Factors influencing audit committee reporting in France and the UK

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Abstract

Audit committees have received increasing attention from the public as well as the academic community since the introduction of the Sarbanes-Oxley Act in 2002. At first, the attention was directed to the reasons why companies form audit committees and the committees' characteristics. More recently, the focus has shifted towards their reporting practices. This thesis explores previous research, corporate governance codes and annual reports to come to an index containing 53 items that I expect audit committees to report on. The sample consists of 100 publicly listed companies from the UK and France. These countries have been chosen because they have a voluntary disclosure regime, which enables me to study the effect of different variables on the disclosure practices. A descriptive analysis shows that certain items, like the composition of the audit committee and the number of meetings, are often disclosed in detail. In contrast, the selection and appointment process of the committee members, and less well-known tasks, such as oversight of the code of ethics, are not regularly disclosed. Examination of the presentation of the information shows that (1) not all information relating to audit committees is presented in one clear section of the annual report, (2) the detail of the information reported largely varies per annual report, and (3) there are differences in the surveyability of the information presented. Therefore, the presentation of the information does not add to its quality and accessibility. The results of a multivariate analysis show that (1) UK companies in general provide higher levels of disclosure than French companies, and (2) companies that are cross-listed in the US in general provide higher levels of disclosure than companies without a cross-listing.

Contents

1. Introduction

Currently, audit committees of publicly listed companies receive much attention. Scandals, like Enron, have called for more effective corporate governance to increase investor protection. In the U.S., audit committee responsibilities have strongly increased after the introduction of the Sarbanes-Oxley Act (SOX) in 2002. This legislation followed on the abovementioned scandals and the report of the Blue Ribbon Committee on improving the effectiveness of corporate audit committees (BRC). In this report the BRC states that an audit committee *"is neither intended nor equipped to guarantee with certainty to the full board and shareholders the accuracy and quality of a company's financial statements and accounting practices"*, but that *"the audit committee, as the first among equals, oversees the work of the other actors in the financial reporting process -- management, including the internal auditor, and the outside auditors -- to endorse the processes and safeguards employed by each"* (Blue Ribbon Committee, 1999, p. 42). Audit committee oversight is seen as a major contributor to increased investor protection since, besides the oversight of the financial reporting process, their duties include the appointment, independence and effectiveness of the external auditor (Keegan & Degeorge, 1998). These responsibilities increase the likelihood that investors receive reliable financial information.

Increased attention is given to audit committees in research since the BRC report and the implementation of SOX. A large part of this research focuses on audit committee characteristics (e.g. financial expertise and independence of members, and meeting frequency) and audit committee effectiveness (e.g. Collier & Gregory, 1996; Crawford, Henry, McKendrick, & Stein, 2008; Sharma, Naiker, & Lee, 2009; Van Gansbeke, Eueraert, Sarens, & De Beelde, 2008). A less researched area that will serve as topic for this research is audit committee reporting. Reporting on audit committees is important. Jeremy Daroch, the audit committee chairman of Marks and Spencer, states in the annual report (p.59): *"Our oversight of management and financial reporting enables us to give shareholders the necessary assurances"*. However, only the shareholder himself can judge whether he thinks that the audit committee has performed its duties good enough to provide this assurance. Reporting is the best way to provide a shareholder with the necessary insight in the work the

audit committee has performed during the year. Audit committee charters specifying the responsibilities of the audit committee are available on the website of most companies. However, what audit committees actually do can diverge from what they should do (Carcello, Hermanson, & Neal, 2002). Furthermore, in their study Menon and Williams (1994) find that many companies which voluntarily form an audit committee, do not actually rely on them. In other words, the audit committee could be there just for the image. Thus, without information on what the audit committee has been doing, it is still not possible to conclude whether it has contributed to better corporate governance, neither can the audit committee provide a higher degree of certainty to the shareholder that the information reported is reliable. Consequently, it is very important to study the current status of audit committee reporting and to what extent this information is valuable to investors. Limited research on the audit committee reporting practices of U.S. companies already exists (e.g. Pandit, Subrahmanyam, & Conway, 2005; Zabihollah, Kingsley, & George, 2003). Since the U.S. climate is rule-based, a clear expectation can be formed about what is and is not included in the average audit committee report. However, in Europe, with its more voluntary reporting climate, differences can exist, and to date research has not examined the audit committee reporting practices of European companies in much detail. Therefore, this explanatory study will provide a first overview of the current status of audit committee reporting in Europe by addressing the following research question:

What information do audit committees of UK and French companies include in their annual report and what factors influence the extent of audit committee reporting?

