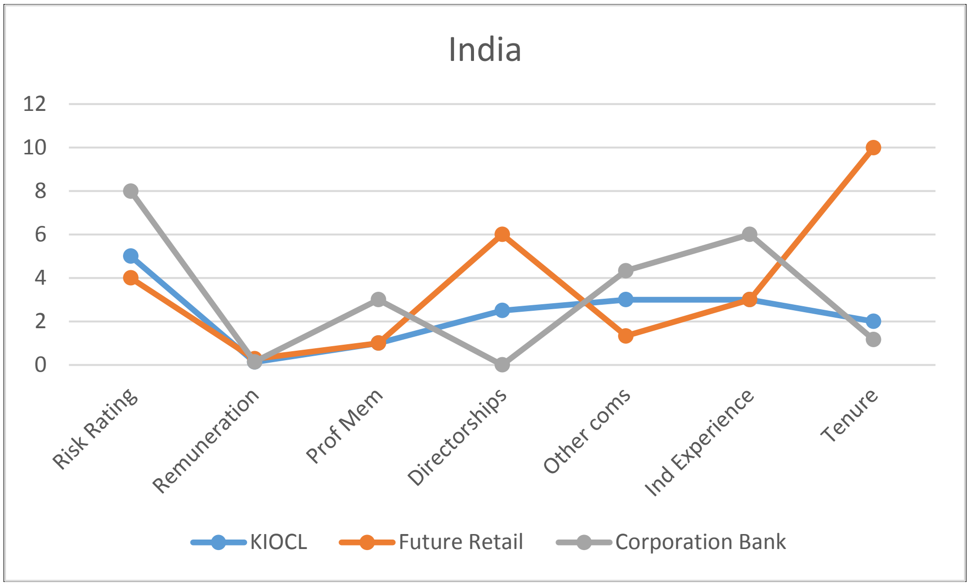
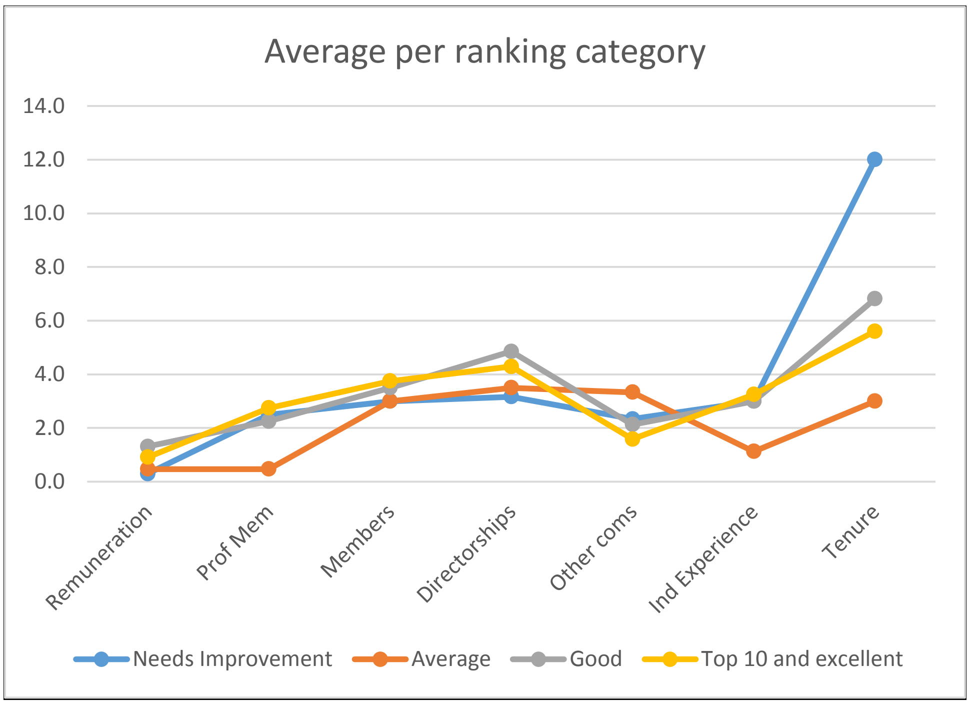


Figure 16 above displays the details of analysis of the Indian companies forming part of this study. In the analysis for the Indian companies the risk rating instead of the ranking was used as a proxy for effectiveness. The remuneration of the members of the audit committee in India earned substantially less than their South African counterparts. The remuneration of the members ranged from R100 000 to R300 000 instead of the R300 000 to R2 600 000 of South African companies. The conversion of the remuneration of members from Indian Rupee to South African Rand was done using the average conversion factor for 2013 of 0.16 South African Rand per Indian Rupee as set out in Table 5. All the companies had members with professional memberships which ranged from one to three members with professional memberships. The number of directorships per member ranged from zero for Corporation Bank to a high of six directorships for Future Retail. The number of other committees on which the members served ranged from three for Future Retail to five for Corporation Bank. All the members of the audit committees of the Indian companies had industry experience with Future Retail and KIOCL having three members and Corporation Bank having six members with industry experience.

5.7.5. Individual of the audit committee members per ranking category

Figure 17 below sets out the analysis that was conducted on the average per criteria for each of the ranking categories from needs improvement to top 10. In conducting this analysis, the excellent and top 10 companies were grouped.

Figure 17: Individual qualities of members of companies per ranking category



As indicated in the graph it appears that the tenure of the members of the audit committee did have an impact on the effectiveness of the committee. The needs improvement ranked companies had an average tenure of twelve years while the average ranked companies had an average tenure of three years. The top 10 and excellent and the good ranked companies had an average tenure that ranged between five and seven years. The average category had one member that held a professional membership while the other three had an average of three members with professional memberships. The number of members on the committee ranged between three and four members. The good and top 10 and excellent ranked companies had members that had more directorships than the average and needs improvement categories. The number of other committee memberships of the top 10 and excellent and good category were lower than that of the average and new improvement categories. Three of the four categories had three members with industry experience with the average category having an average of one member with industry experience.

Chapter 6 sets out the discussion of the results of the data analysed by the researcher and compares the outcomes with the findings of previous studies conducted in this field.

Chapter 6: Discussion of results

6.1. Proposition 1: The composition of the audit committee of an organization has an effect on the quality of the integrated report

The corporate governance frameworks in South Africa and in India set out the minimum requirements for the audit committee. In South Africa companies were required to have a minimum of three independent, non-executive directors as members, which was a requirement of the King III report (KPMG, 2009; IODSA, 2009), the JSE listing requirements (KPMG, 2013) and the South African Companies Act (Republic of South Africa, 2009). From the study it was identified that all the South African companies met these requirements as all the members of the audit committee were independent non-executive directors. In addition there were no companies identified where the chairman of the board of directors was a member of the audit committee which was in line with the King III report (KPMG, 2009; IODSA, 2009). This is illustrated in table 2.

In India the corporate governance framework was composed of the Companies Act of 1956, Clause 49 of the listing agreement introduced by the Securities and Exchange Board of India and the Corporate Governance Voluntary Guidelines (Salvioni, Bosetti and Almici, 2013). This framework required the audit committee to have at least three members, majority to be independent and at least one to have financial expertise. From table 2 it was evident that this requirement was met by the companies that were reviewed in this study.

In South Africa, the members of the audit committee were required to have sufficient qualifications and experience, as set out in the King III report (KPMG, 2009; IODSA, 2009) in order to deliver on the mandate of the audit committee. There were no specific qualification or experience dictated, however previous studies indicated that financial expertise were required on the audit committee, to ensure that the audit committee functions effectively (Defond, Hann and Hu, 2005; Bedard, Chtourou and Couteau, 2004; Keune and Johnson, 2012; Iyer, Bamber and Griffin, 2013). In this study it was evident that all the audit committees had financial representation. The researcher compared the percentage representation of financial expertise to the ranking of the integrated report to assess if a relationship between the number of members with financial expertise and the ranking of the integrated report existed (ranking of the report being the proxy for effectiveness of the audit committee). Even though the audit committee had varied levels of representation of financial expertise, the percentage representation did not correspond to the ranking of the company. However the chairpersons of all the audit committees reviewed as part of this study had financial expertise.

Previous studies suggested that the presents of legal expertise on the audit committee had a positive effect on the quality of the financial reporting of a company and therefore improved the effectiveness of the audit committee (Krishnan, Wen and Zhao, 2011). In our study we found that six of the twelve South African companies and two of the three Indian companies had legal expertise represented on the audit committee. As illustrated in Table 3, in South Africa the representation ranged from 25% for Kumba (which was rank as top 10) to 100% for Pick n Pay (which was ranked as needs improvement). SBG and Clicks which were both ranked as top 10 did not have legal expertise represented on the audit committee. Based on this analysis the findings of Krishnan, Wen and Zhao (2011) were not supported by this study.

