

AUDIT COMMITTEES IN THE GREEK BANKING INSTITUTIONS: A QUALITATIVE INVESTIGATION OF EFFECTIVENESS

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Abstract

In order to obtain access to well-developed financial markets, Greek banks need to win and maintain investors' confidence, not only in a symbolic and rules-based approach (complying as closely as possible with international best practices and regulations), but pursue a principles-based approach in order to achieve the desired goal of effective audit committee.

The question that this paper seeks to answer is: "What are the key drivers for an effective audit committee in countries where audit committees are relatively new?" The overall aim of this research is to identify the main drivers which may contribute to the effectiveness of audit committees and provide a framework for their successful operation in the Greek banking institutions.

Keywords: Audit Committees, Bank of Greece, Corporate Governance, Effectiveness, Greek Banking Institutions, Internal Audit, Internal Controls

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1. Introduction

Recent corporate scandals, such as Enron and WorldCom, have focused the minds of governments, regulators, companies, investors and the general public on weaknesses in corporate governance systems and the need to address this issue (OECD, 2004:1)

Corporate governance issues have always been integral to business practices, beginning with the "agency problem" between corporations, owners, managers and the directors who represent the owners. However, Tricker (2000:xiii), calls the 21st century as the century of governance as concerns the shift from mechanisms of management to legitimacy and accountability in an era when corporate power has become global in its scope.

For over 20 years, a series of committees have been created of inquiry into the financial aspects of corporate governance in most developed countries. As a result, various reports with codes of best practices and recommendations have been emerged or implemented in an attempt to improve corporate governance mainly in the Anglo-Saxon world (Treadway Commission, 1987 and POB, 1993 in the US; Cadbury Report, 1992; Greenbury report, 1995; the Combined Code, 1999; Turnbull, 1999, Higgs Report, 2003 and the new Combined Code, 2003 in the UK).

In the past, the audit committee's emphasis was on accurate financial reporting. Over the years, the audit committee's function has expanded into oversight of internal controls and oversees the processes that monitor compliance with laws, regulations and the corporate code of conduct (Colley et al, 2005). However, and despite the prominent and extensive examples of new and tighter rules and guidance for audit committees and the overall audit process, corporate scandals have continued to shock the business community (Enron, Parmalat, Ahold, etc) and have led to serious concerns over the effectiveness of board of directors and audit committees and finally to enact reforms to improve the effectiveness of audit committees (BRC 1999; Sarbanes-Oxley Act, 2002). For example in the Enron case, the Powers report (2002) concluded that Enron's board

...failed to monitor...and safeguard Enron's shareholders.

Associated with the greater use of audit committees as a governance mechanism and given that their appointment is currently mandatory for Greek banks (Bank of Greece Governor's Act: 2577), the author will try to shed light on the drivers that may lead to an effective audit committee (hereafter AC).

2. Audit Committees Effectiveness

"Codes of best practices", stock exchange requirements, legislation and other guidelines were designed to meet the goal of "*making audit committees more effective*" (i.e. BRC, 1999:2). However, whether ACs' are actually discharging their important responsibilities remains insufficiently understood. A serious concern exists over whether AC members are focusing more on procedural matters to protect themselves from liability than on improving their competence and effectiveness⁵ as a committee (U.S. General Accounting Office, 2003).

There is a definitional problem which pervades the AC effectiveness literature (Spira, 2002). Most of the best practices and regulations (BRC, 1999, SOX, 2002), as well as most of the researchers (Beasley 1996, DeZoort 1997), identified indicators such as:

- ✓ Financial literacy,
- ✓ Director independence and
- ✓ Frequency of meetings as contributing to AC effectiveness.

Although these studies focus on important characteristics affecting AC performance, the purpose of AC activity and the criteria used to evaluate effectiveness are not clearly defined (Spira, 1998).

According to New Oxford Dictionary:

Effective means successful in producing a desired or intended result

Since the main purpose of the AC is to oversee the accounting, auditing and financial reporting process, effective AC may be defined as the success of AC's oversight efforts. De Zoort *et al* (2002) offer the following definition.

An effective AC has qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls and risk management through its diligent oversight efforts

However, effective oversight goes beyond mere compliance with the rules; it requires careful consideration of an AC framework that facilitates the coordination of activities and information needed to support the committee's understanding and monitoring of a company's financial reporting process (Terrell & Reed, 2003).

