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THE ROLE OF THE AUDIT COMMITTEE IN NSW LOCAL COUNCIL AND GOVERNANCE

Suntharalingam Senthilanthan*

School of Accounting, Charles Sturt University, Australia

*Corresponding Author E-mail: ssuntharalingam@studygroup.com

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ARTICLE DETAILS

ABSTRACT

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Background - The appointment of administrators to local councils in some cases in recent years has highlighted the importance of good governance and has cast doubt on the effectiveness of council audit committees in overseeing council activities. New South Wales (NSW) state government internal audit guidelines mandate that local councils must have a functioning audit committee but do not prescribe how to achieve such functionality. Research into failures of audit committees points to fact that audit committee effectiveness depends on composition, authority, resources, and diligence.

Purpose - This research will evaluate effectiveness of local council audit committees in NSW through an examination of factors framed by New Institutional theory (NIS) and duly considering the needs of key stakeholders, namely the State government and ratepayers.

Design/Methodology/Approach - A mixed method design, incorporating both qualitative and quantitative methods, will be used to collect data. The sample consists of twenty Sydney metropolitan councils, to be selected from a total population of 128.

Research Limitations - It is not practical to include all councils in NSW for this thesis due to limitations of access, a sample of the population will be selected.

Originality/Value - This research make original contribution to point out the importance of audit committee in local government institutions and provide ways to meet the challenges faced by local government institutions in a complex and evolving political and economic landscape to achieve integrity, ethical governance and accountability.

KEYWORDS

Audit Committee, Local Council, Governance, Audit Quality, Governanc.

1. INTRODUCTION

The appointment of administrators to local councils in some cases in recent years has cast doubt on the effectiveness of council audit committees in overseeing council activities. This research will examine the role of audit committees and the factors that determine the effectiveness of these bodies in ratepayer funded NSW local government institutions - one of the three levels of governments in Australia. This work is confined to local councils in New South Wales (NSW).

Audit committees originate from the private sector and were established with the aim of enhancing confidence in the integrity of an organisation's processes and procedures. This relates to internal control and corporate reporting, which includes financial reporting [1]. The role of these committees has become increasingly important and there has been a widening of the scope of that role, with audit committees assuming responsibilities beyond their original terms of reference[2]. Thus, audit committees now play a key role in assisting boards to fulfil their responsibilities in terms of corporate governance through overseeing companies' financial reporting, internal control systems, risk management systems and their internal and external audit functions [2].

This work examines the role, member selection, independence, function and effectiveness of audit committees as well as their contribution to corporate governance in general and for local NSW councils in particular. NIS provides an appropriate framework for theorising the behaviour of

an institution in terms of establishing independent and effective audit committees as it represents a sociological view of institutions, which adopt structures and policies to legitimise their existence [3]

Broadly, audit committees deal with audits and technical accounting matters, overseeing financial reporting and ensuring integrity of organisations is maintained. Increasing economic and legal complexity has made satisfying stakeholder needs more challenging and has meant that the role of audit committees is also becoming broader and more complex. A consequence has been greater interest in the mechanisms that may bring about more effective audit committees, particularly in terms of member capabilities, their independence and capabilities. A rigorous and competitive selection process for members needs to emphasise not only financial expertise but also a range of other skills including familiarity with the challenges arising from increasing digitalisation. Thus, many organisations now incorporate mobile devices and social media networks in their day to day operation. Frequent, highly publicised instances of hacking by cyber criminals clearly demonstrates that many organisations are at risk from cyber security breaches. In consequence, audit committees need members that have expertise relevant to changing technology and associated risks.

This is required in any organisation including in local governments, which are an important part of the economy of a local community and the relevant state government. This is evident when the financial contribution of local public administration is examined: for NSW, the

local government sector report 2015 states the aggregate revenue for NSW local councils for 2013/2014 as amounting to \$11 billion and total assets were \$139 billion. Given the economic importance of local councils, state governments endeavour to ensure high standards of governance with the NSW state government requiring these bodies to comply with internal audit guidelines published in 2010 which provide principles and guidelines for the formation of audit committees to ensure 'best practice' of governance in general and financial reporting and disclosure in particular.