Cohen, Hoitash, Krishnamoorthy and Wright (2014) found that the presence of industry expertise, which they defined as industry knowledge, on the audit committee improved the quality of the reporting by the company. For this study the knowledge of the industry was divided into industry expertise, which referred to the member having a tertiary qualification related to the industry or industry experience, which related whether or not the member worked in the specific industry. From an industry expertise point of view, as displayed in table 3, there were only three of the fifteen companies that did not have industry expertise represented on the audit committee. All these companies were South African with one in the retail industry and two in the mining industry. The analysis conducted did not display a clear relationship between the percentage of industry experts on the audit committee and the ranking of the company. All the companies in this study however had audit committee members that had industry experience. The percentage of the representation in this case, just as with industry expertise did not display a relation with the ranking as The SPAR Group and RMB Holdings both had a 100% representation but so too did Kumba, SBG and Clicks that were ranked as top 10. From this it was evident that industry knowledge was required to be represented on the audit committee; however this knowledge need not be of an academic nature but could also be gained from exposure to a specific industry.

The diversity of the audit committee was identified as a key factor in the effectiveness of the audit committee by EY (2013) and KPMG (2015). As part of this study the researcher examined the diversity of the audit committee based on the average age of the members, percentage of white individuals, percentage males and the percentage South Africans on the audit committee. A relationship between the average age of the member and the ranking could not be established. Campbell and Minguez-Vera (2008) suggested that the increase in female members on the board of directors resulted in an improvement in the financial performance of the company. There was evidence in this study to support this assertion as five of the eight South African companies that ranked good to top 10 in the EY report, had both genders represented on the audit committee. The Indian companies reviewed only had male members on the audit committee and were not ranked as part of the EY report and therefore the percentage gender composition versus the effectiveness of the audit committee could not be determined.

Marimuthu (2008) suggested that boards that were not ethnically diverse were not as effective as diverse boards as the members could make decisions based on groupthink. This was supported by the work conducted by EY (2013) which suggested that cultural diversity and gender diversity were key for the effective functioning of the audit committee. In this study the researcher examined the percentage white individuals on the audit committee and the percentage South Africans on the audit committee to determine whether cultural diversity had an impact on the ranking of the company. The percentage of white individuals varied as illustrated in table 4, however there was no clear indication of whether or not the percentage of white representatives on the audit committee had an effect on the effectiveness of the committee. Similarly eight of the twelve South African companies had only South African members on the audit committee while four companies had representatives from other nationalities. Two companies had 60% South African representation being Investec that was ranked as good and SBG which was ranked as top 10. Hence from the evidence gathered from this investigation the relationship between cultural and ethnic diversity on the audit committee and the effectiveness of the audit committee could not be established.

The evidence from this study provided information relating to the various elements that should have been considered when nominating members for the audit committee. The committees investigated displayed various levels of expertise, experience and diversity, however a relationship between the percentage composition and the effectiveness of the audit committee could not be established. The South African companies that formed part of this study were all within the top 100 companies listed on the JSE at the time of the EY report on integrated reporting which could indicate that the composition of the audit committee could have an effect on the success of the company.

6.2. Proposition 2: The structure of the audit committee meetings determines the effectiveness of the audit committee

The structure of the audit committee meetings has been identified as a key criteria for the effective functioning of the audit committee. The researcher reviewed the number and average attendance at the audit committee meetings when analysing the structure of the meeting. The number of meetings per annum was used as a proxy for the frequency of the meetings and the average attendance used as a proxy for the skills, knowledge and experience present at the meetings. Alzeban and Sawan (2015) suggested that the number of meetings held per annum had a direct relationship to the effectiveness of the audit committee. This was further supported by Dobija (2015) who established that the number of meetings held per annum and the duration of the meetings impacted on the effectiveness of the audit committee. From figure 1 it was evident that all companies that were ranked as good or higher, held four meetings a year with the exception of TFG which had three meetings. This was in line with the findings of Sultana, Singh and Van der Zahn (2014) that suggested that an effective audit committee must meet at least four times per annum.

The skills, experience and knowledge represented at the meeting of the audit committee was determined by using the average attendance for the respective companies. The average attendance for all South African companies that were ranked good or better was above 90% (as indicated in figure 1). This indicated that a possible relationship existed between the attendance at the audit committee meetings and the effectiveness of the audit committee which was aligned with the findings of Dobija (2015) with respect to skills, experience and knowledge present at the audit committee meetings.

The Indian companies analysed as part of this study showed evidence that the audit committees of the respective companies met more than four times a year with a low of five meetings for KIOCL and a high of thirteen meetings for Corporation Bank. The attendance at these meetings ranged from 85% to 100%. The effectiveness of the audit committee with respect to the quality of the annual report could not be measured as these companies did not form part of the EY rankings.

From the above evidence, especially that relating to the South African companies, there was a relationship between the structure of the audit committee and the effectiveness of the audit committee. This supported the findings of previous studies conducted on the subject and provided guidance to management and regulators as to the minimum requirements that should be instituted to ensure an effective audit committee.

6.3. Proposition 3: The composition of the audit committee differs across industries in order to improve effectiveness

The researcher used the same criteria as that used for proposition 1 when investigating the difference between audit committees in the various industries. In addition the researcher compared audit committees that shared the same ranking but across industries.

6.3.1. Comparison per Industry

Cohen, Hoitash, Krishnamoorthy and Wright (2014) found that industry specific expertise on the audit committee improved the effectiveness of the audit committee. In the mining industry (figure 2) all the companies had industry experience while only three of the five companies had industry expertise present. The two South African companies that did not have industry expertise were ranked lower than the two that had industry expertise. In the banking industry (figure 3) all the companies displayed the presence of industry experience and industry expertise on the audit committee however RMB Holdings which was ranked as needs improvement had the lowest proportion of industry expertise. Figure 4 illustrates the composition of the companies in the retail industry which indicated that companies in this industry had a high proportion of industry experience present on the audit committee however industry expertise were not as prevalent. The findings of this study supported the findings of Dobija (2015) and EY (2013) that suggested that industry knowledge was required for an effective audit committee. It also suggested that with respect to specifically industry expertise as defined in this study, the audit committees across industries differed. The impact of the presence of industry specific expertise on the effectiveness of the audit committee was greater in the mining industry where the companies with industry expertise outranked those that did not. However in the impact of a lack of industry expertise was not as evident in the retail industry.

All the companies in the mining industry had legal expertise on the audit committee except for GlencoreXstrata, which was ranked as good. In the banking industry only two of the five companies analysed had legal expertise on the audit committee these were RMB Holdings which was ranked as need improvement and ABIL which was ranked as good. In the retail industry as well the presence of legal expertise was minimal with only two of the five companies having had legal expertise. These companies were Pick n Pay which was ranked as average and Future Retail an Indian company. From this it was evident that there was limited support for the work done by Krishnan, Wen and Zhao (2011) which suggested that the presence of legal expertise improved the effectiveness of the audit committee.

Various researchers have conducted studies that have found that the presence of financial expertise on the audit committee improved the ability of the audit committee to deliver on its mandate (Defond, Hann and Hu, 2005; Bedard, Chtourou and Couteau, 2004; Keune and Johnson, 2012; Iyer, Bamber and Griffin, 2013). From figure 2 to figure 4 it was evident that companies in all the industries had financial expertise represented on the audit committee, which supported the findings of previous studies conducted. The audit committees across the industries had similar composition with respect to financial expertise.

The audit committee similar to the board of directors of a company should be diverse in order to be effective (EY, 2013). Upon analysing the average age of the various industries it was evident that the average age for mining was 60 years old (figure 2), for banking it was 57 years old (figure 3) and for retail it was 62 years old (figure 4). Banking had the widest range with the average age of 49 years old for African Bank Investment Limited to 64 years old for SBG. From this it was evident that with respect to age the various industries had limited variation in composition. All the South African companies, across all the industries investigated in this study, had a majority of white and male audit committee members with the exception of Kumba in mining which had only 25% male and 25% white representation and Clicks that had only 33% white members but the majority of members were male. The Indian companies all had Indian male representatives on the audit committee and therefor did not have any diversity relating to gender or race. It was therefore evident that the composition of the audit committee across industries was very similar in respect of race and gender diversity. A similar result was evident when the nationality represented on the audit committee were analysed. The South African companies had a majority of South African audit committee members. The only companies that had other nationalities represented on the audit committee were Lonmin and GlencoreXstrata in mining and Investec and SBG in banking. It must be noted that the companies that had audit committee members from nationalities, other than South African, were companies that were listed in other stock exchanges and not only on the JSE. This evidence suggested that the audit committees per industry did not show drastic divergence in their composition when compared against other industries.

