Audit Committee and Enterprise Risk Management Effectiveness in Tanzania Social Security Funds

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Abstract

This study examines the degree to which audit committee (AC) contributes to Enterprise Risk Management (ERM) effectiveness in Tanzania's social security funds. Using Ordinary Least Square (OLS) estimation technique, 193 cross-section observations on AC characteristics, AC ERM specific oversight processes and management support to AC variables were regressed against ERM effectiveness. Results show that each of the three explanatory variables has a significant positive effect on ERM effectiveness with AC oversight specific processes ranking first followed by AC characteristics and management support to AC respectively. Generally, the results lead to a conclusion that audit committee characteristics, ERM specific oversight processes and management support to AC considered collectively enable audit committees to contribute significantly towards ERM effectiveness. Policymakers, audit committees and/or boards, practitioners and managers may use the findings of this study to inform their strategies aimed at improving ERM effectiveness and consequently achieving their organisations' pre-determined objectives.

Keywords: Audit committee, Enterprise risk management, Social Security Funds, Tanzania

Introduction

One of the key challenges facing entities across the globe is effective management of risks whose occurrence may significantly halt the achievement of the objectives of these entities (Soobaroyen, Ntim, Broad, Agrizzi, & Vithana, 2018; Yatim, 2009). Of recent, many entities, both in the private and public sectors, have increasingly been investing in enterprise risk management (ERM). ERM is an act of continuously identifying and mitigating events whose occurrence can adversely affect the entity's performance or achievement of intended goals (Soobaroyen et al., 2018). Based mainly on the principal-agent framework of reasoning, various scholars and professional bodies are of a general consensus that the independent oversight role of the audit committee (AC), among other things, enhances the entity's ERM effectiveness (Alzharani & Aljaaidi, 2015; Committee of Sponsoring Organizations of the Treadway Commission-COSO, 2004; Dittmeier & Casati, 2014). ERM effectiveness is considered to prevail if the reporting entity has indicative evidence of effectively and efficiently identifying and mitigating significant risks as timely as possible to ensure the achievement of the entity's objectives (COSO, 2004).

While the scholars and professional bodies echo a general hypothesis that AC of the board contributes significantly towards ERM effectiveness, there is, however, continuous occurrence of global scale corporate financial-scandals amidst AC oversight of ERM. Examples of corporate scandals in presence of AC oversight of ERM are Dick Smith Holdings in 2016 in Australia, Banko Esprito Santo in 2014 in Portugal and Rehman Brothers in 2008 in the USA (Beasley, Hermanson, & Neal, 2009; Dodo, 2017). At the same time, there are mixed findings amongst previous studies

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that have examined the contribution of AC to ERM effectiveness. Some of these studies report a significant positive impact whereas others report an insignificant or a none or significant negative impact (Alzharani & Aljaaidi, 2015; Beasley, 2005; Berkman & Zuta, 2017; Soobaroyen et al., 2018; Yatim, 2009). Recurrence of global scale financial scandals despite AC oversight of ERM as well as the existence of mixed research findings suggest that our theoretical and empirical understanding about AC vis-à-vis ERM effectiveness is still limited.

Besides, majority of the previous studies indicate AC characteristics, namely independence, accounting finance expertise, size and diligence as only key factors that enable AC to contribute to ERM effectiveness (Alzharani & Aljaaidi, 2015; Berkman & Zuta, 2017; Yatim, 2009). The roles played by other key factors, particularly AC oversight processes and management support to AC have been neglected to a large extent (Beasley et al., 2009; Lambright, 2009; Mihret & Yismaw, 2007). Accordingly, most of the prior studies show predominant use of the Agency Theory as the only theoretical perspective relevant for underlying the contribution of AC to ERM effectiveness. The Stewardship Theory that essentially underlies management support to AC (Lambright, 2009; Mihret & Yismaw, 2007) has been neglected to a large extent.

Empirical literature indicates that while AC characteristics are important, they can hardly enable AC to oversee ERM effectively if there is no substantive performance of ERM specific oversight processes (Beasley et al., 2009). The literature also provides evidence that no matter the diversity or extent of expertise and experiences relevant for overseeing ERM, AC of the board can hardly contribute to ERM effectiveness if the management team is not supportive (Beasley, 2005; Mihret & Yismaw, 2007). In other words, if the management team of the reporting entity is not committed to supporting or collaborating with the AC, the AC oversight role may not contribute to ERM effectiveness. The said management support to AC includes but not limited to supplying to all AC's necessary inputs like availing reliable information on demand, finance resources on demand and implementation of AC recommendations (Mihret & Yismaw, 2007). These literature-backed discussions provide indicative evidence that the knowledge regarding AC vis-à-vis ERM effectiveness is still limited. It is also evident that AC vis-à-vis ERM effectiveness is a multidimensional phenomenon explained not only by AC characteristics as underpinned by the Agency Theory, but also by AC oversight process and management support to AC, both of which are underpinned by Stewardship Theory. In this regard, it is therefore imperative to continue investigating whether or not AC contributes significantly towards ERM effectiveness so as to reduce and/or ultimately eliminate the knowledge limitation highlighted.

