

AUDIT COMMITTEES IN LISTED COMPANIES: AN INTERNATIONAL COMPARISON OF COMPOSITION AND MEETINGS

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Abstract

This paper compares the number of audit committee (AC) members, meeting frequency and the presence of internal auditors at AC meetings of listed companies according to their country of domicile. We consider the USA, the UK, the Netherlands, France and Belgium. Hypotheses are developed based on differences in corporate governance codes. Data are gathered from annual reports of 100 listed companies in these countries. Our results indicate fewer AC members in the Netherlands, and a higher frequency of AC meetings in the UK and Belgium, countries where corporate governance codes do not proscribe a minimum number of meetings. The presence of an internal auditor at AC meetings was, on average, highest for firms listed in the USA.

Keywords: audit committee, audit committee members, audit committee meetings, internal auditor, corporate governance

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1. Introduction

This paper explores regulatory frameworks and compares the role and composition of audit committees of listed companies in five different countries. Diverse recent accounting scandals (e.g. Enron, Parmalat, Ahold) bring the *corporate governance principle* into worldwide prominence. Local differences in capital transactions, funding and ownership structures make it impossible to universally incorporate all corporate governance principles into one law or regulation (Collier and Zaman, 2005). Accordingly, nearly each country (or group of countries) has its own corporate governance approach. Where the USA strives for a rule-based system, European countries generally choose a principle-based approach (e.g. the UK, France, the Netherlands, and Belgium). These countries prefer self-regulation and use of a “comply or explain” approach. Under such an approach, companies either must confirm that they comply with the provisions of corporate

governance codes or provide an explanation as to why they do not comply with the code.

From an international perspective, one must account for the *differences between the Anglo-Saxon and non-Anglo-Saxon world*. The foundation of this discrepancy originates from the unique shareholder structures of companies that exist in each of these environments. Corporate governance principles and regulations in both groups of countries are adjusted to account for this difference.

Our study builds on previous research (e.g. Abbott et al. 2004; Carcello and Neal 2000; Carcello et al. 2002; DeZoort and Salterio 2001; Klein 2000; O’Kelly 2003.), yet includes both Anglo-Saxon and non-Anglo-Saxon countries in terms of audit committee comparison. For the Anglo-Saxon world, we primarily include the USA and the UK. For the non-Anglo-Saxon environment, we restrict our sample to three continental European countries (The Netherlands, Belgium and France).

Corporate governance principles in the

Netherlands are based on a two-tier board system. More specifically, the Dutch corporate governance code is based on a system in which a separate supervisory board exists alongside the management board, whether under statutory two-tier rules or otherwise. In the Netherlands, companies that are not bound by law to apply statutory two-tier rules may opt for a so-called one-tier management structure in which a single board contains both executive and supervisory (non-executive) directors. A few listed companies in the Netherlands have such a one-tier board structure (Code Tabaksblat, 2004). In *France*, corporate governance principles stress the social dimension towards shareholders of the companies. A two-tier management system is possible, but not obligatory for listed companies. In *Belgium*, listed companies apply a one-tier management system. Consequently, the five countries in our sample have a wide spectrum of corporate governance principles and regulations and clearly express distinct approaches in the individual countries. Following Klein (2002), we expect that companies adjust the composition of their audit committee to the economic environment wherein they operate.

This study positions audit committees in the corporate governance debate. We limit our research to listed companies, since corporate governance principles for listed companies are more detailed than for non-quoted companies. Due to recent corporate governance initiatives, audit committees come back into life and even become formally recognized worldwide. Previous studies (Abbott et al. 2004; Klein 2000; Song and Windram 2004) indicate that audit committees have a favorable influence on the quality of financial reporting.

The purpose of this study is to explore the characteristics of the audit committee in five countries (USA, UK, The Netherlands, France and Belgium). We first investigate the legal and regulatory frameworks in these countries, as the renewed role and composition of audit committees is bound with the corporate governance codes that are developed in the different countries. Based on the different regulatory frameworks, we develop hypotheses on differences of audit committee functioning in the five countries. In particular, we are interested: (1) whether the *number of audit committee members* significantly differs between these countries; (2) whether the *number of audit committee meetings* significantly differs between the countries; (3) whether the *presence of an internal auditor* on the audit committee significantly differs between these countries. To answer these three research questions, we analyze the annual reports of a small sample of listed companies in each of the five countries, and then investigate whether the expected differences are confirmed in practice.