6.3.2. Comparison per ranking

The comparison of the companies across rankings was conducted to investigate if there were any criteria that made one audit committee more effective than another. In this comparison the ranking was used so that industry specific factors could be ignored. From figure 9 we can see that the average age for all categories was approximately sixty years old. A comparison of the range of the average age ranking category showed that the range for top 10 and excellent companies was 57 years old to 64 years old (figure 8), good companies from 49 years old to 63 years old (figure 7), average from 60 to 61 years old (figure 6) and needs improvement from 56 to 65 years old (figure 5). Based on the average ages per category being the same as well as the wide average age range for all categories except the average companies, the relationship between average age and effectiveness of the audit committee could not be established. The concept by Marimuthu (2008) that increased diversity resulted in reduced groupthink and better decision making, could not be verified using the data available during this study.

As illustrated in figure 9 the percentage of whites on the audit committee of top 10 and excellent companies were less than that of the good, average and needs improvement rankings. However the average percentage for good companies was greater than that of average companies which indicated that the notion that greater race diversity on the audit committee would result in a more effective audit committee. The percentage of South Africans on the audit committee was also lower for good and top 10 and excellent companies when compared to that of average and needs improvement companies. These findings corroborated the finding by Marimuthu (2008) that suggested that an increase in ethnic diversity resulted in better decision making by boards and hence better performance of the company. The difference in the racial composition of the board did not fully corroborate the ethnic diversity assertion made by Marimuthu (2008) however the nationality information provided evidence that may have supported this assertion. The percentage of males on the top 10 and excellent companies were lower than that of the other categories. The improvement in the ranking with an increase of female membership of the audit committee supported the findings by Campbell and Minguez-Vera (2008). This evidence supported the work done by EY (2013) and KPMG (2015) that suggested that the diversity of the audit committee was key to the committee’s ability to deliver on its mandate.

The analyses of the expertise and experience of the audit committees, as depicted in figure 9 revealed that financial expertise was critical for the effective performance of the audit committee which was aligned with the work conducted by Defond, Hann and Hu (2005), Bedard, Chtourou and Couteau (2004), Keune and Johnson (2012) and Iyer, Bamber and Griffin (2013). It was evident that the companies that were ranked as good, excellent and top 10 had a greater proportion of financial expertise on the audit committee than those that were ranked average or needs improvement. The contra held true for the legal expertise on the audit committee. Krishnan, Wen and Zhao (2011) found that the effectiveness of the audit committee improved with a greater representation of legal expertise on the audit committee however in this study the researcher found that the companies that ranked as good, excellent and top 10 had a lower proportion of legal expertise on the audit committee. Industrial expertise however seemed to be key to the functioning of the audit committee as the companies ranked a good, excellent and top 10 had industry expertise represented on the audit committee at a higher proportion to that of the average and needs improvement companies. The industry experience was at a similar level for all the companies and hence an effective comparison with the ranking of the company could not be conducted. The results of this study reinforced the findings of Cohen, Hoitash, Krishnamoorthy and Wright (2014) that found that industry specific expertise are required for the effective functioning of the audit committee.

6.4. Proposition 4: The effectiveness of the risk identification and risk management process in a company is determined by the expertise of the audit committee

Ittner and Keusch (2015) suggested that the audit committee was the most frequently used committee for risk management by companies. This was supported by the fact that only five of the fifteen companies reviewed had risk committees that were independent of the audit committee. It must be noted that all the companies that had risk committees had representatives of the risk committee sitting on the audit committee. Of the companies that had risk committees three of the five companies had best in industry risk rating which were Kumba Iron Ore in mining (figure 10), TFG on retail (figure 11) and SBG in banking (figure 12). Therefore the evidence did not support the assertion made by Hines and Peters (2015) that the formation of voluntary risk committees did not improve the management of risk in the organisation.

As can be seen from figure 10, it was found that in the mining industry the companies with all the expertise represented on the audit committee had better risk ratings than those with legal expertise not represented. These findings supported the findings of Krishnan, Wen and Zhao (2011) with respect to legal expertise, however in the retail (figure 11) and banking (figure 12) industries the absence of legal expertise on the audit committee did not appear to impact the risk rating of the company. In all the industries the lack of industry expertise on the audit committee resulted in a lower risk rating which was aligned with the findings of Cohen, Hoitash, Krishnamoorthy and Wright (2014). From this analysis it can be established that the expertise of the audit committee had an effect on the risk management of the company with industry expertise and experience playing a role in all the industries but legal expertise only in mining industry.

6.5. Proposition 5: The individual qualities of audit committee members has an effect on the effectiveness of the committee

The researcher when looking at the individual qualities of the audit committee members looked at various criteria as set out in section 5.7. The researcher examined the South African companies within each industry using ranking of the company as the basis for comparison, while using the risk rating as a means to analyse the Indian companies. There was a final comparison conducted using the rankings across industries to identify if any one of the criteria displayed a relationship to the effectiveness of the audit committee.

The remuneration of the audit committee members did not have a direct relationship to the effectiveness of the audit committee. Bierstaker, Cohen, DeZoort and Hermanson (2012) found that the amount as well as the time over which the remuneration vested determined the aggressiveness of the decisions of the audit committee. In this study, all the remuneration was made as short term payments so the duration of vesting could not be tested, however the amount of the remuneration was identified and compared to the performance of the audit committee. It was found that in mining (figure 13) as well as retail (figure 14) and banking (figure 15) there was no clear relationship identified between the amount of remuneration and the ranking of the company. Similarly in India the remuneration of the members had no relationship with the risk rating of the company.

The status of the audit committee member which was determined by the number of directorships and the education level of the directors was a key determinant of the effectiveness of the audit committee (Badolato, Donelson and Ege, 2013). In this study the researcher used the number of members with professional membership as a proxy for education level and the number of directorships other than the directorship of the specific company. From the section 5.7., it was evident that in all the industries that were analysed a relationship between professional membership and the ranking of the company did exist, however the only company that did not have members on the audit committee that were members of a registered professional body was GlencoreXstrata in mining. With regard to the Indian companies it was similar to the South African companies which showed a relationship between professional memberships and risk ratings. The number of directorships in the mining and retail industry had a positive relationship with the ranking of the organisation however in the banking industry the bank with the directors with the highest number of directorships, ABIL with an average of ten directorships was ranked as good. The data from the mining and retail industries supported the notion of Badolato, Donelson and Ege (2013) that the status of the audit committee influenced the effectiveness of the audit committee however the case of ABIL, provided evidence that supported the assertion made by Sharma and Iselin (2012) that the number of directorships had an adverse effect on the effectiveness of the audit committee. The researcher also analysed the average number of committees at the specific companies that the audit committee member served on to determine if a relationship between the number of committees and the ranking or risk rating of the company could be determined. The number of committees that a member served on appeared to be industry specific and the optimal number could not be determined from the data analysed in this study.

There were numerous studies conducted that suggested that the independence of the members of the audit committee had an impact on the effectiveness of the audit committee (Carcello and Neal, 2000; Klein, 2002; Lee, 2014). One of the factors that influenced the independence of the member of the audit committee was the tenure of the director on the board of the specific company (Sharma and Iselin, 2012). It was further suggested that the longer the tenure of the director the increased possibility of personal relationships developing with management, which decreased the independence of the director/audit committee member and hence the effectiveness of the audit committee. The results of this study suggested that the tenure of a director did have an impact on the effectiveness of the audit committee, since Kumba and Lonmin (figure 13) had an average tenure of approximately six years and were ranked as top 10 and excellent respectively while Pick n Pay with an average tenure of fifteen years was ranked as average and SPAR (figure 14) and RMB Holdings (figure 15) with an average of twelve years each were ranked as needs improvement. The review of the tenure across industries based on the ranking, revealed that there could be a range of average tenure that would allow for optimal effectiveness (figure 17) of the audit committee. A tenure above or below such a range could have a negative impact on the effectiveness of audit committee. The Indian companies represented in figure 16, that formed part of this study also provide support for Sharma and Iselin (2012) in that there was an inverse relationship evident between the average tenure of the director and the risk rating of the company.

