Audit Committee Effectiveness
- from the Perspective of Audit Committee Members in New Zealand Listed Companies

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Julia Wu

Christchurch Polytechnic Institute of Technology, Christchurch, New Zealand

Email: wuj@cpit.ac.nz

Associate Professor Sidney Weil

Lincoln University, Lincoln, New Zealand

Email: sidney.weil@lincoln.ac.nz

Dr Ahsan Habib

Auckland University of Technology, Auckland, New Zealand

Email: ahsan.habib@aut.ac.nz
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ABSTRACT: This study examines audit committee effectiveness from the perspective of audit committee members of New Zealand listed companies. Following a phenomenological approach, this study argues that performing audit committee duties is an intended process. Therefore, investigating audit committee members’ intentional sense-making processes behind their audit committee activities will be of value in understanding the effectiveness of an audit committee. The research reveals that the audit committee acts as an instrument for the board of directors. The findings challenge several public expectations of audit committees, including the notion of ‘independence’. The study highlights the great potential for corporate governance stakeholders to consider the individualism of audit committee members within the context of their organisation in promoting the best corporate governance practice.

Keywords: Corporate governance, board of directors, accountability, compliance

PAPER TEXT

1. INTRODUCTION

There has been growing interest in recent years in the effectiveness of audit committees (ACs) in ensuring the quality of auditing and financial reporting (DeZoort, Hermanson, & Houston, 2008). This study examines AC effectiveness from the perspective of AC members of New Zealand listed companies. Following a phenomenological approach, this study argues that performing AC duties is an intended process. Therefore, investigating AC members’ intentional sense-making processes behind their AC activities will be of value in understanding what contributes to the effectiveness of an AC. A semi-structured interview approach, based on Rubin & Rubin’s (2005) responsive interviewing model, was designed to document the accounts of AC members in order to obtain, inter alia, an insight into the daily life of an audit committee. Using Embree’s (2007) reflective analysis model, the data were analysed in order to answer the following research questions:

(1) what do AC members perceive the desired objectives of an AC to be?

(2) what do the members bring to an AC in order to achieve its desired objectives?

(3) how do members help attain the desired AC objectives? and

(4) how do members assess the extent to which the AC objectives have been achieved?
2. LITERATURE REVIEW

The literature review examines the research in this area over the last decade, placing particular attention on identifying any gaps in the existing body of knowledge about AC effectiveness.

2.1. Synthesis of empirical AC literature

DeZoort, Hermanson, Archambeault, & Reed (2002) systematically summarised the AC characteristics that had been tested for establishing associations with AC effectiveness. DeZoort et al (2002) criticised several limitations of the empirical research and believed that to enrich measurements, observation, rather than archival techniques, could be the desirable data collecting method. However, there are also limitations within the DeZoort et al (2002) paper. The objective of an effective audit committee, defined as ‘to protect stakeholders’ interest’ by Petra (2005, p. 39), reflected a public expectation, rather than a matter of fact. A discussion of the meaning of “effectiveness” in regard to the AC was missing in the DeZoort et al (2002). Turley & Zaman (2004) synthesised the corporate governance impact, i.e. the output of the audit committee. The impacts of ACs were classified into expectations that led to their establishment, and corporate governance effects on audit function, financial reporting quality and firm performance. Turley & Zaman (2004) argued that having an AC in place and/or presenting certain characteristics did not automatically generate the effectiveness. Therefore, further research is required to investigate the organisational setting inside audit committees.

2.2. Empirical AC literature - recent developments

The AC empirical research since DeZoort et al (2002) and Turley & Zaman (2004) expanded the discussion of AC inputs, functioning processes and outputs. In organising the literature review of these recent empirical research studies, a framework is developed by incorporating the frameworks of DeZoort et al (2002) and Turley & Zaman (2004). The review framework employed in this research is illustrated in Figure 1.