To answer the first part of the question, a disclosure index is developed following Cooke (1992). This disclosure index, which can be found in Appendix A, contains 53 items I expect audit committees to disclose, based on the tasks that are generally accepted to be addressed by audit committees. To come to this list, audit committee reporting literature, annual reports and corporate governance codes are examined. 100 annual reports from companies in the UK and France are then selected and rated based on the disclosure index.

The use of a disclosure index to evaluate the quality of audit committee reporting is an approach not used before. Literature to date has only presented a descriptive analysis of the presence of selected items in the audit committee reports. Furthermore, the thesis will take a broader perspective by examining all the audit committee related information in the annual report, and not only the information included in the audit committee report. Surely, a clearly distinct paragraph or report explaining the audit committee practices will largely enhance the value of the information to investors. The presentation of the information will therefore also be examined.

This thesis will provide a descriptive analysis of the disclosure in the nine categories of the disclosure index. The results show that the level of disclosure varies a lot per category and per item. In general, most audit committees report information on their composition and meetings (e.g. frequency and members' attendance). Regarding the authorities of the audit committee, for example to consult internal and external sources, lower levels of disclosure are found. Another striking result is that the audit committees hardly provide any conclusions on the findings of their work. Furthermore, a qualitative analysis of the presentation of the audit committee information shows that much improvement can be made in this area. Well-structured information that is presented in one report or paragraph in the annual report will greatly enhance the value of the information to investors.

To answer the second part of the research question, which concerns the factors influencing reporting practices, audit committee and voluntary disclosure literature will be studied to identify possible factors that influence the level of audit committee disclosure. To my knowledge there is only one study that examines the relationship between audit committee or company characteristics and audit committee reporting. This study uses a logit regression model to examine the influence of several variables on the chance that one specific item is reported. In general, voluntary disclosure increased for depository institutions, larger companies, companies listed on the New York Stock Exchange (NYSE) and more independent audit committees (Carcello, et al., 2002). To increase the basis for the research conducted in this thesis, articles relating to voluntary disclosure in other reporting areas are studied to identify possible influential variables. For example, Mangena & Pike (2005) examine the effect of several variables on interim financial disclosures. Audit committee financial expertise,

institutional shareholdings, the involvement of the external auditor, company size and a multiple listing status have a positive influence on the disclosures, while shareholdings by audit committee members have a negative effect. For audit committee size no significant relationship is discovered.

In the regression analysis conducted in this thesis the effect of audit committee variables (size, independence, meeting frequency and remuneration) and company variables (size, leverage, listing status, industry, auditor, concentration of ownership and country) on the score obtained in the disclosure index are studied. The results show that this disclosure score is higher when the company is from the UK and listed on the NYSE or the NASDAQ.

The results will be of importance to audit committees and people relying on their work for two reasons. First, since they give an impression of the current state of audit committee reporting, audit committees can compare their own reporting practices to the average reported. This can give them an idea of whether their reports are of a level that meets investors' needs. In the same way investors can judge the quality of a specific audit committee report. Second, by combining many audit committee tasks that have been the subject of discussion to date in one index, it will be easier for audit committees to consider whether it might be necessary to perform a broader range of tasks.

Apart from giving a valuable insight in the current state of audit committee reporting, this thesis also forms a basis for future research that can help to better align the reporting practices of audit committees with the information needs of investors.

The remainder of this thesis is organized as follows; in the next chapter an overview of the audit committee reporting, voluntary reporting, audit committee formation and audit committee effectiveness literature will be given. Then the research design is discussed, followed by the presentation of the results. Finally, the discussion section will provide a conclusion, and will discuss the implications and limitations of the study, as well as directions for future research.

2. Literature review

This literature review will consider four bodies of literature. First, the existing literature concerning audit committee reports, to which this study directly adds, is examined. Since the number of articles in this area is limited, secondly, other disclosure literature is examined to have a background for setting up the study in this thesis and for identifying possible variables to include in the research. These variables that influence the voluntary disclosure practices of companies are also found to influence a company's choice to form an audit committee. Limited research exists in this area, which is discussed in the third section of this chapter. Lastly, this review discusses literature relating to audit committee effectiveness. The purpose of this thesis is to identify audit committee characteristics that influence the extent of audit committee reporting. More effective audit committees might be willing to demonstrate their efforts to shareholders to increase their trust in the financial information presented, and therefore report more. Consequently, it is important to determine which audit committee characteristics are considered to have an influence on audit committee effectiveness.

