

Effect of Audit Opinions and Entity's Characteristics on Audit Committees' Effectiveness in Government Entities in Tanzania

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ABSTRACT

This paper examines the influence of audit opinions and entity characteristics on audit committee effectiveness (ACE) in government entities. Using a large sample of government entities in Tanzania as a reference, the paper adopted the resource dependency theory to explain the theme. Data were collected from 230 government entities' financial statements and Controller and Auditor General (CAG) reports from 2014/15 to 2019/20. The ordinary least square (OLS) technique was utilised to obtain regression results. The results show that disclaimer opinion negatively affects Audit Committee (AC) effectiveness. Qualified Opinion and Adverse Opinion were found to be insignificant though they had a negative relationship the same as disclaimer opinion. Specifically, unqualified opinion is a significant positive aspect related to AC effectiveness. Furthermore, entity structure, size, and location significantly and positively influenced AC effectiveness. On the other hand, firm age had statistically insignificant effect. The study findings imply that an entity should have experienced/competent audit committee members in accountancy. Also, the audit committee must be well-composed and have sufficient resources to obtain a clean report. Therefore, the paper recommends inviting the national audit office to every audit committee meeting. The board and management should emphasise on the budget for the training AC members. Further, the President's Office - TAMISEMI and the ministry responsible for finance should insist on the establishment and activeness of AC in all government entities in Tanzania. As per the author's knowledge, this paper adds new empirical knowledge by utilising CAG reports to link the effectiveness of AC with audit opinions and entity characteristics in Tanzania.

Keywords: *Audit Committee Effectiveness, Audit Opinions, Entities' characteristics*

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1.0 INTRODUCTION

The audit committee (AC) is an important organ responsible for the entity's risk assessments, ensuring good governance practices and financial reports are prepared based on the regulations and standards. The role of AC has become more considerable in organisations because it is now a control tool that has strengthened corporate governance requirements and expectations. The committee links internal auditors, external auditors and the entire board of directors and/or management in supervising financial reporting procedures (Wuttichindanon and Issarawornrawanich, 2020). After the downfall of the giant firms in the US, UK, Canada and Australia, AC has increased public assurance in the integrity and independence of issuing financial data. It supports the board of directors in accomplishing their duties in financial reporting, strengthening entities' internal and external auditors by giving an independent communication channel (CFE, 2019; Shbeilat and Al Harasses, 2018). The primary purpose of the AC in the public sector is to review the financial reporting process, internal controls system of the entity, the audit process and adherence to rules and procedures (Pamungkas et al., 2019; CAG, 2015). The public finance regulation of Tanzania directs each executive officer in government entities to form an AC (URT, 2001; URT, 2015; URT, 2019). The audit committee must contain senior members and competent people, and at least one member should come from outside the entity.

The Controller and Auditor General (CAG) report is published each year in Tanzania to reveal the effectiveness of AC in government entities. Also, it displays the type of Audit Opinions (AO) obtained in each entity. Apart from these two main issues, the report usually shows the financial assessments, public resource management, internal control systems, risk assessment, governance issues and deficiencies in various disciplines in public offices. For government entities to deliver smooth service to the public and meet their policy intentions, they must prioritise the management of public resources (Fernandez and Rainey, 2017). In addition to that, effective AC has to do with the management of public resources. The public resources are well managed with effective implementation of CAG reports and recommendations and efficient, independent and competent audit committees in each public entity.

An empirical gap guides this paper's problem. Many studies on effective AC did not mainly focus on this paper's independent variables. Instead, the scholars amplified that AC effectiveness is inclined by separate boards and shared ownership (Chijoke-Mgbame et al., 2020); committee structure and composition (Alqatamin, 2018). Also, other research related to AC effectiveness with reporting timeliness (Baatwah et al., 2019; Rochmah and Ghazali, 2012), financial reporting quality (Kamolsakulchai, 2015; Bryce et al., 2015), and organisation performance

(Alqatamin, 2018) and audit report lag (Sultana et al., 2015). For instance, Makhoulf (2022) and Eyenubo (2017) concluded that AC effectiveness is negatively affected by the quality in reporting financial information in Jordan.