When comparing the annual reports of the South African companies to those of the Indian and Brazilian companies it was found that the disclosure annual reports was not as detailed as the information of the South African companies. For the Indian companies (Corporation Bank, 2013; Future Retail, 2014; KIOCL Limited, 2013) analysed, the details of the expertise and individual characteristics of the board of directors was only disclosed for the directors that were newly appointed to the board. The information for these directors were not as detailed as that for directors of South African companies. In the case of the Brazilian companies (Vale S.A., 2013; GPA, 2014; Banco do Brasil, 2013) it was found that there was no disclosure of the curriculum vitae of the directors and the information of the directors was not easily retrievable on the internet. In addition information about the remuneration of the directors, details of audit meetings and attendance at these meetings were not disclosed. The evidence gathered in this study therefore suggested that the integrated reports prepared by South African companies in line with the King III report were world leaders as suggested by the King Commission (IODSA, 2009). This was also supported by the Global Competitiveness report 2015-2016 that ranked South Africa as 1 for strength of auditing and reporting standards and India and Brazil as 95 and 70 respectively (World Economic Forum, 2015).

A comparison of the audit committees of the Indian and South African companies revealed that companies from both countries constituted their audit committees in line with the respective corporate governance frameworks (IODSA, 2009; Republic of South Africa, 2009; KPMG, 2013; Salvioni, Bosetti and Almici, 2013), as illustrated in table 2. As displayed in table 3 the financial expertise were present on all the audit committees in South Africa and India and in all cases the chairperson of the audit committee were financial experts. All the companies had industry experience present on the audit committee. Nine of the twelve South African companies had industry expertise present on the audit committee while all three Indian companies had representation. With legal expertise two of the three Indian companies and six of the twelve South African companies had legal expertise represented on the audit committee. With respect to the average age of members it was found that the average age for audit committee members in India and South Africa was approximately sixty years old.

Table 4 suggests that the South African companies were more diverse than the Indian companies, in respect of gender and race, since all three Indian companies analysed had only male audit committee members, none of which were white (all were Indian), while in South Africa only two of the twelve companies had only white members and five of the twelve had only male members. The number of meetings held by Indian companies were on average higher than the South African companies with meeting ranging from a low of two to a high of seven, while in India it ranged from a low of five to a high of thirteen (figure 1). When we look at the composition of the audit committee per industry in India as compared to South Africa, the composition in terms of the various criteria are very similar, as indicated in section 5.4.

Chapter 7 sets out the principal findings, implication for management, limitations of this research and suggestions for future research.

Chapter 7: Conclusion

7.1. Principal findings

In developing economies companies need to implement robust corporate governance and risk management systems in order to attract foreign investment (Bennedsen, Nielsen and Nielsen, 2012). The audit committee is a key component of a reliable and effective corporate governance system. Like South Africa other BRIC's countries had corporate governance frameworks that consisted of laws and regulations that govern the minimum requirements for the composition and the roles and functions of the audit committee (IODSA, 2009; Republic of South Africa, 2009; KPMG, 2013; Salvioni, Bosetti and Almici, 2013). In this study a comparison was conducted between the audit committees of selected South African companies and Indian companies within and across three industries and it was established that in all cases the minimum requirements with respect to number of members, independence of members and qualification of members were met.

This study revealed that all the audit committees had financial expertise represented on the audit committee with the chairperson in all cases having financial expertise. This could be as a result of the traditional roles of the audit committee that were financial in nature (EY, 2013). There was no relationship established between the percentage of members that had financial expertise and the effectiveness of the audit committee. The presence of legal expertise on the audit committee did not correlate with the effectiveness of the audit committee. This was not in line with the research conducted by Krishnan, Wen and Zhao (2011) which found a positive relationship between the representation of legal expertise and the effectiveness of the audit committee. Industry experience was represented on all the audit committees, however industry expertise, which refers to a tertiary qualification in the specific field was only present on eight of the fifteen companies reviewed. Though there was evidence that the lack of industry expertise impacted on the quality of the annual report and on the quality of the risk management process as suggested by Cohen, Hoitash, Krishnamoorthy and Wright (2014), the impact was more evident in the industries that were more technical and regulated such as mining and banking.

Diversity on the audit committee was identified by numerous researchers as a key enabler to the effectiveness of the audit committee. Diversity included aspects such as cultural diversity (Haniffa and Cooke, 2005), ethnic diversity (Salleh and Haat, 2012), gender diversity (EY, 2013) and age (Marimuthu, 2008). From this study it was evident that audit committees of the South African companies were still dominated by white males with an average age of sixty years old. There was evidence however that gender diversity improved the effectiveness of the audit committee. There was a wide range of average ages identified in this study, with the lowest being forty nine years old and the oldest sixty seven years old. There was however no relation that was established between average age and the effectiveness of the audit committee. The percentage of South Africans represented on the audit committee varied between companies with GlencoreXstrata not having South Africans represented on its audit committee while companies such as Kumba Iron Ore had 100% representation. There was no evidence to support that a change in the percentage South African membership would change the effectiveness of the audit committee, however it was evident that the companies that had non-South African audit committee members were those that were multinational companies which supported EY (2013) which found that companies should be aware of the culture of the companies in which they operate.

There was evidence to suggest that the structure of the audit committee was crucial for the effectiveness of the audit committee. This included both the number of meetings held during the year and the attendance at the respective meetings. This was in line with the findings of Dobija (2015), which indicated that the frequency, length and skills represented at meetings determine the effectiveness of the audit committee. Currently the corporate governance framework in South Africa does not set a minimum requirement for the frequency or structure of the meetings, however in the study it was identified that most of the highly effective audit committees, based on ranking of the integrated report, had at least four meetings per annum and had an attendance of at least 90%. The Indian companies however had a low of five meetings and high of thirteen meetings with and the lowest attendance being 86%.

The individual characteristics of the members of the audit committee which relate to the independence, status, tenure and remuneration of audit committee members were investigated and it was found that most of the members had numerous directorships but there was no evidence to suggest that the number of directorships impacted on the effectiveness of the audit committee. The average no directorships for the companies excluding ABIL was four, with ABIL having ten directorships. However if we review the performance of ABIL subsequent to the 2013 financial year (Barry, 2015), there might be evidence that the number of directorships could impact the effectiveness of the audit committee. Sharma and Iselin (2012) suggested that extended tenure of directorship could result in reduced independence and therefore lower effectiveness. This study found that this was indeed the case for the companies reviewed as indicated by The SPAR Group, Pick n Pay (figure 14) and RMB Holdings (figure 15). There was also evidence to support that there could be an optimal average tenure period that needed to be met in order for the audit committee to be effective as suggested by Kumba and Lonmin (figure 13). It is therefore suggested that for an audit committee to be effective, it is required to have members that have experience within the company, however if there is a tenure period beyond which independence of the members may be effected. Professional membership was used as one of the indicators of status. From the companies reviewed, thirty six members of the fifty four had professional memberships which indicated that most of the members had professional memberships and hence this was not a differentiating factor when considering effectiveness of the audit committee.

From this study it was evident that in most cases the required expertise, experience, diversity and individual characteristics of the members was represented on the audit committee however variances in the effectiveness of the various audit committees were evident. Therefore it is suggested that the composition in isolation would not improve effectiveness. There are other factors that need to be considered such as effective leadership as indicated by EY (2013) and the structure of the meetings that is indicated in this study and suggested by KPMG (2015).

7.2. Implications for management

Previous studies on the composition of the audit committee linked specific areas and compared these to the performance of the company. These included financial expertise (Defond, Hann and Hu, 2005; Bedard, Chtourou and Couteau, 2004; Keune and Johnson, 2012; Iyer, Bamber and Griffin, 2013), legal expertise (Krishnan, Wen and Zhao, 2011), industry expertise (Cohan, Hoitash, Krishnamoorthy and Wright, 2014), structure of the meetings (Alzeban and Sawan, 2015; Sultana, Singh and Van der Zahn, 2014; Dobija, 2015), and the various elements of diversity, mostly in non BRIC's countries. This study provides a holistic view of the impact of the combination of expertise, experience, diversity and individual characteristics on an audit committee and compared it to the effectiveness of the audit committees, in a South African and Indian context. It therefore provides information that management should consider when nominating the audit committee. It also suggests that the effective of the audit committee is dependent on its structure which includes the number of meetings held per annum and the attendance required, which is aligned to the findings of (Dobija, 2015). These criteria should be used when setting up the mandate and the terms of reference of the audit committee. In addition there are other factors that should be considered which include the effective leadership as identified by EY (2013), which management should consider when nominating the members to sit on the audit committee, and more importantly when appointing the chairman of the audit committee. The process of determining and evaluating the necessary leadership requirement are not easy to determine and therefore cannot be regulated. However it is key for the company to ensure that a process is implemented to identify and appoint the person that has the required leadership skills.