2.1 Audit committee reporting literature

Literature on audit committee reporting to date is scarce, and mainly discusses audit committee reporting in a U.S. environment. In the U.S., legal requirements are applicable to audit committees. After the passage of SOX in 2002, the audit committee is required to consist entirely of independent members, to pre-approve audit- and non-audit services, and to set procedures for handling complaints related to accounting and auditing issues. Furthermore, the audit committee is responsible for the appointment, compensation and oversight of the work of the external auditor, and should be authorized to receive advise and independent counsel when they consider this necessary to perform their duties (Pandit, et al., 2005). In the years before SOX, disclosure of audit committee information was not common. Studies conducted in the 90s, find only very few firms (less than two percent) which include an audit committee report in their annual report (Castellano, Roehm, & Vondra, 1989; Kintzele, 1991; Rezaee & Farmer, 1994). Turpin and DeZoort (1998) find that size, whether a firm is traded on a major stock exchange, whether there are large management shareholdings, and the proportion of outside directors on the board are

factors that influence whether a firm discloses an audit committee report. It will be interesting to see whether in this thesis, which uses a sample 15 years later and with European instead of U.S companies, the same factors are found to be of influence. The next section will discuss more voluntary disclosure literature.

Since 1999, companies in the U.S. are required to include an audit committee report (Carcello, et al., 2002), and therefore the focus of the research has changed from studying the presence of an audit committee report to studying its content. One area of disclosure considered is the composition of the audit committee. This information is important to investors because it helps them assess the trustworthiness of the audit committee. Independence is important because the fact that audit committees critically evaluate managers is likely to increase the trust of investors. What is understood by independence is usually defined in the corporate governance code of a country. This is also the case for France and the UK. Both codes state that a director is independent when there are no relationships or circumstances that could influence his judgment. Examples of such relationships are work relationships (i.e. having been a director of the company in previous years, or receiving compensation other than a director's fee) and family relationships. Furthermore, to be able to evaluate the financial reporting practices of the company the members need to have the relevant expertise. According to the BRC the term expertise *"signifies past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a CEO or other senior officer with financial oversight responsibilities"* (Blue Ribbon Committee, 1999, p. 29). The corporate governance code of the UK only states that at least one member of the audit committee needs to have *"recent and relevant financial experience"* (Financial Reporting Council, 2008, p. 23). No further guidance is given on what is recent and relevant financial experience. The French code states that the members of the audit committee should be *"competent in finance or accounting"*, also without further guidance (Association Francaise des Entreprises Privees/MEDEF, 2008, p. 29).

Research finds that the number of audit committee members often has to be derived from the members' signatures at the end of the audit committee report. This is the case both before and after the implementation of SOX (Pandit & Subrahmanyam,

2005; Pandit, Subrahmanyam, & Conway, 2006). Since the introduction of SOX more companies made a disclosure regarding the independence of members. The same is true for the presence of a financial expert on the committee (Pandit, et al., 2005).

Another item discussed in research is the number of audit committee meetings. Carcello et al. (2002) find that just over half of the audit committee charters specify a minimum number of meetings to be held during the year. Zabihollah et al. (2003) find the same. Reporting on the actual number of meetings held is much higher in the Carcello et al. study, with only one percent of the companies not disclosing this number. Pandit et al. (2005) find that although the percentage of reports that mention the number of meetings held increased, it is still only 26%. This is a striking finding. Both studies use a sample of randomly selected firms, which are all listed on an American Stock Exchange. The Pandit et al. (2005) study is conducted after the implementation of SOX, while the Carcello et al. study uses data from 2001, which is before the existence of the SOX requirements. Therefore, one would expect to see an improvement in reporting rates, instead of this decline of over 70%.

The next important disclosure area relates to the tasks of the audit committee. An essential part of these tasks is related to the external auditor. In general, the audit committee should be involved in the appointment of the external auditor, and it should review his expertise, performance, compensation and provision of non-audit services. Carcello et al. (2002) find relatively high compliance with mandatory disclosure items relating to the external auditor. Reporting on voluntary items is also quite high in the audit committee charters, but those items are found in less than half of the reports. Pandit et al. (2005) report an increase in reporting about appointment and compensation of the auditor. However, Pandit et al. (2006) find that less than half of the companies report these responsibilities in their report, although they consider it likely that the information is included in the remainder of the annual report, which is not examined in their research. Regarding independence of the auditor, companies are found to report the responsibility of the audit committee to monitor independence, but a conclusion regarding this subject is not always given (Pandit & Subrahmanyam, 2005; Pandit, et al., 2005, 2006). For the external auditor to provide non-audit services, pre-approval of the audit committee is usually necessary. One study finds a

clear increase in reporting this issue after the implementation of SOX (Pandit, et al., 2005), the other studies do not examine reporting on non-audit services.