Moreover, research that specifically used public entities' as a sample emphasises that AC effectiveness is influenced by tenure, competence, remuneration (Philna et al., 2021; Coetzee et al., 2021) and accountability (Bananuka et al., 2018). These studies did not consider attributes like audit opinions, entity structure and location that may significantly impact the AC effectiveness in the respective entities. In Tanzania, various studies on AC effectiveness used the public sector as a reference (Masanja et al., 2019; Mahyoro and Kasoga, 2021; Millinga and Naho, 2022). However, most of them limit their sample by using a single public entity or one sector group as a case study. Furthermore, studies on effective audit committees in government entities amplified the association of AC effectiveness with financial literacy, diligence, independence (Masanja, 2018), and corporate governance (Lyambogo, 2014). These papers lack the link between audit opinions and entity characteristics with AC effectiveness. Thus, it is confirmed that little has been explored to identify the extent to which audit opinions and entity characteristics influence AC effectiveness in Tanzania. Therefore, this paper needs to focus on how these variables affect AC effectiveness. In this regard, the aim of the current paper is to explore the influence of independent audit opinions and entity features on AC effectiveness in different categories of government entities. The results of this paper will add knowledge on the importance of effective audit committees in public entities that will also promote accountability, improve sound public resource management, and restore public confidence.

Additionally, unlike other studies, this paper extracted secondary data from entities' financial statements and respective CAG reports to provide empirical evidence of the ACE in the public entities in Tanzania. The remaining part of this paper is the subsections discussed in this introductory chapter. These aspects are the theory adopted, the literature review of critical variables, and the hypothesis development. Then, it follows the methodology in chapter two, results with discussion in chapter three, and finally, the conclusion and recommendations.

Literature review and Hypotheses development

The paper is guided by the Resource Dependency Theory (RDT). RDT states that organisations depend on each other or on their environment to survive. As entities depend on each other, they need resources for their persistence (Pugh and Hickson, 1997; Daft, 2001). The resources can be human, financial, physical or information within or from the external environment of an organisation. Many studies have used

RDT to assess the Audit committees (AC) and Board sizes, composition and independence as an index of AC's ability to effectively provide a resource to the entity (Hillman et al., 2009). Sanders and Carpenter (1998) highlighted that the composition and size of AC are not independent aspects but are relatively balanced entities' retorts to the outside environment and circumstances. Even (Dalton et al., 2007; Daily and Dalton, 1998; Fiegenner et al., 2000) relate the AC size, composition, effectiveness and independence with the firm's performance as a sign of fruitful resource dependence tactic. Therefore, this paper used RDT to emphasise the importance of human and financial resources that improve AC effectiveness and reliable information from the CAG reports that will enhance government entities' performance. Also, to show how structure, stability, environment and entity behaviour may affect the effectiveness of audit committees in a respective government entity.

Audit committee effectiveness

An audit committee (AC) is an organ in an entity which has a significant role in sighting the financial performance. Apart from this prominent role, it also assesses the entity's internal controls and good governance practices for its smooth running. AC usually collaborates with management, the internal audit and finance sections in government entities to perform its duties. AC effectiveness has been elaborated from a different perspective. For instance, Abdullatif (2006) defined AC effectiveness regarding the committee's compositions and successful completion of duties. Pucheta-Martinez and Fuentes (2007) restrict it by referring to its independence and member competence. This paper adopted De Zoort et al. (2002) modality of operationalizing AC effectiveness. The AC effectiveness by De Zoort et al. (2002) is based on the following dimensions summarised in Table 1.

Table 1: Audit committee effectiveness

Dimensions	Description	Score
Composition	AC should be independent in executing their duties	1 = independent; 0 = not independent
	It should contain at least one accounting expert and experienced	1 = there is an accounting expert; 0 = there is no
	AC should be composed appropriately as per the public finance Act	1 = properly composed; 0 = improperly composed
Authority	AC must review various entity reports (internal audit, financial reports, internal control, risk management reports and CAG reports)	1 = reports are reviewed; 0 = not reviewed

Resources	AC should have a sufficient human, financial and physical resource	1 = sufficient resource is provided; 0=no sufficient resources
Diligence	AC must frequently meet quarterly in a year	1 = there is a required meeting; 0 = no required meetings.
	AC should prepare and disclose its reports	1 = AC report is prepared 0 = No AC reports