This research was prompted by recent investigations into the activities of local councils by the Independent Commission Against Corruption (ICAC), which increased concerns of ratepayers and residents regarding integrity in public administration in NSW. Currently, NSW has 128 local councils, following an amalgamation. In 2012 of the then 152 local councils in existence, 48 (32%) had an audit committee whereas 101 councils (66%) had no such body [4]. Thus, the majority of councils did not comply with the principles of internal audit guidelines published in 2010. This raises questions concerning the integrity and quality of financial reporting and governance in NSW local councils and their ability to meet stakeholder needs.

In NSW, the state government and ratepayers are the key stakeholders and their interests and relationships with them are important from a local council perspective. Non-compliance with NSW government guidelines is, thus, a key governance and stakeholder issue for NSW local councils. It is also in conflict with assumptions made under NIS that organisations respond to institutional pressures and comply with structures and procedures that are commonly accepted. This theoretical concept is important for explaining the behaviour of local councils in relation to the establishment of audit committees, the effectiveness of such bodies and their contribution to good governance.

This research has, thus, the following objectives:

1. To examine the role, structure and composition of audit committees in local government environments.
2. To examine the process of ensuring audit committee members' independence and expertise.

Audit committees play key roles in improving general governance as well as financial reporting and disclosure of information although definitions have changed over time. In 1992, The Cadbury Committee produced a 'Code of Best Practices' to raise standards in corporate governance and with emphasis on active roles for auditors in an attempt to emphasise its importance. The need for this was also highlighted by General definitions concerning the role of audit committees and the role of its members were formulated by Menon and Williams [5] who pointed out that at that time the role of audit committees was generally purely ceremonial. A range of institutions later also acknowledges the need for effective audit commission by attempting to define its role. These include the Auditing Assurance and Standard Board of the Research Foundation (AARF), the Institute of Internal Auditors of Australia (IIA-Australia) and the Australian Institute of Company Directors in 2002. In 2005, Sabia and Goodfellow highlighted the changes that had taken place in the role of audit committees over the last two decades. Important guidelines specifically targeting government audit committees came from The NSW Government when it introduced internal audit guidelines for local councils in 2010. These guidelines were aimed at establishing an audit committee within their organisational structure although successful implementation was not an automatic consequence. A number of studies have since been undertaken to examine the role and functions of audit committees in the private sector although little research appears to have been done with respect to local councils. Thus, given the considerable difference in core objectives between the private and the government sector, separate research is warranted to examine the role, functions and effectiveness of audit committees in this sector and, in particular, with regard to local councils. This research aims to fill this gap by answering the following research question:

Research question 1: Do the role, functions and responsibility of audit committees in NSW local councils differ significantly from those of their counterparts in the private sector?

A second area of inquiry concerns the independence of the audit

committee and its members. As far back as 1999, the Blue ribbon committee outlined a 'ten point' plan to improve the effectiveness of audit committees with emphasis on independence of audit committee members which was considered a key factor in achieving the objectives of an audit committee [6]. Furthermore, research suggests that informal networks between audit committee participants have a significant effect on governance outcomes [7]. It is, also, essential that the selection of audit committee members should be based on competence, experience and knowledge [8]. Yet, in 2013, Jones and Browery [4], in their work based on secondary research, found a low level of compliance with internal audit committee guidelines across NSW local councils. This issue is therefore, examined by answering the following research question:

Research question 2: Are the members of audit committees in local councils independent as understood in the relevant guidelines and do they possess the necessary expertise to deal with current and emerging issues in governance and with financial reporting of local councils?

Regulations enshrined in the Local Government Act reflect the view that corporate governance and internal controls are interdependent [9] and that one is caused by the other. However, there is limited research to prove such interdependence. This research aims to bridge this research gap by examining this issue through NIS, the basis for behavioural comparison and analysis of the actions of members of audit committees in NSW local councils to determine if there are gaps or deficiencies in current practice.