This paper is organized as follows. Section 2 briefly describes differences in legal and regulatory frameworks in the five investigated countries. In Section 3, hypotheses are developed. Section 4

describes the methodology of this study. Section 5 shows the results and Section 6 summarizes the major conclusions of this study.

2. Legal and Regulatory Framework in the Five Countries

Modern companies are characterized by a distinction between ownership and control. The agency theory (Jensen and Meckling, 1976) sustains this separation and indicates that the principal (shareholder) appoints the agent (management) to run the company. This agency relationship is characterized by information asymmetry and the divergence of interests of the principal (shareholder) and the agent (management). In the Anglo-Saxon corporate governance model, companies have a larger number of shareholders. The board of directors creates a bridge between management and shareholders. In a continental non-Anglo-Saxon corporate governance environment, most companies are dominated by a few big reference shareholders. These reference shareholders decide who serves on the board and consequently appoint the management. In non-Anglo-Saxon companies, the board of directors should protect the interests of minority shareholders. Furthermore, the balance between the company's reference and minority shareholders must be maintained. Accordingly, because the ownership structure in the non-Anglo-Saxon countries differs significantly from that of Anglo-Saxon world, corporate governance principles in both groups of countries are adjusted to this difference.

Corporate governance is not a goal in itself; it is a means to achieve fundamental value creation (Willekens et al., 2005). This requires trust and cooperation to strengthen the independent supervision of firms. Investors require a process of open communication, balanced attention to due diligence and independence, and a clear application of the balance of power in relation to management and external auditors (O'Kelly, 1993). The interaction between the audit committee, external auditor, internal auditor, board, and management of the company is crucial for effective governance and to ensure a high quality of financial reporting (SOX Act, 2002). In the different corporate governance codes, the position that involves confidentiality of the audit committee is stressed and the intensity of communication with the external auditor, internal auditor and managements grows in terms of importance.

This paper analyzes the (renewed) role of the audit committee that results from worldwide corporate governance evolutions and initiatives. Focus is on the provisions that concern audit committees in five countries:

1. USA: the *Sarbanes-Oxley Act* (SOX Act, 2002) and the *SEC final rule* (2003);
2. UK: the '*UK Combined Code on Corporate Governance*' (2003) and the

adjoining 'Smith Report, Guidance on audit committees';

3. Belgium: the 'Code Lippens' (Belgian Corporate Governance Code, 2004) in which Supplement C fully discusses the functioning of the audit committee;

4. The Netherlands: The 'Code Tabaksblat' (Dutch Corporate Governance Code, 2003);

5. France: gradual process of three reports: VIENOT I (1995), VIENOT II (1999) and the BOUTON report (2002). In 2003, these three reports are combined.

The USA and the UK are the two Anglo-Saxon countries in our sample; the remaining three countries are considered non-Anglo-Saxon. This distinction is accounted for when comparing the regulations and guidelines that relate to audit committees in the individual countries.

Overall, the establishment of an audit committee is not legally required in any of the sample countries, except for in the USA. Only in the USA do the regulations concerning audit committees have the force of law (SEC final rule, 2003). The number of corporate governance principles in the US corporate governance code appears to be much greater than in the continental non-Anglo-Saxon codes studied. In the USA, non-compliance can result in enormous sanctions; a listed company that does not apply the SOX Act (2002) and the SEC Final Rule (2003) is excluded from the stock exchange. In addition, penalties and even imprisonments are possible (up to a maximum of 25-years). By contrast, corporate governance codes in the UK, Belgium, the Netherlands and France are considered guidelines or recommendations, based on the so-called 'comply or explain' principle. This principle means that a company must follow the corporate governance principles of its home country. If a firm does not follow these principles, the reason(s) as to why it has not done so must be clearly and completely justified in the company's annual report. According to the 'comply or explain' principle, as applied in non-Anglo-Saxon countries, a company's only 'punishment' for non-compliance is a negative reaction from shareholders or the stock exchange.

As mentioned above, audit committee functioning is an important aspect in light of recent corporate governance developments. The USA's Sarbanes-Oxley Act (2002) provides a definition of audit committees that is applicable in the USA: 'The term "audit committee" means- (a) a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer; and (B) if no such committee exists with respect to an issuer, the entire board of directors of the issuer' (SOX Act, Definitions, Public Law 107-204, Sec.2, 2002).

This definition is oriented primarily toward the monitoring responsibilities of the audit committee

with respect to financial reporting. As we demonstrate, responsibilities of the audit committee are quite diverse, however, the board of directors determines the role of the audit committee and retains the ultimate power of decision-making.