The companies in this study generally complied with the requirement of the corporate governance frameworks in the respective countries, with respect to the minimum requirements for the composition of the audit committee. If regulators amend the current corporate governance framework to include minimum requirements in respect of expertise, experience, diversity and individual characteristics as well as the guidelines around the number of meetings held per annum and the attendance required to constitute a quorum for an audit committee meeting, the effectiveness of the audit committees of companies may improve and could result in better performance (IODSA, 2009; Republic of South Africa, 2009; KPMG, 2013; Salvioni, Bosetti and Almici, 2013).

7.3. Limitations of the research

The study was based on analysis of secondary data that was publicly available. Primary data was not gathered from interviews or questionnaires with the identified audit committee members hence the information was not verified. This limitation is mitigated by using information from reputable/recognized sources. The use of third party reports to determine the quality of the integrated report and the effectiveness of the risk management process may be considered a limitation but the use of independent reports from recognized audit and risk experts reduce the effect of bias on the study. In addition company documents were not inspected such as the terms of reference of the audit committee, to determine if the company had terms and conditions which govern the structure and process of the audit committee meetings. These would include the frequency and number of meetings (Dobija, 2015), the quorum of the meeting, which would ensure that the appropriate expertise are represented at the meeting (Ittner and Keusch, 2015) and the proposed agenda of the meetings.

The companies sampled in this study were companies ranked in the Top 100 companies in South Africa in 2013, which were subject to the work conducted by EY in preparation of the EY Excellence in Integrated Reporting 2014 (EY, 2014) report. This may not be a representative sample of all South African companies which could mean that the findings of compliance to current regulations may not be true for other companies. The Indian companies selected for this study were selected on a convenience sampling basis since the companies analysed were companies for which sufficient secondary information was available. This leads to a similar dilemma as that faced with South African companies, as these companies may not be representative of all the Indian companies.

This study analysed the audit committee for one financial period which was a snap shot for the organisation and the effectiveness of the audit committee. However in order to evaluate the true effectiveness of the audit committee the analysis should be conducted over a number of financial periods and should include analysis of both financial and other data which is reliant on the effectiveness of the committee. This should include conducting interviews with members of the companies to determine the leadership skills prevalent at audit committee level and the impact this had on the ability of the audit committee to deliver on its prescribed mandate.

The King III report was used as the basis when determining the regulations governing the audit committee, however the King III Report is in the process of being reviewed and will be replaced by the King IV report in 2017 (IODSA, 2014). Therefore the recommendations in this report may already be included in the King IV report. The audit report in 2013 did not have an indication of the issues that were discussed with the audit committee by the external auditors. The new audit report that is effective for companies having the financial yearend of 15 December 2016 or later will be required to have a disclosure of this detail. To date two South African companies, Imperial Holdings Limited and Attcq Limited have implemented the new format (Botha, 2015).

The integrated reports of the companies disclosed the duties, roles and responsibilities of the audit committee. There was no disclosure about the interactions between the audit committee and the internal auditors (Tusek, 2015; Alzeban and Sawan, 2015) or the external auditors (Pizzini, Lin and Ziegenfuss, 2015), as well as information around the meetings held in order to ensure effective risk management (Ittner and Keusch, 2015). This information would be useful to identify the types and the frequency of the interactions since this is key to the audit committee delivering on its mandate (Alzeban and Sawan, 2015). The audit committee is also required to make use of external expertise when necessary, however this is not disclosed in the integrated report (IODSA, 2009). It will therefore be important to identify and review company documents in which meetings are recorded or by having interviews with chairpersons of the audit committee to gather this information. As was stated earlier, this was a study based on secondary data, such review of documentation and interviews were not conducted.

The disclosure in the annual reports of Indian companies are not as comprehensive as that of South African companies with respect to the directors of the companies. The annual report does not have information about all the directors of the company but rather only new directors appointed during the specific financial year. The curriculum vitae of these directors are not as comprehensive as those that are disclosed for South African companies, hence the information for these directors had to be obtained from other sources such as Bloomberg. A similar issue was identified when the auditor reviewed companies listed in Brazil (Vale, 2013; GPA, 2014; Banco do Brasil, 2014), however the information of the directors could not be obtained on the Bloomberg website. In addition remuneration information, details of the audit committee meetings and attendance were not disclosed.

7.4. Suggestions for future research

Future research should be conducted where company performance and the composition of the audit committee are analysed over a period of several financial periods to establish if the current or past composition of the audit committee has an effect on future performance, especially when we look at the tenure of the directors of the company (Sharma and Iselin, 2012). The use of primary data gathered by the researchers should be used to study the importance of leadership to the effective performance of the audit committee (EY 2013). The gathering of primary data must be done by conducting interviews with audit committee members of selected companies and the respective chairpersons.

The audit committee has a mandate to ensure that the combined assurance plan is developed and implemented by the company. This includes the nomination and monitoring the performance and independence of the external auditor, monitoring the quality of the internal audit function and oversight on risks, especially those related to financial reporting (IODSA, 2009). This study did not investigate any of these processes or procedures that were implemented by the audit committee in this regard. A future study that focusses on the procedures and processes in place to manage the combined assurance function within the company could highlight key criteria that would make the audit committee more effective.

The population for future studies could be increased to include companies that are not listed within the Top 100 on the JSE, to identify if the findings of this study hold true for other companies. The data used for the determination of the effectiveness of the audit committee would have to be financial performance data as there are currently no ranking available for companies outside the top 100 companies. In addition the methods used in the analysis of the data in this study was only qualitative in nature, since this was an exploratory study, however future studies could use quantitative methods to test future hypothesis around the composition of the audit committee and its impact on the effectiveness (Field, 2013).

References

African Bank Investments Limited. (2013). ABIL Integrated report for year ended 30 September 2013. Retrieved from http://www.abil.co.za

Agoglia, C. P., Doupnik, T. S., & Tsakumis, G. T. (2011). Principle-based versus rules based accounting standards: The influences of standards precision and audit committee strength on financial reporting decisions. *The Accounting Review, 86(3),* 747-767. doi:10.2308/accr.00000045

Alzeban, A., Sawan, N. (2015). The impact of audit committee characteristics on the implementation of internal audit recommendations. *Journal of International Accounting, Auditing and Taxation, 24, 61-71.* http://dx.doi.org/10.1016/j.intaccaudtax.2015.02.005

Assore. (2013). Assore Integrated annual report 2013. Retrieved from http://www.assore.com

Badolato, P., Donelson, D. C., & Ege, M. (2013). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics, 58(23),* 208-230. doi:10.1016/j.jacceco.2014.08.006

Banco do Brasil. (2014). Banco do Brasil annual report 2013. Retrieved from http://www.bb.com.br

Barry, H. (2015, June 5). Abil applies for business rescue. No effect on African Bank curatorship. *Retrieved from http://www.moneyweb.co.za*

Bedard, J., Chtourou, S. M., & Courteau, L. (2004). The effect of audit committee expertise, independence and activity on aggressive earnings management. *Auditing: A Journal of Practice & Theory, 23 (2),* 13-35. doi:10.2308/aud.2004.23.2.13

Bennedsen, M., Nielsen, K. M., Nielsen, T. V. (2012). Private contracting and corporate governance: Evidence from the provision of tag-along rights in Brazil. *Journal of Corporate Finance, 18(4), 904-918.* doi:10.1016/j.jcorpfin.2011.03.007

BertelsmannStiftung. (2011). *Sustainable governance in the BRICS.* Retrieved from http://www.sgi-network.org

Bierstaker, J. L., Cohen, J. R., DeZoort, F. T., & Hermanson, D. R. (2012). Audit committee compensation, fairness, and the resolution of accounting disagreements. *Auditing: A Journal of Practice & Theory, 31(2),* 131-150. doi:10.2308/ajpt-10238

Botha, W. (2015, September 22). New auditor's report: two SA companies out of the blocks. *SAICA standards & legislation. Retrieved from* http://www.saica.co.za

Campbell, K., & Minguez-Vera, A. (2008). Gender diversity in the boardroom and firm financial performance. *Journal of Business Ethics, 83(2), 435-451.* doi 10.1007/s10551-007-9630-y

Carcello, J. V., Neal, T. L. (2000). Audit committee composition and auditor reporting. *The Accounting Review, 75(4),* 453-467 doi:http://dx.doi.org/10.2308/accr.2000.75.4.453

Clicks Group Limited. (2013). Clicks Group Limited integrated annual report 2013. Retrieved from http://www.clicksgroup.co.za

Cohen, J. R., Hoitash, U., Krishnamoorthy, G., Wright, A. M. (2014). The effect of audit committee industry expertise on monitoring the financial reporting process. *The accounting review, 89(1),* 243-273. doi: 10.2308/accr-50585