Audit opinions

An audit report is a written expression of opinion on financial statements. The types of audit opinions available to auditors in Tanzania are set out in CAG reports in line with the international audit standards (ISA). These standards are ISA 700: Forming an opinion on final accounts, ISA 705: Modification of Opinion and ISA 706: Emphasis of matter and other matter paragraphs in the independent auditor's report (IASB, 2009). As per ISAs, audit opinions are classified into Unqualified/Unmodified/ Clean statements, Qualified opinions, Adverse opinions and Disclaimer opinions. As elaborated in chapter two of the CAG report 2019-2020 financial year, a clean opinion is issued when the financial statements presented are free of material misstatement and are in conformity with the applicable accounting framework, including compliance with laws and regulations (URT, 2020). It is the best audit opinion an audited entity may receive from an external auditor. A qualified opinion is drawn when material misstatements (disagreements due to inadequate disclosure, inappropriate accounting treatment, or limitation of audit scope) exist in the audited financial statements. An adverse opinion is issued when there are material misstatements in the financial statements. A disclaimer opinion is stated by an auditor who cannot find sufficient and appropriate audit evidence to draft the opinion (URT, 2020).

It has been explained that audit opinion issued is associated with the financial resource management in a particular organisation (Ntim et al., 2017; Soobaroyen et al., 2014). When an entity receives a clean audit report, it implies that it managed the financial resource well in that particular financial year (Goddard and Malagila, 2015; Eyenubo, 2017). From this argument, the vice versa is true that when an entity receives a qualified, adverse or disclaimer opinion, it did not manage its financial resource well. It is further explained by Mzenzi and Gaspar (2015) that when a public entity in Tanzania gets a disclaimer or adverse opinion, the people's representatives (members of parliament) react negatively by believing that the public financial resource in that particular entity might have been poorly used and that there was fraud. From this argument, the first hypothesis was developed:

H_1 : Audit opinion positively affects AC effectiveness

Government entity's characteristics

Entities' characteristics seem to influence audit committees' effectiveness, although it differs from country to country and between private and government entities. Several researchers, for example Ahmadi and Bouri (2017), Kolsi (2017), Abdillah et al. (2019), and Istiqomah and Wahyuningrum (2020) have attempted to focus on entities' characteristics with each one having various dimensions such as size, ownership structure, liquidity level, age, debt level, organisation structure, etc. From this perspective, this paper concentrates on the entity's age, size, structure and location, which are easily found in the reports which were used for this paper. However, there seem to be few variables used in empirical literature as factors to reveal the extent of their influence on audit committees' effectiveness. The facts on the entities' characteristics are shown below.

Entity size

Entity size is defined in Table 3 as the natural logarithm of an entity's total assets. It is crucial for organisational growth; it is healthy to have significant assets. A company with a large size of assets tends to have good management and a governing board that may guarantee the availability of an effective audit committee (Zhou et al., 2018). It is posited by Nchabeleng (2019) that having physical assets, financial assets, and competent personnel attracts well-composed, powerful and active audit committees in an organisation. Therefore, this paper hypothesises that size positively influences audit committee effectiveness. Hence the second hypothesis was stated as follows:

H₂: Entity size positively influences audit committees' effectiveness.

Entity Age

For entity age, Ignat (2019) highlighted that, entities with many years in operation have perfect performance in most of the things in their respective industries or sectors. Due to this point it was hypothesised in this paper that government entities with more than ten years of experience have an influential audit committee. The hypothesis, in this case, is:

H₃: Entity age positively influences audit committees' effectiveness.

Entity structure

The entity structure in this paper has been formatted into how government entities have been established or incorporated in the United Republic of Tanzania. Kolsi (2017) disclosed that the entity structure drives the effectiveness of companies' audit reports. The paper's interest is to reveal how government entities being

established as agencies, corporations, or regional/local government authorities influence the effectiveness of the respective audit committee. Hence the following hypothesis was formulated:

H4: Entity structure positively influences audit committees' effectiveness.

Entity location

Bruwer et al. (2017) and Parsa et al. (2011) indicated a positive association between the location of an entity and the performance of its management and committees. Some government entities located in remote areas (remote districts) were implementing the finance regulations, such as forming AC with competent members and meeting regularly might be ignored. On top of that, factors like poor infrastructure may lead to inactive AC. From this ground, this paper wants to show the influence of entity location on AC effectiveness. From the literature, the fifth hypothesis was developed:

H5: Entity location positively influences audit committees' effectiveness.