Cameron (1986) mentioned that the primary task facing any investigator of effectiveness lies in determining what are the appropriate indicators and measures and that effectiveness is a multidimensional construct. Additionally, many researchers have highlighted the potential validity of employing "soft" and "hard" measures in evaluating team performance (Higgs, 1999). In an earlier case study (Quinn & Cameron, 1983) concluded that major criteria of effectiveness change in predictable ways as organizations develop through their life-cycle. Consistent with Quinn & Cameron (1983), Spira (1998) suggests that audit committee effectiveness is clearly associated with evolution through time.

According to PWC (2003), systems, structure and processes are important indicators to audit committee's success. Moreover:

⁵ In accordance with the way in which "performance" and "effectiveness" are interchangeably used in day-to-day language in this paper, the author conceives of these terms as synonyms.

2.1.1 Organizational systems, structure and operation

- a. *AC charter*: Adoption and annually reassessing of a written charter, approved by the board, which describes the scope of activities, duties and responsibilities of the AC
- b. *Independent and qualified members*: AC members must be independent, in fact and in appearance, without any “grey” areas compromising independency such as interlocking directorships, related-party transactions, lawyers receiving fee income and kinship relations. Additionally, membership should consist of both financial and non-financial members with a good mix of business judgment, banking experience and knowledge of social and cultural conditions of the country
- c. *Financial reporting expert* with experience in GAAP and audits
- d. *Meetings and minutes*, correspond with the major phases of the financial reporting, external audit and internal audit cycles with a detailed written agenda and adequate supporting papers highlighting matters for decision. When needed, separate meetings should be arranged with senior management, internal and external auditors.
- e. *Induction and orientation* of new members regarding industry matters, entity’s business matters, as well as internal auditing and external auditing matters.

2.1.2 Financial reporting, risk assessment & internal control

- a. Review risk assessment process and risk mitigation action plan with details of the bank’s potential fraud, compliance and operating risks.
- b. Review and discuss the implementation of key *accounting policies* and financial reporting and evaluate the overall *effectiveness of the internal control and financial, operational and compliance risk management framework*.
- c. Reinforce a strong “control culture”

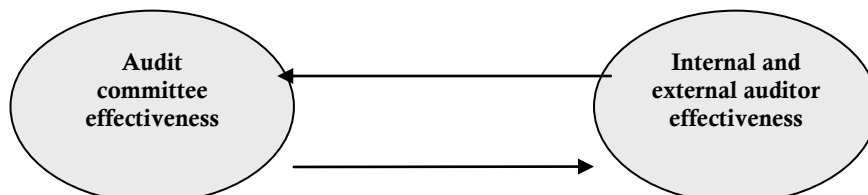
2.1.3 Internal and external audit

- a. Review and evaluate the *objectives, plans and policy* of the internal audit department
- b. Review the *organizational structure*, the *quality* and the *effectiveness* of the internal audit function
- c. Review the *operational activities* of the auditing staff in the context of achieving their goals and objectives
- d. Consider the independence of the external auditors
- e. Review the audit plan and the scope of work
- f. Review the qualifications, performance and compensation of the external auditors and make recommendations for their appointment

The following figure concludes that internal and external auditors’ effectiveness is associated with AC effectiveness.

Figure 1. Symbiotic Relationship for effective audit committee oversight

(Source: KPMG’s Audit Committee Institute)



In addition, ACs must ensure that they continuously improve their oversight role. Moreover, the AC should reflect and assess its overall operating performance and that of each AC member (PWC, 2003). As an example ACs might benchmark their performance against their formal written chapter (Braiotta, 2002). Continuous education of directors is also an important factor. Tailored workshops with modules

led by management, internal audit, external auditors and in-house or external counsel are deemed essential in the continuous education process (PWC, 2003).

Corporate accountability has always been very important and stakeholders rely on the BoD to ensure it. Investors' activism and stakeholder demands have resulted in numerous proposals for corporate governance reforms in the international environment. Board monitoring and the need for more accountability have been central in most of these reforms.

ACs' have a critical role to play within the framework of corporate accountability. Initially, it was the Anglo-Saxon environment that supported their establishment followed by a growing global acceptance associated with directors' conformance and performance roles.

There is no doubt that the role of the AC in banks is of special importance and of particular complexity. Vast sums of money and other financial assets and information are in constant motion, therefore internal controls are unique and singularly difficult. In addition, the technology used in the business is becoming increasingly sophisticated and complex. Given the complexity of those issues, the effectiveness of ACs in banks is of far more greater importance.

