

## Does Audit Committee Matter In Risk Management Practices? A Case Study Of Public Statutory Corporations In Tanzania

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### Abstract

The study was designed to review the contribution of the audit committee in overseeing the efficiency of risk management practices in public statutory corporations in Tanzania. Data was collected using a self-administered questionnaire completed by 424 chief internal auditors and directors of finance from Public Statutory Corporations (PSCs) located in different parts of Tanzania and analysed using SmartPLS (PLS-SEM) version 4.0. The study examined how audit committee size, independence, and meetings significantly enhance risk management practices within public statutory corporations in Tanzania. The study discovered that audit committee size, independence, and meetings significantly predict the effectiveness of risk management practices in PSCs, and the audit committee is an important corporate governance tool to bridge the information asymmetry gap between the principal and agent. In general, the results can be used by policymakers, public statutory corporations, and the Tanzanian government to strengthen the audit committee's oversight role, improve internal control systems, and create suitable strategies that will successfully execute risk management practices and ultimately accomplish their strategic objectives.

**Keywords:** Audit Committee, Risk Management Practices, Public Statutory Corporations

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## Introduction

In corporate Governance, an audit committee plays a crucial role in ensuring effective risk management and controls are in place to minimise the occurrence of fraud and misuse of public resources. Although risk management has gained a lot of attention lately, however less efforts and controls have been put in place, especially in most developing countries, including Tanzania. The effective risk management practices in public statutory corporations in Tanzania require both principals (board of directors) and agents (management) to design appropriate strategies and controls that will enhance a practical risk management mechanism and hence minimise risks that may impair the entities' reputation and operations (McShane, Nair, & Rustambekov, 2011). Despite having an audit committee, entities worldwide, including public sector entities, continue to face a significant increase in fraud cases and corporate failures, which denotes a vivid weak indicator of audit committees in overseeing risk management practices in entities (PricewaterhouseCoopers [PwC], 2018; Soobaroyen, Ntim, Broad, Agrizzi, & Vithana, 2019).

Usually, notable business failures and scandals have affected risk management practices globally, including Enron in 2001, Lehman Brothers' bankruptcy in 2008, China Medical Technology in 2012, the British multinational construction company Carillion Plc in 2018, and Silicon Valley Bank's (SVB) solvency in 2023; The collapse of Nigeria's AfriBank in 2011 and the South African Social Security Agency (SASSA) grant payment crisis in 2015 were among the incidents that occurred in Africa; Tanzania was not exempt from these difficulties such as 2008 External Payment Account (EPA) scandal, the 2014 Tanzanian Tegeta Escrow scandal, and the FBME scandal (Mniwasa, 2019), have all revealed the consequences of audit committees with regard to risk management practices. These scandals have highlighted serious flaws in risk identification, assessment, and mitigation procedures, which have led to weakened public trust, compromised service delivery, and financial loss (Dodo, 2017; Sanusi, 2010; Vo & Le, 2023; Baharuddin & Yusof, 2018; Soobaroyen et al., 2019).

Global fraud is rising, making risk management challenging. Fraud costs businesses \$4.5 trillion, or 5 percent of revenue, worldwide (Association of Certified Fraud Examiners [ACFE], 2022, 2024). Fraud has affected nearly half of global entities (ACFE, 2024; PwC, 2022). North America has 36 percent of fraud cases. The Sub-Saharan region ranks second in worldwide fraud at 23 percent (PwC, 2018, 2020, 2022). Africa has the highest fraud, with 62 percent of entities encountering it, and damages at \$352,000 per incident (PwC, 2018, 2020, 2022; ACFE, 2022; 2024). Tanzanian public statutory corporations are experiencing more fraud relating to asset misappropriation and misuse of public funds. Nugatory

expenditures related to fraud in public sector entities in Tanzania has increased by 43.1 percent from TZS 1,408.36 billion in 2020/2021 to TZS 2,015.78 billion in 2021/2022, as per the Controller and Auditor General [CAG] (2024) reports. This statistic covers 65% of public sector fraud cases in Tanzania in 2021/2022, totalling TZS 3,084.55 billion. The same report showed a 29.4 percent rise in government revenue lost for public sector entities as a result of fraudulent operations from TZS 495.53 billion in 2020/2021 to TZS 640.97 billion in 2021/2022 (WAJIBU, 2022, 2023; CAG, 2024).