Considering the corporate governance codes of each of the countries in our sample, the regulations and recommendations concerning audit committees can be divided into six categories mentioned in each of the codes of the individual countries.

- Members of the audit committee;
- Meetings of the audit committee;
- Relationship with the board of directors;
- Audit committee tasks;
- Relationship with the external auditor, internal auditor, and management;
- Information reporting and dissemination.

Based on a detailed review of the regulations that relate to audit committees in the five countries of our sample, we highlight the following differences:

- In the Anglo-Saxon countries (USA and UK), audit committees are expected to consist only of independent members. By contrast, non-Anglo-Saxon countries (Belgium, the Netherlands, and France) recommend a majority of independent members in their audit committees. In addition, the SEC final rule (2003) asks companies that are quoted on a US stock exchange to mention clearly whether their audit committee has an 'audit committee financial expert'.

- The tasks of the audit committee, as described in the corporate governance codes, are similar in the five countries of our sample. In each of the countries, the audit committee is responsible for monitoring financial reporting, risk management and internal controls, the whistle-blowing process, and internal and external audits. According to Dutch corporate governance code (Code Tabaksblat, 2003), the audit committee is also responsible for tax planning, budgeting and ICT control within a company, while these specific tasks are not mentioned in the remaining four countries. The importance of separate meetings of the audit committee with other parties (such as the external auditor, the internal auditor, and management) is emphasized in each of the countries studied.

- The relationship of the audit committee with external auditors is rigorously discussed in each of our five countries. The audit committee must offer advice concerning the recruitment, compensation and dismissal of external auditors. In addition, the audit committee must evaluate the external auditing process. The Anglo-Saxon countries (USA, UK), in particular, stress the approval of non-audit services. This prior approval of non-audit services by the audit committee must guarantee the independence of

external auditors. A list of approved, non-audit services must be published in the annual reports of listed companies in Anglo-Saxon countries. Non-Anglo-Saxon countries also transfer the responsibility of approving non-audit services to the audit committee, except that the need for publication in the company's annual report is not specifically mentioned in their corporate governance codes.

- In each of the five countries of our sample, listed companies' corporate governance forms are an important part of annual reports. The request to publish a corporate governance charter (including the internal rules and regulations) on the company's website exists only in a few countries.

The audit committee is a subcommittee of the board of directors; members of the audit committee are chosen from the board of directors. Table 1 provides an overview of the regulations and recommendations that relate to the required number of audit committee members and the required number of meetings per year in the five countries of our sample. In Table 1, we notice agreement in the five countries with regard to a minimum number of audit committee members; only in the Dutch corporate governance code is no minimum requirement found concerning the number of audit committee members. By contrast, the recommended number of audit committee meetings differs between the five countries. The purpose of this study is to investigate whether the differences reflected in the regulations and recommendations of these five investigated countries translate into unique audit committee practices in the listed companies of the five countries in our sample.

[Insert Table 1 here]

An important note is relevant here. Timing of publication of different corporate governance codes and the moment when the code becomes effective influences the function and composition of audit committees. The Belgian Corporate Governance Code (Code Lippens, 2004) becomes effective on the first of January 2005; this means that a company listed in Belgium must discuss corporate governance topics during its first shareholders' meeting of 2005. Therefore, the company's 2004 annual report must have already considered the recommendations and guidelines of the impending Belgian corporate governance code. The Dutch corporate governance code is published one year before the Belgian code, while France follows a gradual step-by-step process concerning its corporate governance regulations. The BOUTON report forms the final piece and is published in September 2002. Most of the corporate governance regulations in the Anglo-Saxon world are published in 2003. Implementation of the Combined Code (UK, 2003) with the adjoining Smith Report (UK, 2003) and the SOX Act (USA, 2002) run, to a large extent, parallel.

3. Hypotheses Development

Previous research (see Abbott et al. 2004; Klein 2000; Song and Windram 2004) indicates that audit committees have favorable influence on the quality of financial reporting.

The optimal number of audit committee members is a question of balance. The US Blue Ribbon Committee (on Improving the Effectiveness of Corporate Audit Committees) indicates that 'one size does not fit all' concerning audit committees (BRC, 1994). Flexibility in the composition of audit committees is a condition designed to guarantee effectiveness in the operations of the audit committee. The effect of the size of the audit committee can be compared with the effect of the size of the board of directors. A large board of directors works less efficiently and is characterized by slower decision-making (Goodstein et al., 1994), or smaller cohesion (Lipton and Lorsch, 1992). Consequently, due to similar group composition, we can assume that – as with a smaller board of directors - a smaller number of audit committee members is more effective than one that comprises a large number of members. However, Felo et al. (2003) find a significant positive association between the size of the audit committee and the quality of financial reporting. However, no significant relationship is found between the size of the audit committee and the chance of restatements (Abbott et al., 2004).