The factors that lead to audit committee effectiveness are enshrined in 'Effectiveness Checklists' published by the Australian National Audit Office [10], accounting firms and other institutions to simplify measurement. The NSW government audit office also created a self-assessment model to evaluate the effectiveness of audit committees with input from senior management of local councils. However, self-assessment models may be biased and, thus, have minimal impact on audit committee compliance. This research aims to examine the issue by answering following question:

Research question 3: Do audit committees operate effectively in the current local government environment?

A further issue of interest is the quality of reporting processes. In general, audit committees work with internal and external auditors to ensure better financial reporting. In practice, responsibility for processes, such as maintaining local roads, lies with local councils and councils are required to estimate and report maintenance liabilities in financial reports. This research will examine the quality of such reporting processes, the role of the audit committee in governance and functions of audit committees including the role of chairpersons, robust discussion and teamwork, time allocation, non-routine meetings outside councils, relationships with management and auditors, conflict of interest disclosure and succession plans.

Research question 4: Do local council management have sound reporting processes, robust communication and teamwork and relationships with members of the audit committee?

This research aims to examine the role and effectiveness of audit committees in New South Wales local councils. Based on existing literature, two hypotheses are formed. Hypothesis 1 tests if New South Wales local councils are complying with NSW local government internal audit guidelines, 2010. Hypothesis 2 tests the association between audit committee effectiveness and the composition of audit committees.

This research aims to contribute to the literature on audit committee effectiveness and governance in general. Previous research has been primarily into the role and effectiveness of the private sector. Existing research into government audit committees is confined to measuring audit committee effectiveness in the United States, the United Kingdom and the Victorian local government. To the best of our knowledge, no research has been conducted into audit committee effectiveness in New South Wales local governments. In general, a range of factors influences audit committee effectiveness with most research focusing on independence and effectiveness of audit committees, which play important roles in governance frameworks of local councils. However, there are additional factors that influence audit committee effectiveness including the monitoring of internal audit processes, internal and

external reporting, risk management and internal controls. Any negative issues regarding these factors may compromise the effectiveness of the audit committee.

This research will examine the role, composition, structures and effectiveness of audit committees within NSW local councils and the resulting governance practices. Establishing better governance will lead to greater management accountability, improve efficiency, and is an effective way of monitoring the way ratepayers' financial resources are spent.

Previous research was mainly been conducted into independence and effectiveness of audit committees and has focused primarily on the private sector where shareholders are the key stakeholders. In local councils, in contrast, the key stakeholders are the state government and ratepayers to whom management of local councils must legitimise its role as local government. This research is aimed at a broader range of factors, but will also examine independence as influence on the effectiveness of audit committees. It will contribute to empirical research in terms of the composition, roles and effectiveness of audit committees in local governments and the body knowledge about accountability, quality of audits, and governance in general. It will also contribute to the literature on audit committees in terms of managing stakeholder expectations of integrity and ethical governance of NSW local government institutions. The researcher will rely on NIS to justify the need for an audit committee.

From the research findings, a framework will be designed to serve as a model for local governments to consider and benchmark the broad and complex current role, membership, independence and functions of audit committees, which are vital to overseeing management, as well as internal and external auditors. The model will assist local councils to establish fully functioning audit committees capable of overseeing legislative compliance, financial reporting and integrity and, thus, of ensuring good governance. This model could be used by federal, state and local governments, accounting professionals, educational intuitions, not for profit organisations, public sector employees and the community at large.