Figure 1: Framework of reviewing empirical AC literature
(1) Determinants of AC existence and composition

Research on the formation of ACs designed on an agency conflict’s framework assumes that the establishment of an AC will reduce agency costs (Turley & Zaman, 2004). Despite the inconsistency of their results, it is established that the determinants of AC (a) establishment, (b) independence and (c) financial expertise are associated with:

- Board of directors’ characteristics (Piot 2004; Gul & Leung 2004; Carcello, Hollingsworth, & Neal 2006; Méndez & García 2007);
- Firm agency conflicts and agency costs (Piot 2004; Vermeer, Raghunandan, & Forgione 2006; Carcello et al 2006; Raghunandan & Rama 2007; Dey 2008; Iyer & Watkins 2008);
- Leverage and ownership characteristics of the firm (Cotter & Silvester 2003; Pilot 2004; Dey, 2008; Rainsbury, Bradbury and Cahan 2008);
- Litigious risks of security markets, or of the industry, in which the firm operates (Ashbaugh, LaFond, & Mayhew 2003; Piot 2004; Ashbaugh-Skaife, Collins, & LaFond 2006; Carcello et al 2006; Raghunandan & Rama 2007; Charitou, Louca, & Panayides 2007)

(2) The implication of AC existence and composition characteristics

Regardless of the inconsistency of the results, it is established that an AC should be equipped with independent and competent members in the expectation of improving:

- Financial reporting quality (Bédard, Chtourou & Courteau 2004; Karamanou & Vafeas 2005; Yang & Krishnan 2005; Mustafa & Meier 2006; Pucheta-Martínez & Fuentes 2007; Hunton & Rose 2008; Dewally & Peck 2009);
- Market confidence (Davidson, Xie, & Xu 2004; Defond, Hann, & Hu 2005, Bédard et al 2008).
In addition to the above two composition characteristics, the AC members’ multi-directorship and average length of tenure have also attracted scholars’ attention.

(3) The implication of AC diligence and activities

The activities and diligence of AC have been measured narrowly as the frequency of AC meetings. Various studies show that AC meeting frequency is associated with:

- Financial reporting quality (Owens-Jackson, Robinson & Shelton (2009); Abbott, Parker & Peters 2004);
- Audit quality, (Abbott et al 2003b; Goodwin-Stewart & Kent 2006); and
- Disclosure practices (O'Sullivan & Diacon 2006; Li et al 2008)

The existing empirical AC research investigated the corporate governance impacts as the financial reporting quality, audit quality, and disclosure practice. Separately, neither of these impacts can reflect a comprehensive assessment of corporate governance. Therefore, the corporate governance effects of an AC’s existence, composition, activities and/or diligence are unproven. In summarising the literature review of the empirical research, the following areas are identified as gaps in the existing body of knowledge: (a) how do ACs interact with the management, the auditors and the entire board of directors; (b) how do AC members reflectively interpret their role, their attributes and their efforts in relating to their particular organisation; (c) what expertise or attributes assist AC members to fulfil their duties; and (d) how do members interpret the word ‘independence’ in the context of their specific committees.

2.3. Qualitative AC literature

Spira (1998 and 2005), and Géndron & Bédard (2006) constructed their research methods and data analysis using sociological theoretical frameworks. Drawing on the actor-network theory, Spira (1998 and 2005) challenged the assumption that ACs are established to improve the auditor’s independence and thus improve the financial reporting quality and argued that ACs assisted companies to present an image concerning the quality of the statutory audit and financial reporting.
Therefore, AC formal activities, i.e. AC meetings were ceremonial. Those meetings were a ‘private performance to a public audience.’ The theoretical framework adopted by Gédrong & Bédard (2006) was drawn largely from Schütz’s (1967) social constructivist approach towards theoretical developments. Therefore, their focus was on the process that constituted the meaning of AC effectiveness. Based on 22 interviews of AC meeting attendees from three Canadian listed companies, the results of Gédrong & Bédard (2006) revealed that the constitution of the meaning of effectiveness was within the small group of people who attend AC meetings. The process that constituted the effectiveness of AC meetings contained a heterogeneous set of emotions varying from confidence to hopefulness to anxiety. Other qualitative AC research includes Turley & Zaman (2007), who investigated the role of an informal process outside AC meetings, whereas Sarens, de Beelde & Everaert (2009) examined the interactions between internal auditors and the AC members. These research studies, however, did not discuss the sociological theories used to support their research design and data analysis. The existing qualitative research on AC effectiveness has a common theme – the interpretation of interactions embedded in an audit committee’s daily life. At the same time, the existing qualitative AC research studies focus on investigating particular audit committees, i.e. a particular group of AC meeting attendees, instead of individual members. None of the previously discussed qualitative studies were able to reveal an explanation from the individual AC members’ perspective, of the role of ‘audit committee’, the role of ‘committee members’ or why AC members perform certain activities.

