



## Constitution of audit committees in Indian body corporates-an empirical study

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### Abstract

Corporate governance mechanism is one of the most significant developments of the last quarter century. As a means of good governance there is a subject of considerable consideration is Audit Committee. Following their widespread promotion by the professional bodies and accounting firms, Audit Committees are now a statutory requirement or recommended best practice in many countries. The incidence of corporate failures involving fraud, poor accounting, inadequate internal control and the most talked audit expectations gap in auditing practices require the adoption and introduction of Audit Committees as an effective means of corporate governance and open a potential area for in-depth research in this field. Despite the development of a large number of literatures on Audit Committee, understanding of their degree of values has been substantially limited in India due to the limited study in Indian scenario. Knowing these facts, the present researcher seeks to explore whether the constitution of audit committees in Indian companies is call of the hour. It is not the intention to develop an all-embracing theoretical framework, bit to draw attention to its requirement. The paper reports the results of a questionnaire survey to ascertain the perception of different individuals in this regard.

**Keywords:** Audit Committee, Indian Companies, Corporate Governance, Audit Expectations Gap.

### Introduction

A most prominent development in accounting is the globalization of corporate government mechanism such as Audit committees. Following their widespread promotion by the professional bodies and accounting firms, Audit committees (hereinafter ACs) are now a statutory requirement or recommended best practice in many countries. The incidence of corporate failures involving fraud, poor accounting, inadequate internal control and the most talked audit expectations gap in auditing practices require the adoption and introduction of ACs as an effective means of corporate governance and open a potential area for in-depth research in this field. Not surprisingly, researchers have adopted considerable time and energy in explaining their adoption and effects and a body of literature has developed over the last few decades. It is not exaggeration to say that in India a very little works have been done in this regard. Kumar Mangalam Birla Committee is only the exception and it is also worth mentioning that a few Indian companies have taken the initiative to establish good corporate governance. While, on the other hand, the outside world has stepped forward towards the globalization of corporate governance mechanism. In India also, now the issue has started drawing serious attention in various level.

### Review of literature

Not surprisingly researchers have adopted considerable time and energy in explaining their adoption and effects of ACS, and a body of literature has developed over the last few decades.

The concept of ACs is not new and can be traced back to the 19th century. Tricker (1987) provides evidence that the Great Western Railway Company had an AC in 1972 and produces the ACs report to members. What is notable however is the extent of their promotion and subsequent by listed companies in several countries during the last Quarter century. ACs are now required by law in Canada and Singapore and are a condition of listing on the stock

exchange in the US and Thailand. In the UK, Australia, New Zealand and South Africa, Companies listed on the stock exchange are required to state whether they have an AC (and explain why if they do not) in their annual report. In other countries, such as France Hong Kong, Japan and Netherland, ACs are recommended best practices (Morse and Keegan 1999).

During the last couple of decades ACs has become a common mechanism of corporate governance in several countries. Originally non-mandatory structures used by a minority of corporation, more recently numerous official, professional and regulatory committees have recommended their more universal adoption by corporate enterprise. Early recommendations for ACs made in the US (NCFHR), 1987) and Canada (CICA, 1988) have been followed by Proposals for extending their use un many countries (AARF), 1997: BCA 1991: Cadbury.1992; CEPS.1995; EC.1996). Accompanying their widespread adoption, expanded roles for ACs has been advocated and/or stipulated (for example AICPA.1999; APB, 2000; Blue Ribbon committee, 1999; KPMG,1999a; ISB, 2000; POB2000; SEC.2000) and various rules have been adopted concerning their operation (For an Analysis of Recent AC regulation, KPMG 2000).

The audit committees of a company can play a crucial role in preventing and detecting fraudulent reporting. [NCFRR,1987]

Audit committee has the potential to improve the quality of financial reporting. By reviewing the financial statement on behalf of the board and to create a climate of discipline and control which 'will reduce the opportunity for fraud. ACs can also increase public objectivity of credibility and confidence in the financial statement. (Cadbury.1992)

It has often been seen as a consequences of reviews of, inter alia, alleged weakness in audit effectiveness that recommendations for ACs requirement have been made (e.g. Cadbury.1992), and actual outcomes in this area are therefore an important subject for evaluation. The potential for ACs to influence a number of factors concerning internal and external audit is illustrated by the following extracts.