2. LITERATURE REVIEW

There are several definitions for audit committees, resulting from regulations and guidelines developed by professional and regulatory bodies. An important interpretation comes from a joint government publication, which defines an audit committee as "a subcommittee of the Board of an organisation. It provides a forum where directors, managers and auditors together can deal with issues relating to the management of risk and other governance obligations" (AARF, IIA- Australia, AICD, AARF Joint Publication 2002 :10). A similar definition, although with more emphasis on audits, comes from the American Institute of Certified Public Accountants which states that "an audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results" (AICPA, USA: 2009). Although not specifically stated, such definitions may have been prompted by large numbers of organisational collapses over the past twenty years. In the private sector, high profile corporate scandals are generally due to company management foregrounding economic gains. These corporate collapses have highlighted the importance, public value and effectiveness of audit committees and corporate governance in general. Consequently, generally, company directors appoint audit committees to oversee financial reporting and risk management, thus fulfilling their duty of care and carrying out due diligence. This is a director's responsibility under the general law and Corporation Act 2001 in Australia. Even more binding is the ongoing requirement arising from the Australian Stock Exchange's listing rule ([11] 12.7) to have an audit committee for listed companies. The Australian Stock exchange corporate governance principle and recommendation (Principle 4) also defines the purpose and composition of audit committees. There is, thus, evidence that greater attention is paid to audit committees in the private sector due to high profile corporate collapses and scandals. According to Guthrie and Turnbull [12], Australian interest in audit committees started in the 1970s, followed in the public sector by recommendations from the NSW auditor general in 1990 and the Australian national audit office [13] and, again, in 2015 when it outlined the role of audit committees and membership in public sector institutions. Since the 1980's, audit committee guidelines and roles have, thus, continued to evolve with

evidence coming from the new Public Management model which emphasises the introduction of private sector management practices into public sector management. This is important for the current research as ASX principles and private sector principles will be benchmarked against practices in the NSW local government sector.

For the private sector, roles and functions of an audit committee are critical for good corporate governance within institutions and a range of institutions have formulated codes of practice, which include the establishment of audit committees. The Cadbury committee (1992) identified a code of best practices and a more active role of auditors as desirable whereas the Treadway commission report (1989), although earlier, went further and already recommended roles for audit committee members and independence of accountants. The Blue ribbon committee (1999) listed ten points to improve the effectiveness of audit committees and the independence of the committee. Abbott et al. [14] argued that firms with non-executive directors in audit committees are less likely to have fraudulent financial reporting. Introduction of the Sarbanes Oxley Act (2001) in the United States of America (US) put greater emphasis on management responsibility, auditors and audit committee independence, similarly to Richardson and Brail [15] who pointed out that competencies and activities of audit committee members depend on independence. The conclusion, drawn by Agrawal and Chadha [16], was that independent boards, independent audit committees and non-audit services performed by accounting firms are less likely to be involved in manipulation of earnings. Al-Najjar [17] addressed the issue through a different mechanism and stated that audit committees are more independent when firms have large boards. Thus, greater emphasis is on membership and independence of the audit committee for effective and enhanced governance.

Limited literature is available in the area of member selection processes, independence assurance processes and the structure of an audit committee, a gap the current research aims to fill. Important research on changes to the understanding of audit committees and the use they have been put to come from Sabia et al. [18] who have drawn a comparison between audit committees over time. These changes are of interest to this research which aims to analyse to what extent Sabia et al.'s [19] new style audit committees are effective in enhancing the corporate governance within local councils if they have been established.

Also of high interest is research by Krisnamoorthy et al [20-21] into characteristics of successful audit committees. They found that financial expertise, diligence and independence were vital. Similarly, DeZoort et al. [22] emphasised independence and argued, "An effective audit committee has qualified independent members with the authority and resources to protect stakeholders interests by ensuring reliable financial reporting, internal controls and risk management through diligent oversight efforts." The researchers also pointed out that audit committees must have financial and non-financial expertise to assess risks with regard to emerging issues such as cyber security, emerging technologies and social media. Thus, DeZoort et al. [22] consider independence vital to engage high quality external auditors and effective relationships with internal auditors, as well as protecting external auditors from client pressure and reducing financial reporting issues.