2.0 METHODOLOGY

Data source

This paper uses six fiscal years' (2014/15 to 2019/20) data from the Controller and Auditor General's audit reports which were obtained from the National Audit Office. The selected fiscal years were considered since their complete reports were available; also, most entities did not exist before 2014/2015. Moreover, the reports were considered relevant because they contain data on audit opinions issued to public entities, internal controls, and corporate governance issues such as internal audits, audit committees, governing and advisory boards, budget issues and weaknesses of audit committees (CAG, 2018). Likewise, the paper used the financial statements of the respective entities to obtain information on entity size, age, structure and location. These data were used to construct firm characteristics as one of the dependent variables for estimation. To minimise errors, some data, such as the kind of audit opinion issued by CAG in a specific year, which were unavailable on the website but which were found by the researcher to be valuable were provided by specific officers from respective public entities. However, a public entity which found it difficult to obtain some information on the study variables was dropped from the study.

Study Design and Sampling

The descriptive study design was adopted because this paper's primary goal is to describe the effectiveness of audit committees founded on auditor's reports and entity's financial statements (Affandi et al., 2020). The selection of public entities involved in this paper followed a multi-stage sampling technique. Initially, the paper used purposeful sampling (Miloane, 2021) to select all audited public entities for 2014/15 to 2019/20 involving government corporations, government higher learning institutions and local government authorities. Then, it used stratified sampling to determine the final sample from each level (Etikan, 2017) in the three groups of government entities, and finally systematic random sampling was applied to select individual public entities from the three identified strata for further analysis.

Sample size

A total of 230 public entities were finally taken using the 5% significance level. These included 106 Public Boards, Institutions, Corporations and Agencies (Public BICA), 30 Higher Learning Institutions (HLIs) and 94 Regional Secretariats and Local Government Authorities (RS and LGAs). The representative sample size was determined following Yamane (1967) formula given by Equation 1.

$$n = \frac{N}{1 + N(e^2)} \tag{1}$$

Where n is the sample size, N is the population, and e is the significance level. The population of public entities identified was 536, of which 247 were Public BICA, 70 were HLIs and 219 were RS and LGAs. Table 2 below summarises the above details.

Table 2: Sample size computation

Public entities	Population	Sample	Per cent
Public corporations, Board, Institutions and Agencies	247	106	46.1
Higher Learning Institutions	70	30	13.0
Regional Secretariats and Local government Authorities	219	94	40.9
Total	536	230	100

Source: Author computation (2022)

Data Analysis

The variable inflation factor technique was used to check the presence of multicollinearity. If there is multicollinearity, it means the results are biased (Disatnik and Sivan, 2016). The ordinary least square (OLS) in equation 2 was used to obtain regression results of explanatory variables on the outcome variable, applying individual indicators within the key variables in the regression. OLS was

used due to its strength of generating unbiased coefficient estimates and minimising the sum of the square difference between the known variables and unobserved variables (Allen and Stone, 2001). The independent variables in this paper are Audit Opinion (AO) and Entity Characteristics (EC). These variables were used to test the five developed hypotheses using Audit Committee Effectiveness (ACE). The following model was used to estimate the parameters.

$$ACE_i = \beta_0 + \beta_1 AO_i + \beta_2 EC_i + \varepsilon_i \quad (2)$$

Where variables are reported by entity *i*, ACE means audit committee effectiveness; AO is audit opinions measured by the type of audit opinion issued. EC is entity characteristics, β_0 is a constant term, β_1 and β_2 are coefficients to be estimated and ε is an error term. Independent variables and the error term are assumed to be exogenous and homoscedastic.

Table 3 summarises the study variables, their measurements and references adopted.