Thus, a well-designed, targeted, and successful audit committee helps public and private sector risk management. Audit committees are not new to Tanzania. In recent years, entities with audit committees have increased significantly. The Ministry of Finance, which is responsible for ensuring effective risk management practices in public statutory corporations, issued a comprehensive guideline for Audit Committees in the Public Sector in June 2019 (Second edition) that highlighted the responsibilities of the audit committee to improve risk management in Tanzania's public sector. An audit committee is a specialist, independent oversight and advisory body that reviews and advises the highest level of governance on control, governance, and risk management. Prior studies have linked business failures and fraudulent activities to audit committee inefficiency, which could have prevented several failures (Dodo, 2017). In addition, inadequate risk management practices have contributed to numerous corporate scandals, fraudulent activities, and unexpected business failures worldwide (Walker, Shenkir, & Barton, 2002). Effective Risk management helps entities identify risks and design appropriate controls and mechanisms to avoid scandals and misuse of public resources.

Consequently, due to the scarcity of empirical evidence on audit committee efficiency in risk management practices in Tanzanian public statutory corporations, the researcher was inspired to explore audit committee operations in corporate governance and risk management in public statutory corporations after noticing their shortcomings. Risk management in company operations and performance has grown tremendously. There is limited research on audit committees' role in risk management and corporate governance, especially in developing countries such as Tanzania (Masanja, 2022; Krstić & Đorđević, 2012; Adegbite, 2010; Agyei-Mensah, 2017). Given their importance in financial reporting, internal control, risk management, and other governance aspects to ensure the growth and going concern of public statutory corporations in Tanzania, the research aims to determine whether audit committees are effective. Audit committees now evaluate financial reporting, entity internal controls, risk management, and non-financial reporting. Most audit committee research focuses only on financial reporting and internal control, ignoring factors like independence, size, and meetings that

contribute to effective risk management (Mangena & Tauringana, 2007; Masanja, 2022; Nadeem et al., 2020; Mbelwa & Munyangabi, 2024; Yatim, 2009).

The study examined how the audit committee improves internal control risks in Tanzanian public statutory businesses and how size, meetings, and independence affect risk management practices. This research supplements previous research that measured audit committee contributions only on the reporting mechanism and the relationship between audit committee quality and internal audit, ignoring other important variables like risk management practices in private and public sector entities. Thus, audit committees are uncertain of their responsibilities in risk management and what risks to assess to guarantee strong corporate governance within entities (Berkman & Zuta, 2017; Hosayni, Ganji, Eskandari, & Soltanpour, 2021; Noor, Farooq, & Tahir, 2022).

## **Literature Review**

### **Theoretical Framework**

#### **Agency Theory**

Agency theory elaborates the existence of information asymmetry and conflict of interest between the principal and agents (management) due to the separation of ownership and control of business processes within an entity (Jensen & Meckling, 1976). The theory discovered that agents focus on fulfilling their interests and goals rather than the interests of the principals. Generally, to eliminate the existing problem, the corporate governance has designed different mechanisms, one of which is to establish an audit committee. An audit committee is a corporate governance mechanism that is responsible for handling and recommending appropriate strategies that will resolve internal control weaknesses, such as scandals, corporate failures, fraud, and ineffective risk management practices. Prior year studies provide evidence on the importance of audit committees in overseeing and safeguarding the interests of principals in public statutory corporations.

#### **Risk Management Theory**

The theory was developed by the Committee of Sponsoring Organisations (COSO) to help entities identify, assess, and mitigate risks that may impact their operations in achieving their strategic objectives (Moeller, 2011). The theory offers a comprehensive framework that includes risk governance and risk aggregation as solutions to the agency and information problems of corporate risk management, adopting a proactive approach to address potential risks and opportunities. This enables the board of

directors and top management to make informed decisions and enhance overall performance (Jankensgård, 2019). The theory suggests that having an audit committee will reassure the management of the PSCs that they have properly fulfilled their responsibilities of owning risk and controls. Key business risks are identified, evaluated, and managed; the relevance and effectiveness of risk controls are tested; and the rigour and comprehensiveness of the review process are assessed (Klynveld Peat Marwick Goerdeler [KPMG], 2015; WAJIBU, 2022, 2023).

### **Audit committees**

The audit committee play a crucial role in both public and private sector entities to enhance corporate governance and effective internal control systems, including risk management practices. It provides guidance and oversight to the entities on matters relating to quality financial disclosures, internal systems, and risk management practices (Petra, 2006; PwC, 2011; Sarbanes, 2002). Audit committees create a platform that connects auditors, management, and the board through an independent oversight that enhances the credibility and completeness of the financial records and internal controls provided by an entity at a given time (Burke, Guy, & Tatum, 2008). Furthermore, it acts as a safeguard against fraudulent activities and ensures full compliance with rules and regulations, thereby increasing stakeholders' confidence and promoting sound corporate governance practices within entities (Burke et al., 2008; Tricker, 2015). Audit committees must be independent from management to make impartial decisions, competent to review entities' financial statements, risk management, and internal environment systems, objective to act fairly and impartially, and confidential to avoid disclosing sensitive information (Burke et al. 2008; Sarbanes, 2002).