In Tanzania, social security funds, normally owned and controlled by the state, have more than two million members comprised of employees and employers from both private and public sectors as well as the general public with an annual contribution amounting to more than TZS 2.2 trillion (ILO, 2008; Mpinga & Westerman, 2017). The benefits members gain from the funds include medical cover and income to sustain living after working life as a return for the contributions made (BoT, 2017; SSRA, 2016). The funds also play a significant role in developing the country's financial sector and the economy at large. For example, up to early 2017, Tanzania social security funds total assets value reached TZS11.323 trillion accounting for 11 and 21 percent of the total economy's GDP and financial systems' assets respectively (BoT, 2017; Mpinga & Westerman, 2017). With these benefits in mind, it is imperative that funds' ERM systems work effectively to ensure that their (the funds') objectives are realised. Consequently, it is also imperative that the oversight role of the funds' audit committees (AC) over ERM be more of a value addition to the fund's ERM effectiveness.

Up to when this study was set out, the extent to which ACs in Tanzanian social security funds contributed to ERM effectiveness was not clear. None of the reviewed studies on social security funds in Tanzania, for example, Mpinga and Westerman (2017) and Kyando (2014) had attempted to examine the phenomena at hand. For instance, the study by Mpinga and Westerman (2017) focused on governance structure and mechanisms whereas Kyando's (2014) study focused on the contribution of social security funds to capital markets development. The knowledge about the extent to which AC of the board contributes to ERM effectiveness is crucial as far as an intervention to improve ERM effectiveness is concerned, so is the improvement in achieving objective(s) of the entity under consideration. It was thus against this background information that Tanzania's social security funds offered a good setting for conducting this study. This study therefore sets out to empirically examine the degree to which AC contributes to ERM effectiveness using Tanzania's state-owned and controlled social security funds as the unit of analysis.

Contributions of this study to the extant literature are mainly in two ways. First, unlike the majority of prior studies, the present study is one of the early attempts to incorporate AC characteristics, ERM specific oversight process, and management support to AC in the examination of AC contribution to ERM effectiveness. Secondly, it is also one of the early attempts to use Agency and Stewardship theoretical perspectives in explaining the contribution of AC to the ERM effectiveness. The rest of this paper advances with the following parts: literature review and hypotheses development, methodology, findings, discussion, conclusion and implications.

Literature Review and Hypotheses Development

Audit Committee

Extant literature defines audit committee (AC) as a sub-committee of the governing body, board of directors, in particular, consisting of the majority of independent non-executive directors tasked with an oversight role to assist the directors in meeting the financial reporting, risk management and control-and-audit-related responsibilities (Marx, 2008; Sarbanes-Oxley (SOX) Act, 2002). In discharging its risk management oversight role on behalf of the board of directors, the AC primarily provides reasonable assurance that an entity under consideration maintains enterprise risk management (ERM) system which works effectively (COSO, 2004; DeZoort, Hermanson, Archambeault, & Reed, 2002; PwC, 2011). This in turn provides reasonable assurance to achieving the entity's objective (COSO, 2004).

Enterprise Risk Management

The concept of enterprise risk management (ERM) is variably explained in the literature. Nevertheless, it is generally referred to as a process effected or applied by a reporting entity's governance body, management and other personnel in identifying and mitigating potential events (risks) that may adversely affect the achievement of the entity's overall objective (COSO, 2004; Dittmeier & Casati, 2014). ERM process is systematically implemented because it involves risk identification, risk assessment and prioritisation, risk mitigation measures development, risk mitigation measures implementation, supervision or motoring and evaluation (COSO, 2004). Invariably, ERM applies at every level of the entity operations and it focuses on identification and management of risk within an acceptable range aiming at providing reasonable assurance regarding the achievement of the entity's objectives (Soobaroyen et al., 2018). This implies that for the effective achievement of objective(s) of any reporting entity, ERM effectiveness is inevitable.

Enterprise Risk Management Effectiveness

According to enterprise risk management (ERM) literature (COSO, 2004; Dittmeier & Casati, 2014), ERM is deemed effective if its fundament objective has been achieved. Generally, ERM aims at timely detection and mitigation of significant adverse events to provide reasonable assurance regarding achievement of the entity's objective (COSO,2004). Indicators of ERM effectiveness are evidenced in the reporting entity's ability to maintain ERM system; deploy sufficient financial, technical and human resources to support the implementation of ERM at every level of operations; and evaluate its ERM system regularly in terms of adequacy, effectiveness and efficiency (Dittmeier & Casati, 2014). Dittmeier and Casati add that there should be evidence that the reporting entity updates and takes corrective measures timely whenever major weaknesses are identified; and it should maintain major risks register and corresponding mitigating measures. Moreover, the reporting entity should have in place an overall in-charge of ERM (a chief risk officer (CRO) and risk champions) at every level of the entity operations (Dittmeier & Casati, 2014). Furthermore, there should be indicative evidence that all entity's personnel are at all times served with the checklist of major risks faced by the entity and how best to mitigate them along with all relevant laws, regulations, operational procedures, ethics and best practices to comply with (Beasley, 2005; COSO, 2004). Furthermore, lack or limited material financial losses, penalties and fines, as well as court cases against the entity form part of the indicators that the ERM system in place works effectively (Dittmeier & Casati, 2014).

Theoretical Foundation

This study is founded on Agency Theory and Stewardship Theory. The Agency Theory postulates that the manager (agent) and the owner (principal) of the business normally have different interests yet the agent controls the day-to-day transactions on behalf of the principal (Jensen & Meckling, 1976). As a result, the agent not only has control and access to more information as opposed to the principal, but also controls all decisions regarding day-to-day business transactions. Consequently, the agent stands a high chance to skew information flow and decisions in favour of her/his interest at the expense of the principal's interest (Jensen & Meckling, 1976). In general, the long-lasting problems of information asymmetry and conflict of interests in the principal-agent relationship are more detrimental to the principal than to the agent.