Table 3: Variables and measurements

Variable	Measurement	References
Dependent Variable		
ACE-Audit Committee Effectiveness	The total score of AC effectiveness index	De Zoort et al. (2002); Bedard et al. (2004); Mangena and Pike (2005); Martinez and Fuentes (2007)
Independent Variables		
AO-Audit Opinions Type of AO issued	1= Uno; 0= other 1= Quo; 0= other 1= Ado; 0= other 1= Dio; 0= other	Lin et al. (2011); Mzenzi and Gaspar (2015); Nwanyanwu, (2017); Hui et al. (2020); Hasthoro et al. (2021)
Entity's Characteristics ES- Entity structure	1= Public BICA; 0=RS_LGAs	Prot et al. (2021)
EA- Entity Age	1= > 10 years; 0= < 10 years	Prot et al. (2021)
ES- Entity Size	Natural log of entity's total assets	Rochmah Ika and Mohd Ghazali (2012); Prot et al. (2021)
EL- Entity Location	1 = In city; 0 = Not in city	Rochmah Ika and Mohd Ghazali (2012)

Note: Uno- Unqualified opinion; Quo- Qualified opinion; Ado- Adverse opinion; Dio- Disclaimer opinion; RS- Regional Secretariats; LGA- Local Government Authority

3.0 RESULTS AND DISCUSSION

This segment gives a summary, multicollinearity results, and the regression results of each independent variable, together with discussions of the same.

Descriptive results

From Table 4, the overall results on descriptive statistics of the variables indicate that unqualified opinion had a high mean score compared to other audit opinion types. This implies that from the CGA reports, many entities reported a clean report, followed by qualified opinions. The other remaining opinions had lower scores, indicating that few entities reported having disclaimers and adverse opinions in their respective accounting periods. In terms of entity characteristics, the mean scores show that most of the entities used in this paper had a large number of assets reported in their respective financial statements. In addition, many entities had more than ten years in operation. The dispersion was, however, not very alarming, as it seemed to suggest some stability. These descriptive results are indicated to supplement the regression results discussed in the following section.

Table 4: Descriptive results

Variable	Obs	Mean	Std. Dev.
AC Effectiveness	1,362	5.491189	4.509635
Entity Characteristics_Structure	1,362	.5947137	.4911277
Entity Characteristics_Age	1,362	.8428781	.3640493
Entity Characteristics_Location	1,362	.4588235	.4984849
Entity Characteristics_Size	1,362	.9515419	.2148112
Unqualified opinion	1,365	.8505495	.3566627
Qualified opinion	1,365	.1347985	.3416334
Adverse opinion	1,365	.0051282	.0714538
Disclaimer opinion	1,365	.0014652	.0382639

Source: Author computation (2022)

Multicollinearity results

Multicollinearity in a regression analysis refers to how strongly interrelated the independent variables in a model are. According to Bordens and Abbott (2011), if two variables are highly correlated, they may measure the same thing. The collinearity diagnosis analysis was made using two famous measurements to test the presence of multicollinearity. According to Salmerón et al. (2020), multicollinearity exists between variables if the tolerance values are less than 0.10 or the variance inflation factor (VIF) scores are above 10. Table 5 indicates that the VIF measured the multicollinearity problem at 1.107, 1.533, 1.018, 1.0436 and

1.417 for audit opinion, entity structure, entity age, size and location, respectively. On the other side, all the tolerance values were above the range of 0.10.

Table 5: Multicollinearity results

Variable	Audit opinion	Entity structure	Entity Age	Entity Size	Entity Location
Tolerance	0.902	0.653	0.982	0.958	0.705
VIF	1.107	1.533	1.018	1.0436	1.417

Source: Author computation (2022)

Since the tolerance values were more significant than 0.10, and VIF values were below 10.0, the signalled multicollinearity in the correlations analysis was too low to have caused influence; hence there was no problem of multicollinearity.

Regression output

Five hypotheses were postulated from audit opinions and entity characteristics to reveal the correlation between audit opinions, entity characteristics and the audit committee's effectiveness. The ordinary least square technique was used for analysis, and the results are presented in Tables 6 and 7.

