ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

Effectiveness of Audit Committees in State-Owned Enterprises in Zimbabwe

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DOI: https://doi.org/10.51583/IJLTEMAS.2026.150700141

Received: 08 August 2026; Accepted: 13 August 2026; Published: 24 August 2026

ABSTRACT

This study critically examined the effectiveness of Audit Committees in State-Owned Enterprises (SOEs) in Zimbabwe. Despite corporate governance frameworks aligned with international standards and the existence of Audit Committees in State-Owned Enterprises, many of them continue to experience financial mismanagement, weak internal controls, and limited accountability. To examine the effectiveness of Audit Committees in SOEs, the researchers assessed the impact of SOE's independence, financial expertise, frequency of meetings, and their size to SOEs performance and their quality of financial reporting.

A qualitative research methodology was adopted in which data was generated from 17 participants picked from current and previous Audit Committee members for 24 State-Owned Enterprises. Data analysis was done using the thematic approach. The findings indicate that audit committee independence and financial expertise have a statistically significant positive relationship with quality of financial reporting and effectiveness of internal control. However, political interference and limited enforcement of governance regulations weaken overall audit committee performance. The findings have implications for policymakers, regulators, and boards seeking to enhance accountability and sustainability in state-owned enterprises.

Keywords: Corporate governance, financial reporting quality, board oversight, public enterprises, internal controls, accountability

INTRODUCTION

State-Owned Enterprises (SOEs) play a central role in Zimbabwe's economic development by providing essential services in energy, transport, telecommunications, agriculture, and finance. However, many SOEs over the past decade have suffered financial instability, weak internal controls, persistent losses, and governance failures. Auditor-General reports frequently highlight procurement irregularities, misallocation of resources, and limited board oversight. These challenges raise questions about the effectiveness of governance mechanisms within SOEs, particularly audit committees.

Audit committees are widely recognised as a critical component of corporate governance structures. They oversee financial reporting, monitor internal controls, liaise with internal and external auditors, and ensure regulatory compliance. Effective audit committees enhance transparency, accountability, and financial integrity. International Standards of Corporate Governance emphasise the need for Audit Committees to have independence, financial expertise, and regular meetings as determinants of effectiveness. Zimbabwe has implemented governance reforms, including the Public Entities Corporate Governance Act (2018), aimed at strengthening oversight mechanisms in State-Owned Enterprises.

In Zimbabwe, State-Owned Enterprises have been plagued by recurrent financial irregularities. Auditor-General reports document delayed reporting, qualified audit opinions, and weak internal controls (Zimbabwe Auditor-General Report, 2022). While audit committees are formally in place, their functional effectiveness has not been

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

empirically quantified. Key challenges include political appointments, lack of training, and inadequate enforcement of governance regulations. This gap underscores the need for research to examine the influence of audit committee characteristics on financial reporting quality and internal controls.

Nevertheless, governance deficiencies persist. While the regulatory framework mandates Audit Committees, it remains unclear whether these committees function effectively in State-Owned Enterprises in Zimbabwe. Empirical evidence indicates that the effectiveness of Audit Committees is limited and fragmented in State-Owned Enterprises in Zimbabwe. Hence, the current study sought to determine the connection between the characteristics of Audit Committees and the performance of State-Owned Enterprises in Zimbabwe.

The study was guided by the following research objectives:

1. Examine the effect of audit committee independence on the quality of financial reporting by State-Owned Enterprises in Zimbabwe.

2. Assess the influence of financial expertise on the effectiveness of internal control systems of State-Owned Enterprises in Zimbabwe.

3. Evaluate the role of the frequency of audit committee meetings and size on the performance of State-Owned Enterprises in Zimbabwe.

REVIEW OF RELATED LITERATURE

Theoretical Framework

To explore the effectiveness of Audit Committees in State-Owned Enterprises, the Agency, Resource Dependency, and Institutional Theories were reviewed.