To resolve the foregoing problems, proponents of the Agency Theory commend that an independent mechanism, normally audit committee (AC), should be put in place to bridge the information gap and align interests of the agent to that of the principal (Cohen, Hoitash, Krishnamoorthy, & Wright, 2014; DeZoort et al., 2002). The logic behind putting in place an independent oversight body herein referred to as AC of the board is that if the agent is aware that the principal has adequate access to reliable information to verify the behaviour and actions, and the overall business affairs, the agent is more likely to serve in the best interest of the principal (Beasley et al., 2009; Jensen & Meckling, 1976). It is thus against this logic, AC of the board is increasingly being used to independently oversee ERM activities across private and public sector entities. Therefore, the AC of the board is expected to act as independently as possible. In this way, the AC of the board provides reasonable assurance that the entity's management maintains an effective ERM system. Apart from acting independently, the AC of the board is expected to be characterised by the diversity of skills/expertise and experiences deemed necessary for substantive execution of ERM specific oversight processes (Beasley et al., 2009; Cohen et al., 2014).

However, although Agency Theory provides the foundation of this study regarding the role of AC characteristics and ERM specific oversight process, it is not self-sufficient. It suffers at least one major drawback, that is, the assumption that managers (agents) normally strive to serve self-interests and not those of owners (principals). Thus, Agency Theory ignores the role of management commitment towards achievement of the organisation goal(s) as underlined by the Stewardship Theory. Proponents of the Stewardship Theory posit that any organization's successful performance cannot materialise in the absence of the management (steward) commitment towards achievement of such goals (Fernandez & Rainey, 2006; Nicholson & Kiel, 2007). The overall Stewardship Theory hypothesis is that stewards/managers (agents) are intrinsically motivated by successful achievement of the organisations' overall goals because it is through such successful achievements where stewards earn career or professional growth (promotions) and labour market reputations (Lambright, 2009; Hung, 1998). This means that stewards are by default committed to achieving pre-determined organisations' goals hence suggesting that stewards and principals share common goals.

In the context of AC of the board vis-à-vis ERM effectiveness, the Stewardship Theory applies in that in practice ultimate value addition of AC of the board, among other things, depends on the commitment of the management to provide the AC with the needed support. It is the management that supplies all necessary inputs such as reliable information and finance to the AC of the board along with the implementation of recommendations thereto. According to Stewardship Theory, it is in the best management interest to support the AC so it successfully performs its duties in order to ensure that organisational goals are achieved.

AC Characteristics and ERM Effectiveness

AC characteristics are generally referred to as attributes that reflect the abilities of AC to perform its oversight and advisory role effectively (DeZoort et al., 2002). The most cited AC characteristics by scholars, practitioners and regulators (Alzharani & Aljaaidi, 2015; PwC, 2011; Yatim, 2009; DeZoort et al., 2002; Sarbanes-OxleyAct-SOX, 2002) are independence, expertise and experience, size, authority, resource and diligence. It is argued that AC which has members who are not part of the management monitor the managers (agents) proactively such that managers are deterred from self-serving decisions and risk-taking actions which are detrimental to the principals (Yatim, 2009; SOX, 2002). It is most likely that on the basis of the same reasoning, Tanzania Public Finance Act (PFA) No. 1 of 2001 Order No.30 and the respective Public Finance Regulations (PFR) of 2001- Regulation No. 30 both as amended altogether require that all ACs have to be composed of independent board members (URT, 2001a, 2001b).

Alongside independence, AC is required to have at least one financial expert and each of the remaining members should be financially literate as well as other relevant expertise such as ERM or industry specific risk management, law and corporate governance (DeZoort & Salterio, 2001; Gebrayel, Jarrar, Salloum, & Lefebvre, 2018; SOX, 2002). In the same vein, literature (DeZoort et al., 2002; SOX, 2002) recommends AC to be composed of at least three but not more than five members. The logic behind having independent AC which is composed of at least three members is to increase the possibility of having an appropriate mix of expertise and experiences deemed necessary whereas the maximum of five members aims at checking large groups' factions (Berkman & Zuta, 2017; DeZoort & Salterio, 2001). In line with this, the Tanzania Public Finance Act of 2001 and its regulations as amended stipulate that all public sector entities' AC should be composed of at least one member with expertise and experience in accounting and/or finance, and the rest of all members should be financial literate (URT, 2001a, 2001b). Also, these legislations stipulate that the minimum and maximum numbers of AC members should be three and five respectively.

Reasonably, a large independent AC is inherently characterised by a variety of skills and experiences which are relevant for the substantive performance of processes or activities considered necessary for effective oversight of a particular task such as ERM, industry specific expertise and auditing (Cohen et al., 2014; DeZoort & Salterio, 2001). For instance, AC members with industry specific risk management and auditing are likely to have a thorough understanding of risk issues and appropriate mitigation processes or measures (DeZoort & Salterio, 2001; Yatim, 2009). This reasoning resembles those of COSO (2004) ERM framework, and Dittmeier and Casati (2014), which among other things, call for a mix of expertise and experiences relevant for effective ERM management and oversight. In addition to independence, expertise and size characteristics of the AC, extant literature requires AC to have sufficient authority and resources at disposal as well as diligence if it is to operate effectively (Sori, Hamid, Saad, & Evans, 2007). Regarding AC authority, it is posited that a clear definition of scope, responsibilities, rights and powers of AC and understanding of the same by AC members and the management is critical for effective functioning of the AC (DeZoort et al., 2002; Sori et al., 2007). Clearly understood AC responsibilities, rights and powers' scope bears great potential in promoting AC independence as well access to resources needed for execution of its oversight responsibilities (Cohen et al., 2014; Sori et al., 2007).