In the Greek business environment, ACs are mainly responsible for the monitoring the financial reporting process. The socio-cultural values and forces (high uncertainty avoidance and collectivism) in Greece explain, to a large extent, the legal compliance aspect of corporate governance rather than initiatives derived from business and may affect the performance and decision-making processes (group think). The question of whether AC framework should be left to be determined by free market forces or the regulator framework is a difficult one.

Risk management in Greek banks demonstrates that no systematic approach concerning identification, evaluation and management of risk is followed, while on the other hand seems that the majority of companies are able to identify the main risks that characterize them, however without following specific procedures as a means to secure accuracy and completeness of the identified risks.

3. Research Methodology

The author has decided to choose the "interpretivism" research philosophy in order to enter the social world of ACs and understand their world from their point of view (Saunders *et al.*, 2006). Qualitative research is one of the two major approaches to research methodology in social science. Qualitative research involves investigating participants' opinions, behaviours and experiences from the informants' points of view. These criteria play an important role for the research topic since people involved in ACs will be the centre of attention when gathering data.

The focus of this work will be on *exploratory* and *descriptive* research, mapping the field and providing a structured approach to the issue. *Multiple cases* (Yin, 2003) research strategy has been chosen by the author mainly because case studies:

- ✓ Have the potential to provide better understanding of accounting practice (Hopwood, 1987)
- ✓ May be used to gain insight of the role and functioning of ACs in organizations and to compare the claimed potential of ACs with its practical achievements and consequences (Power, 1997)
- ✓ Generalize the findings and reduce the impact of any corporate culture bias (Yin, 2003).

Therefore, the planned study was based on five Greek banks mainly due to the fact that:

- ✓ Those banks represent the five highest market capitalization Greek banks in the ASE (closing date 12Sep2007)
- ✓ access to audit committee members and others involved in the AC work could be assured

A non-probability purposive sample (Saunders *et al.*, 2006) of thirteen (13) individuals who have current experience with ACs has been chosen by the author since purposive samples are often used in case study research strategies (Newman, 2000). According to Patton (2002), the selected interviewees are critical since

If it happens there, it will happen everywhere

Two groups of interviewees were chosen in order to add value to the project.

- ✓ Internal auditors and ACs members
- ✓ External auditors from Big Four public accounting firms who are directly involved in auditing the aforementioned banks.

Interviewing all categories of people involved in ACs offered a rounded picture and some opportunity of checking data validity (Spira, 1998) and can be regarded as data-triangulation (Denzin, 1989).

Prior to the interviews, a list of interview themes about activities and effectiveness of ACs has been sent in advance (10 days) to those that would be interviewed. Those themes were based on the theoretical and conceptual framework and provided a focal point for the interview without restricting dialogue and have been focused around:

- ✓ Organization and authority of the audit committee
- ✓ Members qualification, background
- ✓ Information nature and meetings process
- ✓ Oversight of Internal control and risk management systems
- ✓ Relationship with external, internal auditors and management
- ✓ Assessing AC performance

Providing interviewees with this information before the interview promoted validity and reliability by enabling them to consider the information being requested and allowing them the opportunity to assemble supporting organization documents from their files (Saunders *et al*, 2006:320).

Prior to the interviews, and in order to support interview data and enhance reliability, the author collected the following documentary secondary data.

Table 1. Overview of the data collected prior to the interviews

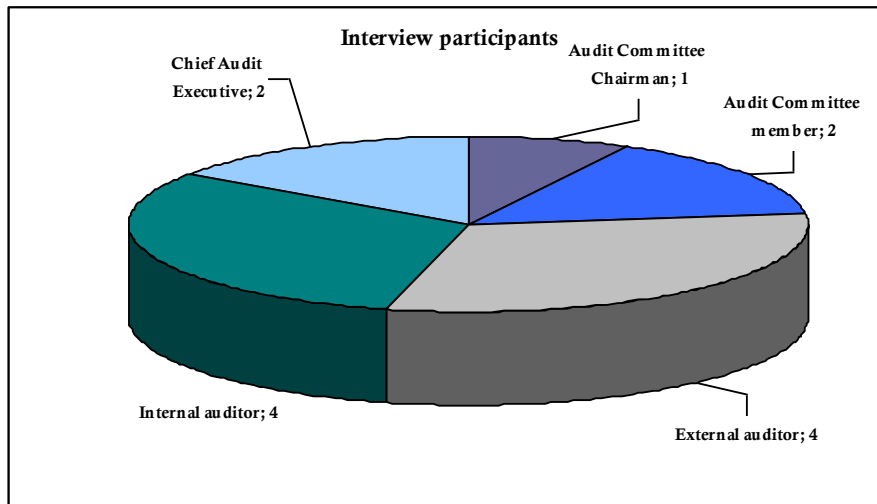
	<i>BANK 1</i>	<i>BANK 2</i>	<i>BANK 3</i>	<i>BANK 4</i>	<i>BANK 5</i>
<i>Documents</i>	AC Charter	-	AC Charter	-	-
	Annual report	Annual report	Annual report	Annual report	Annual report