3. THEORETICAL FRAMEWORK

3.1. Theoretical underpinning

This study argues that the ultimate effectiveness of ACs relies on members’ attributes and efforts. The research is intended to investigate how individual AC members’ justify (1) the objectives of the overall AC mechanism; (2) their role as committee members; and (3) why they perform certain activities. In other words, to perform AC roles, members must make sense of their role, their audit committee, and why they do what they do regarding the role of audit committees. To
achieve these research objectives requires the use of a phenomenological approach. The primary principle underlying phenomenology is that any given social phenomenon is intended by the people who live through it. Such intentional influence is abstracted by processes of making sense. This research is intended to capture and interpret such intentional process and to provide a fresh explanation of AC effectiveness.

3.2. Methodology

(1) Phenomenology – the philosophical stance

In its most basic form, phenomenology attempts to create conditions for the objective study of topics usually regarded as subjective: consciousness and the content of conscious experiences such as judgments, perceptions, and emotions (Spiegelberg, 1983). The central structure of an experience is its intentionality, its being directed toward something, as it is an experience of or about some object. An experience is directed toward an object by virtue of its content or meaning (which represents the object) together with appropriate enabling conditions (Embree, 2007). Such experience is obtained by documenting the accounts of the person who lived through the phenomenon.

(2) Constructionist responsive interviewing

The responsive interviewing model developed by Rubin & Rubin (2005) is adopted as the research design model for this study. The responsive interviewing model has its roots in interpretive constructionism (Rubin & Rubin 2005), which is aimed at accounting for the ways in which phenomena are socially constructed (Burr, 2003). Phenomenology (as discussed previously) and constructionism stem from overlapping epistemological positions, and both reflect the philosophical stance of this research. According to Rubin & Rubin (2005), the responsive interview model emphasises the ‘presence’ (p. 31) of the interviewer in the interviewing process, rather than a more ‘subjective’ recording a question and answer type of conversation. The interviewees in this research, the AC members, were asked to tell stories they experienced in performing their duties in their
particular audit committee. The interviewee is therefore virtually taking the interviewer though his/her particular experience.

(3) The role of positive and normative accounting theories

Previous empirical research, either normative or positive, plays a vital role in scoping the initial themes of the research questions. Such initial themes, namely interacting with directors, management and auditors, the assessment of acceptable performance and the accountability of audit committees, are also familiar to all corporate directors, especially to AC members. This is also vital for the researcher to approach and recruit the interviewees. With a familiar initial theme set for the semi-structured interview, the interviewees are more relaxed and focused, rather than seeking topics from their recent and more distant memories, as suggested, or required, by completely unstructured interviews.

(4) Reflective Analysis

The qualitative data analysis is drawn largely from the model of reflective analysis developed by phenomenologist Lester Embree (2007). Firstly, the accounts, or interview data, obtained from AC members are coded and clarified as two groups: descriptive and explanatory. Then the intentional factors are filtered out from the explanatory accounts and further classified into willing, valuing and believing (Embree, 2007). The descriptive accounts, in turn, are classified into pictorial and perceptional. The model of perceptive analysis adopted in this research is illustrated in Figure 2.

Figure 2: Reflective analysis adopted in this research

4. RESEARCH DESIGN AND DATA COLLECTION

An interview questionnaire consisting of four topics and 22 questions was designed by drawing on Rubin & Rubin (2005)’s responsive interview model, in which the researcher asks the interviewees - the AC members - to tell stories they experienced in performing their duties in their particular audit committee. The interviewee then, based on a particular description or explanation may be probed further for clarification. Therefore, the interviewee is virtually taking the interviewer
though his/her particular experience. All of the 22 interview questions are developed from the empirical research areas supported by both positive and normative accounting theories. The sample selection was based on an exploratory study performed on the annual report disclosures from the companies listed on the New Zealand Stock Exchange (NZX) for the 2005/2006 and 2006/2007 financial years respectively. One hundred and seventy two companies’ annual reports for the 2005/2006 financial year were obtained from the NZX, while 164 companies’ annual reports were obtained for the 2006/2007 financial year. Among the 334 New Zealand AC members identified from those annual reports, 41 members served on two or more ACs of different listed companies, giving rise to 293 potential interviewees. During 2008, 21 interviews, lasting between 34 and 77 minutes, were conducted. Among them, 7 interviews were carried out in Auckland, 8 in Wellington, 3 in Christchurch and the rest in Dunedin, Kapiti and Ashburton. Of the 21 interviewees, one was female, with the rest male. Five of the participants were not qualified accountants. Three of the participants were not currently acting as the AC chairman; one of these was the chairman of the company. Among the 21 interviewees, 19 AC members were serving on two or more audit committees. Therefore during the interviews, 33 different firms were referred to.