The Effect of Audit Opinions on AC Effectiveness

To determine the extent to which AO relates with AC effectiveness, four types of audit opinions in issuing the same were considered in the model. Also, hypothesis 1 (H₁) suggested a positive effect of audit opinions on AC effectiveness. As shown in Table 6, the R-squared was 0.492, meaning that all types of AO were collectively found to explain AC effectiveness by 49.2%. The regression results showed that disclaimer opinion (Beta= -9.625; p-value = 0.006) was negatively related to AC effectiveness. Consequently, H₁ was rejected. This means that if the percentage issuance of disclaimer opinion decreases, it tells that AC is effective in that particular public entity. Thus, ineffective AC may lead an entity to obtain a disclaimer opinion. Qualified and adverse opinions were found insignificant though they had a negative relationship, the same as disclaimer opinions. Conversely, unqualified opinions (Beta = 2.497; p-value = 0.010) were significant and positively related. On this, the H₁ was accepted, meaning that if an external auditor frequently issues an entity, an unqualified opinion will lead to AC effectiveness, and it tells that the AC in particular public entity improves in terms of composition, authority, resources and diligence.

Table 6: Audit Opinions and AC Effectiveness

Variables	Coef	t	P-values
Unqualified Opinion	2.496662	1.60	0.010**
Qualified Opinion	-.2663043	-0.17	0.867
Adverse Opinion	-1.910714	0.84	0.402
Disclaimer Opinion	-9.625	2.76	0.006***
Constant	3.375	2.17	0.030**
Number of obs = 1,362			
R-squared = 0.492			

***, **, * represents significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$ respectively

Source: Author computation (2022)

The result of the negative relationship of a disclaimer opinion with ACE is in accordance with Pucheta-Martínez and Fuentes (2007). This study was conducted in Spain; it combined adverse, qualified and disclaimer opinions into one term, qualified opinions, which was regressed against AC effectiveness in terms of the existence of the committee, its size and independence. The study highlighted the presence of a properly composed and independent AC would lower that qualified opinions. Other papers by Kamolsakulchai (2015) and Suárez et al. (2013) assessed the association of AC effectiveness with external audit reports. The works found a similar outcome: the availability makes a clean and quality audit opinion of a productive committee in the respective company.

On the other hand, Piyawiboon (2015) notes that if an auditor issues a qualified opinion, it will help improve audit committee efficiency. Intuitively, it means a positive association between qualified opinions and the efficiency of the AC. Hence it is the opposite of this paper's results that if qualified opinions (qualified, adverse, disclaimer opinion) are issued to a government entity, it means that the available audit committee does not work effectively because it could solve, in collaboration with management, the deficiencies in the financial statements before submitting to CAG. Moreover, the paper by Piyawiboon (2015) found the same outcomes as the ones found in this paper: qualified opinion, adverse and disclaimer opinion have no statistically significant effect on audit committee effectiveness. But then, it goes against unqualified opinion results that unqualified opinion is significant in the research context; thus, it should be highly considered in the public sector. The Resource Dependence Theory is related to this scenario that when the unqualified opinion is frequently drawn to a specific government entity, then the particular entity has an audit committee with experienced people in accountancy; the audit committee is well composed and has sufficient resources. It is active in each fiscal year. On top of that, the audit committee used the information efficiently from CAG

reports performing well in their key functions in the public sector. Nevertheless, the opposite side of the entity receives a modified opinion; this means that the audit committee does not execute its duties effectively.

The Influence of Entity's Characteristics on AC Effectiveness

In exploring the influence of entity characteristics on audit committees' effectiveness in public sector entities, four aspects, namely entity size (H₂), entity age (H₃), structure (H₄), and entity location (H₅), were analysed. The R-squared for all indicators was 0.2879; thus, all the aspects of entity characteristics were found to be jointly accountable for about 29% of the AC effectiveness variation. Basing on the results in Table 7, entity structure (Beta = 4.674, p value = 0.000), entity size (Beta = 1.429, p = value = 0.004) and entity location (Beta = .588, p value= 0.017) had a significant and positive influence on AC effectiveness. This means that 1 unit increase in entity size would improve audit committee effectiveness. Therefore, audit committee effectiveness can be improved by such an entity having assets such as financial resources and physical resources. In the case of entity structure, the results mean that an entity either being established by law as public BICA or as RS and LGA may affect the effectiveness of AC. For the case of entity location, the results mean that the entity's location significantly influences AC effectiveness, meaning that the effectiveness of AC of an entity located in remote districts may differ from those of audit committees located in the city. On the other hand, the age of the entity was found not to affect the AC effectiveness.

