

Disclosure on Adherence of the King Code's Audit Committee Guidance: Cluster Analyses to Determine Strengths and Weaknesses

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Abstract : In modern society, audit committees are seen as the custodians of accountability and the conscience of management and the board. But who holds the audit committee accountable for their actions or non-actions and how do we know what they are supposed to be doing and what they are doing? The purpose of this article is to provide greater insight into the latter part of this problem, namely, determine what best practises for audit committees and the disclosure of what is the realities are. In countries where governance is well established, the roles and responsibilities of the audit committee are mostly clearly guided by legislation and/or guidance documents, with countries increasingly providing guidance on this topic. With high cost involved to adhere to governance guidelines, the public (for public organisations) and shareholders (for private organisations) expect to see the value of their 'investment'. For audit committees, the dividends on the investment should reflect in less fraudulent activities, less corruption, higher efficiency and effectiveness, improved social and environmental impact, and increased profits, to name a few. If this is not the case (which is reflected in the number of fraudulent activities in both the private and the public sector), stakeholders have the right to ask: where was the audit committee? Therefore, the objective of this article is to contribute to the body of knowledge by comparing the adherence of audit committee to best practices guidelines as stipulated in the King Report across public listed companies, national and provincial government departments, state-owned enterprises and local municipalities. After constructs were formed, based on the literature, factor analyses were conducted to reduce the number of variables in each construct. Thereafter, cluster analyses, which is an explorative analysis technique that classifies a set of objects in such a way that objects that are more similar are grouped into the same group, were conducted. The SPSS TwoStep Clustering Component was used, being capable of handling both continuous and categorical variables. In the first step, a pre-clustering procedure clusters the objects into small sub-clusters, after which it clusters these sub-clusters into the desired number of clusters. The cluster analyses were conducted for each construct and the measure, namely the audit opinion as listed in the external audit report, were included. Analysing 228 organisations' information, the results indicate that there is a clear distinction between the four spheres of business that has been included in the analyses, indicating certain strengths and certain weaknesses within each sphere. The results may provide the overseers of audit committees' insight into where a specific sector's strengths and weaknesses lie. Audit committee chairs will be able to improve the areas where their audit committee is lacking behind. The strengthening of audit committees should result in an improvement of the accountability of boards, leading to less fraud and corruption.

Keywords : audit committee disclosure, cluster analyses, governance best practices, strengths and weaknesses

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