Corporation Bank. (2013). Corporation Bank annual report 2012-2013. Retrieved from http://www.corpbank.com

Defond, M. L., Hann, R. N., & Hu, X. (2005). Does the market value financial expertise on audit committees of board of directors? *Journal of accounting research, 43(2),* 153-191. doi: 10.1111/j.1475-679x.2005.00166.x

Dobija, D. (2015). Exploring audit committee practices: oversight of financial reporting and external auditors in Poland. *J Manag Gov, 19, 113-143.* doi:10.1007/s10997-013-9281-6

EY. (2014). *EY's excellence in integrated reporting awards 2014.* Retrieved from: http://www.ey.com

EY. (2013). *Greater business challenges call for stronger audit committees.* Retrieved from http://www.ey.com

EY. (2014). *Turn risk and opportunities into results. Retail sector top 10 risks.* Retrieved from http://www.ey.com

EY. (2013). *Business risk facing mining and metals 2013-2014.* Retrieved from http://www.ey.com

Field, A. (2013). Comparing several means: ANOVA. In M. Carmichael (Eds.), *Discovering statistics using IBM SPSS Statistics* (pp. 429-477)

Future Retail. (2014). Future Retail annual report 2013-14. Retrieved from http://www.futureretail.co.in

GlencoreXstrata. (2013). GlencoreXstrata annual report 2013. Retrieved from http://www.glencorexstrata.com

GPA. (2014). GPA annual and sustainability report 2013. Retrieved from http://www.gpabr.com

Haniffa, R. M., & Cooke, T. E. (2005). The impact of culture and governance on corporate social reporting. *Journal of Accounting and Public Policy, 24 (5), 391-430.* doi:10.1016/j.jaccpubpol.2005.06.001

Hines, C. S., & Peters, G. F. (2015). Voluntary risk management committee formation: Determinants and short-term outcomes. *Journal Accounting and Public Policy, 34 (3), 267-290.* http://dx.doi.org/10.1016/j.jaccpubpol.2015.02.001

Hoyt, R. E., Liebenberg, A. P. (2015). Evidence of the value of enterprise risk management. *Journal of Applied Corporate Finance, 27(1), 41-47.* doi: 10.1111/jacf.12103

Institute of Directors Southern Africa. (2009). *King code of governance for South Africa 2009.* Retrieved from https://clickup.up.ac.za

Institute of Directors Southern Africa. (2014). King IV: questions and answers. Retrieved from http://www.iodsa.co.za

International Finance Magazine. (2013, July 16). Risk management in the banking industry. *International Finance Magazine. Retrieved from http://www.internationalfinancemagazine.com/article/risk-management-in-the banking-industry*

Investec. (2013). Investec overview, governance, sustainability and remuneration report 2013 volume 1. Retrieved from http://www.investec.com

Ittner, C. D., Keusch, T. (2015). The influence of board of director's risk oversight on risk management maturity and firm risk-taking. Retrieved from https://www.insead.edu/facultyresearch/areas/accounting/events/documents/BoardRiskOversight_20150818.pdf

Iyer, V. M., Bamber, E. M., Griffen, J. (2013). Characteristics of audit committee financial experts: an empirical study. *Managerial Auditing Journal, 28(1),* 65-78. doi: 10.1108/02686901311282506

Kamolsakulchai, M. (2015). The impact of the audit committee effectiveness and audit quality on financial reporting quality of listed company in stocks exchange of Thailand. *Review of Integrative Business & Economics Research, 4(2),* 328-341. Retrieved from: *Sibresearch.org/uploads/2/7/9/9/2799227/riber_sh14-269_328 341.pdf*

Keune, M. B., Johnstone, K. M. (2012). Materiality judgements and the resolution of detected misstatements: The role of managers, auditors, and audit committees. *The Accounting Review, 87(5),* 1641-1677. doi: 10.2308/accr- 50185

KIOCL Limited. (2013). KIOCL Limited 37th annual report 2012-2013. Retrieved from http://www.kioclltd.com

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting & Economics, 33 (2002),* 375-400. doi:10.1016/s0165101(02)0059-9

KPMG. (2009). *King III summary: Department of professional practice.* Retrieved from: https://www.kpmg.co.za

KPMG. (2013). *JSE listing requirements: Quick reference guide.* Retrieved from: https://www.kpmg.co.za

KPMG. (2015). *2015 Global audit committee survey.* Retrieved from: https://www.kpmg.com/globalACI

Krishnan, J., Wen, Y., Zhao, W. (2011). Legal expertise on corporate audit committees and financial reporting quality. *The Accounting Review, 86(6),* 2099-2130 doi: 10.2308/accr10135

Kumba Iron Ore Limited. (2014). Kumba Iron Ore Limited integrated report 2013. Retrieved from http://www.angloamericankumba.com

Lee, P. (2014). Better effectiveness with audit committees: evidence from China. *Universal Journal of Accounting and Finance 2(4),* 97-115. doi: 10.13189/ujaf.2014.020404

Lonmin Plc. (2013). Lonmin Plc annual report and accounts for the year ended 30 September 2013. Retrieved from http://www.lonmin.com

Marimuthu, M. (2008). Ethnic diversity on board of directors and its implications on firm financial performance. *The Journal of International Social Research, 1(4), 432-445.* Retrieved from http://www.sosyalarastirmalar.com

Millar, C. C. J. M. (2014). To be or not to be: The existential issue for national governance bundles. *Corporate Governance: an International review, 22(3), 194-198.* doi:10.1111/corg.12066

Oktorina, M., Wedari, L. K. (2015). An empirical investigation on ownership characteristics, activities of the audit committee, and audit fees. *Applied finance and accounting, 1(1), 20-29.* doi:10.11114/afa.v1i1.639

Pick n Pay. (2013). Pick n Pay integrated annual report 2013. Retrieved from http://www.picknpay-ir.co.za

Pizzini, M., Lin, S., Ziegenfuss, D. E. (2015). The impact of internal audit function quality and contribution on audit delay. *Auditing: A Journal of Practice & Theory, 34(1), 25-58.* doi:10.2308/ajpt-50848

Republic of South Africa. (2009). No. 71 of 2008: Companies Act 2008. *Government Gazette* (Report No. 32121) (pp.174-176). Retrieved from http://www.saica.co.za

Republic of South Africa. (2011). No.3 of 2011: Companies Amendment Act. *Government Gazette* (Report No. 34243) (pp. 55). Retrieved from http://www.saica.co.za

RMB Holding. (2013). RMB Holdings annual integrated report '13. Retrieved from http://www.rmbh.co.za

SAICA. (2015). *South African Institute of Chartered Accountants Members handbook.* Retrieved from http://www.saica.co.za

Salleh, N. M. Z. N., & Haat, M. H. C. (2012). Audit committee diversity – Malaysian evidence after the revision of MCCG. *Malaysian Accounting Review, 12(2), 91-113.* Retrieved from http://www.myjurnal.my/filebank/published_article/31066/5.pdf

Salvioni, D. M., Bosetti, L., Almici, A. (2013). Board independence and internal committees in the BRICs. *Chinese Business Review, 12(8), 521-539. ISSN 1537-1506*

Saunder. M. & Lewis. P. (2012). *Doing research in business & management. An essential guide to planning your project.* Harlow, England: Pearson Education Limited

Sharma, V. D., Iselin, E. R. (2012). The association between audit committee multiple directorships, tenure, and financial misstatements. *Auditing: A journal of practice and theory, 31(3),* 149-175*.* doi: 10.2308/ajpt-10290

Standard Bank Group. (2013). Standard Bank Group annual integrated report 2013. Retrieved from http://www.standardbank.com

Sultana, N., Singh, H., Van der Zahn, J-L. W. M. (2015). Audit committee characteristics and audit report lag. *International Journal of Auditing, 19(2), 72-87.* doi:10.1111/ijau.12033

The Foschini Group. (2013). TFG integrated report 2013. Retrieved from http://www.tfg.co.za

The SPAR Group Limited. (2013). The SPAR Group Limited integrated annual report for year ended 30 September 2013. Retrieved from http://www.spar.co.za

Tusek, B. (2015). The influence of the audit committee on the internal audit operations in the system of corporate governance – evidence from Croatia. *Economic Research, 28(1),* 187-203. doi:10.1080/1331677x.2015.1028245

Vale S.A. (2014). Vale annual report 2013. Retrieved from http://www.vale.com

World Economic Forum. (2015). *The global competitiveness report 2015-2106.* Retrieved from http://www3.weforum.org