Audit committee employs different mechanisms and approach that will ensure they fulfil their responsibilities as follows; Financial reporting oversight in which the committee reviews financial statements to comply with international reporting standards, best practices and regulatory requirements; and Internal Control Evaluation whereby it assesses the ability of the entity to design effective internal controls that will mitigate all the risks identified by the entities (Burke et al., 2008). Practically, the audit committee provides recommendations that strengthen controls within an entity and guarantee that it is free from financial and non-financial risks. It does this by holding frequent meetings with management, internal and external auditors, and others to discuss financial reporting, internal controls, and risk management issues (Burke et al., 2008; Ministry of Finance and Planning, 2019).

Generally, there are similarities between audit committees of the public and private sectors. However, there are also notable differences. In public statutory corporations, audit committees have additional responsibilities of evaluating compliance with public procurement act, the budget act, and other regulations, also, to evaluate public program and service efficiency to comply with value for money criterion (Ministry of Finance and Planning, 2019). Finally, both public and private sector audit committees share the common goal of enhancing financial reporting and promoting good governance practices. However, some specific roles and responsibilities of such committees may vary based on the nature and complexity of the entity they oversee (Burke et al., 2008; Sarbanes, 2002). In the study's context, an audit committee is referred as independent committee of the board that employs different mechanisms to fulfil its responsibilities of risk management whereby, it monitors and evaluates the public statutory corporation's risk management process to identify potential risks and design appropriate strategies to mitigate them (Burke et al., 2008).

## **Hypothesis Development**

### ***Audit Committee Meetings and Risk Management Practices***

In the formal audit committee meetings, all decisions that affect public statutory corporations' operations and positions are addressed, debated, and decided upon (Ntim & Osei, 2011). However, it is strongly recommended that audit committees meet frequently to carry out their duties effectively, identify risks and weaknesses associated with the entity's internal controls, discuss and promptly resolve management concerns after receiving frequent advice from the audit committees (Abbott, Parker, Peters, & Raghunandan, 2003). For an audit committee to effectively handle risk-related issues and other financial reporting disclosures, it is advised that it hold at least four meetings annually (Ribbon, 1999). Additionally, Ministry of Finance and Planning (2019) mandated that a committee hold at least four meetings in a fiscal year, though KPMG (1999) suggested three to four meetings annually. However, depending on the complexity of their operations and the risks involved, entities may require additional audit committee meetings, and approval should be issued by the appropriate authority. In the case of Tanzania, the Office of the Treasury Registrar is responsible for approving all additional meetings during the financial year. Scholar, DeZoort, Hermanson, Archambeault, and Reed (2002) noted that the frequency of audit committee meetings is linked to immediate measures that can reduce the incidence of irregularities and fraud, and hence create effective risk management that allows entities to attain its strategic goals.

The frequency of meetings and the effectiveness of risk management in publicly traded companies are strongly correlated (Yatim, 2009). For the benefit of the committee and entities as a

whole, the scholar promotes the necessity of audit committees conducting due diligence to execute their responsibilities effectively and more successfully. Studies by Chen, Firth, Gao, and Rui (2006), Cheng and Courtenay (2006), Karamanou and Vafeas (2005), and Stewart and Munro (2007), noted that regular and productive audit committee meetings can indicate heightened attention and monitoring, which minimises the risk of fraud in entities by enabling members to perform monitoring and oversight responsibilities to enhance corporate disclosure, including risk management and ethics.

Nonetheless, scholars, Abbott and Parker (2000), Huang and Thiruvadi (2010), have noted that fraudulent reporting and other irregularities in complying with the risk management process within entities are inversely correlated with the frequency of audit committee meetings. This recommends that improving risk management practices across entities is not a major function of audit committee meetings. The significance of audit committee meetings has been covered on prior studies, however, most of which concentrated on the financial institutions and developed countries, and there are inadequate studies from developing countries such as Tanzania and public statutory corporations. Thus, the study hypothesis is:

*H1: Audit committee meetings and risk management practices are positively correlated.*

#### ***Audit Committee Independence and Risk Management Practices***

The most important element for the impartial and equitable operation of an entity's audit committees is their independence. According to the agency theory, including individuals who are independent on the audit committee guarantees efficacy in monitoring and tracking the entity's strategic goals. Additionally, it strengthens relationships with management and stakeholders, which helps to eliminate information asymmetry (Ministry of Finance and Planning, 2019; Sarbanes, 2002; Yatim, 2009). Audit committee members must provide a higher-quality oversight function that will assist an entity in establishing effective internal control systems and, as a result, reducing risk. When the audit committee can keep an eye on all risk management procedures, an entity's risk assessment practices are typically reinforced and referred to be efficient (Saat, Karbhari, Heravi, & Nassir, 2011).