On the side of AC resources, the literature argues that the AC which has sufficient or reliable access to informational, financial and non-financial resources necessary for the execution of its oversight responsibilities is likely to add value to the reporting entity and the reverse is true (Marx, 2008). For diligence, it is posited that unless each individual AC member and AC as the whole are committed to serving in the best interest of shareholders or stakeholders, AC cannot function effectively (DeZoort et al., 2002; Raghunandan & Rama, 2007). Thus, it is logical to posit that AC which works diligently along with sufficient authority and resources at disposal is likely to operate effectively and hence contribute positively to ERM. In sum, the foregoing discussion shows that AC which is well characterised by independence, 3 to 5 members, authority, diligence, resource, diverse expertise and experiences relevant for overseeing ERM has a significant positive contribution to ERM effectiveness. A number of researchers (for example, Alzharani & Aljaaidi, 2015; Berkman & Zuta, 2017; Yatim, 2009) have examined AC characteristics vis-à-vis ERM. For instance, using data from 100 largest listed firms in Israel during 2010-2014 and logit regression technique, Berkman and Zuta (2017) found that AC whose members are characterised by accounting/financial, risk management and auditing expertise has a significant positive effect on non-occurrence of negative events (risks) during the life of the company. This observation is similar to that of Rahmat, Iskandar, and Salehe (2009) who reported that firms with AC's are characterised by accounting/financial expertise because the ratio of members with expertise in accounting/finance is not financially distressed. In contrast, Alzharani and Aljaaidi (2015) examination of 102 Saudi listed firms reported a significant negative effect of AC accounting or financial expertise on AC's effectiveness in monitoring risk management activities.

Yatim (2009) analysed the association between AC independence, accounting and finance expertise, size and diligence, as well as risk management using data collected from 690 Malaysian listed firms in 2003 in the light of the Agency Theory. The study reported a significant positive effect of AC independence (as measured by the percentage of independent AC members) on risk management. Also, Yatim (2009) revealed a positive and strong relationship between AC size as measured by total number of AC members, diligence (measured by a total number of meetings held per financial year) and risk management. This is in line with Alzharani and Aljaaidi's (2015) study which, among other things, reported a significant positive relationship between AC size, diligence and effectiveness of AC in monitoring risk management activities. For accounting and finance expertise and risk management, Yatim's (2009) study reported an insignificant but positive relationship.

Based on empirical works presented above, universal answer(s) regarding the influence of AC characteristics on ERM is still lacking as evidenced by mixed findings. However, since the majority of the prior studies reviewed reported a significant positive impact of AC characteristics on ERM Effectiveness, and that the primary objective of any entity to use AC of the board to oversee ERM activities is linked to the promotion of ERM effectiveness, it is therefore hypothesised that:

> *H1: AC characteristics taken as a whole have a significant positive effect on ERM effectiveness.*

AC ERM Specific Oversight Processes and ERM Effectiveness

Notwithstanding possession of relevant characteristics, AC should observe the minimum possible processes necessary for effective oversight of ERM literature (Alzharani & Aljaaidi, 2015; Beasley et al., 2009). In particular, the literature (Alzharani & Aljaaidi, 2015; Beasley et al., 2009; COSO, 2004; Dittmeier & Casati, 2014; PWC, 2011;) implies that AC should at minimum observe and/or perform the following: (i) reviews and ensures that the management maintains ERM system; (ii) reviews and determines whether the management periodically reviews the ERM system whilst paying attention to risk appetite, major risks register, mitigating measures' adequacy, efficiency and effectiveness; (iii) reviews and determines the adequacy and appropriateness of processes in place to periodically assess ERM system adequacy, efficiency and effectiveness; and (iv) provides, where relevant, advice to the management through BoDs on matters regarding the entity's reporting responsibilities in relation to fraud and security. Regulation 7 of the Bank of Tanzania (BoT) Subsidiary Legislation No. 33 of 2014 imposes similar procedures to all ACs of banking and financial institutions operating in Tanzania. Most likely, such recommendations or binding procedures aim at encouraging ACs to exercise substantive oversight of ERM. This is consistent with Dodo (2017) and Nest (2008) implied assertion that unless AC observes all processes necessary for effective oversight of a particular responsibility, it may not be effective no matter the rightness of its characteristics.

Beasley et al. (2009) among other things, examined the effectiveness of AC in overseeing internal control and risk management in the US public companies. They found that audit committees (ACs) which were used to set risk-driven agenda followed by a substantive review of the minimum possible procedures for relevant internal control and risk management oversight were effective as opposed to ACs which used to do skimming review. Similar findings are reported by Gendron, Bedard, and Gosselin (2004) following their in-depth interviews with AC members and key stakeholders from three Canadian public companies. Yet, Soobaroyen et al. (2018) report that ACs are not effective in overseeing risk management because their processes to monitor risk management activities are symbolic. Nevertheless, Soobaroyen et al.'s (2018) observation seems to be outweighed by that of Beasley et al. (2009) and Gendron et al. (2004). This is because Beasley et al. (2009) and Gendron et al.'s (2004) observation emphasises on substantive adherence to oversight processes while Soobaroyen et al.'s (2018) observation emphasises on mere adherence to the oversight procedures. In the light of this view, as well as the preceding theoretical discussion, it is expected that the more the AC observes the minimum possible processes deemed relevant for oversight of ERM activities the more the AC contributes to ERM effectiveness. Hence, the following hypothesis is set out:

> *H2: AC's ERM specific oversight processes have a significant positive effect on ERM effectiveness.*

Management Support to AC and ERM Effectiveness

While AC characteristics and ERM specific oversight processes may play a critical role in assuring that AC contributes significantly towards ERM effectiveness, the actual implementation of AC recommendations regarding ERM, as well as AC's access to necessary inputs depends solely on the commitment or collaboration of the management team (Beasley, 2005; Yatim, 2009). The final outputs of any AC or equivalent (say, internal audit function) are recommendations whose ultimate value addition is subject to the extent of actual implementation by the management team (Beasley, 2005; Mihret & Yismaw, 2007). Likewise, AC's access to the resources such as financial information and other non-financial resources necessary for the execution of oversight responsibilities is under the control of the management (Mihret & Yismaw, 2007). This means that management support to or cooperation with AC of the board is critically important in fostering AC's value addition. The Tanzania Public Finance Act and its Regulations of 2001 both with their amendments impose that BoD and AC secretariats should be composed of an accounting officer (a chief executive officer) and a head of legal services (corporate secretary) respectively (URT, 2001a, 2001b). Moreover, the Bank of Tanzania (BoT) Subsidiary Legislation No. 33 of 2014 imposes the same requirement to all banking and financial institutions, social security funds included, operating in Tanzania. This requirement may be motivated by the desire to promote substantive working cooperation and goal congruence amongst ACs and managements.

The recommendation about the management support to AC is as well consistent with the Stewardship Theory framework of reasoning. It is argued that managers are by default committed to achieving the organisational goals though they achieve their intrinsic reward which is labour market reputation (Lambright, 2009; Nicholson & Kiel, 2007). Invariably, managers are intrinsically motivated and have interests similar to those of principals otherwise none of the organisations' functional units including AC would operate effectively. Previous studies with an explicit focus on the role of management support in enhancing AC effectiveness in overseeing ERM are hardly available thus far. However, there are a few ones that are closely related to. For instance, Beasley's (2005) regression-based study on 123 US firms revealed that there is a significant positive association between the extent of ERM implementation within a firm vis-à-vis independent board (impliedly AC) and management involvement as measured by support from the Chief Executive Officer (CEO) and Chief Finance Officer (CFO). Also, a study by Mihret and Yismaw (2007) within the Ethiopian public sector reported that internal audit, impliedly AC, effectiveness is largely explained by management support. This is because the management support is expressed in terms of hiring the adequate and right staff, reliable information, sufficient funding and implementation of recommendations. Similar to this are the findings by Cohen and Sayag (2010). In the light of such empirical evidence and theoretical background, it is expected that the more the management gives support to AC, the more the ERM effectiveness. Therefore, the following hypothesis is worth testing:

H3: Management support to AC has a significant positive effect on ERM effectiveness.

Methodology

Design, Population and Sample

The unit of analysis of the current study was formed by audit committees in Tanzania's Government owned and controlled social security funds. Members of the committees and key stakeholders such as internal auditors, external auditors and chiefs of finance were units of inquiry. A total of 460 respondents formed the study population out of whom 210 were sampled using simple random sampling technique (Hair, Black, Babin, Anderson, & Tatham, 2010). This sample size of 210 was arrived at using the Krejcie and Morgan (1970) sample size tabulation.

Data Collection Methods, Data Type and Sources

Copies of a self-administered questionnaire whose scale ranged from strongly disagree (1) to strongly agree (5) were distributed in person to 210 respondents of interest; that is, AC members and other relevant AC key stakeholders as mentioned in the preceding section. Through the questionnaire, only primary data in form of perceptions of sampled respondents about variables that were being investigated were collected. The questionnaire had five sections, the first one sought information about a respondent's relevant profile information such as educational qualifications and years of experience in working with audit committees as a member or key stakeholder. The second to fifth sections had question items that probed primary information about AC characteristics, AC ERM specific oversight processes, management support to AC and ERM effectiveness respectively. Of all 210 copies of the questionnaire distributed, 93.8% (197) responses were received. This highest response rate is explained by the distribution of the copies of the questionnaire in person along with very close tireless follow ups for a relatively long period of seven months from the date when the copies of the questionnaire were distributed.

Model Formulation and Measurement

While it is widely documented that the AC of the board has a significant positive contribution to ERM effectiveness, such contribution cannot be considered as a guarantee. Literature (see, for instance, Beasley et al., 2009; Berkman & Zuta, 2017; Cohen & Sayag, 2010) shows that ERM effectiveness driven by AC is likely to occur only if AC of the board has the right characteristics and observes oversight processes deemed relevant for effective oversight of ERM together with a receipt of relevant management support.

State owned and controlled social security funds in Tanzania have for years been using AC of the board as a tool to promote ERM effectiveness, among other financial management activities. Yet, knowledge about the degree to which audit committees (ACs) of their boards contribute to ERM effectiveness is limited. To test empirically the degree to which ACs of the boards contribute to ERM effectiveness, cross-sectional data from the funds in reference were collected regarding AC characteristics (ACXs), AC ERM specific oversight processes (ACRMOP), management support to AC (MSPAC) and ERM effectiveness (ERME). Then the data so collected were multi-regressed using Ordinary Least Square (OLS) estimation technique. The OLS was chosen because it is widely used as a tool to establish the degree and type of causal relationships among dependent and independent variables. Therefore, the mathematical model linking ERM effectiveness as the function of AC characteristics, AC ERM specific oversight processes and Management support to AC can be established as:

$$ERME = \boldsymbol{\alpha} + \beta 1\mathbf{ACXs} + \beta 2ACRMOP + \beta 3MSPAC + \boldsymbol{\mu}$$

Where:

$\boldsymbol{\alpha}$ = constant that explains *ERME* not accounted for by *ACXs*, *ACRMOP* and *MSPAC*.
$\beta 1, \beta 2$ *and* $\beta 3$ = coefficients representing the extent to which *ACXs*, *ACRMOP* and *MSPAC* respectively account for ICE.
$\boldsymbol{\mu}$ = the error term.