Audit committees have the potential to provide a framework within which the external auditor asserts his independent in the event of a dispute with management [and] strengthen of the internal audit function, by providing a greater degree of independence from management. (ACs) offer added assurances to the shareholders that auditors, who acts on their behalf, are in a position to safeguard their interest (Cadbury.1992).

Audit committees have an important role to play in enhancing perceived independence of internal and external audit from operational management. (Price Waterhouse. 1997).

Increasingly, companies will be expected to demonstrate good government in order to access the World's capital markets. The fact that a company has an AC may boost investor confidence in its government practice' (Price Waterhouse. 1997)'.  
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In the U.S., the widespread publicity surrounding the failure of Enron (and, later, WorldCom) led to the enactment of the Sarbanes-Oxley Act (SOX 2002) in July 2002. While SOX addresses a variety of issues related to corporate governance, we focus on one specific issue: audit committees. Multiple sections of SOX deal with the composition and functioning of audit committees. Such legislative and regulatory interest in audit committees arises because the committee "plays a critical role in providing oversight over and serving as a check and balance on a company's financial reporting system" (SEC 2003). SOX and related regulatory changes, even if only codifying some of the "best practices" related to audit committees, substantially expanded the formal responsibilities and scrutiny of the audit committee.

Many commenters to the proposed SEC regulations expressed the fear that the changes would increase the reputational and litigation risks for audit committee directors and would dissuade qualified directors from serving on the committee (SEC 2003). There is some evidence that the behavior of audit committees changed after SOX. DeZoort *et al.* (2008) find that audit committee members are likely to provide greater support to the external auditor after SOX when compared to the results from a similar pre-SOX study. Further, when compared with the pre-SOX period, audit committee members in the post-SOX period noted greater responsibility for evaluating and resolving accounting issues, and also were more concerned with a need for conservative financial reporting. Cohen *et al.* (2010), based on interviews with auditors, state that "the corporate governance environment has improved considerably in the post-SOX era with audit committees that are substantially more active, diligent, knowledgeable, and powerful." In a later study, Cohen *et al.* (2013) report findings from interviews of audit committee directors. The authors note that there is a marked difference in the monitoring role of the audit committee in the post-SOX period, reflected in the form of increased interaction between the audit committee and the external auditor, as well as heightened attention to matters of audit and financial reporting addressed in such interactions. After citing another study (Tremblay and Gendron 2011) which found that such changes were less likely among Canadian audit committees post-SOX, Cohen *et al.* (2011) note that the differing results may be explained by legal and cultural differences. Such differences also suggest that it is worthwhile to examine

changes in audit committees following systemic shocks in other countries.

Satyam was characterized by both Indian and western media as "India's Enron" (e.g., Dasgupta 2009; Economist 2009; Forbes 2009; Wall Street Journal Asia 2009). The Satyam failure led to significant actions to improve corporate governance in India. The Council of Indian Industry (CII) set up a Task Force in February 2009 to recommend further improvements to Indian corporate governance standards and practices. Subsequently, in December 2009, the Ministry of Corporate Affairs issued the Corporate Governance Voluntary Guidelines based on the recommendations of the CII's Task Force.

Given the widespread media coverage and public outrage about the Satyam fraud, should we expect substantial changes in the composition and functioning of Indian audit committees after the Satyam failure? At least in form, corporate governance regulations in India are comparable to, and in some instances more stringent than, those in developed countries. Indian companies must produce compliance certificates unheard of in developed countries. These include: a statement from the directors that they are responsible for preparation of the financial statements, selection and application of accounting policies and maintenance of accounting records; a certificate from the auditors that the company has complied with corporate governance regulations; a certificate from an independent company secretary that the company has complied with the requirements of the company law and securities regulations. Studying the above research works the present researcher has become interested to know about the research works that has been pursued in India on this corporate governance mechanism. But it is revealed by the study that substantial works in this area is very scant and the requirement of this mechanism at various levels is neglected extensively in our country. Taking this as a growing area of research, the present researcher ventures upon the present work.

### **Objectives of the study**

The main purpose of the study is to reveal the significance and the requirements of ACs in improving the effectiveness of monitoring and boosting up of the user confidence in the governance practice. The present research is also intended to report the result of a questionnaire based study as to how ACs and their works are perceived by various groups like- The Chartered Accountants in public practice, CEOs, Bankers and Financial Journalists interested in the corporate governance mechanism and financial reporting processes. The paper also aims to analyze some of the international research evidence on the effects associated with the introduction of ACs in the corporate houses and seeks to evaluate the state of introduction of similar committees in Indian corporate houses.