5. RESEARCH RESULTS AND DISCUSSION

The qualitative data were obtained from twenty-one, semi-structured interviews, which were transcribed word-by-word. The transcripts were initially processed in Microsoft Word and then transferred into NVivo 8 for coding. In this section, each of the four research questions is addressed by an analysis of the qualitative interview data, using Embree’s (2007) reflective analysis.

5.1 What do AC members perceive the desired objectives of an AC to be?

(1). Establishing an AC and/or being an AC member is perceived as compliance with corporate governance best practice.

The investigation of the intentional process of AC members starts with the beginning of their individual AC membership. Most of the interviewees justify their AC membership through
compliance with the NZX Corporate Governance Best Practice Code and the Listing Rules, as well as the New Zealand Securities Exchange Commission (2004), which specifies that a listed company should have an independent AC to monitor external financial reporting and external and internal audit issues. Interviewees perceived that having a financial or accounting background, or being an independent director, would ‘inevitably’ or ‘obviously’ make them serve on the audit committee. There were also accounts provided by interviewees which compared the situations before and after ACs were formed as compliance with the listing rules.

(2). Accomplishing the board’s delegation as specified in the AC charter.

The primary expectation placed on an AC is to oversee the company’s financial reporting (DeZoort et al., 2002). Hines (1989) described the role of financial reporting as communicating a firm’s economic reality. Such economic reality covers every transaction - every event that has an economic impact on a firm. It is very difficult to draw a clear-cut boundary between financial reporting and factors contributing to financial reporting, such as auditing, internal control and risk management, as well as the firm’s strategic vision. When interviewees were asked whether they were assigned with any specific responsibilities and why, the responses had a common theme of referring to the delegated duties from the board of directors. Firstly, a number of interviewees emphasised that serving on the AC was one of the general responsibilities of being a director. Secondly, several interviewees explained their role in the AC by referring to the AC charter. One of the important objectives of an AC is to accomplish the tasks delegated by the board through the AC charter. Thirdly, several interviewees were able to describe specific tasks that they had been performing. The tasks are listed below in Figures 3 and 4. When describing these tasks, it was evident that some interviewees blurred the boundaries between acting as an AC member and acting as the only financial or accounting expert on the board. Carrying out these tasks may undermine the objectivity of AC members, who were being held accountable for those tasks and for overseeing the financial reporting simultaneously. A different approach is to divide the list of activities into two groups, the first of
which, as shown in Figure 3, including tasks that may be regarded as duties delegated by the board of directors.

**Figure 3: Audit committee duties delegated by the board of directors**

The second group of activities, shown in Figure 4 comprises AC formalities.

**Figure 4: Audit Committee Formalities**

The first group of activities represents the duties of directors in certain areas, regardless of whether an AC is formed or not. It is questionable whether an AC can indeed exist in the absence of the committee formalities identified in the second group of activities. The board-delegated tasks are duties of the board with or without an audit committee. The committee formalities merely formalised the performance of the delegated tasks, or made the performance of the delegated tasks more visible, by documenting them in an AC meeting agenda and/or minutes. This reflected the interviewees’ accounts in situations when the boundary between the AC and the board of directors was blurred. On the other hand, it can also be argued that AC meetings *per se* may play an important role in AC effectiveness. As mentioned previously, Spira (1998 and 2005) argued that AC meetings were of a ceremonial nature aimed at a public audience who were interested in firms’ financial reporting quality. This leads to the question of what the outcomes of ACs are perceived to be by the committee members.