In addition, Carcello and Neal (2002) suggest that when affiliated directors dominate the audit committee, management often can: (1) pressure its auditor to issue an unmodified report despite going-concern issues; and (2) dismiss its auditor if the auditor refuses to issue an unmodified report (Carcello and Neal 2000; 2002). Audit committee independence increases with board size and decreases with firm growth opportunities and for firms that report consecutive losses (Klein, 2000). A survey of Windram and Song (2004), that is addressed to audit committee chairmen, indicates that they regard independence as the most important attribute of an audit committee member. Additionally, more than a quarter of the respondents rank financial literacy as the most important consideration for an effective audit committee member (Windram and Song, 2004). An audit committee whose members have more financial expertise is more effective in constraining earnings management. Specifically, the presence of at least one member with financial expertise, as required by SOX (2002), is associated with a lesser likelihood of aggressive earnings management, and so is the level of governance expertise in the committee (Bedard et al. 2004).

From Table 1, we see that four of the five countries that we investigate in this study require or advise the audit committee to consist of a minimum of three members (USA, UK, Belgium, and France). In addition, the Combined Code in the UK (2003) suggests a minimum of two members for its smaller

listed companies. In the Netherlands, no specific requirement exists. For countries where no specific minimum requirement exists for the number of audit committee members, listed companies likely have fewer audit committee members to ensure that their audit committees work effectively. As a consequence, we can assume that listed companies in the Netherlands have fewer audit committee members than listed companies in Belgium, France, the UK, and the USA. Therefore, we test the following hypothesis:

H₁: There are significantly fewer audit committee members for listed companies in the Netherlands than in the other investigated countries (USA, UK, Belgium, France).

The quality of financial reporting is positively associated with the number of audit committee meetings (Abbott et al., 2002). Table 1 indicates that in three of the five countries, the audit committee must organize as many meetings as necessary (The Netherlands, France, and the USA). The Belgian corporate governance code (Code Lippens, 2004) and the UK Combined Code (2003) suggest at least three meetings per year. Previous audit committee research considers the frequency of audit committee meetings as a proxy for the diligence and effort of audit committee members, or for the persistence with which they perform their tasks (DeZoort et al. 2002; Menon and Williams 1994). Other researchers that use the activity-based approach, use audit committee meeting frequency as a measure of director monitoring activity. Menon and William (1994) show that audit committee meeting frequencies may be affected by company size and board composition. Collier and Gregory (1999) extend this methodology to include audit committee meeting duration as an additional measure of its activity.

Extant research suggests a significantly negative relationship exists between the frequency of audit committee meetings and the chance of restatements (Abbott et al., 2004) as well as the chance of fraud (Abbott et al. 2002; Beasley et al. 2000). Some countries do not have minimum requirements for audit committee meeting frequencies in their corporate governance codes. In these countries, listed companies must organize as many audit committee meetings as necessary. Further, it is assumed that companies will be risk-averse and try to minimize their chance of restatements and the chance of fraud by organizing more audit committee meetings. As a result, we assume that in countries where no formal requirement that relates to the minimum number of audit committee meetings exists, companies will organize more audit committee meetings than in countries wherein corporate governance codes contain such a minimum requirement. Therefore, our second hypothesis is:

H₂: The number of meetings of the audit committee per financial year is significantly greater in Belgian and UK-listed companies than in the other investigated countries (USA, France, and the

Netherlands).

It is believed that an efficient working audit committee will strengthen the effectiveness of the corporate governance process. In addition to regular audit committee meetings, the audit committee meets one or more times per year with the internal auditor, external auditor and management of the company. The audit committee is an important instrument of a company, but it cannot work alone. For audit committees, it is not sufficient to comply with all of the rules and recommendations of each corporate governance code.