Another important audit committee task is the oversight of the financial reporting process. The audit committee should review the financial statements and discuss those with management and the external auditor. According to Carcello et al. (2002) compliance with required items (review of financial statements and discussing them with the external auditor, and recommending to the board that the financial statements are to be included in the 10-K filing) is quite high. The same results are found by Zabihollah, Kingsley, and George (2003). Review of interim financial statements is included as an audit committee task in 72% of the charters, but not even 10% of the audit committees include any information related to this item in their report. Review of accounting changes is only found in one audit committee report (Carcello, et al.). The other audit committee reporting research does not examine the financial reporting issue, maybe because under SOX there is no requirement to report on this. Still it is an important area and the abovementioned items will be included in the disclosure index applied in this thesis.

Also hardly studied in audit committee reporting research is the oversight of internal control. It is only mentioned by Carcello et al. (2002), who find reference to this task in almost all charters, but in less than half of the reports. The absence of this item in the literature after 2002 is striking, since the implementation of SOX could be expected to have led to more attention to internal control, also in research.

More attention was given to issues that are probably less well known as being the responsibility of the audit committee. One example is the task to develop procedures for the correct handling of employee complaints. Studies by Pandit and Subrahmanyam (2005) and Pandit et al. (2005, 2006) find no reports that include this task both before and after SOX. Audit committee authority (for example to hire independent counsel) and compensation are also not regularly found in audit committee reports (Pandit, et al., 2006).

Most of the research also addresses the fact that audit committee reports vary considerably in length and presentation of the information (Pandit & Subrahmanyam,

2005; Pandit, et al., 2005, 2006). It is also found that some reports include a disclaimer (Pandit, et al., 2005; Zabihollah, et al., 2003). Although not included in the disclosure index, these are issues that this thesis will shortly address.

In general, this thesis will add to the most recent literature by taking a more empirical approach to examine which factors are of influence on the audit committee reporting practices, rather than to limit itself to a description of the items reported. An empirical study examining reporting in audit committee charters and reports does exist, but the approach taken is different. The study of Carcello et al. (2002) uses a logit regression analysis to test the influence of certain variables on each disclosure item. In this thesis a disclosure index will be constructed to examine the entire disclosure results. Furthermore, the research discussed focuses on the U.S., while the thesis will examine reporting practices in the European context, more specifically the UK and France, which has a more voluntary reporting environment. An early study by Turpin and DeZoort (1998) evaluates the characteristics of firms which voluntarily disclose an audit committee report. Size, listing on a major stock exchange, management ownership of stock and the proportion of outside directors on the board are of influence in this respect. An overview of literature relating to voluntary disclosure in other areas is given in the next section.

2.2 Other voluntary disclosure literature

As indicated before, to date there is not much research on audit committee reporting. Since audit committee reporting in the UK and France is to a large extent voluntary, other voluntary disclosure literature is discussed to identify factors that can be of influence on companies' voluntary reporting practices.

Companies are required to annually disclose financial statements. However, there is also a lot of information that is of interest to investors for which there is no obligation to disclose it. Many companies still decide to disclose this kind of information. A reason for this could be that the company feels it has taken actions that might increase the quality of financial reporting. To enhance the trust of investors in the company's information, disclosing this could be beneficial. According to Meek, Roberts, and Gray (1995) when deciding on whether to disclose certain information or not, companies evaluate the costs and benefits associated with it. Not only are there costs

related to the gathering and processing of information, some information disclosures can lead to a competitive disadvantage or increased government regulation. Sometimes companies disclose more because they are subject to different disclosure requirements, or they are trying to attract more (international) capital (Meek, et al., 1995). Kent and Stewart (2008) discuss additional theories. It was long thought that firms were only concerned with the value of their firm, and that they thus tried to maximize this value, by disclosing all information that could be relevant. However, there seem to be other factors involved like the political, social and institutional environment in which the company operates, and the need to meet expectations posed by society (Kent & Stewart).

It is possible to capture most of the variables examined in the voluntary disclosure research in 5 categories: audit committee characteristics, board characteristics, external auditor, company characteristics and ownership structure. Findings of the literature for each category are discussed in this section.