All face-to-face, semi-structured and one-to-one interviews were carried out between October and November 2007 at the offices of the interviewees. Initially, it was the author's hope that an agreement to observe an AC meeting could be negotiated. However, Chairmen of the board were reluctant to allow this for confidentiality reasons.

Three (3) interviews were carried out with AC members (one of them was an AC chair), six (6) interviews with internal auditors (two of them were CAEs) and four (4) interviews with external auditors (one partner and three managers).

All interviews were conducted in Greek by the author customized the interview instrument for each category of interviewees. Both open and closed questions have been used followed by probing questions in order to explore responses that were of significance to the topic. However, and although there was a full set of questions in the instrument, the author did not ask all the questions and used the instrument in order to guide the interviews.

Figure 2. Interview participants' roles in the banks



The interviews with internal and external auditors were tape-recorded. The interviews with the AC members were not tape-recorded since it was felt that, if they were, they would be less likely to discuss sensitive issues. All interviews lasted from 60 to 90 minutes.

The following table presents the interviewee's role in each bank.

Table 2. Overview of the interviewee's role in each bank

	<i>BANK 1</i>	<i>BANK 2</i>	<i>BANK 3</i>	<i>BANK 4</i>	<i>BANK 5</i>
<i>Interviewees</i>	ACC ⁶	IA	ACM	CAE	ACM
	EA	EA	CAE	EA	IA
	IA	-	IA	-	EA

The author emphasized that complete anonymity would be provided to all and to their perspective organization and no other organization member would examine the interview transcript.

By the end of the interview, respondents indicated that they could not think any additional items that might be important in the research.

The first step was to transcribe the interviews word by word and send them to the interviewees for approval. Then all interview transcripts were analyzed based on the analytical protocol recommended by Miles & Huberman (1994) and significant words or phrases were highlighted. Then, the author coded all interview transcripts according to the topics extracted from the interviewees' answers as well as the conceptual framework presented in 5.1. This process enabled the author to easily drawn upon all things said on each specific topic by all the interviewees.

The four topics of AC effectiveness derived from the interviews are as follows:

1. AC Policy framework
2. AC members profile
3. Informational and Operational practices and procedures
4. Accountability process

⁶ These codes are used to refer to the interviewees in the remainder to the dissertation. ACC: Audit Committee Chair, ACM: Audit Committee member, CAE: Chief Audit Executive, IA: Internal auditor, EA: External auditor

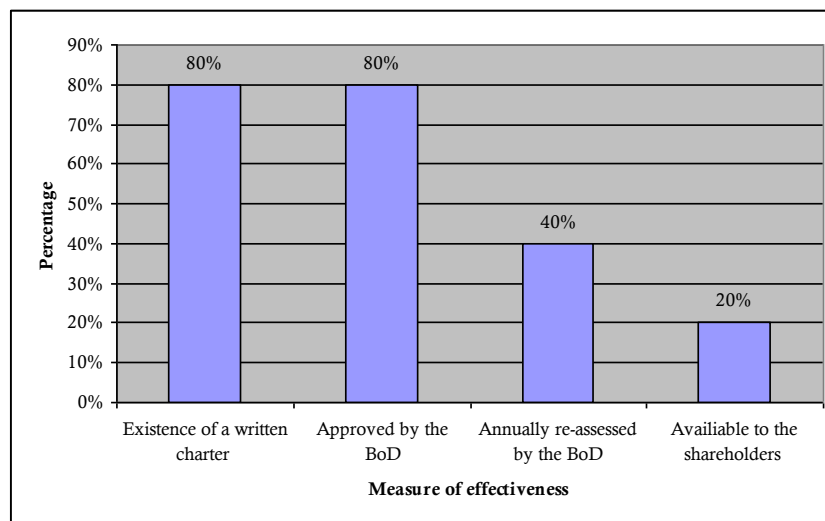
The following sections present the aggregation of the answers of the thirteen interviews conducted on the topic of AC effectiveness in the Greek banking institutions as well as the analysis of the documents mentioned in Table 4. The results are presented by topic followed by a short discussion of the most important aspects.