### **Methodology**

The present study is based on both primary and secondary data. The secondary data are collected from various sources available e.g. Books, Journals, Reports etc. The primary data are collected through questionnaire based empirical survey.

**Formation and Mailing of Questionnaire:** The primary source of study as a means of data collection by mailing a

questionnaire to the different respondent groups which include the following main elements:

1. A series of questions designed to elicit opinions on the requirements of ACs and its role and functions on corporate governance broadly similar to those used in opinion surveys in other environment.
2. The set of questions which intends to identify what attributes respondents appear to associate most closely with the performance of ACs.
3. The questions also include the special circumstances asking respondents what actions they would anticipate that ACs would take in those circumstances.

The questions so designed have been directly mailed to various categories of respondents by general post and also by E-mail. The major components of the respondent groups were as under:

1. Chartered Accountants in major Indian cities.
2. Chief Executive officers [CEO]
3. Bankers involved in corporate leading.
4. Financial Journalists.

**Sample Size universe:** The 500 sample of Chartered Accountants has been taken through random sampling as listed in membership directory of Institute of Chartered Accountants of India. 200 CEOs were drawn from the list of major Indian companies listed in Bombay stock Exchange (BSE) and listed as largest companies as per Business Today survey. The sample of 50 Bankers have been selected by collecting Head Office addresses from different source and sample of 50 Financial Journalist have been selected by a manual search of leading financial newspapers and journals.

**Table L1:** Response Rates

Occupational group	Mailed	Usable Replies	Usable Response rate
CEO	200	87	43.5
Chartered Accountant	100	48	48.0
Banker	50	12	24.0
Financial Journalist	50	3	6.0
Total	400	150	37.5

Details of the distribution of the questionnaire and the responses obtained are given in the table.1. The overall usable response rate was 37.5%.

**Analysis of the Questionnaire Results:** As indicated in the objective, the purpose of the study is to provide about the perceptions of different occupational group as to the constitution of ACs in the India companies. Accordingly [chi-square test] as a powerful non parametric statistical tool is used to testify the views of the respondents in order to draw inferences on the following hypotheses framed.

**Hypotheses framed**

Ho<sub>1</sub>: There is no significant relationship between constitution of ACs and good governance.

Ho<sub>2</sub>: There is no significant association between non executive directors in ACs and reliability of financial reporting system.

Ho<sub>3</sub>: There is no significant relationship between intervention of ACs in the auditing process and the reliability of audit report.

**Present scenario of corporate sectors in India and audit committee**

As the global markets have re-evaluated corporate governance practices in developed countries, the awareness of and the need for better corporate governance in developing countries has gained momentum. As India begins to focus on the development of the private sector, strong corporate governance is a key part of increasing economic efficiency and efficiently utilizing domestic investment to achieve greater economic development. Good corporate governance practices will help develop and stimulate better business management, strategic management, and risk management. In the long-term, this will make Indian business more competitive.

One key element in improving economic efficiency is corporate governance, which involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance thus should facilitate effective monitoring; thereby encouraging firms to use resources more efficiently.

It is often argued that the auditing system in India is comprehensive and is thoroughly backed by the law in order to maintain the impartiality, objectivity and independence of statutory auditing process. Unfortunately, it has been observed over the time that the auditing system in India has become susceptible to various types of accounting manipulations, irregularities and leakages, therefore, harming the interests of investors and other stakeholders (Ganguli, 2001).

The revised Clause 49 removed the non-executive director requirement and instead specified that the audit committee have a minimum of three members with two-thirds of them being independent. The Companies Bill, 2009 (will become act once passed by the parliament of India) also endorses the same provisions of the size and composition of audit committee as recognized by the revised Clause 49. The major contentious issue related to the audit committees in India is lack of *independence and power*.

Even if not empirically tested, there is a general perception that a very significant proportion of the audit committee directors in India, though independent, are at the early stage of their directorship career, and hence they may not stand upright against managerial discretions. Similarly, if in a company such *greenhorn* independent director is also an accounting financial expert, then this would mount even more pressure on him, whereas, the other two *benchwarmer* directors would add free-rider dimension to the whole issue. As pointed out before. this area of research, in the Indian context. is almost unexplored.

**Some international research evidences**

The research evidence can be discussed in three sections such as the effects of ACs on the financial reporting, audit function and corporate governance.