Scholars, DeFond and Francis (2005), Larasati, Ratri, Nasih, Harymawan, and Ntim (2019), Luqman, Ul Hassan, Tabasum, Khakwani, and Irshad (2018), and Yatim (2009), through the use of documentary evidence, suggested that a greater proportion of independent audit committee members makes a significant contribution to the implementation of appropriate risk management techniques, in addition to this, can improve committee procedures, decision-making, and the entity's capacity to accomplish its

strategic goals more quickly and acceptably. Scholar, Abbott, Parker, & Peters (2004), through data collected from annual reports discovered that the entity's risk management procedure and internal controls can be enhanced by an independent audit committee's through a comprehensive evaluation of financial information disclosures and internal controls, which can reduce risks related to earnings, management restatements, and creative accounting. Likewise, Similar findings were made by scholars, Abraham & Cox (2007), Bronson, Carcello, Hollingsworth, and Neal (2009), and Edogbanya and Karmardin (2015), concluded that the presence of an independent audit committee significantly improves risk management practices within the entities while minimise fraudulent activities and misuse of public resources. This enables the board and top management to decide on the best mitigation strategies that will help the entities achieve their strategic objectives.

Subsequently, Ismail and Rahman (2011), by using 124 companies from Malaysia-listed firms, discovered that it is possible that the presence of an independent audit committee does not increase the level of risk management practices. This is due to the fact that committee members might not be involved in the activities of the entities and thus have limited skills and knowledge about the risks that the entity faces. Additionally, using data from the annual reports of the companies listed on the Saudi Stock Exchange, Alzharani and Aljaaidi (2015) and Ghafoor, Zulfiqar, and Khurshid (2019) discovered that audit committee independence is detrimental to risk management practices rather than having any relationship to them. Based on the aforementioned considerations, it can be concluded that an audit committee with a high degree of independence is more committed and plays a vital role in monitoring an entity's risk management practices. Therefore, it is impossible to overstate the importance of audit committee independence in risk management practices. The contribution of independent audit committees to risk management procedures in Tanzanian public statutory firms has not received much attention. Thus, the study hypothesis is:

***H2: Audit committee independence and risk management practices are positively correlated.***

### **Audit Committee Size and Risk Management Practices**

In many countries, all publicly traded companies must have audit committees made up of prospective members who offer precise directives regarding the entity's internal control framework and systems. The nature, level of expertise, and scope of the audit committee within an entity are determined by its size. Best practices proposed that the audit committee can consist of three to five members (Ministry of Finance and Planning, 2019). Scholar, Yin, Dellaportas, Gao, Li, and Lv (2012), found that the size of the audit committee is one of the most important factors in granting access to more



managerial talent and resources, as well as the ability to enhance the audit committee's oversight role and, consequently, have an impact on the effective risk management practices in an entity at a particular time. This suggests that as the committee grows in size, it will be able to carry out all of its responsibilities more effectively and enhance internal controls and risk management practices because its members will have a variety of knowledge, skills, and competences, all of which are essential for successful risk management practices (Tai, Lai, & Yang, 2020). Through data from annual reports from industrial listed companies on the stock exchange, scholars, Alzharani and Aljaaidi (2015), Tai et al. (2020), and Yatim (2009) have demonstrated the positive relationship between audit committee size and risk management activities. They found that large audit committees are more likely to effectively monitor risk management activities, thereby improving their oversight role.

In contrast, Abdullah and Said (2019) noted a negative relationship between the size of audit committees and their effectiveness in managing the occurrence of risks. Hence, audit committee size is crucial to enhance risk management practices in public statutory corporations because substantial audit committee members with diverse skills may offer valuable expertise and experience in improving risk management activities in entities. However, prior studies did not clarify the possible diminishing returns that set in as the committee size increases beyond optimal points set by best practices and other authorities (Ministry of Finance and Planning, 2019). Hence, it is hypothesized that:

***H3: Audit committee size and risk management practices are positively correlated.***

## Research Methodology

### Philosophy and Design

The research adhered to a positivist philosophical approach by utilizing the quantitatively observable and measurable data and data analysis to confirm the results' accuracy and reliability (Saunders, Lewis, & Thornhill, 2012). The study used a deductive approach involving integrating agency and enterprise risk management theories to develop hypotheses and testing them through an empirical analysis of a specific population (Kothari, 2004; Soiferman, 2010). The deductive approach is chosen because it accepts a stronger structure, and its methods can easily be replicated and become significant in attaining reliability (Saunders et al., 2012). The study adopted an explanatory design to establish a causal relationship between the study's constructs. It obtained primary data using a questionnaire survey to examine the respondents' insights on the influence of identified constructs towards risk management

practices in PSCs in Tanzania (Alzharani & Aljaaidi, 2015; Masanja, 2022; Pawar, 2020; Saunders et al., 2012).