4. Research Findings

4.1 AC Policy framework

The analysis of the documents collected by the author⁷ indicated that in the majority of the cases (80%) there is a written AC charter approved by the BoD. However, interviews revealed that only two of the sample banks (Bank 1 & 3) are annually re-assessing their AC charter and only one bank informs stakeholders about its AC Chapter through its internet site (Bank 1). Table 3 below expounds the data from the analysis.

Table 3. AC Charter in Greek banks



The set of questions related to AC Charter was to shed light in the content and context of the charter. A key focus here is to assess whether there is clear term of reference which can highlight the responsibilities and authority of the AC.

The audit committee members-participants were of the opinion that they have a clear reference guide to their responsibilities based on the new legislation (BoGA/2577) although argued that the existence of a written charter is an additional constituent of effectiveness. Although AC members felt that they have clear terms of reference through their charter, with the exception of Bank 5 where there is no AC charter yet, the interviews with internal and external auditors' evidence that AC members are unaware of their objectives and scope of work as a committee. Internal and external auditors felt that their scope of work is restricted overseeing external audit function and review of banks financial statements.

4.2 AC members' profile

In order to uncover the "quality" of AC members, the interviewees were asked about the selection, orientation and training processes as well as financial expertise and banking sector knowledge of the AC members.

⁷ Secondary data (AC Charters and annual reports) collected by the author over banks' internet sites or handled by the interviewees to the author

Members’ appointment & independence

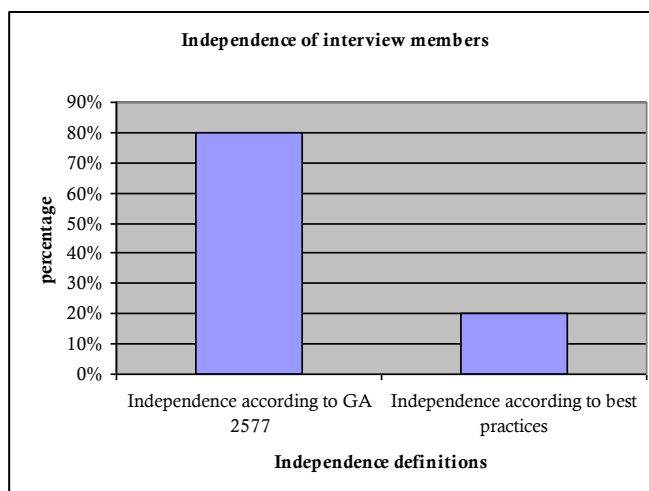
The BoGA/2577 declares that ACs’ should be composed of non-executive directors with at least one independent member.

The analysis of the secondary data (banks’ annual reports) revealed that all ACs in the sample comply with the definition of independent directors as specified in Law 3016 (Corporate Governance Law). However, only Bank 1 (20%) complies with BRC (1999) which specifies that AC’s should comprise only with outside and independent directors. The main reason seems to be that Bank 1 is listed in NYSE therefore should comply with SOX (2002).

Additionally, and contrary to what is being mentioned to the majority of the AC charters regarding nomination process, interviews revealed that the Chairman of the BoD is proposing a new member to the General Assembly and the shareholders are handling the process in a “rubber-stamp” approach.

The majority of the external and internal auditor partners (70%) agreed that AC members’ independence seems to be the major handicap on the role of ACs and it is based mainly on the nomination process of new AC members

Table 4. AC Members independence in Greek Banks



Induction, orientation and training

Surprisingly, none of the banks (100%) had a formal induction process, orientation and training processes for new AC members although AC interview partners recognize that AC member’s personality is the most important driver for orientation in a new appointment.

However, with the lack of a formal induction process most directors come to ACs assuming what the job is, since they sometime have experience in other boards. Most of the EA and IA interview partners argued that the selection and orientation processes are two of the major handicaps in AC effectiveness.

Qualifications & background

Regarding qualifications of an effective AC member, the following statement sums up well what all interviewees believe to some extent that *members’ competence, diligence and independence* are key drivers of effectiveness.

Frequently during the interviews, the AC interview partners argued that their extensive financial and auditing background is contributing to AC effectiveness.

The external auditors were argued that the new Governor’s Act (2577) was the driver for the change. One EA (Bank 5) commented as follows:

Traditionally, one of the major weaknesses of the ACs of Greek banks was that its members were not qualified in auditing and or accounting and therefore there were not qualified to carry out their role effectively. However, with the new legislation, banks demonstrated an immediate response to the new requirements.