**Effects on financial reporting**

It has been found in several studies that independently functioning audit committees can enhance quality of financial reporting, and which in turn increases informativeness of financial reports as existing and potential

investors react to the information conveyed through financial statements.

ACS can comment upon the approve choice of accounting policies and significantly influence the company's approach to financial reporting, levels of disclosure, adherence to standard practice, etc. ACs are expected to monitor the companies accounting processes, and compliance with corporate legality and ethical standastds including the maintenance of preventive fraud controls. Some extracts indicate the intended benefits of ACs in this area.

The audit committees of a companies board of directors can play a crucial role in preventing and detecting fraudulent reporting INCFRR, 19871

Audit committees have the potential to improve the quality of financial reporting, by reviewing the financial statements on behalf of the board and to create a climate of discipline and control which will reduce the opportunity for fraud. ACs can also increase public confidence in the credibility and objectivity of financial statements (Cadbury, 1992)

For India, the regulatory developments require to ensure that audit committee independence is of utmost importance if investors' faith is to be sustained. The recent corporate failures, have given a jolt to the investors in general and foreign investors in particular. Amendments in the current companies act should be made without further delay in order to provide a clear message to the firms, investors and other stakeholders.

**Effects on audit function**

It has often been seen as a consequences of reviews of inter alia, alleged weakness in audit effectiveness that recommendations for AC requirements have been made (e.g. Cadbury, 1992), and actual outcomes in this area are therefore an important subject for evaluation. The potential for ACs to influences a number of factors concerning internal and external audit is illustrated by the following extracts.

Audit committees have the potential to provide a framework within which the external auditor asserts his independence in the event of a dispute with management [and] strengthen the position of the internal audit function, by providing a greater degree of independence from management (ACs)

offer added assurances to the shareholders that the auditors, who acts on their behalf are in a position to safeguard their interests.' (Cadbur. 1992).

Audit committee has an important role to play in enhancing the perceived independence of internal and external audit from operational management'. (Price Water Houses, 1997).

**Effects on corporate governance**

The final area of potential impact concerns whether the existence of an AC as a governance mechanism results in better corporate performance or wealth effects for investors. We can quote the following extract in this regard. Increasingly, companies will be expected to demonstrate good governance in order to access the world's capital markets. The facts that a company has AC may boost investor confidence in its governance practice'. (Price waterhouse, 1997)'.  
Overall, there has been a consistent message from relevant literatures and evidence that ACs are encouraged to adopt and introduce in the company in order to have the good governance so that the stakeholders would get safety and security from scrupulous practices by the management of corporate houses.

the following hypotheses framed.

In table of results which follow, the significant differences at 5% level have been recorded, a significance level which meant that the Chi-squared value had to be lesser than 7.81 [given 3 degrees of freedom].

Respondents were asked to indicate their agreement or disagreement with each of the statements regarding AC requirements. All the arguments produced significant acceptance of the hypotheses and are shown in the table 1.2,1.3,1.3A, 1.4 and 1.5.

**Analysis of the questionnaire results**

As indicated in the objectives, the purpose of the study is to provide evidence about the perceptions of different occupational groups as to the constitution of ACs in the Indian companies. Accordingly [chi-square test] as a powerful non parametric statistical tool was used to testify the views of the respondents in order to draw inferences on

**Views about audit committee and its constitution**

**Table 1.2:** Audit Committee In The Company Should Be Constituted

Occupational Group	Strongly agree		Strongly Disagree		Total	Chi <sup>t</sup>
	%	Absolute figure	%	Absolute Figure		
CEO	88.5%	77	3A4%	3	87	6.509
Chartered Accountant	83.33%	40	8.33%	4	48	
Banker	41.56%	5	25.00%	3	12	
Financial	100.00%	Journalist			3	
Total	88.33%	125	6,67%	10	150	

Respondent giving neutral views are not taken into account for computing Chi<sup>2</sup>. 05,

The significant relationship related to the statement that AC in the company should be constituted [ Chi 2=6.509] — almost 89% of the CEO's 83% of the chartered accountants and 100% of the financial journalists showed their views in

favour of the statement. Overall 83% of the population agreed that there should be an AC duly constituted in the company.