The Agency Theory posits that conflicts arise when managers (agents) pursue personal interests over those of principals (shareholders or stakeholders). State-Owned Enterprises are subject to complex agency problems due to multiple principals, including the government and the public. Audit committees act as monitoring mechanisms to mitigate information asymmetry and reduce managerial opportunism. Independent and financially competent members are theorised to enhance oversight, improving financial reporting quality and internal control systems (Jensen & Meckling, 1976).

The Resource Dependence Theory states that boards and subcommittees provide critical expertise and resources for organisational success. Audit committee members with financial expertise bring specialised knowledge that improves accounting oversight, risk management, and regulatory compliance. Committee size and composition influence the diversity of skills and perspectives, affecting the committee’s ability to fulfil its monitoring function (Pfeffer & Salancik, 2003).

The Institutional Theory explains how organisations adopt formal structures to gain legitimacy rather than enhance performance. In developing countries, such as Zimbabwe, audit committees may exist primarily to comply with regulations rather than to function effectively. External pressures, such as political expectations and societal norms, can shape committee behaviour and effectiveness, sometimes undermining oversight functions (DiMaggio & Powell, 1983).

These three perspectives collectively informed the objectives of the study. Audit committee independence and financial expertise are expected to positively influence financial reporting quality and internal controls, though these may be moderated by contextual factors such as political interference and institutional pressures.

Effect of Audit Committee Independence on the Quality of Financial Reporting

Audit committee independence refers to the presence of non-executive members who are free from managerial influence. Globally, independence is recognised as a cornerstone of effective oversight. Developed countries show that independent audit committees are more likely to detect and prevent financial misstatements (Abbott

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

et al., 2016; Klein, 2017). In emerging economies, evidence is mixed. For example, in Nigeria and South Africa, political influence in board appointments often undermines audit committee independence, limiting its ability to hold management accountable (Owolabi & Makinde, 2018).

In Zimbabwe, audit committees in State-Owned Enterprises are mandated to be independent under the Public Entities Corporate Governance Act (2018). However, practical enforcement is weak. Auditor-General reports frequently note that political appointees occupy committee positions, diminishing functional independence. Therefore, while regulatory frameworks exist, independence in practice may not always translate into effective oversight.

Influence of Financial Expertise on Effectiveness of Internal Control Systems

Financial expertise refers to members' qualifications, such as professional accounting certifications and experience in financial management. Empirical studies consistently link expertise to higher quality financial reporting (Carcello et al., 2016; Lin et al., 2017). Expertise enables members to understand complex accounting issues, engage with auditors meaningfully, and strengthen internal controls.

In emerging economies, including Zimbabwe, financial expertise is often limited within public sector boards due to scarce professional talent. Studies indicate that State-Owned Enterprises sometimes appoint members without an accounting or finance background to satisfy nominal governance requirements. This gap can weaken the audit committee's ability to detect errors, misstatements, or fraud, thereby affecting financial reporting quality.

The Role of the Frequency of Audit Committee Meetings and Size on Performance

Regular audit committee meetings are important for timely oversight. Studies show that frequent meetings correlate positively with enhanced internal controls and the quality of financial reporting (Bedard et al., 2016). Meetings provide a forum for members to review reports, discuss weaknesses in internal controls, and liaise with auditors. However, mere frequency without substantive engagement does not guarantee effectiveness, especially if members lack expertise or independence.

Committee size affects decision-making dynamics. Smaller committees may be more efficient, whereas larger committees provide diverse expertise (Klapper & Love, 2017). Empirical evidence suggests a moderate-sized committee is optimal for balancing efficiency and expertise. In Zimbabwe, State-Owned Enterprises vary widely in committee size, with some too small to cover critical expertise areas, while others are excessively large, leading to coordination challenges. Committees that meet frequently without independence or expertise may be symbolic rather than functional, as political appointments and limited enforcement constrain genuine audit committee authority (Owolabi & Makinde, 2018).