Table 5. Overview of interview AC members' background

	<i>BANK 1</i>	<i>BANK 3</i>	<i>BANK 5</i>
<i>Interviewee</i>	ACC	ACM	ACM
<i>Background</i>	Degree in Finance; MBA; Prior Senior Partner in one of the Big 8 accounting firms; ACCA member	Degree in Economics; Twenty five years of experience as a Lead auditor; CIA; Currently business consultant	Degree in Law; Strong experience as an auditor; Currently CEO of an investment company

Associated with the members' background it appears that competencies, skills and expertise may generate feelings of self confidence and thereby possibly affecting the performance of members during meetings.

4.3 Informational and Operational practices and procedures

The objective is to shed light on the information protocols between ACs' and management, internal and external auditors as well as the practices during AC meetings.

Agenda

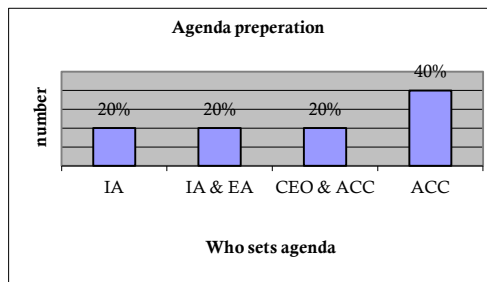
An important factor affecting the effectiveness of ACs in Greek banks according to the interviews is the quality of information provided to them. ACs rely on receiving "the right information at the right time" (ACM, Bank 5) from CFO as well as the external auditors.

The benefits of highly scheduled and structured meetings with an agenda sent in advance to members are clearly defined by IAs. The interview evidence suggested that in all banks, the agenda is sent to the members along with previous minutes well in advance to the meeting. However, in Bank 1 the CEO (also Chair the BoD) agrees the agenda with the ACC, while in banks 3 and 4 the agenda is prepared using a schedule of routine activities (in accordance with statutory reports and accounts) and in banks 2 and 5 the agenda is prepared mainly by the IA in accordance with prior agendas and minutes.

The following table presents some documentary and logistical features of AC meetings in Greek banks.

Table 6. Documentary and logistical features of meetings as reported by interviewees

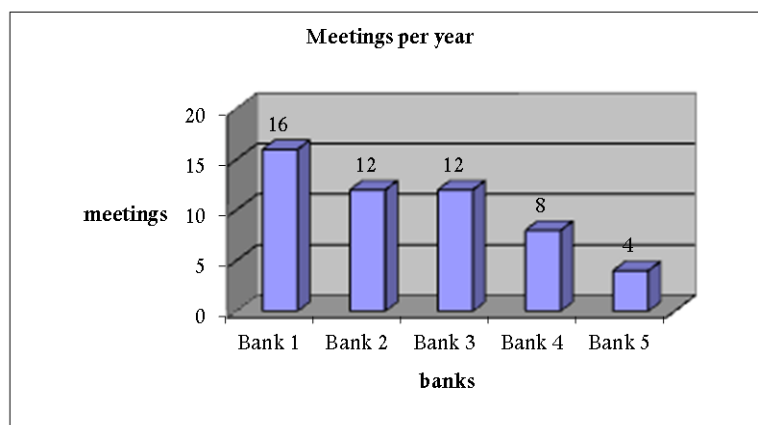
<i>Issue</i>	<i>BANK 1</i>	<i>BANK 2</i>	<i>BANK 3</i>	<i>BANK 4</i>	<i>BANK 5</i>
Preparation of Agenda	Prepared by the CEO and agreed with Chair	Prepared by IA	Prepared by Chair	Prepared by Chair	Prepared jointly by IA and EA
Information sent to members prior to the meeting	YES; minutes of prior meeting; reports from IA & EA; Agenda	YES; reports from IA & EA; prior minutes of meeting; Agenda	YES; prior minutes of meeting; Agenda;	YES; Agenda; Reports form IA & EA; prior minutes of meeting;	YES; Agenda; prior minutes of meeting;



Meetings

Meetings have been a source of some surprise since almost each bank had a different approach. The interviews identified the irregular pattern of AC meetings. All ACs in the sample meet the legislative requirement that should meet at least four times per year. However, there is a range from 4 meetings/year, up to 16 meetings /year.