**Table 1.3:** Audit Committee should comprise of non executive directors

Occupational Group	Strongly agree		Strongly Disagree		Total	Chi <sup>2</sup>
	%	Absolute figure	%	Absolute Figure		
CEO	89.65	78	3.45	3	87	
Chartered Accountant	85.42	41	8.33	4	48	
Banker	33.33	4	33.33	4	12	

Financial Journalist	100.00	3	0	0	3	
Total	84	126	7.33	11	150	
Respondent giving neutral views are not taken into account for computing Chi <sup>2</sup> . 05.						13.142

**Table 1.3A:** Audit Committee should comprise of non executive directors:

Occupational Group	Strongly agree		Strongly Disagree		Total	Chi
	%	Absolute figure	%	Absolute Figure		
CEO	89.65	78	3.45	3	87	
Chartered Accountant	85.42	41	8.33	4	48	
Financial Journalist	100.00					
Total	88.40	122	5.07	7	138	
Respondent giving neutral views are not taken into account for computing Chi <sup>2</sup> . 05.						3.856

The second hypothesis concerned the statement that the AC should comprise of non executive directors: 89% of CEOs, 85 % of chartered accounts and 100% of financial journalists agreed while the other user group was almost equally split on the issue [i.e. 33%] But in this case the CHI<sup>2</sup> test showed an absurd result shown in the table-1.3. Because of the low level of response from the financial

journalist and bankers, another check was made and omitted the bankers from the opinion list to ensure that the overall results from statistical analysis comparing the groups surveyed not biased by the said group. And due to this an auxiliary test was made as shown in the table 1.3A where the hypothesis significantly accepted [CI-II<sup>2</sup>= 3.856].

**Table 1.4:** The Intervention of Audit committee in the auditing process upgrade the reliability of the auditor's report

Occupational Group	Strongly agree		Strongly Disagree		Total	Chi <sup>2</sup>
	%	Absolute figure	%	Absolute figure		
CEO	79.31	69	6.90	6	87	
Chartered Accountant	68.75	33	25	12	48	
Banker	66.67	8	16.66	2	12	
Financial Journalist	66.67	2	-	0	3	
Total	74.67	112	13.33	20	150	
Respondents giving neutral views are not taken into account for computing Chi <sup>2</sup> 05.						6.892

The significant acceptance of the hypothesis was also apparent in the statement that the intervention of AC in the auditing process would upgrade the reliability of the

auditor's report [CHI<sup>2</sup>=6.892]. Largest portion of the population also showed their strong views in support of the statement. The overall agreement rate in this case is 74%.

**Table 1.5:** Audit committee comprising of non-executive directors improves auditors' independence.

Occupational Group	Strongly agree		Strongly Disagree		Total	Chi <sup>t</sup>
	%	Absolute figure	%	Absolute Figure		
CEO	91.95	80	4.60	4	87	
Chartered Accountant	93.75	45	---	0	48	
Banker	33.33	4	33.33	4	12	
Financial Journalist	100	3	--	0	3	
Total	88	132	5.33	8	150	
Respondent giving neutral views are not taken into account for computing Chi <sup>t</sup> . 05.						5.427

The Association of AC comprising of non executive directors also attributed to improve auditor independence [CI-112=5.427] Likewise 91% of the chartered accountants and 100% of the financial journalists agreed that the As comprising of non executive directors obviously helped in case of improvement of the auditor independence.

**Major findings of the present study**

The present work analyses a series of systematically developed statement of assertion in the questionnaire. The main purpose of which was to investigate whether an audit committee is required for an efficient corporate governance mechanism in Indian corporate. The empirical part of the present study along with the analysis of the secondary data has produced significant results about various issues relating to the need of the audit committee. The survey confirms quite clearly that there is significant need to the constitution of audit committees as a means of good governance mechanism in order to provide reasonable protection of

interest of the stakeholders in general and the interest of the residual claimants of the company in particular. The significant diversity of the views between the opinions of four occupational groups surveyed as reported by the major Findings of each part of the analysis of the survey questionnaire have been synthesized in order to draw conclusion on the results of survey and to suggest some remedial measures to be taken to construct a proper corporate governance atmosphere which can be seen as under:

The significant relationship related to the statement that AC in the company should be constituted [Chi<sup>2</sup>=6.509] — almost 89% of the CEO's 83% of the chartered accountants and 100% of the financial journalists showed their views in favour of the statement. Overall 83% of the population agreed that there should be an AC duly constituted in the company.