In terms of local councils, audit committees are set in accordance with Section 355 of the local Government Act 1993. This was supplemented in September 2010 by the NSW Government through Internal Audit Guidelines under section 23A of the Local Government Act 1993, specifying requirements for the structure of audit committees, including stipulating qualifications, experience and eligibility for audit committee membership. These rules and regulations will form an important element of this thesis.

Authority, accountability and communication were the main factors of interest to Purcell et al. [23] who found that audit committee effectiveness in local government is characterised by the charter of the audit committee, periodic assessment of authority and accountability, membership, communication and reporting to council, quality outcome and continuous professional development. Purcell et al.'s research is of interest to the current work due to its emphasis on communication and continuous professional development.

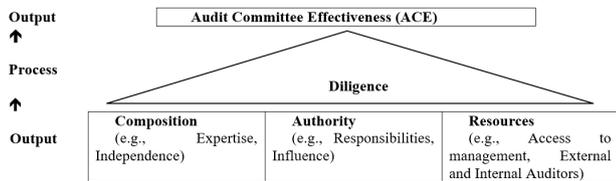


Figure 1: Determinants of audit committee effectiveness Source[22].

Jones and Beattie [24] conducted a documentary analysis for local councils in NSW but did not carry out primary research. They identified that many local councils do not have an internal audit function at all and where one is in place, the majority of internal auditors report to the general manager. They pointed to a lack of separation of roles as being problematic together with a lack of capacity to report the problems for which a general manager may want to avoid scrutiny. This is useful for the current project as it will explore the structure and composition of the audit committee membership including current councillors, the mayor and employees of local councils and identify reasons for non-compliance with internal audit guidelines to ensure the independence of audit committees.

From the considerable body of literature above, it is evident that corporate governance is important as a tool to control corporations and minimise corporate failure, not only within the private sector [25], although it is less common to have an administrator appointed for a local government. Nevertheless, this took place when instances of corruption, bribery and poor administration were discovered within Wollongong Council as evident from this public notice: "The Administrators were appointed to Wollongong City Council in 2008 and will be carrying out this function until local government elections are held in 2012" [26]. Other recent administrator appointments to some local councils have also highlighted that local governments are no exception in terms of institutional failure. This tallies with the findings of Jones & Bowrey [4] who suggested that Local Government Councils within Australia have long been perceived as inefficient and unable to manage the commercial elements of their operations. The solution they propose is that local councils should adopt a more business-like approach, which makes it essential to understand stakeholder needs and the organisations' performance. Wong [27] pinpoints lack of clarity about the role of the audit committee and lack of ethical cooperation as the problems, based on research into the performance of audit committees in Victorian government institutions. He suggests that addressing these two issues may lead to better governance.

Further problematizing the issues is the fact that there are large and small councils and not all have the same resources. Jones and Bowrey [28] address this disparity by focusing regular reporting of key performance measures, which may address efficiency problems experienced by smaller councils. Later, in 2013, Jones and Bowrey added that it is incompatible with independence to have the mayor of a municipality as a member of the audit committee. The researchers also emphasised that the right qualification attained to the required level were important.

From the above, it is clear that many researchers focused on independence of audit committees and found that this was vital for effectiveness, an issue that previously attracted little attention in terms of the processes required for establishing independent audit committees, particularly for local governments. This research will focus on audit committees of the NSW local government to analyse the role, functions, effectiveness, membership, independence and relationships within these bodies, as well as examining relationships between finance teams, senior management, internal and external auditors, council management and the audit committee. New institutional theory will be used to analyse the functions of the audit committee.

A range of checklists and tools developed by accounting firms and professional bodies exists to evaluate the effectiveness of audit committees. For this research, the Australian National Audit Office's checklist will be used to evaluate the effectiveness of local council audit committee.