Table 7. AC Meetings /year



Meetings participants

With the exception of Bank 1 “...Our agenda is driving the attendance at the meetings (ACC)” and in regards to the attendance in meetings, it was clear from the interviewees that AC meetings are almost “isolated” from “external” partners such as senior management and external auditors. Sometimes the CFO is attending AC meetings and most of the audit committee members interviewees said that the presence of the CFO undermine the AC’s “control” of the meetings.

All the external auditors’ interviewees indicated that attendance in every AC meeting will assist in ensuring an effective working relationship between AC and external audit. The EA (Bank 4) commented on that in the following way:

I see the AC as a bridge between management and EAs’ therefore we strongly recommend to the AC to regularly attend some of the meetings. Although AC members have the experience, we can assist them to ask management the relevant questions. However, we rarely attend AC meetings and when this happens is usually before the disclosure of the proxy statement.

However, informal meetings with external auditors are very common. The ACM (Bank 5) mentioned:

I know well the partner of our auditors since we have known each other for more that 20 years. Every couple of months we go out together, have lunch and informally discuss several issues regarding the effectiveness of our controls, the risks we face, etc

In the same path, with the exception of Banks 1 and 3, the IAs had little possibility in attending AC meetings mainly since the internal audit profession is relatively new in Greece and the potential value derived from its operation is not clearly evident. As an IA (Bank 2) clearly stated:

We have to strengthen our perceived role regarding ACs. We need to devote more time in promoting our work with more focused reports in order to be able to attend meetings

Additionally, all banks do not disclose in their proxy statement the number of meetings annually as well as the names of ACMs' who attended the meetings.

Oversight of internal control system and internal audit

According to the existing AC charters, all ACs (100%) in the sample banks, have a duty to review and monitor the effectiveness of internal control system and especially those policies, procedures and accounting system related to financial reporting. However, interviews revealed that only the 40% of the banks have formal processes in reviewing risk management and internal control systems.

Table 8. Review of the risk management & control systems

According to the AC Charter	100%
Existence of formal processes for reviewing	40%

Here, the interviewees rely on particular documents that ensure the existence of a risk management process throughout the banks. In one case there is a *bi-monthly report* and in the other case there is a *certification* by the business units. However, and despite the existence of code of conducts, most of the IAs claimed to be concerned with the culture and the corporate behaviour. The “tone at the top” was the issue of concern.

In all cases (100%) there is an Internal Audit Charter containing a written scope and objectives within. However, only in Banks 1 and 3 (40%), the IA Charter is approved by the AC. According to many IAs' this charter usually contain the department's chart, purpose and responsibilities.

The analysis of the interviews indicates that internal audit departments typically report to the AC and they have an annual internal audit plan but in most of the cases the departments didn't have the relevant human resources to achieve the plan mainly due to competency and objectivity reasons.

External auditors' interviewees also believe that IAs do not possess the necessary skills and competencies in order to add value to the organization they serve.

Another important finding was related to the internal audit reports. The analysis indicated that the majority of reports are not user friendly, since they contain much information which is not useful for the audit scope and purpose. There is also lack in the ranking of the audit findings (e.g. significant, major, minor, etc.) as well as no link with the potential risks. However, all ACMs interviewed, mentioned that they pay careful attention to the extent to which management adopt measures to solve any issues raised during the internal audit reports.

Another major issue derived from the analysis is that almost all ACs do not involve in appraising the quality of IA staff. With the exception of appointment and replacement of the CAE, ACs have not developed and implemented performance measures for the accomplishment of IA tasks. Only in banks 1 and 3 there are periodic quality reviews of IA departments taking place by independent third parties that certify the adequacy of the organizational system of internal controls and also the appropriateness of internal audit services.

Table 9. IA Charter

Existence of an IA Charter	100%
IA Charter approved by the AC	40%

Oversight of external audit

The focus here is to ascertain how the AC maintains the integrity of the audit process and the independence of the external auditor. According to the existing AC charters, all ACs in the sample banks, have a duty to monitor the selection and evaluate the performance of external auditors.

However, interview evidences that the interaction between external auditors and the AC is limited to monitor the financial-reporting process. Moreover, in all cases (100%), appointment and remuneration of external auditors seems to be a matter of senior management and especially the CFO and the AC sometimes is only informed about the audit firm. Additionally, any approvals for a change in auditors would come from the executive management and especially the CFO.

In addition, in all cases (100%), ACs require only an explanation from the CFO if there is an increase in audit fees and most of the times, ACCMs are not aware for any non-audit fees. As an example in Bank 2, the audit firm is providing a numerous of non-audit services such as tax consulting, project management in various projects e.t.c. The Greek Corporate Governance related regulation (L.3016) does not totally prohibit the conduct of non-audit services by the same audit firm.