Regular meetings of the audit committee with the internal auditor provide the audit committee with accurate information concerning the accounting and auditing practices of the company (Scarborough et al., 1998). According to Raghunandan et al. (2001), companies with an audit committee that complies with BRC recommendations (USA, 1999) concerning independence and financial expertise, have more meetings (and more individual meetings) with the company's internal auditor. The SEC Final Rule (2003) requires companies quoted on a US stock exchange to clearly note whether their audit committee includes an 'audit committee financial expert.' Goodwin (2003) investigates the separate influence of independence and financial expertise of audit committee members and finds that, while financial expertise results in better control of the internal audit process, the independence of the audit committee members results in more private meetings with the company's internal auditor (Goodwin, 2003). There are also some differences across country and sector (Goodwin, 2003). Based on this previous research and that which concerns corporate governance regulations and recommendations, a third hypothesis is tested. The USA has the most developed and detailed corporate governance regulations and recommendations with regard to audit committees (SEC Final Rule in 2003 asks US-listed companies to note whether their audit committee has an 'audit committee financial expert'). US corporate governance principles have the force of law. Non-compliance with the regulations of the SOX Act (2002) and the SEC Final Rule (2003) can result in exclusion of US-listed companies from the stock exchange; imprisonment is even possible. We assume that the cooperation between the audit committee and the internal auditor of a US-listed company is more intense than the relationship that exists between these two parties in the other investigated countries (Belgium, the Netherlands, France, UK). This intense relationship provides the audit committee with accurate information concerning company functioning. As a result, chance of non-compliance with the corporate governance principles and the resulting punishments or possible exclusions from the US stock exchange is minimized. Therefore, our third hypothesis is:

H₃: The number of listed companies wherein the internal auditor is present for at least one audit committee meeting is greater for US-listed companies than for listed companies in the other investigated countries (Belgium, the Netherlands, France, UK).

4. Methodology

Sample Selection

This study's sample includes data from the annual reports (2004) of one hundred listed companies in five different countries. For each of the five countries (the USA, the UK, the Netherlands, France, Belgium) twenty listed companies are randomly selected. The sample in the five investigated countries is randomly selected from the list of companies quoted on the respective stock exchanges (Dow Jones 30, London Stock Exchange, Euronext Amsterdam, Paris Stock Exchange, Euronext Brussels). Firms with incomplete or unavailable audit committee data are excluded from our sample. In addition, we also exclude financial companies. The US-listed companies form a particular group in our sample, because each company is quoted under 'Form 10K.' By publishing its 'Form 10K,' a US-listed company complies with the country's legal requirements. This study does not use the Form 10K. Instead, for each selected US-company, the proxy statement is analyzed.

Data Collection

We collect both the number of audit committee members and the number of audit committee meetings per year by searching for these audit committee data in the related annual reports. Descriptive data on the presence of the *internal auditor* at the meetings of the audit committee is also found in the respective annual reports. In most cases, the annual report does not disclose the number of meetings that are attended by the internal audit department. Therefore, we only collect a categorical variable for presence. This variable is gathered by proving a "yes" or "no" to the following question: "Is the internal auditor at least once per year present at the meetings of the audit committee?" A "yes" is coded as 1 and a "no" is coded as 0.

6. Results

6.1 Descriptive Analysis

The descriptive analysis in Table 2 provides an indication of the average number of audit committee members and the average number of meetings of the audit committee for the whole sample of listed firms in USA, the UK, the Netherlands, France, and Belgium. In addition, Table 2 shows the mean percentage of listed companies in the five investigated countries wherein the internal auditor is invited to the audit committee meetings at least once.

[Insert Table 2 here]

The average number of audit committee members and the average number of meetings of the audit committee per year must be considered in relation to the related corporate governance regulations and recommendations within the five countries. First, the regulations and guidelines in the unique corporate governance codes of the investigated countries provide a minimum requirement of three members of the audit committee. The UK Combined Code (2003) allows smaller-listed companies to have as few as two audit committee members. Dutch corporate governance does not indicate a minimum requirement that relates to the number of audit committee members. All of the listed companies in our sample comply with these guidelines. Secondly, corporate governance codes in Belgium (2004) and the UK (2003) require audit committees to organize at least three meetings per year. In the Netherlands, France, and the USA, no minimum number of audit committee meetings is required. Again, all listed companies in our sample comply with their respective corporate governance principles.

Table 3 and Table 4 provide the minimum, maximum, mean and standard deviation of the number of audit committee members (Table 3) and the number of audit committee meetings (Table 4) for each individual country. Table 3 again shows that, in all of the countries, companies comply with the regulations and recommendations of the corporate governance code for their specific country. Table 4 indicates that the listed companies in each country also comply with recommendations that relate to the audit committee meeting frequency. It should be noted here that there is a remarkable difference between the average number of audit committee meetings per year in the five countries. By testing the second hypothesis, the difference between the two countries with specific requirements that relate to audit committee meeting frequency (Belgium, UK) versus the group of countries without such requirements (The Netherlands, France, USA) is tested.