ERME = ERM effectiveness. It is the dependent variable of the study effectiveness measured using nine indicators adapted from Dittmeier and Casati (2014), and COSO (2004).

ACXs = AC characteristics. It is the first independent variable. It consists of six dimensions namely independence, expertise and experience, size, authority, resource and diligence and were measured using 25 indicators obtained from the literature (Cohen et al., 2014; DeZoort et al., 2002; DeZoort & Salterio, 2001; Gebrayel et al., 2018; Sori et al., 2007).

ACRMOP = AC ERM specific oversight processes. It is the second independent variable of the study and was measured using six indicators adapted from Beasley et al. (2009), COSO (2009), Dittmeier and Casati (2014).

MSPAC = Management support to AC. It is the last independent variable and was measured using five indicators consistently adapted from Cohen and Sayag (2010), and Mihret and Yismaw (2007).

Data Analysis

The actual analysis was preceded by data cleaning as well as reliability, normality, correlations and multicollinearity diagnosis to ascertain whether or not pre-requisites for meaningful OLS – regression analysis were met. Four cases out of 197 were dropped. This is because they were incomplete to a large extent. Hence, the actual responses decreased to 193. Reliability was diagnosed using Chronbach alpha whereby all the four variables were found to have reliability at least 0.7 Chronbach alpha coefficients (see Table 3). This is consistent with the rule of thumb (Hair et al., 2010). Normality of data was assessed using skewness and kurtosis statistics and it was found that all of the data points of the four variables had reasonably normal distribution because their skewness and kurtosis statistics were close to zero. This is consistent with Hair et al.'s (2010) and Pallant's (2013) rule of thumb (see Table 2).

Regarding correlations and multicollinearity, they were diagnosed using the Pearson correlations, variance inflation factor (VIF), tolerance value (TV). Pearson correlations indicated that all the four variables were positive and significantly correlated ($P \leq .01$) as Table 3 shows. Table 3 also shows that there was no correlation coefficient amongst independent variables that read beyond 0 .90 as the highest was .488. Hence, this suggests that there was no multicollinearity problem amongst independent variables of the study (Hair et al., 2010; Pallant, 2013). Similarly, the variance inflation factor of less than ten ($VIF < 10$) and tolerance values of less than 0.10 ($TV > .10$) as Table 4 shows provide further evidence that independent variables of this study had no multicollinearity problem because they are in line with the rule of thumb (Pallant, 2013). After the diagnosis of key OLS-regression assumptions, statistics of the selected profiles of the respondents as well as descriptive statistics of the study variables were obtained as findings as Table 1 and Table 2 respectively indicate. Next, independent variables of the study were subjected to Pearson correlation to check whether or not all of them correlate with the dependent variable. Lastly, testing of hypotheses (H1, H2 and H3) was conducted using Multiple Ordinary Least Square (OLS) whereby all three independent variables were regressed against the dependent variable.

Results

Respondents' Descriptive Statistics

Table 1 indicates that all respondents were of the majority age and that more than 90 % of all 193 respondents had at minimum graduate education level and had either accounting, finance, business or professional specialisation plus experience in working with audit committees. Furthermore, Table 1 indicates that none of the respondents had a job position other than AC member, board member, accountant, internal/external auditor or manager. Overall, the statistics of the respondents' profile suggest that the respondents understood the accounting, financial management and/or control terms used in the questionnaire of this study. Thus, their responses were more likely to be reliable and valid.

Table 1: Statistics of Respondents' Profiles

Profile Category	Information Captured	Frequency	Percent	Valid Percent	Cum Percent
Age-group	18-30 Years	24	12.4	12.4	12.4
	31-40 Years	80	41.5	41.5	53.9
	41-50 Years	68	35.2	35.2	89.1
	51-60 Years	21	10.9	10.9	100.0
	Total	193	100.0	100.0	
Highest Education Level	Secondary School	2	1.0	1.0	1.0
	Ordinary Diploma	4	2.1	2.1	3.1
	Advanced Diploma	25	13.0	13.0	16.1
	Bachelor's Degree	73	37.8	37.8	53.9
	Master's Degree	89	46.1	46.1	100.0
	Total	193	100.0	100.0	
	Accounting	80	41.5	41.5	41.5
	Finance	42	21.8	21.8	63.2

Education Specialisation	Business Administration	41	21.2	21.2	84.5
	Economics	12	6.2	6.2	90.7
	Information Technology	13	6.7	6.7	97.4
	Law	5	2.6	2.6	100.0
	Total	193	100	100	
Professional Qualifications	CPA-T	95	49.2	82.6	82.6
	ACCA	11	5.7	9.6	92.2
	CISA	4	2.1	3.5	95.7
	Advocate	5	2.6	4.3	100.0
	Total	115	59.6	100.0	
	System	78	40.4		
	Total	193	100.0		
Position in the Organisation	AC /BoDs member	13	6.7	6.7	6.7
	BoDs Member	8	4.7	4.7	11.4
	Management	55	28.5	28.5	39.9
	Internal Auditor	53	27.5	27.5	67.4
	External Auditor	27	14.0	14.0	81.3
	Accountant	36	18.7	18.7	100.0
	Total	193	100.0	100.0	
Working Experience as Audit Committee Member or Stakeholder	Less than a year	4	2.1	2.1	2.1
	1- 3 Years	62	32.1	32.1	34.2
	4-6 Years	56	29.0	29.0	63.2
	Above 6 Years	71	36.8	36.8	100.0
	Total	193	100.0	100.0	