METHODOLOGY

The study adopted an interpretivist philosophy, which aligns with the qualitative approach chosen to explore the effectiveness of Audit Committees in State-Owned Enterprises in Zimbabwe. Interpretivism emphasises understanding social phenomena from the perspectives of those experiencing them, making it particularly relevant for investigating how employees, managers, and stakeholders perceive the effectiveness of the Audit Committees in State-Owned Enterprises (Pervin & Mokhtar, 2022). The study also embraces a constructivist worldview, recognising that knowledge is not discovered but constructed through interaction between the researcher and participants (Tanlaka & Aryal, 2025). This stance ensures that findings are contextually embedded, reflecting the socio-economic and cultural realities in Zimbabwe's State-Owned Enterprises. By prioritising subjective meaning and lived experiences, the study captured complexities such as resistance to change, infrastructural limitations, and regulatory uncertainties factors that cannot be fully understood through quantitative data alone (Hlophe & Mabetha, 2025).

Given the interpretivist-constructivist philosophy underpinning this research, an inductive approach was adopted. This approach aligned with the objectives of the study. Induction facilitated the discovery of patterns

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

and themes grounded in participants' lived experiences, rather than imposing predefined theoretical constructs. This flexibility was essential for capturing the complexities of organisational culture, infrastructural limitations, and regulatory uncertainties that shape Audit Committees when they undertake their functions in State-Owned Enterprises.

The research design was tailored to capture the multi-dimensional nature of the roles of Audit Committees in State-Owned Enterprises. The research design prioritised depth over breadth, focusing on multiple case studies to generate rich, contextualised insights. The case study design was central to this research. Yin (2014) defines case study research as an empirical inquiry that investigates a modern phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clear.

Given the qualitative nature of this study, the research did not aim to cover the entire population but instead used purposive sampling to select participants who could provide in-depth and meaningful insights. This approach prioritised quality over quantity, allowing the researchers to engage with individuals who have significant experience in auditing of State-Owned Enterprises. Qualitative research typically employs non-probability sampling techniques, prioritising relevance and information richness over representativeness. As Creswell (2014) notes, qualitative sampling is purposive, focusing on participants who can best inform the research problem. The sample size was typically smaller but allowed for intensive exploration of experiences and perspectives. This study used purposive sampling as the primary method, selecting participants based on their direct involvement with Audit Committees of State-Owned Enterprises. Where access to certain participants was limited, snowball sampling was employed, allowing initial participants to refer others with relevant experience. Although the study initially anticipated a sample size of approximately twenty to thirty participants, guided by the principle of data saturation, the final number of respondents was seventeen, as no new themes or insights were emerging.

DISCUSSION OF RESULTS

The empirical findings generated from the 17 participants representing 24 State-Owned Enterprises (SOEs) provide crucial insights into how audit committee characteristics shape public sector corporate governance in Zimbabwe. The data reveals a clear dichotomy between formal structural compliance and actual functional oversight.

Impact of Audit Committee Independence on Financial Reporting Quality

The study confirms that audit committee independence is a primary determinant of effective oversight and financial reporting quality within Zimbabwean SOEs. Participants highlighted that when committee members operate free from managerial influence, the detection and prevention of financial misstatements improve significantly. This finding directly aligns with **Agency Theory**, which positions independent boards as vital monitoring mechanisms designed to reduce information asymmetry and curb managerial opportunism (Jensen & Meckling, 1976).

However, qualitative narratives revealed that the independence mandated under the Public Entities Corporate Governance Act (2018) is frequently compromised in practice. Political appointments to boards place individuals with conflicting loyalties into oversight roles, confirming the assertions of Owolabi and Makinde (2018) that political interference undermines public sector accountability across African contexts.