1. The second hypothesis concerned the statement that the AC should comprise of non executive directors: 89% of

CEOs, 85 % of chartered accounts and 100% of financial journalists agreed while the other user group was almost equally split on the issue [i.e. 33%]. But in this case the CHI' test showed an absurd result shown in the table-1.3 Because of the low level of response from the financial journalist and bankers, another check was made and omitted the bankers from the opinion list to ensure that the overall results from statistical analysis comparing the groups surveyed not biased by the said group. And due to this an auxiliary test was made as shown in the table 1.3A where the hypothesis significantly accepted [ $CHI^2= 3.856$ ].

2. The significant acceptance of the hypothesis was also apparent in the statement that the intervention of AC in the auditing process would upgrade the reliability of the auditor's report [ $CHI^2=6.892$ ]. Largest portion of the population also showed their strong views in support of the statement. The overall agreement rate in this case is 74%.
3. The Association of AC comprising of non executive directors also attributed to improve auditor independence [ $CHI^2=5.427$ ]. Likewise 91% of the chartered accountants and 100% of the financial journalists agreed that the ACs comprising of non executive directors obviously helped in case of improvement of the auditor independence.

### Suggestions and recommendations

On the basis of our observation in the current corporate governance environment and formation of audit committee, we have following recommendations regarding formation of audit committee and improvement of corporate sector in India:

1. An independent audit committee is one of the important mechanisms in this respect. It is expected to satisfy the need of both internal and external users of financial statements. Prior studies have documented the importance of the independence of audit committee members for maintaining the integrity and quality of the corporate financial reporting process (e.g., Klein, 2002; Carcello and Neal, 2003, 2000; Dechow *et al.* 1996; Defond and Jiambalvo, 1991) Committee members should understand the difference between the oversight function of the committee and the decision-making function of management, and must be willing to challenge management when necessary (BRC, 1999).
2. We have already mentioned that only single independent member is sufficient enough in the audit committee among total members of 3 or more. Under the existing situation and practices in India, we express our favor for having at least two third independent members in the audit committee.
3. Audit committee must have a financial expert as member who possesses either professional qualification or experience preparing, auditing, analyzing, or evaluating, financial statements; and have an understanding of audit committee functions.
4. There should be such provision that, audit committee need to report semiannually or annually to the stipulated regulatory authority regarding any matter which has material impact on the financial condition, results of operation and on future risk and profitability of the business. It should be counter-signed by the CEO and the chairman of the committee. Provision regarding

this issue available in current regulations, but it is not mandatory.

5. Audit committee should have the scope and authority to provide commentary or interpretation on any unsolved issue on which either the board and management, or the board and minority shareholders are not unanimous.
6. The Securities and Exchange Board of India (SEBI) need to be strengthened so that it can devise and enforce a code for good corporate governance.
7. Stock exchange can update their listing criteria to ensure proper function of audit committees in corporate sector.

In these days of growing competition and integration with global markets, the NEDs (Non-Executive Directors) are supposed to act as the eyes and ears of the chairman. They should convey their experts views on different matters to the chairman in order to strike a proper balance between company's mission and competitive edge with transparency and accountability. They should protect the interest of not only the shareholders but also of all the stakeholders. Non-executive directors should brine an independent judgment to bear on issues of strategy, performance resources, including key appointments, and standards of conduct. The majority should be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding. Their fees should reflect the time, which they commit to the company.

### Conclusion

The questionnaire survey has revealed a wealth of result about the constitution of ACs in the Indian companies. The survey confirms that there is significant need to the constitution of audit committees as a means of good governance mechanism in order to provide reasonable protection of interest of the stakeholders in general and the interest of the residual claimants of the company in particular. In the Indian context the Birla committee's recommendations are both thoughtful and practical. The code of corporate governance advanced by the Birla Committee will go far to improve the ability of audit committee's to perform their job and thereby help to have a good governance in the company and to eliminate the expectations gap to a reasonable extent.

The overall conclusion from the assessment of the international evidence on the corporate governance effects of ACs as well as the current survey result is that the findings are either inclusive or very limited. While research attempting to identify generalized patterns, for example of AC formation, undoubtedly has value, there is also a case for focusing attention on where practice deviates from norm. There is considerable scope for further study of AC effects on all aspects of audit process. Future research should focus into the effects of quality methodology employing the use of case studies and interviews. In particular, case may allow identification of specific independence and audit process effects and recognition of the AC with other practices such as executive management and auditors. There is an ample scope for further research regarding the adoption and introduction of ACs in the Indian scenario taking whole organizational and institutional context in which particular effects are encountered which would provide a more systematic and robust basis for discerning the value of ACs

as a powerful and fruitful mechanism of corporate governance.

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