### Sampling frame

The study's intended population is Public statutory corporations, which are wholly owned and controlled by the Government of Tanzania and are registered by the Office of the Treasury Registrar. The study population is 237 PSCs. A census approach was used to obtain the study's sample size, where all 237 PSCs were selected to represent the total population (Ross & Reeve, 2012). The sample size was 474 respondents, consist of directors of finance and chief internal auditors of PSCs in Tanzania.

### Operationalisation of Constructs

This study evaluates audit committee efficiency by using independence, meetings, and size towards their contribution to effective risk management practices in PSCs in Tanzania, utilising a 5-Likert scale survey that relies on measurements from prior literature (see Table 1).

**Table 1.** Study Variables and Measurement

Type	Variable	Measurements	Sources
Dependent Variable	Risk Management Practices (RM)	Risk awareness programs (Identification), Minimise fraud/ irregularities (Risk Assessment), compliance level (Risk Mitigation), and availability of Risk framework (Risk Monitoring); Regular review of risk register and controls.	(Masanja, 2022; Yatim, 2009)
Independent Variables	Meetings (MET)	Frequency, Duration, Output towards achieving effective risk management practices, access to information, Reports, and formal procedures	(Abbott et al., 2003; DeZoort et al., 2002; Ntim & Osei, 2011)
	Independence (IND)	Composition, Authority, Resources, Decision Making and Reporting	(Luqman et al., 2018; Ministry of Finance and Planning, 2019; Yatim, 2009)
	Audit Committee Size (ACSIZ)	Number of members, Competence, and Expertise.	(Alzharani & Aljaaidi, 2015)

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## Data Analysis and Results

The study utilises SmartPLS 4.0 by developing two assessment models that examined how the audit committee impacts risk management practices in public statutory corporations in Tanzania. A measurement model was used to forecast the correlation between indicators and their latent variables. Thus, the measurement model evaluates the validity and reliability of variables used in the study (Hair, Risher, Sarstedt, & Ringle, 2019; Henseler et al., 2014; Sarstedt, Ringle, & Hair, 2021). A structural model was used to predict the causality between variables used in a study. The confirmation of the hypothesis was determined through the significance test of the path coefficients by using a bootstrapping procedure of 5000 replications (Hair, Ringle, & Sarstedt, 2013; Henseler, 2017; Henseler et al., 2014).

## Results

### Respondents Profiles

Based on the tools used, all 424 completed surveys were suitable for statistical analysis and indicate an 89.4 percent response rate from the targeted population; of these responses, 264 (62.3 percent) were male and 160 (37.7 percent) were female. This shown that a significant number of males in public statutory corporations in Tanzania hold top positions in finance and audit sections. The findings were in line with Tanzanian culture, whereby most males have a chance to attend schools/universities and secure good jobs and positions, while females were groomed to undertake domestic responsibilities such as home welfare and family affairs. Most respondents, 52.4 percent, were chief internal auditors, and the rest 47.6 percent were directors of finance. Also, most of the respondents' working experience ranging from 11-15 years (46.9 percent), as shown in Table 2. This implies that the majority of people who held top positions in the finance and audit section in PSCs had a high level of working experience and exposure, and can provide a clear analysis on the contribution of audit committees towards risk management practices.

**Table 2.** Demographic Results

Descriptive	Description	Frequency	Per cent
Gender	Male	264	62.3
	Female	160	37.7
Education	PhD	1	0.2
	Masters	325	76.7
	Degree	98	23.1
Age	31-40	209	49.3
	41-50	173	40.8
	Above 50	42	9.9
Professional Position	Chief Internal Auditor	222	52.4
	Chief Accountant	202	47.6
Experience	Less than 5	10	2.4
	06-10	92	21.7
	11-15	199	46.9
	16-20	86	20.3
	Above 20	37	8.7
Total		424	100

### Assessment of the Reflective Measurement Model

The reliability test for PLS-SEM indicators was based on factor loadings indicators, which measured the construct. An indicator is valid if factor loading exceeds 0.7 (Hair, Sarstedt, Pieper, & Ringle, 2012; Hair et al., 2014; Hair et al., 2019). Table 3 shows composite reliability and Cronbach Alpha results for the reflective model.