Most audit committee members and external auditors indicated that they meet with each other approximately two to three times per year although there are some cases such as Bank 1 where there are informal meetings between ACC and the partner of external audit firm. The most common issues discussed during the meetings are related to the audit plan, containing a summary of the audit scope, as well as audit findings. Interviews indicated that:

- ✓ There are no formal discussions between external auditors and the AC in regards to any disagreements between external audit and management and
- ✓ The relationship between external auditors and the AC is not interactive and seems to be a one-way process since auditors are presenting significant audit findings.

Interviews revealed that, with the exception of Bank 1, there is no formal process for the evaluation of the audit firm. The ACC (Bank 1) illustrated this in the following way:

Table 10. Evaluation of the external audit process

According to the AC charter	100%
Existence of a formal evaluation process	20%

4.4 Accountability process

The objective of this part is to shed light on how the BoD assesses ACs' operating performance. A key focus here is to assess whether there is an annual action plan and a clear quality assurance plan in order to ensure the effectiveness and efficiency of the aforementioned oversight input and processes which, in turn, lead to a high level of assurance of the BoD's corporate accountability (Braiotta, 2004).

In Greek banks', AC evaluation is required by the Governor's Act 2577. Evaluations should occur by external auditors every three years and ACs' are evaluated as a part of the overall bank's control environment.

However, the interviews evidence that in all (100%) cases ACs' receive the results from the evaluation and do not have a system in place to implement those recommendations. In parallel, ACs' do not have a

system in place to self-assess their performance. Moreover, ACs' do not have an annual action plan and they do not benchmark a performance review against their AC charter.

5. Conclusions and Recommendations

Interviews exposed that ACs' are not evaluating their performance and the lack of this evaluation is a significant barrier for improving internal governance and external accountability. ACs and individual members' performance evaluations represent a valuable opportunity to assess both strengths and weaknesses and evaluate AC's role and contribution on corporate performance and conformance.

Therefore we can conclude that there is a gap between the theoretical and conceptual framework and field research. In order to ensure accountability, ACs should evaluate their performance on a regular basis (annually) through self-assessments and with the assistance of an external facilitator such as the external auditor. The results of the assessment should be communicated to the BoD and the stakeholders and should be accompanied with an action plan to respond in the identified areas for improvement.

Consequently, the following key driver may be suggested:

Key driver	Attributes of effectiveness
Measuring and Improving Performance	Develop an assessment framework (i.e a Balanced Scorecard) to improve the accountability process

Interview evidence and discussion presented above, highlighted a number of concerns as to the operational efficiency of the ACs in the Greek banks, although we may conclude that the policies and procedures concerning the AC framework are partially adequate and present a direction for compliance with best practices. However, it is their implementation that can be considered neither effective nor efficient. As such, an "expectation gap" exists between what ACs are expected to do and what they actually do.

This "gap" is possibly associated with the Greek cultural and social framework (uncertainty avoidance, collectivism, passive behaviour from investors, e.t.c.) as well as what Spira (1998) defines as an "infant" stage of evolution.

It is generally acknowledged that it is difficult to address cultural and social issues through a procedural framework. Additionally, as noted in the literature, in high uncertainty avoidance societies, there is a clear tendency for regulatory compliance and organizational legitimacy. Hence, and perhaps reflecting the paramount role of the state in high uncertainty avoidance societies, it is suggested that any mechanisms for improving both the adequacy of AC policies and procedures and their effective implementation, should rely on a relevant enhancement of the AC regulation.

In particular, it is further suggested that the existing regulation may be enhanced, providing sufficient or detailed guidance on the following:

- i. The content of the AC charter
- ii. The selection/recruitment and induction processes of AC members
- iii. The informational and operational routines (i.e. an implementing framework to assess the adequacy of effectiveness and efficiency of the System of Internal Control, combined with auditing and assurance standards such as COSO and GAAS, respectively)
- iv. The accountability criteria and processes

Given the fact that ACs' in the Greek banks are in their "infant" stage and would encounter difficulties with a detailed guidance, the provision of "comply or explain" should be allowed, at least at the early stages of development.

In order for such a mechanism to lead quickly to what Spira (1998) describes as "mature stage" of AC development, it is necessary to be coupled by appropriate disclosures by the financial institutions. The latter on one hand would enhance compliance with the said regulation through market discipline, and on the other hand it would enhance investor activism.

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