Source: *Analysis of Field Primary Data*

Study Variables Descriptive Statistics

From Table 2, findings indicate that all the four study variables recorded mean score well above 3.0 whereby MSPAC had the highest score (m = 4.1233) followed by ACRMOP (m = 4.0466), ACXs (4.0086) and ERME (m = 4.0063) respectively. Table 2 also indicates that variations in responses from one respondent to another on a particular variable were generally low because all standard deviations stood at below 1 ranging from .42869 to .62243 together with very small differences in the mean scores between each of the independent variables and the dependent variable.

Overall, Table 2 indicates that the majority of respondents perceived positively that all four variables prevailed sufficiently. Furthermore, small standard deviations (below 1) and mean scores differences between independent and dependent variables may be an indication that ERM effectiveness is significantly explained by AC characteristics, ERM specific oversight processes and management support to AC. In other words, AC characteristics, ERM specific oversight processes and management support to AC, all of them individually and combined promote ERM effectiveness.

Table 2: Study Variable Descriptive Statistics

Variables	Mean	SD.	Min.	Max.	Skewness	Kurtosis
ACXs	4.0086	.42869	2.94	4.97	.082	-.408
ACRMOP	4.0466	.59108	2.00	5.00	-.397	-.013
MSPAC	4.1233	.62243	1.00	5.00	-.848	.214
ERME	4. 0063	.58070	1.78	5.00	-.962	.676

N=193

Correlations and Reliability

Table 3 presents findings on Pearson correlation coefficients amongst all the four variables along with reliability coefficients (Chronbach alpha) in parentheses. It is revealed that all four variables were positive and significantly correlated ($P \leq .001$). Table 3 also reveals that all four variables' scales were reliable as each of them met the widely accepted rule of thumb of at least 0.70 Chronbach alpha (Hair et al., 2010; Neuman, 2005). Moreover, it should be noted that of all correlation coefficients amongst independent variables none of them is above .90 since the highest correlation coefficient is .496 (see Table 3). This means that there was no multicollinearity problem amongst independent variables (Hair et al., 2010; Pallant, 2013).

Table 3: Correlations and Reliabilities (Chronbach alpha) in Parentheses

Variables	1	2	3	4
1. ERME	(.852)			
2. ACXs	.490***	(.741)		
3. ACRMOP	.473***	.424***	(.871)	
4. MSPAC	.463***	.496***	.381***	(.859)

N=193 ***$P \leq .001$ (two-tailed)

Hypotheses Tests

As explained in the analysis section, testing of H1, H2 and H43 was done using Multiple Ordinary Least Square (OLS) whereby all three independent variables were regressed against the dependent variable simultaneously. Note that this was done after taking care of the fundamental assumptions of Multiple OLS such as multicollinearity and normality (refer to the analysis section). As Table 4 indicates, the adjusted R^2 value of .353, F value of 34.102, with a probability of less than .05 provides evidence that the model is significant and hence valid. This means that 35.3% of the variance in ERM effectiveness (ERME) is jointly explained by AC characteristics (ACXs), AC ERM specific oversight processes (ACRMOP) and management support to AC (MSPAC).

Generally, H1, H2 and H3, which stated that AC characteristics, AC ERM specific oversight processes and management support to AC respectively have a significant positive effect on ERM effectiveness, are statistically supported. In more particular terms, regression results in Table 4 indicate that ACXs (coefficient = .259, t = 3.606, P =.000), ACRMOP (coefficient = .275, t = 4.085, P =.000) and MSPAC (coefficient = .230, t = 3.268, P =.001) individual contributions to ERME are significantly positive. Rank-wise, ACRMOP provides the highest contribution followed by ACXs MSPAC (see Table 4). Therefore, results suggest that a unit increment in AC ERM specific oversight processes brings about significantly the highest increment in ERM effectiveness compared to a unit increment brought about in AC characteristics and/or management support to AC.

Table 4: Regression Results

Variables	Coefficient	t	P-Value	TV	VIF
ACXs	.259	3.606	.000	.689	1.451
ACRMOP	.275	4.085	.000	.782	1.279
MSPAC	.230	3.268	.001	.718	1.392
Model Summary: R^2 = .364, Adj. R^2 = .353 , F = 34.102, P <.001, N =193					

Dependent Variable: ERME = ERM effectiveness, TV=Tolerance Value, VIF= Variance Inflation Factor

Discussion

The study was set out primarily to examine the degree to which AC of the board contributes to ERM effectiveness. The findings reveal that AC of the board, as proxied by AC characteristics, AC ERM specific oversight processes and management support to AC, accounts for the positive variance in ERM effectiveness. The findings reveal furthermore that AC ERM specific oversight processes have the highest positive predictive power followed by AC characteristics and management support to AC respectively. This means that all hypotheses of the current study regarding the effect of AC characteristics (H1), AC ERM specific oversight processes (H2) and management support to AC (H3) on ERM effectiveness are empirically supported. The findings of this study are on one hand consistent with the findings of a number of prior studies (Beasley, 2005; Beasley et al., 2009; Yatim 2009) that AC of the board has a significant positive impact on ERM effectiveness. On the other hand, they are in contrast with the findings by Alzharani and Aljaaidi (2015), and Soobaroyen et al. (2018) that AC of the board does not have an effect on ERM effectiveness. The contrasting findings may be explained by the differences in the extent of possession of AC characteristics deemed relevant for effective oversight of ERM, the extent of substantive adherence to ERM specific oversight processes and extent of management support to AC. According to Soobaroyen et al. (2018), and Alzharani and Aljaaidi (2015), ACs of the boards do not contribute to ERM effectiveness if their risk monitoring processes and characteristics are symbolic.