**Table 3.** Summary of Measurement Model

Variables	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average Variance Extracted (AVE)
ACIND	0.842	0.856	0.893	0.675
ACMET	0.888	0.894	0.914	0.640
ACSIZ	0.815	0.845	0.889	0.727
RMP	0.886	0.895	0.910	0.592

The study's construct convergence validity is determined by the Average Variance Extracted (AVE) (Hair et al., 2014). The appropriate AVE level is  $> 0.5$  (Hair et al., 2012; Hair et al. 2014; Hair et al., 2019). Table 3 shows that the structural model's convergent validity is satisfactory. As observed in Table 3, all constructs exceed the threshold of 0.7 and 0.5 for composite reliability and Cronbach Alpha, and the highest level is 0.914 for ACMET, and Average Variance Extracted (AVE) of 0.727 for ACSIZ, respectively.

The researcher used a Heterotrait Monotrait (HTMT) correlation ratio to establish discriminant validity through cross-loading assessment (Henseler et al., 2014; Henseler, Ringle, & Sarstedt, 2015). The acceptable threshold for HTMT is  $\leq 0.90$  (Gold, Malhotra, & Segars, 2001; Hair et al., 2019). The results revealed that the HTMT values for constructs are below 0.90 as shown in Table 4 and met the requirement of discriminant validity, except for ACSIZ vs ACMET that indicated the highest value of 1.131 though doesn't affect the validity of the model in examining the contribution of audit committee towards risk management practices in PSCs in Tanzania.

**Table 4.** Heterotrait-Monotrait ratio (HTMT) - Matrix

Variables	ACIND	ACMET	ACSIZ	RMP
ACIND				
ACMET	0.509			
ACSIZ	0.496	1.131		
RMP	0.413	0.548	0.506	

### Structural Model Assessment

To validate the hypotheses of the study and evaluate the structural model, t-values and p-values were utilised. This allowed for the validation of the hypotheses using statistical analysis. The coefficient of determination ( $R^2$ ) and predictive relevance ( $Q^2$ ) of the constructs that were the focus of the study were also analysed, in addition to the establishment of a structural model. 5000 subsamples were run through a bootstrapping technique to estimate t-values, p-values, and  $R^2$  (Hair et al., 2012; Hair et al. 2017; Hair et al. 2019). Meanwhile, the  $Q^2$  was calculated by a blindfold procedure (Henseler, 2017). This was done in accordance with the recommendations made by Hair et al. (2017). Through the findings of the study, it was determined that all three (3) hypotheses were directly supported, and it was noted that audit committees play an important role in enhancing effective risk management procedures in public statutory organisations in Tanzania. Table 6 summarises the findings obtained from the testing of the hypothesis. It was determined that the coefficient of determination ( $R^2$ ) of the structural model was 0.293, and the results were presented in Table 5. The acceptable range for  $R^2$  in

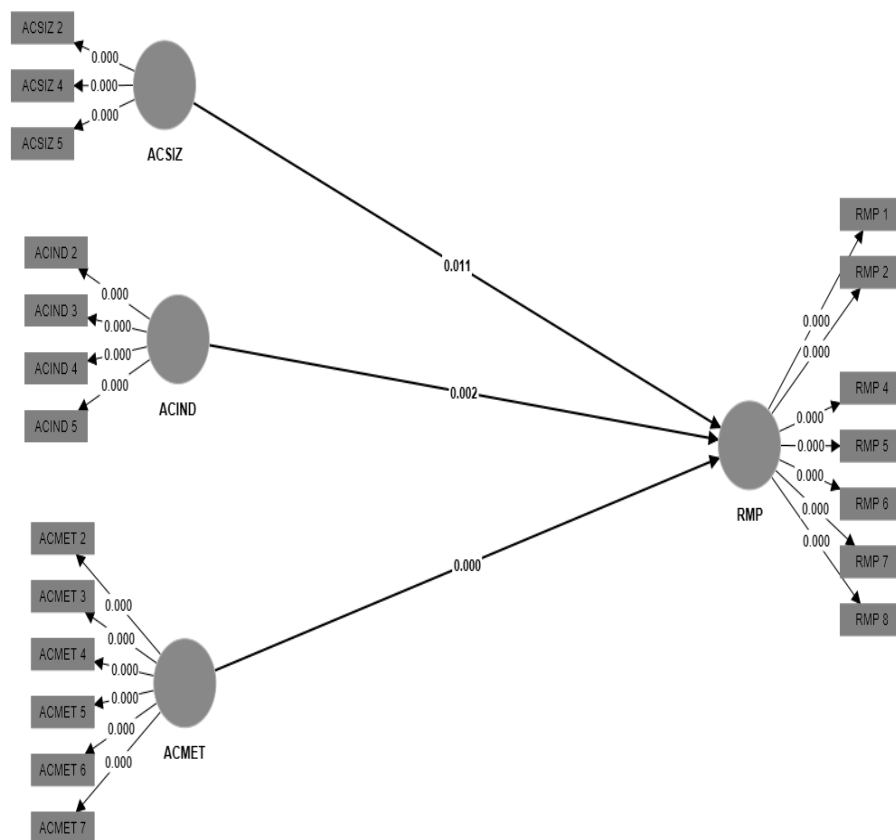
terms of prediction was 0.02 (weak), 0.13 (moderate), and 0.26 (considerable) (Cohen, 2013). The coefficient of determination ( $R^2$ ) was shown to be 0.293. Based on this information, it was determined that the model accurately forecasts a variance of 29.3 percent in the contribution of audit committees to the effective risk management practices of public statutory corporations in Tanzania.