(3). *Providing the board with the confidence to approve, or accept, the conclusions drawn for AC agenda items.*

All interviewees ranked their performance on the high end, with most of the answers being between seven and nine out of ten, with ten being the best. Two interviewees ranked their performance as ten out ten, without hesitation. Many respondents explained their performance ranking in terms of reflecting the fulfilment of the board’s delegation by reporting to the board with recommendations for adopting or accepting AC agenda items. In reflecting on the perceptional
accounts of the AC objectives, if the AC members perceive that their duties were delegated by the board in the form of AC charters, it makes sense that members explain their roles as being to fulfil those delegations. Being able to rank their performance on the high end of the scale is an indication of the interviewees’ level of comfort. It can be argued that there is an intentional process of reaching that level of comfort.

5.2 What do the members bring to an AC in order to achieve its desired objectives?

(1). the authority demonstrated to the management; the confidence demonstrated to the auditors; and the dependability demonstrated to the board.

Analysis of the interview data revealed that there were three common themes of importance for AC members, namely: (a) the authority demonstrated to the management; (b) the confidence demonstrated to the auditors; and (c) the dependability demonstrated to the board. In describing the relationships and interactions between ACs and other parties, namely the management, the internal auditors, the external auditors and the entire board, most of the issues that require resolution by the AC involve a certain level of resistance from the management. In some instances, such issues were described as difficulties by the interviewees. Few AC members, however, expressed any doubt or hesitation in putting pressure on management to resolve the issue(s), as well as on insisting that management work towards an intended outcome. Audit committee members tended to demonstrate some level of authority to the management. This was particularly vivid if the interviewee chaired the audit committee. In general, ACs were able to achieve a balanced and consensual view between the management and the internal auditors, even though the internal auditors’ recommendations are not always followed, but there exists a level of tolerance and understanding by the AC members. The interview data, however, revealed that AC members, under certain circumstances, challenged external auditors on technical accounting issues. In such instances, the AC members demonstrated a high level confidence by arguing for the qualitative character of financial disclosures. It is evident that the confidence demonstrated towards auditors was of great importance to the interviewees. By dealing with authority towards the management and confidence to the auditors, AC members are working
towards a level of comfort that they can rely on to report to the board. This was achieved by demonstrating their dependability to the board. Interviewees were asked to describe a typical situation when their ACs reported to the entire board. The responses were unanimous in stating that the board always accepted the recommendations made by the audit committee. Furthermore, the interviewees did not seem to have any doubt or uncertainty if there would be an inquiry, or chance that the board would require more work or more information from the audit committee. The AC usually showed that it was dependable, that all the agenda items had been through thorough scrutiny by the committee, that there was nothing to be concerned about, and that they were comfortable for the board to adopt all their recommendations.

(2) Past experience helped most in assisting members to achieve a level of comfort

A dominant theme emerged when the interviewees were asked to describe what has helped them most in achieving the desired AC objectives. Nineteen out of twenty-one interviewees perceived that either their background or their experiences helped them most. ‘Experience’ was perceived in different ways – the professional and educational background, serving on a number of audit committees, or being an executive of the firm before serving on the audit committee. In general, what happened in their career life before contribute to their judgement about the level of comfort for them to conclude on an AC agenda item. In addition, it was perceived to be important to have members’ experience fit into the organisations’ context. Five of the twenty-one interviewees were not accounting experts. Those five AC members were all able to justify their presence in their ACS by identifying how their experiences and expertise had contributed to the committee. In some instances, intensive experience in the finance industry rather than accounting expertise was perceived to be of great assistance for members serving on the AC of a finance company. This research study argues that firms with different industrial context (e.g. consumer industry in comparing to financial investment industry) require different level of financial or accounting expertises of AC members. Empirical AC research studies intended to establish and proof the association between AC member accounting expertise and expected outcomes of ACs. Although the majority of interviewees of this
research were chartered accountants, the typical occasion the value of their accounting expertise was appreciated was the transition from New Zealand GAAP to IFRS. During that time period, the significance of professional judgement that was built on accounting expertise was of great importance to their ACs. In compliment to experience, three interviewees particularly describe their state of mind when acting as an AC member including being determined, analytical and being able to read the disclosure documents in the shoes of investors. In one particular instance, one AC member specifically pointed out that the AC process helped most in achieving AC goals. The role of AC meetings will be discussed specifically in section 5.3.