Appendices

Appendix 1: Analysis of Kumba Iron Ore Limited

Country	**South Africa**			
Industry	**Mining**			
Company	**Kumba Iron Ore**			
Ranking	**Top 10 (7)**			
Risk Com	Yes			
Rep of risk com	Yes			
Members	Allen Morgan	Dolly Mokgatle	Zarina Bassa (CH)	Litha Nyhonyha
Independent	Yes	Yes	Yes	Yes
Age	66	57	49	55
Race	W	A	I	A
Gender	M	F	F	F
Nationality	South African	South African	South African	South African
Highest Qualification	BEng (Elect)	LLB	CA (SA)	CA (SA)
Profession membership	PrEng		SAICA	SAICA
No. of directorships (other)	3	3	9	4
Other coms	3	2	1	1
Financial expertise	No	No	Yes	Yes
Legal expertise	No	Yes	No	No
Industry expertise	Yes	No	No	No
Industry experience	Yes	Yes	Yes	Yes
Date joined	Feb-06	Apr-06	Feb-08	Jun-11
Tenure	7	7	5	4
Number of meetings	5	5	5	5
Number of attended	5	5	5	5
Remuneration (R)	772 000	647 000	523 000	480 000

Source: Kumba Iron Ore Limited (2014)

Appendix 2: Analysis of Lonmin Plc

Country	**South Africa**		
Industry	**Mining**		
Company	**Lonmin Plc**		
Ranking	**Excellent**		
Risk Com	No		
Rep of risk com	No		
Members	Karen de Segundo	Jim Sutcliffe	Len Konar (CH)
Independent	Yes	Yes	Yes
Age	66	57	59
Race	W	W	I
Gender	F	M	M
Nationality	Dutch	British	South African
Highest Qualification	MBA	Hons	CA (SA)
Profession membership		Actuary	SAICA
No. of directorships (other)	3	4	4
Other coms	3	3	2
Financial expertise	No	Yes	Yes
Legal expertise	Yes	No	No
Industry expertise	Yes	No	Yes
Industry experience	Yes	No	No
Date joined	2005	2007	2010
Tenure	8	6	5
Number of meetings	4	4	4
Number of attended	4	3	4
Remuneration (R)	1 282 933	1 622 533	1 295 506

Source: Lonmin Plc (2013)

Appendix 3: Analysis of Assore

Country	**South Africa**		
Industry	**Mining**		
Company	**Assore**		
Ranking	**Average**		
Risk Com	No		
Rep of risk com	No		
Members	Edward M Southey (CH)	Sydney Mhlarhi	William F Urmson
Independent	Yes	Yes	Yes
Age	71	41	71
Race	White	African	White
Gender	Male	Male	Male
Nationality	South African	South African	South African
Highest Qualification	LLB	CA (S.A.)	CA (S.A.)
Profession membership	Law Society	SAICA	SAICA
No. of directorships (other)	4	2	
Other coms	1	0	2
Financial expertise	No	Yes	Yes
Legal expertise	Yes	No	No
Industry expertise	No	No	No
Industry experience	Yes	No	Yes
Date joined	Jan-09	Oct-12	Oct-10
Tenure	4	3	5
Number of meetings	3	2	3
Number of attended	3	2	3
Remuneration (R)	385 000	277 714	318 000

Source: Assore (2013)

Appendix 4: Analysis of GlencoreXstrata

Country	**South Africa**		
Industry	**Mining**		
Company	**GlencoreXstrata**		
Ranking	**Good**		
Risk Com	No		
Rep of risk com	No		
Members	Leonhard Fischer (CH)	William Macaulay	Peter Grauer
Independent	Yes	Yes	Yes
Age	51	68	68
Race	White	White	White
Gender	Male	Male	Male
Nationality	German	USA	USA
Highest Qualification	MA (Finance)	Hon Doctorate	Harvard business
Profession membership	NIL	NIL	NIL
No. of directorships (other)	3	5	7
Other coms	1	1	1
Financial expertise	Yes	Yes	No
Legal expertise	No	No	No
Industry expertise			
Industry experience	Yes	Yes	No
Date joined	Apr-11	Apr-11	Jun-13
Tenure	4	4	0.5
Number of meetings	4	4	2
Number of attended	4	4	2
Remuneration (R)	1 947 953	1 841 877	1 716 513

Source: GlencoreXstrata (2013)

Appendix 5: Analysis of Clicks Group Limited

Country	**South Africa**		
Industry	**Retail**		
Company	**Clicks**		
Ranking	**Excellent**		
Risk Com	No		
Rep of risk com	No		
Members	John Bester (CH)	Fatima Jakoet	Nkaki Matlala
Independent	Yes	Yes	Yes
Age	67	53	60
Race	White	Coloured	African
Gender	Male	Female	Male
Nationality	South African	South African	South African
Highest Qualification	CA (S.A.)	CA (S.A.)	M Med (Surgery)
Profession membership	SAICA	SAICA	FCS
No. of directorships (other)	6	5	4
Other coms	1	0	1
Financial expertise	Yes	Yes	No
Legal expertise	No	No	No
Industry expertise	NO	NO	Yes
Industry experience	Yes	Yes	Yes
Date joined	Oct-08	Mar-08	Aug-10
Tenure	5	5	3
Number of meetings	4	4	4
Number of attended	4	4	4
Remuneration (R)	407 000	275 000	319 000

Source: Clicks Group Limited (2013)

Appendix 6: Analysis of Pick n Pay

Country	**South Africa**			
Industry	**Retail**			
Company	**Pick n Pay Stores**			
Ranking	**Average**			
Risk Com	No			
Rep of risk com	No			
Members	H Herman	B van der Ross	A Mathole	J van Rooyen (CH)
Independent	Yes	Yes	Yes	Yes
Age	72	66	40	63
Race	White	White	African	Coloured
Gender	Male	Male	Female	Male
Nationality	South Africa	South African	South African	South African
Highest Qualification	BA Law	Dip Law	Masters	HDip CO Law
Profession membership	Attorney	Attorney	Attorney	SAICA
No. of directorships (other)	2	5	nil	4
Other coms	1	2	1	1
Financial expertise	No	No	No	Yes
Legal expertise	Yes	Yes	Yes	Yes
Industry expertise	No	No	No	No
Industry experience	Yes	Yes	Yes	Yes
Date joined	1976	2000	2010	2007
Tenure	37	13	3	
Number of meetings	2	2	2	2
Number of attended	2	2	2	1
Remuneration (R)	759 000	594 000	400 000	700 000

Source: Pick n Pay (2013)

Appendix 7: Analysis of The SPAR Group Limited

Country	**South Africa**		
Industry	**Retail**		
Company	**SPAR Group Limited**		
Ranking	**Progress to be made**		
Risk Com	No		
Rep of risk com	No		
Members	C F Wells (CH)	H K Mehta	P K Hughes
Independent	Yes	Yes	Yes
Age	64	63	67
Race	White	Indian	White
Gender	Male	Male	Male
Nationality	South African	South African	South African
Highest Qualification	CA (S.A.)	MBA	CIS
Profession membership	SAICA		CIS
No. of directorships (other)	2	6	nil
Other coms	2	2	nil
Financial expertise	Yes	No	No
Legal expertise	No	No	NO
Industry expertise	No	Yes	No
Industry experience	Yes	Yes	Yes
Date joined	Apr-11	Oct-04	Sep-89
Tenure	2	9	24
Number of meetings	3	3	3
Number of attended	3	2	3
Remuneration (R)	547 000	438 000	307 000

Source: The SPAR Group Limited (2013)

Appendix 8: Analysis of TFG

Country	**South Africa**		
Industry	**Retail**		
Company	**TFG**		
Ranking	**Good**		
Risk Com	No		
Rep of risk com	No		
Members	S E Abrahams (CH)	E Oblowitz	N V Simamane
Independent	Yes	Yes	Yes
Age	74	55	53
Race	White	White	African
Gender	Male	Male	Female
Nationality	South African	South Africa	South African
Highest Qualification	CA (S.A.)	CA (S.A.)	BSc (Hons)
Profession membership	SAICA	SAICA	
No. of directorships (other)	2	2	2
Other coms	1	1	nil
Financial expertise	Yes	Yes	No
Legal expertise	No	No	No
Industry expertise	No	No	Yes
Industry experience	Yes	Yes	Yes
Date joined	1998	2010	2009
Tenure	15	3	4
Number of meetings	3	3	3
Number of attended	3	3	3
Remuneration (R)	393 000	317 500	269 500

Source: The Foschini Group (2013)