**Table 5.** Result of Co-efficient of Determination ( $R^2$ ) and Predictive Relevance ( $Q^2$ )

Variable	R-square	$Q^2 (=1-SSE/SSO)$
RMP	0.293	0.288

**Table 6.** Summary of Results- Test of Hypotheses

Description	Standard deviation (STDEV)	T -Values	P-Values	Remarks
ACIND -> RMP	0.042	4.117	0.000	Supported
ACMET -> RMP	0.167	4.799	0.000	Supported
ACSIZ -> RMP	0.162	2.399	0.008	Supported



**Figure 1.** Structural Model Analysis (Bootstrap) – The interest of the reader in bootstrap is p-values for both inner and outer model

## Discussions of the Findings

The study examined the contribution of audit committee size, independence and meetings in overseeing the efficiency of risk management practices of public statutory corporations in Tanzania. Both audit committee size, independence and meetings were discovered with a significant correlation with the effective risk management practices (See Table 6).

### Audit Committee Size

The results demonstrate a statistically significant positive relationship between audit committee size and risk management practices in PSCs in Tanzania. The size of the audit committee, which covers competence and adequate composition of members, plays a crucial role in facilitating robust discussions and decision-making that ensure effective risk management in PSCs in Tanzania (Alzharani & Aljaaidi, 2015; Berkman & Zuta, 2017; Masanja, 2022; Yatim, 2009). The current study revealed that effective risk management practices in PSCs in Tanzania increased with an increase in competence and adequate composition of members of the audit committee.

Furthermore, the significant positive results of size in the model of this study imply that audit committees are composed of members with appropriate competence and size who can identify the needs and industrial characteristics while enhancing the effectiveness of risk management practices to minimise incidences of fraud or misuse of public funds and therefore achieve strategic objectives. The results concur with the agency theory in explaining the relationship between audit committee size and risk management practices within all categories of PSCs in Tanzania. The theory suggests that an independent mechanism, such as an audit committee with competent and adequate members, was important to mitigate information gaps and risk-related matters and ensure that agents (management) act in the best interests of owners, that is Government (Jensen & Meckling, 1976). This means that having an audit committee which comprises of competent and adequate number of members can enhance the effective risk management culture in PSCs in Tanzania.

The finding of the current research is consistent with other existing literature that supports a significant positive relationship between audit committee size and effective risk management practices (Alzharani & Aljaaidi, 2015; Kipkoech & Rono, 2016; Masanja, 2022; Tai et al., 2020; Yatim, 2009). Moreover, an observation has been made that an incompetent and inadequate number of members of the audit committee are likely to have insignificant contributions towards the effective risk management practices in PSCs in Tanzania. This means that PSCs may be exposed to material risks which may impair their reputation and hence limit them from achieving strategic objectives (ACFE, 2022, 2024; Ministry of Finance and Planning, 2023; WAJIBU, 2022, 2023). The study noted that the audit committee's size,

which includes competence and an adequate number of members, inspires risk management practices in all categories of PSCs in Tanzania. Conclusively, all categories of PSCs in Tanzania believe that audit committee size could enhance the effectiveness of risk management practices through designing appropriate risk mitigation strategies, controls and effective measures. Based on this evidence, the current study's finding suggests the formation of audit committees that should have adequate members with diverse expertise, competence and experience that will enhance the effectiveness of risk management practices in all categories of PSCs in Tanzania.

### **Audit Committee Meetings**

The study noted that the audit committee matters towards the effectiveness of risk management practices in PSCs; their contributions increased with the increase in frequency and duration of audit committee meetings. This implies that the effective risk management practices within PSCs in Tanzania is influenced by audit committee meetings that are scheduled timely and have adequate time to discuss and deliberate risk matters that will strengthen the internal control systems, and risk culture hence minimise incidences of fraud, inadequate financial reporting and other related risks that may impair the reputation and demoralize confidence of stakeholders and public at large. The results also indicate a minimum of four meetings per year for audit committees to independently examine PSCs' internal control systems and efficiently propose appropriate strategies and tools to improve risk management (Ribbon, 1999).