(3) Building the sense of comfort with leadership skills

The accounts on the working relationship with CFOs formed a repeated theme almost all interviews, thus was of great importance to the interviewees. A number of interviewees described how the working relationship changed since he/she became the AC chairperson. Such changes were described as ‘formalised’ and intensified. In most of the cases, CFOs or the equivalents were regarded as the ‘information provider’ to audit committees. The AC relied on the work done by CFOs, and at the same time, AC members intentionally impressed CFOs with their visions. Interviewees offered several accounts of incidents that AC deliberately influent the decision of the management. In one case, the AC chairman acted as a mentor to the newly appointed CFO. Given the above, it is arguable that whether the independence of AC members exists in substance.

5.3 How do members help attain the desired AC objectives?

(1) Meeting external auditors without the management’s presence.

The accounts of meeting with external auditors without management’s presence formed another repeated theme almost all interviews, thus was of great importance to the interviewees. Interestingly, such meetings were described as uneventful and even relaxed. It was not because those meetings were of sensitive nature; a number of interviewees confidently and openly addressed technical accounting issues however such issues involved no private meetings with external auditors.
This research argues that the private meeting time with the external auditors could be the ceremonial performance to both auditors and to the management to demonstrate a sense of neutral. This research argues that the independence of AC members is only present in appearance; furthermore, such ‘demonstrated’ independence has no substantial implication on performing AC tasks.

(2). The role of AC meetings

Interviewees explained the role of committee meetings as providing opportunities for different parties to air an opinion; and the ultimate goal was to achieve a balanced and unanimous view. A number of accounts implicitly rejected the show-of-hands (voting) approach in resolving AC issues during the meetings. A unanimous agreement on specific AC issues was of great importance to interviewees. If disagreement occurred, the only solution was to seek more information and to pass the issue onto the next committee meeting agenda until when a consensual agreement could be expected. An AC chairman explained: ‘Because we are all sensible people, if we all understand the same set of facts, and we apply the same logic to those facts. We came up with same answer.’ In this sense, this research study argues against the research result of Spira (1998 and 2005) that AC meetings are of ceremonial nature. The formalities of AC such as agenda and minutes are of the essence to document and formalise the processes and conclusions. Furthermore, because meeting agenda and minutes are circulated among several parties, such formalities became a driving force utilised by the AC members to communicate the sense of heanness of issues of AC meetings to all meeting participants. Therefore most of the interviewees were able to vividly describe AC meeting processes. However a good question can be further considered is whether such sense of heanness will lead to higher level of accountability of AC meeting participants.

(3). Outside AC meetings

Interview data showed that AC meetings formalised the preparation work done by the members out side of the meetings. Interviewees identified that several detailed AC works were done informally outside of scheduled AC meetings including evaluating potential auditors. For AC
chairpersons, significant amount of time were spent on arranging AC meetings, reviewing meeting documents and following up AC meeting agenda items. The informal processes outside AC are regarded as crucial for AC members and other meeting participants to avoid unexpected issues to be raised during the meeting (Turley & Zaman, 2007). This research supported such view from the perspectives of AC members. The hours spent by the interviewees outside formal AC meetings were identified to be equivalent or outweigh the time spent in attending meetings. The process of understanding, discussing and evaluating the agenda items were done outside the AC meetings. The possible agreement or disagreement on certain agenda items were sounded out before the meetings.

(4). The power of influence vs. perceived independence

As mentioned previously, either because of AC members’ leadership skills or the perceived objectives of ACs, AC members were believed to be influential to both the management, especially CFOs and auditors. An interesting finding of this research study is that interviewees were not concerned with their ‘independence’ as per the public expectation. Such result challenges the independence hypotheses of many empirical AC studies. On one hand, the term ‘independence’ of an AC members only measurable in form but not exist in substance. On the other hand, in the incidents described by the interviewees, where there were heated debates or when they were handling the resistance from management or auditors, the other parties were perceived to submit eventually. Such perception has its root in the objectivity of an AC member; however the influential outcome does not support the notion of AC members being independent from firms’ executive decisions. This is particularly true when AC members are involved in firms’ strategic matters as identified previously. It is also argued that such departure of perceived independence may be of benefit to corporate stakeholders thus improve the effectiveness of ACs.