2.1 Theoretical framework

Generally, research on accounting and governance is based on institutional theory while research in governments has mostly been framed by economic theory. This research applies an institutional isomorphism theory to local government institutions. Institutional theory is relevant to this thesis because it suggests that institutions have structures and management practices to legitimise their existence [3]. Institutional theory is a widely accepted theoretical position that emphasises rational myths, isomorphism, and legitimacy [30]. Scott defines institutions as comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social environment. Carpenter and Feroz [3] argue that institutional theory can complement economic theory in general and resource dependency theory in particular. Prior governmental accounting research based on economic theory generally ignores how institutional and organizational pressures influence the choices in the public sector [3]. Hence, New institutional theory (NIS) is considered. Carpenter and Feroz [3] applied institutional theory in an American state government environment. There exists, to date, only limited research into local governments based on NIS. Thus, a gap exists within the available literature in the application of NIS in local government environments. Therefore, this project applies NIS to NSW local government environments. NIS focuses on the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemes; rules, norms, and routines, become established as authoritative guidelines for social behaviour [30-31]. Organisational structures are subject to conformity to prevailing values or standards for acceptable behaviour [32]. Institutions follow routines, rules and norms to legitimise their purpose called institutional isomorphism [31]. Carpenter and Feroz [3] state that bureaucratisation and standardisation in organisational practices arises because of the desire of organisations for institutional legitimacy. NSW local councils follow rules, regulatory guidelines, structures and norms to legitimise their existence. Hence, NIS will be the most relevant theory to apply.

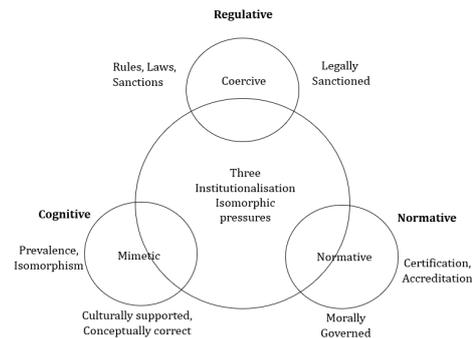


Figure 2: Three types of isomorphism such as coercive, mimetic, and normative isomorphism: Saman [33].

There are three types of isomorphism such as coercive, mimetic, and normative isomorphism. Coercive isomorphism [34] is due to formal and informal pressure on institutions from other organisations upon which they are dependent and the cultural expectations of the society within which organisations function. Such organisational change could be due to a government mandate, which puts governments and politicians under pressure to meet stakeholder expectations. In NSW, local councils are expected to use best practices and NSW guidelines to meet stakeholder expectation. Mimetic isomorphism [34] occurs when institutions model similar organizations to be more legitimate or successful. Local governments may be mimetic to legitimise their actions to stakeholders. Normative isomorphism [34] happens due to pressure or intervention from activities of professional groups or bodies.

Weak institutional enforcement regimes, along with the absence of effective checks and balances, pose serious challenges to the firm's level of good corporate governance practices [35]. Gonzalez believes "NIS is particularly relevant for analysing organizations that are confronted with uncertainties and, as a result, compete for political and institutional legitimacy and market position". NIS deals with management and challenges faced by management, which is also applicable to NSW local council management.

3. METHODOLOGY

Qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. NSW local governments determine functional structures and policies within their authority. Jones [9] pointed out that the majority of NSW councils are in non-compliance with internal audit guidelines. It appears that local council functions are influenced by subjectivity and culture. Therefore, a qualitative approach is suitable for this research. Primary data will be collected through interviews which will be unstructured and non-numeric.

Quantitative research is an approach for testing objective theories by examining the relationship among variables. These variables, in turn, can typically be measured through analysis of local council documents on compliance of audit committees and compare against private sector audit committee documents. Secondary data will be collected by extracting information from council websites, annual reports and databases. This part of the research is suitable for a quantitative data collection method.

Mixed methods research is an approach to inquiry involving collection of both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks. The majority of the project will follow a qualitative research method supplemented by quantitative research to complete the thesis. Hence, this research will employ a mixed method approach. The project will take a two-stage approach. The first stage consists of quantitative analysis of a group of councils based on whether the audit committee is established or not while the second stage qualitatively analyses the role and composition of the audit committee. The study will use interviews as a qualitative investigative approach to complete the research. Face-to-face interviews will be conducted and findings from this qualitative phase will then be used to evaluate the role, audit expertise and independence of the audit committee play in corporate governance, and measure the effectiveness of the audit committee and its influence on the governance framework. The reason for collecting qualitative data initially is that there is limited guiding theory available.