[Insert Table 3 here]

[Insert Table 4 here]

6.2 Empirical Results

a. Average Number of Audit committee Members

Table 3 indicates that the average number of audit committee members is lesser in the Netherlands (mean value = 3.30) than in the other investigated countries (Belgium, France, the UK, the USA). To test the first hypothesis, a variance analysis is executed (Hair et al., 2003). The results of our ANOVA show a p-value of 0.004 ($F_{(1,4)} = 4.046$) (See Table 5). Hence, the first hypothesis is supported by the data, i.e. the number of audit committee members in the Netherlands is significantly lesser than in the

other investigated countries (See Table 3). To further analyze which countries are responsible for this significant group difference, we perform four post-hoc tests (pair-wise comparisons) (Liebetrau, 2003). Based on these pair-wise comparisons, we find a significant difference in average number of audit committee members between the Netherlands and the UK ($p = 0.002$), as well as between the Netherlands and the USA ($p = 0.001$). In addition, post-hoc tests indicate that the difference in the average number of audit committee members between the Netherlands and Belgium ($p = 0.156$) and between the Netherlands and France ($p = 0.116$) is not significant. These results can relate to existing corporate governance regulations and recommendations in the five investigated countries. In Belgium, France, the UK and the USA, corporate governance codes require at least three members in the audit committees of listed companies. The Dutch corporate governance code does not prescribe such a minimum requirement. Our results indicate that a significant difference exists between the number of audit committee members in the Netherlands (where no minimum requirement exists) and the number of audit committee members in the Anglo-Saxon countries (the UK and the USA) studied.

b. Average Number of Audit Committee Meetings per Year

Table 4 suggests that listed companies in countries where corporate governance codes prescribes a minimum number of audit committee meetings per year (Belgium and the UK) have more audit committee meetings than those listed companies in countries wherein no such minimum requirement exists (the Netherlands, France, the USA). Our second hypothesis tests whether the number of audit committee meetings is significantly greater for listed companies in Belgium and the UK than for listed companies in the other countries studied (the Netherlands, France, the USA). Our ANOVA test shows a p-value of 0.000 ($F_{1,4} = 16.657$), as shown in Table 5, which indicates that the frequency of audit committee meetings in listed companies in the UK and Belgium is significantly different from the frequency of audit committee meetings in listed companies that are situated in the USA, France, and the Netherlands. To further explore which countries are responsible for this significant group difference in meeting frequency, we perform three post-hoc tests. Companies listed in the UK and in Belgium are compared: (a) with listed companies in the USA; (b) with companies listed in The Netherlands; and (c) with listed companies in France. As indicated in Table 6, we find a significant post-hoc test for UK/Belgium-listed companies versus US-listed companies (p -value = 0.000). As we learn from Table 4, the average number of audit committee meetings in the USA (mean = 9.25) is greater than in Belgium (mean = 4.05) and in the UK (mean = 4.50). In addition, Table 4 indicates that the average number of audit

committee meetings in the Netherlands (mean = 5.75) is greater than in Belgium (mean = 4.05) and in the UK (mean = 4.50). Indeed, our post-hoc test shows a significant difference ($p = 0.044$), as shown in Table 6. Finally, Table 4 shows that the average number of audit committee meetings in France (mean = 4.85) is greater than the average number of audit committee meetings in the UK (mean = 4.50) and in Belgium (mean = 4.05). However, as shown in Table 6, this difference is not significant (p -value= 0.428).

[Insert Table 5 here]

[Insert Table 6 here]

c. Presence of Internal Auditor in Audit Committee Meetings

In the third hypothesis, we expect significant differences to exist between countries in terms of attendance of the internal auditor at audit committee meetings. For the five countries in our sample (the USA, the UK, the Netherlands, France, and Belgium), the presence of an internal auditor at audit committee meetings is compared. Table 7 shows the percentages of listed companies in each investigated country wherein the internal auditor is invited to at least one audit committee meeting per year.

[Insert Table 7 here]

Figure 1 compares these percentages of listed companies in the five countries graphically. The X-axis shows the different countries; the Y-axis displays the percentage of listed companies of our sample wherein the internal auditor of the company meets at with the audit committee at least once per year.