Appendix 9: Analysis of Investec

Country	**South Africa**				
Industry	**Banking**				
Company	**Investec**				
Ranking	**Good**				
Risk Com	No				
Rep of risk com	No				
Members	S E Abrahams (CH)	G F O Alford	O C Dickson	D Friedland	P R S Thomas
Independent	Yes	Yes	Yes	Yes	Yes
Age	74	64	52	59	68
Race	White	White	White	White	White
Gender	Male	Male	Female	Male	Male
Nationality	South African	British	British	South African	South African
Highest Qualification	CA (S.A.)	BSc (Econ)	CDipAF	CA (S.A.)	CA (S.A.)
Profession membership	SAICA	FCIS/ FIPD/ MSI		SAICA	SAICA
No. of directorships (other)	2	1	5	2	2
Other coms	8	4	3	4	6
Financial expertise	Yes	Yes	no	Yes	YES
Legal expertise	No	No	no	No	NO
Industry expertise	Yes	Yes	yes	No	YES
Industry experience	Yes	Yes	yes	No	YES
Date joined	Oct-96	Jun-02	Mar-11	Mar-13	Jun-81
Tenure	17	11	2		32
Number of meetings	4	4	4	4	4
Number of attended	4	4	4	4	4
Remuneration (R)	4 310 098	2 541 838	1 433 867	1 465 985	3098299

Source: Investec (2013)

Appendix 10: Analysis of RMB Holdings

Country	**South Africa**		
Industry	**Banking**		
Company	**RMB Holdings**		
Ranking	**Progress is needed**		
Risk Com	No		
Rep of risk com	No		
Members	Jan W Dreyer (CH)	Patrick M Goss	Sonja E N Sebotsa
Independent	Independent	Independent	Independent
Age	62	65	41
Race	White	White	African
Gender	Male	Male	Female
Nationality	South African	South African	South African
Highest Qualification	HDipTax	CA (S.A.)	Attorney
Profession membership	Attorney	SAICA	Law Society
No. of directorships (other)	2	2	3
Other coms	2	3	3
Financial expertise	No	Yes	No
Legal expertise	Yes	No	Yes
Industry expertise	No	Yes	No
Industry experience	Yes	Yes	Yes
Date joined	Nov-97	Nov-87	Feb-08
Tenure	6	26	5
Number of meetings	2	1	2
Number of attended	2	1	2
Remuneration (R)	186 000	145 000	155 000

Source: RMB Holdings (2013)

Appendix 11: Analysis of Standard Group Limited

Country	**South Africa**				
Industry	**Banking**				
Company	**SBG**				
Ranking	**Top 10 (2)**				
Risk Com	No				
Rep of risk com	No				
Members	Richard Dunne (CH)	Thulani Gcabashe	Lord Smith of Kelvin, KT	Peter Sullivan	Ted Woods
Independent	Yes	Yes	Yes	Yes	Yes
Age	65	56	69	65	67
Race	White	African	White	White	White
Gender	Male	Male	Male	Male	Male
Nationality	South African	South African	Scottish	Australia n	South African
Highest Qualification	CA (S.A.)	Masters	CA	BSc	MBA
Profession membership	SAICA		IOB		CA (SA) /CFA
No. of directorships (other)	3	3	3	6	Nil
Other coms	1	1	nil	1	2
Financial expertise	Yes		Yes		Yes
Legal expertise			No		No
Industry expertise	Yes	Yes	Yes	No	Yes
Industry experience	Yes	Yes	Yes	Yes	Yes
Date joined	2009	2003	2003	2013	2007
Tenure	4	10	10		6
Number of meetings	7	7	7	7	7
Number of attended	7	7	6	5	7
Remuneration (R)	1 214 000	765 000	1 568 000	1 683 000	126100 0

Source: Standard Bank Group Limited (2014)

Appendix 12: Analysis of African Bank Investments Ltd

Country	**South Africa**		
Industry	**Banking**		
Company	**African Bank Investments Limited**		
Ranking	**Good**		
Risk Com	No		
Rep of risk com	No		
Members	Nicholas Adams	Morris Mthombeni	Robert J Symmonds (CH)
Independent	Yes	Yes	Yes
Age	54	39	54
Race	White	African	White
Gender	Male	Male	Male
Nationality	South African	South African	South African
Highest Qualification	ACMA	MBA	GIMT
Profession membership	ACMA	Attorney	SAICA
No. of directorships (other)	10	5	15
Other coms	2	nil	1
Financial expertise	Yes	Yes	Yes
Legal expertise	No	Yes	No
Industry expertise	Yes	Yes	Yes
Industry experience	Yes	Yes	Yes
Date joined	Feb-08	Sep-13	May-09
Tenure	5	1	4
Number of meetings	4	1	4
Number of attended	4	1	4
Remuneration (R)	641 000	336 000	561 000

Source: African Bank Investments Limited (2013)

Appendix 13: Analysis of KIOCL

Country	**India**		
Industry	**Mining**		
Company	**KIOCL**		
Ranking	**N/A**		
Risk Com	No		
Rep of risk com	No		
Members	K Narasimha Murthy	V K Agarwal	Dr O P Soni (CH)
Independent	Yes	Yes	No
Age	55	63	62
Race	Indian	Indian	Indian
Gender	Male	Male	Male
Nationality	Indian	Indian	Indian
Highest Qualification	BSC, FCA, FICAA	BE (Civil)	MA (Econ)/MBA
Profession membership	ICAI, ICWAI	IIT	
No. of directorships (other)	3	2	Nil
Other coms	3	3	3
Financial expertise	YES	No	Yes
Legal expertise	NO	No	Yes
Industry expertise	Yes	Yes	Yes
Industry experience	Yes	Yes	Yes
Date joined	Aug-11	Aug-11	Feb-11
Tenure	2	2	2
Number of meetings	5	2	2
Number of attended	5	2	2
Remuneration (R)	34 400	50 400	315 840

Source: KIOCL (2013)

Appendix 14: Analysis of Future Retail

Country	**India**		
Industry	**Retail**		
Company	**Future Retail**		
Ranking	**NA**		
Risk Com	No		
Rep of risk com	No		
Members	S Doreswamy (CH)	Shailesh Haribhakti	Dr Darlie Koshy
Independent	Yes	Yes	Yes
Age	78	59	60
Race	Indian	Indian	Indian
Gender	Male	Male	Male
Nationality	Indian	Indian	Indian
Highest Qualification	BLaw	Master	PhD
Profession membership	No	ICAI	No
No. of directorships (other)	3	9	Nil
Other coms	2	1	1
Financial expertise	Yes	Yes	No
Legal expertise	Yes	No	No
Industry expertise	No	No	Yes
Industry experience	Yes	Yes	Yes
Date joined	2000	2009	1999
Tenure	13	4	14
Number of meetings	6	5	5
Number of attended	6	5	4
Remuneration	288 000	272 000	272000

Source: Future Retail (2014)

Appendix 15: Analysis of Corporation Bank

Country	**India**					
Industry	**Banking**					
Company	**Corporation Bank**					
Ranking	**N/A**					
Risk Com	No					
Rep of risk com	No					
Members	A L Daultani	B K Srivastav	L K Meena	U S Paliwal	K S Oberoi	S S Pasha (CH)
Independent	No	No	Yes	Yes	Yes	Yes
Age	58		52	58	50	51
Race	Indian	Indian	Indian	Indian	Indian	Indian
Gender	Male	Male	Male	Male	Male	Male
Nationality	Indian	Indian	Indian	Indian	Indian	Indian
Highest Qualification	Post Grad - econ	Post Grad Agric	Political Sc	M Phil History	FCA	FCA
Profession membership	No	CAIIB	No	No	ICAI	ICAI/IOB
No. of directorships (other)	Nil	Nil	Nil	Nil	Nil	Nil
Other coms	5	5	4	2	4	6
Financial expertise	No	No	Yes	No	Yes	Yes
Legal expertise	No	No	No	No	No	No
Industry expertise	Yes	Yes	No	Yes	Yes	Yes
Industry experience	Yes	Yes	Yes	Yes	Yes	Yes
Date joined	Feb-12	Jan-13	Dec-11	Apr-12	Aug-11	Aug-13
Tenure	1	1	2		2	0
Number of meetings	13	3	13	12	2	13
Number of attended	12	3	9	12	2	10
Remuneration (R)	246678	40763	160000	160000	160000	160000

Source: Corporation Bank (2013)

Appendix 16: Ethics clearance

Gordon Institute
of Business Science
University of Pretoria

Dear Mr Prajay Maharaj

Protocol Number: **Temp2015-00852**

Title: **The effect of the composition of the audit committee of a company on the quality of the annual report**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

GIBS Ethics Administrator