Influence of Financial Expertise on Internal Control Systems

Financial expertise emerged alongside independence as a critical predictor of a committee's functional strength. Members with professional accounting certifications or extensive financial management backgrounds possess a superior ability to decipher complex accounting errors, interrogate financial disclosures, and systematically evaluate internal control risks.

Conversely, a prevalent gap identified in the sampled SOEs is the appointment of members who lack foundational finance or accounting backgrounds. Done primarily to satisfy nominal regulatory requirements,

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

this practice leaves committees poorly equipped to detect strategic misallocations or structural fraud. This empirical outcome validates **Resource Dependence Theory**, which emphasizes that a subcommittee's monitoring capability is intrinsically tied to the specialized knowledge resources its members bring to the organization (Pfeffer & Salancik, 2003).

Role of Meeting Frequency and Committee Size on SOE Performance

In contrast to independence and expertise, the structural dimensions of meeting frequency and committee size demonstrated a limited impact on overall SOE financial performance and internal control quality. The data indicates that merely increasing the number of annual meetings does not yield better governance outcomes if the underlying dynamics are flawed. Frequent meetings conducted by committees that lack independent authority or professional financial capacity remain largely symbolic, serving as a tool for institutional legitimacy rather than practical utility.

Similarly, variations in committee size presented mixed results. While moderately sized committees balance efficiency, oversized committees frequently encounter coordination failures, and undersized committees suffer from acute skill deficits. These results support the findings of Klapper and Love (2017) that audit committee effectiveness depends on substantive, high-quality engagement rather than superficial structural compliance. This phenomenon is strongly explained by **Institutional Theory**, illustrating how public sector entities in developing economies often adopt formal legal structures purely to achieve external regulatory compliance and legitimacy while leaving deep-seated operational deficiencies unaddressed (DiMaggio & Powell, 1983).

Governance Implications

Practically, these results underscore that formal alignment with governance regulations does not automatically guarantee functional effectiveness. For Zimbabwean regulators, policymakers, and boards, enhancing the sustainability of public enterprises requires a strict pivot toward capacity building and professional meritocracy. Governance enforcement mechanisms must be tightened to insulate appointments from political considerations, ensuring that members have both the baseline expertise and the structural autonomy required to protect public assets.

CONCLUSION

This study critically evaluated the structural and operational determinants of audit committee effectiveness within State-Owned Enterprises (SOEs) in Zimbabwe. The empirical evidence demonstrates that simply maintaining formal audit structures does not guarantee robust corporate governance, financial accountability, or internal control integrity.

The primary conclusions of the study are summarized below:

- **The Dominance of Substance over Form:** Audit committee independence and financial expertise are the strongest predictors of high-quality financial reporting and internal control effectiveness. Without these two pillars, oversight fails.

- **Symbolic Structural Dynamics:** The frequency of committee meetings and the absolute size of the committee do not significantly influence governance outcomes. Frequent meetings without independent or expert oversight serve purely as symbolic compliance to gain institutional legitimacy.

- **Systemic Constraints:** Political interference in board appointments and weak regulatory enforcement remain severe bottlenecks that systematically dilute the statutory authority of audit committees.

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RECOMMENDATIONS

To translate these findings into actionable reforms for policymakers, regulators, and SOE boards, the study proposes the following recommendations:

1. **Insulate Appointments from Political Interference:** The line ministries and regulatory bodies must strictly enforce the Public Entities Corporate Governance Act (2018) to ensure that board and committee selections are based on competitive merit rather than political patronage.

2. **Enforce Mandatory Financial Literacy Thresholds:** Regulators should establish a mandatory minimum composition rule requiring that at least a majority of audit committee members, including the chairperson, possess accredited professional accounting or financial management certifications.

3. **Strengthen Enforcement and Penalty Frameworks:** The Auditor-General and relevant oversight authorities must introduce strict compliance penalties for SOEs that delay financial reporting or ignore internal control recommendations, shifting focus from nominal compliance to active enforcement.

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ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VII, July 2026

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