According to Creswell [36], it is essential to identify the population in a study and state the size of this population, if size can be determined. This must include a description of the means of identifying individuals in the population. Questions of access arise here, and the researcher might refer to availability of sampling frames by mail or from published lists of potential respondents from within the population. In this thesis, New South Wales (NSW) state councils are selected for examination. According to data available from Local Government NSW, NSW has currently 128 councils after amalgamation of some local councils, which represents the population of the project. As it is not practical to include all councils in NSW for this thesis due to limitations of access, a sample of the population will be selected.

A clustering procedure will be used to identify groups and then the sample. In a multistage or clustering procedure, the researcher first identifies clusters (groups or organisations), obtains names of individuals within those clusters, and then samples from within them [36]. Based on this document analysis, NSW local councils will be grouped into two clusters as outlined below,

3.1 Councils with audit committee

Councils that have an established audit committee structure with members and a chair position will be categorised as 'councils with audit committee'.

3.2 Councils without audit committee

Councils that have not established an audit committee structure will be categorised as 'councils without an audit committee'.

Councils without audit committee are not relevant to this research. Sydney metropolitan councils have high population density and a higher level of economic activities. Hence, the sample will consist of Sydney metropolitan councils with audit committees.

According to Jones [9], only 48 NSW councils had established an audit committee (the cluster). Therefore, a random sample of twenty Sydney

metropolitan councils with audit committee will be selected for this research, which will be approximately 42%. A non-exhaustive method will be used for the random sample selection until the project reaches some findings, which means the sample size may be larger than twenty, from the cluster that represents councils with audit committees.

This research will have two phases of data collection. Initially, data will be collected from secondary sources and subsequently from primary data. Initial data collection will be carried out through document analysis from websites and annual reports of local councils. The chances of not being able to access information from website will be low and the possibility of response bias is remote.

The interview based data collection is to gather respondents' in depth and independent views of relationships between audit committees and governance.

Interviewing in descriptive, phenomenological, human scientific research should be seen as a specific mode of data gathering that is integrally related to the research process as a whole [37]. From a qualitative perspective, interviews have been identified as the most suitable method to conduct this project. A random total sample of twenty Sydney metropolitan councils will be selected from councils with audit committees (cluster 1) for interviews. The researcher will send an invitation to participants with details.

Interviewing is a popular way of gathering qualitative research data because it is perceived as "talking," and talking is natural. Interviews do not presuppose any statistical knowledge, and persons to be interviewed, the respondents, might be close at hand and willing [38].

Interviewees will generate a range of useful insights and understandings. A key reason to select interviews for this project is that each interviewee is from a different council and will provide in depth information, and researcher must be actively involved in the data collection. In addition, one of the objectives of this research is to understand experiences, public values and processes, which will be achieved well through the interview process. Interviewees may prefer an interview to a questionnaire. This research will gather data mainly from interviews with a range of individuals from Chief Executive Officer (CEO), Chief Financial Officer (CFO) and others involved in the structure of the audit committee. Interviews are expected to involve councils' senior management who are part of the structure of an audit committee and involved in matters of governance. Interview will be in a semi-structured format.

In the interview, open-ended questions will be asked to understand the full context of the data collected. Open-ended questions may have follow up questions to clarify the interviewees view.

Mixed method designs can provide pragmatic advantages when exploring complex research questions. The qualitative data provide a deep understanding of survey responses, and statistical analysis can provide detailed assessment of patterns of responses [39]. Data collection will be carried out through document analysis and subsequently interviews will be conducted. Hence, this thesis takes a mixed method approach with more weight on the qualitative research method.