The result has empirically revealed that the frequency and duration of audit committee meetings can contribute to the effectiveness of risk management practices in PSCs in Tanzania. This concurs with agency theory that indicates the need for having an audit committee to minimise information asymmetry by having relevant information about performance, position, and risk activities to help principals (shareholders) choose an overall risk profile that is compatible with strategic objectives, and hence mitigate identified risks and ensure effective risk management practices in PSCs in Tanzania (KPMG, 2015; Nocco & Stulz, 2006, 2022). Furthermore, prior findings by Cheng & Courtenay (2006); DeZoort et al., (2002); Stewart & Munro (2007); Yatim (2009) and Yin et al., (2012), elaborate existence of a positive relationship between the frequency and duration of audit committees' meetings on the effectiveness of risk management practices. The result of the present study is consistent with a study conducted in Nigeria, South Africa, and Saudi Arabia. In this study, it was discovered that the frequency and duration of audit committee meetings lead to effective proactive monitoring of risk management practices in PSCs, and hence prevent identified potential risks from increasing (Ntim & Osei, 2011; Ojeka, Adeboye, & Dahunsi, 2021). However, inadequate and unproductive audit committee meetings expose PSCs to be identified with risks issues such as financial reporting problems, misuse of public resources,



incidences of fraud and hence impair their reputation and hinder them from achieving strategic objectives (WAJIBU, 2022, 2023). Finally, based on data collected from PSCs in Tanzania, the study submits that the frequency and duration of audit committee meetings stimulate effective risk management practices by handling, discussing, and designing risk mitigation strategies that enhance risk culture within PSCs.

### **Audit Committee Independence**

The study indicated that there is a positive relationship between audit committee independence and effective risk management practices in PSCs, and the result is statistically supported. This implies that independent audit committee members have a higher propensity to enhance effective risk management through their intervention in designing appropriate controls and gaining access to independent reports from internal and external auditors that highlight areas with high risks and guide management on proper strategies to mitigate risks related to financial reporting, fraud and asset misappropriation.

The result is consistent with prior studies which highlighted the importance of audit committee independence towards effective risk management practices by narrating their involvement in appraise internal controls and financial information disclosures which can minimise risks associated with earnings, management restatements, creative accounting and hence improve the entity's risk management process and internal controls (Luqman et al., 2018; Yatim 2009; WAJIBU, 2022, 2023). The current finding suggests that audit committee independence plays a crucial role in enhancing the efficiency of risk management practices in PSCs in Tanzania by demanding that audit committee members be independent and objectively act in the best interests of stakeholders and to minimise incidences of fraud, misappropriation of assets and misuse of public funds to allow PSCs to achieve their strategic objectives.

## **Recommendations, Conclusion and Limitations for Future Research**

### **Policy Recommendations**

The study recommends that the Ministry of Finance (MoF) review the current audit committee guideline by providing a statutory requirement to all PSCs to establish a risk management unit who will report functionally to the audit committee and administratively to the accounting officer; also the policy should mandate audit committees to review and direct PSCs in Tanzania to design and implement

effective risk management practices that take into consideration current business processes, technological innovations, and hence help them to achieve their strategic objectives.

### **Practical Recommendations**

The study recommends that PSCs in Tanzania should prioritise in formulation of an audit committee which consists of independent members who can act objectively for the betterment of principals (shareholders), and minimise loopholes within PSCs internal control systems. Not only that, the composition of the committee should consider an adequate size of members who possess relevant expertise, skills and industrial experience. Furthermore, proper communication channels which included scheduled meetings with intensive agendas between audit committees and management have been considered to be vital for effective risk oversight, as they enable the audit committee to understand all categories of PSCs' risk profile and develop appropriate risk mitigation strategies that will identify loopholes within internal controls and minimise audit observations and recommendations relating to frauds and misuse of public resources as noted annually by the Controller and Auditor General.

### **Conclusion**

The study examined the contribution of audit committee towards efficient risk management practices in PSCs in Tanzania. The significant positive correlation was noted on selected variables, namely, size, independence, and meetings, highlighting their crucial roles in fostering effective risk management practices within PSCs in Tanzania. This suggests that the audit committee, which conforms to composition, meetings, and independence, is crucial and helps reduce fraud and misuse of public resources and improve risk management.

### **Limitations and Future Research**

The study focused on only public statutory corporations registered under the Office of the Treasury Registrar in Tanzania, which have well-structured systems and are mandated to have audit committees. In the future, researchers should, therefore, examine the contribution of audit committees across all sectors, contexts and scopes that will continue to enhance internal control systems of entities worldwide. Another shortfall in the current study is the use of an explanatory design. This design relies deeply on the existing information; Therefore, new context discoveries are unlikely. Finally, future studies should examine the same but use a qualitative or mixed research approach, which should yield more resilient results than those of the mono method.

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