[Insert Table 8 here]

The greatest percentage of listed companies with the presence of an internal auditor is found in the USA. This can relate to our previous findings in Table 4, wherein we find that the audit committees of US-listed companies meet more frequently (mean = 9.25) than the audit committees of listed companies in the four remaining countries (Belgium, the Netherlands, France, the UK). Table 8 shows a cross tabulation of the number of listed companies wherein the internal auditor is present or not for each investigated country. Consequently, a chi-square test is performed wherein US-listed companies are compared to listed companies in the group of four remaining countries (Belgium, the Netherlands, France, the UK), as formulated in Hypothesis 3. Table 9 shows a significant chi-square test ($p = 0.000$). Hence, our data support Hypothesis 3. From Table 9, we find that the direction is as expected: the number of listed companies wherein the internal auditor is present for at least one audit committee meeting is greater in the USA than in the other investigated countries (Belgium, the Netherlands, France, and the UK).

[Insert Table 8 here]

[Insert Table 9 here]

8. Conclusion

An important goal of companies worldwide is value creation for shareholders. Corporate governance commissions worldwide help to preserve and guarantee this value creation and thus strengthen shareholder trust. Within this corporate governance framework, our research analyzes and discusses the composition and meetings of audit committees from an international perspective. The average number of audit committee members and the average number of audit committee meetings (per year) is compared between five countries (the USA, the UK, the Netherlands, France, and Belgium). In addition, the relationship between the company's audit committee and its internal auditor is investigated. More specifically, the presence of an internal auditor at audit committee meetings in listed companies in the five countries of our sample is examined. To answer the research questions, we randomly select annual reports (2004) of one hundred listed companies situated across five countries: Belgium, the Netherlands, France, the UK, and the USA.

Based on existing regulations and recommendations in the corporate governance codes of each country that relate to the number of audit committee *members*, we find that four of the five investigated countries (Belgium, France, the UK, and the USA) require a minimum number of audit committee members for listed companies (at least three members in the audit committee). The Combined Code in the UK (2003) allows smaller-listed companies to have two audit committee members. Only the Dutch corporate governance code does not contain a minimum requirement that relates to the number of audit committee members. Therefore, in our first hypothesis, we expect a significantly lower number of audit committee members in the listed companies of the Netherlands than in the other investigated countries (Belgium, France, the USA, the UK). Our results confirm this first hypothesis and indicate that the average number of audit committee members is significantly fewer in the Netherlands than in the other investigated countries. Four post-hoc tests investigate which countries are responsible for this significant group difference and indicate that there is a significant difference between the number of audit committee members in the Netherlands and the number of audit committee members in listed companies of the UK and the USA. Differences between the number of audit committee members in listed companies in the Netherlands and audit committee members in Belgian and French listed companies are found to be in the expected direction, but not significant.

The second hypothesis relates to audit

committee meeting *frequency* of listed companies. Again, only in two of the five investigated countries (Belgium and the UK), do corporate governance codes contain a minimum requirement concerning the number of audit committee meetings required per year. Our second hypothesis tests whether the number of audit committee meetings is significantly greater in Belgian and UK-listed companies (where corporate governance codes indicates a minimum of three audit committee meetings per year) than in the other investigated countries (the Netherlands, France, the USA). Our results support this second hypothesis and indicate that the number of audit committee meetings in Belgian and UK-listed companies is significantly greater than in the other countries (the Netherlands, France, and the USA) studied. To determine which countries are responsible for this significant group difference, three pair wise comparisons are executed. These post-hoc tests indicate that audit committee meeting frequencies in Belgium and the UK differ significantly from audit committee meeting frequency in the USA. Two remaining pair-wise comparisons between Belgium/UK and France and between Belgium/UK and the Netherlands show the expected direction. However, the differences found in our post-hoc tests are not significant.

In our third hypothesis, we investigate whether the presence of the internal auditor in at least one audit committee meeting differs across the five investigated countries. The audit committee is one of the most important instruments of a company, but it cannot work alone. Accordingly, we search for audit committee data in the annual reports of one hundred listed companies of our sample that relate to the relationship between the audit committee and the internal auditor, more specifically, the attendance of the internal auditor to audit committee meetings. Based on detailed regulations in US-corporate governance codes (SOX Act 2002, SEC Final Rule 2003) compared to the corporate governance principles in the other countries, we expect that the number of listed companies wherein the internal auditor is present for at least one audit committee meeting is greater for US-listed companies than for listed companies in the four remaining countries of our sample (Belgium, the Netherlands, France, and the UK). In the USA, corporate governance principles and the monitoring of these principles are strict: non-compliance can result in severe consequences for the company. Our chi-square test indicates that there is a significant difference between the number of US-listed companies wherein the internal auditor is present for at least one audit committee meeting and the number of listed companies in the other investigated countries (Belgium, the Netherlands, France, and the UK).