The findings, generally, suggest that the AC characteristics should not be considered as only critical variable that explains ERM effectiveness resulting from AC oversight. The AC ERM specific oversight processes and management support are as well critically important in explaining ERM effectiveness resulting from AC oversight. On the other hand, the findings suggest that a mere oversight of ERM by AC of the board does not automatically lead into ERM effectiveness unless AC characteristics, ERM specific oversight processes and management support to AC are more of substance rather than symbolic. This means that the more substantive AC characteristics, ERM specific oversight processes and management support to AC are found in the studied funds. Considering the study's overall findings relative to theoretical perspectives, they are consistent with Agency and Stewardship theories. The study finding that AC characteristics and ERM specific oversight processes have a significant positive contribution to ERM effectiveness underscores the application of the Agency Theory. Similarly, the finding that management support to AC has a significant positive contribution to ERM effectiveness supports the application of Stewardship Theory; however, it contrasts with the Agency Theory generic reasoning that managers normally serve own goals as opposed organisational or principal goals.

Conclusion and Implications

Conclusion

The overall objective of this study was to examine the degree to which AC of the board contributes to ERM effectiveness in Tanzania's social security funds. Using 193 cross-section observation and OLS estimation technique, the findings reveal that AC of the board proxied by AC characteristics, AC ERM specific oversight processes and management support to AC contributes significantly towards ERM effectiveness. Equally important, the overall findings reveal that AC characteristics are important but they should not be regarded as the only key variable that explains AC's contribution to ERM effectiveness. ERM specific oversight processes and management support to AC are also key variables that explain AC's contribution to ERM effectiveness. Specifically, the study found that each of the three variables (AC characteristics, AC ERM specific oversight processes and management support to AC) has a strong positive contribution to ERM effectiveness as far as the Tanzanian social security funds context is concerned. The study findings reveal moreover that the highest contribution comes from the AC ERM specific oversight processes variable followed by AC characteristics and management support to AC variables respectively. Therefore, practitioners, AC members and regulators can take advantage of the highest contributing variable in unison with others to promote AC driven ERM effectiveness. Generally, the findings of this study provide sufficient evidence to conclude that audit committees (ACs) of boards in Tanzania's social security funds have a significant positive impact on ERM effectiveness.

Implications

The findings of the present study, discussion and conclusion considered collectively suggest tangible implications and/or contributions relevant to academic, policy and practice. Academically, the contribution of the study is that it is not worthwhile to consider AC characteristics as the only key factor for AC effectiveness (value addition) in overseeing ERM or any other oversight responsibilities. Rather, AC effectiveness in overseeing ERM or any other oversight responsibility is a function of AC characteristics and substantive oversight processes deemed relevant as well as support from the management of the entity under consideration. Furthermore, the findings of this study contribute academically by revealing that AC effectiveness is not only underlined by the Agency Theory but also the Stewardship Theory as a compliment. Such observations, to the best of the author's knowledge, did not exist before this study.

Policy-wise, policymakers may use the findings of this study to amend AC legislations and regulations underlying the composition and operations of AC in general. More emphasis may be put on the mixture of AC expertise among AC members and adherence to oversight processes relevant for effective oversight of ERM including other oversight responsibilities such as internal controls and financial reporting. In more explicit terms, the mixture of expertise and experience among AC members should be a function of the nature of the organisation operations, complexity and risk exposure and that should become binding as is the case with accounting and finance expertise. In addition, legislations and regulations may be amended in such a way that is substantive adherence to up to-date best practices or processes. This way, overseeing ERM or any other oversight responsibilities become binding as good as is the case with accounting and finance expertise requirements.

Practically, the findings of the current study that AC ERM specific oversights processes ranks first in enhancing AC's contribution to ERM effectiveness, management support to AC contribute a significant positive effect towards ERM effectiveness mirror important take home messages to AC members and practitioners. With regards to AC members or to AC as the whole, the message is that unless processes relevant for overseeing ERM or any other AC responsibilities like internal control and financial reporting are adhered to substantively, AC is unlikely to add tangible value to the reporting entity. For managers, they can increase their support to AC as one of the strategic alternatives to effectively manage risks and subsequently achieve high performances. This way, the managers can acquire high labour market reputations in the organisational settings related to social security funds.

Notwithstanding their tangible implications, the findings of this study may not be exhaustive. As is always the case with any study, the current study has some limitations which are worth noting. The study uses cross-sectional data limited to government owned and controlled social security funds operating in Tanzania. Because of this, generalisation of this study results are limited to the period when the investigation took place and not across a range of time. Future researchers should, therefore, investigate the phenomena across a range of periods of time and contexts. Another shortfall in the current study is the use of cause-effect analytical model. This approach depends solely on the extant knowledge and thus it is unlikely to unveil new context-specific insights. Hence, future studies should investigate the phenomenon using mixed research methods whose results are presumed to be more robust than those of the mono method (Peng, Pinkham, & Chen, 2009).

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