5.4 How do members assess the extent to which the AC objectives have been achieved?
This research question has been answered by discussing the role of the AC in providing the board with the confidence to approve, or accept, the conclusions drawn for AC agenda items. The study argues that the AC is only instrumental to the board (see section 5.1). To summarise the answers to all the research questions, the effectiveness of AC is in line with, therefore can be assessed on the appropriateness of composition to organisational settings; the appropriateness of board delegations to organisational settings, members’ motivation and perception in regard to their directorship, the structure of meeting and reporting procedures and leadership of the individual members. Most importantly, the effectiveness of the AC is perceived by the members as an ability to influence either the management or the auditors.

6. CONCLUSION

The data analysis reveals that the primary duties and responsibilities of audit committee members are delegated to them by the board of directors. The members bring into their audit committee diversified, but balanced, experience and background in line with the specific requirements of the company. Organised by the chairperson, audit committee members carry out their duties by achieving coherent, logical judgement, with professional authority, confidence and dependability. Structured meeting procedures facilitate the process whereby the audit committee members obtain complete and appropriate information to support and verify the logic of their judgment. The audit committee provides the board with recommendations and assurance for board decision-making within its area of delegated responsibility, acting as an instrument for the board. Furthermore, the findings of the study suggest that the effectiveness of an audit committee can be assessed on the appropriateness of its composition to the organisational setting; the appropriateness of board delegations to the audit committee; members’ motivation and perceptions in regard to their audit committee membership; the structure of meetings and reporting procedures and the leadership skills of the individual members. The research also argues that the effectiveness of an audit committee ultimately lies in the efforts and attributes of its committee members. An effective audit committee may be influential to rather than independent from either management or auditors. These findings also challenge the hypotheses of empirical AC studies on regarding members’ independence and accounting expertise. The findings of
this study can assist financial statement stakeholders to form expectations about, as well as to assess, the effectiveness of audit committees. In addition, the study highlights the great potential for practitioners, investors, scholars and authorities to consider the individualism of audit committee members within the context of their organisational, industrial and historical settings in promoting the best corporate governance practice.

7. LIMITATIONS AND FUTURE RESEARCH

This research study used a relatively small sample size, being based upon interviews with 21 AC members in New Zealand listed companies. Most of the interviewees served as the AC chairperson and were often the only financial expert on the audit committee. Future research should attempt to enlarge the scope of the interviewee sample by including members who are not chairpersons of the AC and who are also not financial experts. As the interview questionnaire was sent to the potential participants along with the invitation to participate, it is possible that only those AC members who were confident of their roles and/or performances were willing to participate in the study, thereby biasing the responses.

This research study has not considered the relationship of the audit committee to the external auditors. This may also be an area worthy of consideration for future research.
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Figure 1: Framework of reviewing empirical AC literature

1) Determinants of AC existence and composition

2) The implication of AC composition characteristics

3) The implication of audit committees’ function and activities

Figure 2: Reflective analysis adopted in this research

Explanatory accounts

- Willing
- Valuing (good/bad)
- Believing

Descriptive accounts

- Pictorial
- Organisational context
- Expecting
- Remembering
- Perceiving

Intentive process: performing AC duties
**Figure 3**

- Reviewing and recommending on the restated opening net assets during the transition from NZ GAAP to IFRS.
- Reviewing financial reports for both internal and external use.
- Reviewing fund raising documents, such as prospectus.
- Researching and reporting on audit issues.
- Other compliance required by financing and investing activities.
- Monitoring the debt to equity ratio, interest cover, basic margins and other financial performance indicators.
- Liaison with the management.
- Liaison with the external auditors.
- Reviewing annual announcements.
- Monitoring the internal control.
- Leading and monitoring the internal audit.
- Thinking strategically and maintaining a long-term view of the company.
- Developing the business model according to corporate strategy.
- Completing project-based tasks, reviewing the employee leave accruals.
- Recruiting auditors.
- Recruiting and supervising the CFO.
- Proof reading and interpreting publicly disclosed information.

**Figure 4 Audit Committee Formalities**

- Chairing the audit committee.
- Finalising the AC meeting agenda.
- Confirming and following up the meeting minutes.
- Finalising the audit (committee) charter.
- Working closely with the chairman.