Table 7: Entity Characteristics and ACE

Variables	Coef	t	P-values
Entity structure	4.673963	18.53	0.000***
Entity Age	-.2476675	-0.87	0.387
Entity Size	1.428998	2.91	0.004***
Entity Location	.5877535	2.39	0.017**
Constant	1.291203	2.26	0.024**
Number of obs = 1,362			
R-squared = 0.2879			

***, **, * represents significant at p<0.01, p<0.05 and p<0.1 respectively

Source: Author computation (2022)

An earlier study by Pucheta-Martínez and Fuentes (2007) found that a company's size positively influences the audit committee. The results further showed that audit committees in large-size companies in terms of assets are more likely to be effective. This result supports this paper's result on entity size. On the side of entity structure, the results are consistent with those by Méndez and García (2007), who

found that firms with a large ownership structure with large shareholders tend to have effective AC in terms of the frequency of meetings they have. This means that large firms have more active audit committees than small firms in terms of ownership structure. However, it is indicated by Pucheta-Martínez and Fuentes (2007) that the entity structure is significant but negatively related to audit committees' effectiveness. These results contrast with this paper's results which show positive influence of firms' structure on the audit committee.

Regarding the issue of entity location, the results shown by Alkebsee et al. (2020) indicate a negative and significant influence of entities located in developed regions on audit effectiveness in terms of committee composition (including female consideration). Besides, there is a negative but insignificant relationship as far as audit committees located far from town are concerned. These findings by Alkebsee et al. (2020) are different from this paper's results in the sense that, despite being significant, the results show a positive influence of location on the audit committee, both firms in the city and those located in remote areas. This means that ACs from city entities are more effective than those located in remote areas. The age estimates, however, revealed insignificant effect on ACE. This can intuitively mean that to have an audit committee is not a matter of years the firm has been operating. Still, the law and regulations force an entity to establish an audit committee and ensure it is effective. So, whatever age a firm has, it must have active audit committees. These findings can be featured by RDT used in this paper that a government entity with a large size in terms of assets, such as financial assets and equipment, has an audit committee which possesses the dimensions used in this paper (well composed, diligent, having authority and resources). Furthermore, this paper found positive influence of entity location on ACE. RDT advocated earlier that the entity audit committee depends on the external environment in executing their duties.

4.0 CONCLUSION AND RECOMMENDATIONS

Previous papers did not make good use of CAG reports to associate with the effectiveness of AC in public sector entities. This paper brings new empirical knowledge by compiling a large number of audit reports and financial information on public entities from CAG reports investigating the effect of audit opinions and entity characteristics on an audit committee's effectiveness. This paper therefore concludes that disclaimer opinion is negatively related to audit effectiveness in terms of composition, authority, resources and diligence. Specifically, it implies that if audit committees in public entities are effective by having regular meetings, having accounting and audit experts, being independent, reviewing crucial reports such as final accounts, risk management, internal audit reports etc., CAG reports

will be clean, and ultimately the public resources will be efficiently used. Moreover, the entity's location, structure and size positively influence audit committee efficiency. This implies that if audit committees are formulated by considering how an entity is structured, the environment in which it is located and the number of assets the entity has to possess, the particular audit committee in a such entity will be very active in performing its duties.

Numerous recommendations can be derived from this paper's results. Firstly, because unqualified opinion has shown to have a positive association with ACE, the national audit office should insist to the management of the government entities to invite auditors from the CAG Office to every audit committee meeting so that they can discuss in detail the entities' financial and internal controls weaknesses and come up with strategies. This will lead to a clean audit report and hence good management of public monies. Secondly, the board and management should emphasise on the budget for AC, especially the training budget for AC members because if the members regularly acquire knowledge and skills on internal controls, internal public sector accounting standards and audit standards this will improve the efficiency of the committees in future, and thus public resources will be well managed. Thirdly, because CAG reports highlight the absence of AC in some of the government entities; regardless of entity age, location, structure and size; the President's Office- TAMISEMI and the ministry of responsible for finance should insist on establishment of AC in all government entities and more activeness of the same in Tanzania. Finally, the AC should sufficiently discuss the internal control issues and give constructive advice to the management and boards of the respective entities. Moreover, there should be a policy whereby the audit committees must often meet with executive officers to discuss and advise on how to improve the operation of the entities in terms of internal controls and other financial aspects.

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