Primary limitations of our research relate to the limited sample of the listed companies we investigate. Consequently, the strength of the study's ability to detect statistically significant differences is rather low. However, the results of our research support

existing regulations and recommendations that relate to the number of audit committee members and the number of audit committee meetings in corporate governance principles of the five investigated countries.

Secondly, our research is limited only to observable external features of the audit committee. Also in our research, the processes and real functioning of the audit committee are not considered. The so-called 'black box' of the audit committee is not opened in our study and requires further research. To gain insight into the real processes of the audit committee, another methodology must be applied (e.g. in-depth interviews).

Further research might also focus on the presence of the internal auditor at the meetings of the audit committees in listed companies. Based on our research, we can only conclude whether the internal auditor is present for at least one audit committee meeting per year. It would be interesting to analyze the significance of the number of audit committee meetings wherein the internal auditor is present. Finally, it also would be interesting to investigate the presence of the external auditor and the management of the company for the audit committee meetings of listed companies. The diverse and overlapping relationships that exist between the audit committee, internal auditor, external auditor and management of the company are interesting to investigate in further detail.

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Appendices

Table 1. Summary of Audit Committee Regulations and Recommendations in the Five Countries of our Sample

Country	Regulatory Framework	Number of Audit Committee Members	Number of Meetings of the Audit Committee (Per Year)
Belgium	Code Lippens (2004)	At least three	At least three
The Netherlands	Code Tabaksblat (2003)	No specific requirement	As much as needed
France	BOUTON (2002)	At least three	As much as needed
UK	Combined Code (2003)	At least three (two for smaller companies)	At least three
USA	SOX Act (2002)	At least three	As much as needed

Table 2. Descriptive Analysis

Variable	N	min	max	mean
Audit committee members	100	2	7	3.91
Audit committee meetings	100	2	23	5.68
Percentage of listed companies in which the internal auditor participates in at least one audit committee meeting per year	100	0	100	44%

Table 3. Average Number of Audit Committee Members

Country	n	min	max	mean	St.dev.
Belgium	20	3	7	3.75	1.164
The Netherlands	20	2	6	3.30	0.865
France	20	3	6	3.80	0.951
UK	20	2	6	4.30	1.031
USA	20	3	6	4.40	0.940

Table 4. Average Number of Audit Committee Meetings (Data 2004)

Country	n	min	max	mean	st.dev.
Belgium	20	2	6	4.05	1.276
The Netherlands	20	2	23	5.75	4.541
France	20	3	9	4.85	1.496
UK	20	2	8	4.50	1.318
USA	20	4	15	9.25	2.971

Table 5. ANOVA Test: Number of Audit Committee Members and Number of Audit Committee Meetings

Variable	Belgium	The Netherlands	France	UK	USA	F-ratio	P-value
Number of audit committee members	3.75	3.30	3.80	4.30	4.40	12.473	0.004
Number of audit committee meetings	4.05	5.75	4.85	4.50	9.25	16.657	0.000

Table 6. Post-Hoc Test Audit Committee Meetings

Comparison	P-value
Belgium/UK versus USA	0.000
Belgium/UK versus France	0.428
Belgium/UK versus the Netherlands	0.044

Table 7. Frequency Table of Audit Committee Meetings with the Presence of the Internal Auditor

	Belgium	The Netherlands	France	UK	USA
Presence of internal auditor to audit committee meetings	30%	35%	15%	50%	90%

Table 8. Cross Tabulation Countries * Internal Auditor: Attendance of Internal Auditor to at Least One Audit Committee Meeting

Countries	Internal Auditor		Total
	Not Present	Present	
Belgium	14	6	20
The Netherlands	13	7	20
France	17	3	20
UK	10	10	20
USA	2	18	20
Total	56	44	100

Table 9. Cross Tabulation US Countries * Internal Auditor and Related Chi-square Test: Attendance of Internal Auditor (Number of Companies)

Countries		Internal auditor		Total
		Not Present	Present	
Non-US	US	54	26	80
	US	2	18	20
Pearson Chi-square	Df	P-value		
	1	0.000		



Figure 1. Internal Auditor's attendance of the Audit Committee Meetings (Percentage)