4. RESULT AND DISCUSSION

All 128 amalgamated councils will be divided into two clusters and a random sample will be selected from within the 'councils with audit committee' cluster so that each individual in the cluster has equal probability of being selected. The initial plan is to recruit twenty participants from Sydney metropolitan councils from within the 'councils with audit committee' cluster. A non-exhaustive method for random selection is applied until the project reaches some meaningful findings, which mean the sample size may be larger than twenty. The data will be analysed by comparing the role, composition and structure of audit committees and compliance with NSW government guidelines.

From a qualitative perspective, the process of data analysis involves making sense of text and image data, which involves preparing the data for analysis, conducting different types of analyses, moving deeper and deeper into understanding the data, representing the data and making

an interpretation of the larger meaning of the data [36].

All data relevant to each category will be identified and examined using a process called constant comparison, in which each item is checked or compared with the rest of the data to establish analytical categories. This requires a coherent and systematic approach. The key point of this process is that it is inclusive; categories are added to reflect as many of the nuances in the data as possible rather than reducing the data to a few numerical codes. Sections of the data such as discrete incidents will typically include multiple themes, so it is important to have a system of cross-indexing to deal with this [40].

This research will evaluate effectiveness by considering:

1. The number of independent members and independence of chairpersons.
2. The expertise of audit committee members.
3. The role of audit committees in local governments.

Researchers need to protect their research participants, develop a relationship of trust with them, promote the integrity of the research, guard against misconduct and impropriety that might reflect on researcher' organisation or institution, and cope with new, challenging problems [41]. This project involves participation of human beings. Hence, this project is subject to compliance with ethical principles and procedures and the researcher will seek approval from the Ethics Committee before the start of the interviews. Informed consent implies two related activities: participants need first to comprehend and second to agree voluntarily to the nature of their research and their role within it [41]. Participants of this project will not marginalise or disempower. Following actions will be taken to maintain ethical values for the project:

1. Privacy and confidentiality of the information and anonymity of the identity of participants.
2. The rights of participants are respected and the research field is left without any disturbance.
3. Only relevant data are collected, stored safely, used only for a reasonable amount of time and only for the specified project.

The regulation of informed consent operates in such a way that it protects the interests of vulnerable groups from harmful research carried out by more powerful organizations such as government agencies. Alternatively, it protects powerful agencies from scrutiny by independent researchers by robbing researchers of one of their most powerful methodologies, covert research [41].

4.1 Challenges and limitations

The research project will examine whether in 2018 NSW local council audit committees are set in accordance with Section 355 of the local Government Act 1993. There may be many changes to what has happened since the invocation of the Act in 1993, which is a limitation. This limitation will be addressed by researching relevant NSW government circulars that publicise updates and amendments to the original Act.

There are many regional councils that have difficulties in finding qualified and independent audit committee members. Responses and access to interviews with local CEOs, CFOs and people involved in structuring the audit committees may be limited and the size of the sample may be small. This could lead to common method bias and the selected sample from local councils may not be representative of the entire group. This will be overcome by a random non-exhaustive method of sampling used until legitimate findings are identified.

Interview analysis is subjective and varies according to interpretations [42] by researchers. To reduce this effect, the interview contents will be analysed along with the associated data. The research will consider independence, selection, membership and compliance of processes of the audit committee. The size of the audit committee, authority and resources available for Audit committee are not considered in this

research, which is a limitation.

5. CONCLUSION

Without legislative force, local councils will fail to provide adequate levels of governance and accountability [43]. This project highlights the importance of the role of audit committees in local councils and for governance. Independent and expertise of audit committees play important roles in the governance framework of local councils as audit committees are responsible for monitoring audit processes, internal and external reporting, risk management and internal controls. Internal auditors are instrumental in implementing audit committee decisions and activities. Strong relationships between audit committees and internal audits are mandatory for effective and efficient audit function. Furthermore, top-level support and resource allocation are vital to successful internal audits and audit committee functions and for improving corporate governance in local councils.

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