2.2.1 Audit committee characteristics

Audit committee characteristics are not included as variables in many of the studies. Ho and Wong (2001) examine only the existence of an audit committee, which is found to be of significant influence on the extent of voluntary disclosure of companies in Hong Kong. Of the three characteristics (independence, size, and meeting frequency) studied by Bronson, Carcello, and Raghunandan (2006) only meeting frequency is found to be of influence on the likelihood that an American company voluntarily discloses a management report on internal control. In the third section of this chapter one will see that finding an insignificant result on audit committee size is not unsurprising. Results for the other two variables are found to be inconsistent throughout the literature.

2.2.2 Board characteristics

A strong corporate governance structure is commonly expected to increase the quality of disclosure. On the one hand this could be due to the fact that management wants to disclose this to increase investor trust in the company. On the other hand, a stronger corporate governance structure is often related to the presence of independent

directors on the board, who may be more concerned with the best interest of the investor, and therefore urge for more disclosure (Donnelly & Mulcahy, 2008).

The proportion of independent (non-executive) directors (INDs) on the board is an often-used variable, due to the fact that a more independent board is expected to be more concerned with the investors' interest. Indeed, most studies, conducted in a variety of countries, find a positive relationship between this variable and the extent of voluntary disclosure (e.g. Donnelly & Mulcahy, 2008; Eng & Mak, 2003; Lim, Matolcsy, & Chow, 2007).

Related to independence of board members is managerial ownership. Although one might say that share ownership impairs independence, it is often expected to reduce voluntary disclosure. When the stake a manager has in the company is larger, there is better alignment with the interests of the outside shareholders. Therefore, the need for outside monitoring is reduced, which also reduces the pressure to disclose more information than is legally required (Deumes & Knechel, 2008; Donnelly & Mulcahy, 2008; Eng & Mak, 2003). This negative relationship is confirmed by Eng and Mak, and Gul and Leung (2004), in two Asian studies. The Dutch sample used by Deumes and Knechel provides the same result. Donnelly and Mulcahy find no significant relationship in an Irish sample.

It is generally expected that when one person takes the role of both chairman of the board and CEO (CEO duality), this person could withhold important information from outsiders, and this duality will therefore reduce disclosure quality (Ho & Wong, 2001). This negative relationship is confirmed in some studies (e.g. Forker, 1992; Gul & Leung, 2004), while other studies find no significant results (Cheng & Courtenay, 2006; Ho & Wong, 2001).

Another board variable, which less research examines, is board size. In general, results are weak (Cheng & Courtenay, 2006; Donnelly & Mulcahy, 2008; Lim, et al., 2007).

2.2.3 Auditor

The external auditor is also seen as an important influence on the financial disclosure practices of the company, since it is this auditor that should make sure companies comply with the applicable regulations. Larger audit firms are expected to be better able to remain up to date with the requirements, and be more concerned about their reputation, due to the larger number of clients they serve. This would lead to more conservatism and higher demands of the external auditor on the firms' disclosure (Kent & Stewart, 2008). Most research thus distinguishes between large and small audit firms, with large audit firms usually considered to be the Big Eight/Six/Five/Four (depending on the year(s) the research focuses on). Raffournier (1995) examines a sample of Swiss companies in 1991, when there was still a Big Six. In their study there is indeed a positive relationship between the size of the audit firm and voluntary financial disclosure. The same result is reported by Inchausti (1997). Wallace, Naser, and Mora (1994) and Eng and Mak (2003) find insignificant results.
Results for studies including a Big Five or Big Four dummy generally report insignificant results (Chau & Gray, 2002; Gul & Leung, 2004; Lim, et al., 2007). Kent and Stewart consider as large audit firms the Big Four firms, and the first and second mid-tier firms. They find a positive relationship between these large firms and the extent of disclosure on the transition to Australian IFRS. Overall, not many studies conclude that there is a relationship between voluntary disclosure and the auditor. However, when a relationship is found it is always positive.

An exception to all these studies examining the size of the auditor is the study of Mangena and Pike (2005), who expect and find greater disclosure in interim reports when these are reviewed by an external auditor (as opposed to non-reviewed statements).

2.2.4 Company characteristics

Company variables relating to the structure of the business and its financial position are often used as control variables. The most important variables are discussed here.

Company size is one of these often-quoted variables that are of influence on the extent and quality of disclosure. Several reasons are given for this. First, the costs of disclosing more information in relation to firm size will decrease (Mangena & Pike,

2005; Wallace & Naser, 1995) because larger firms are likely to be more complex, which increases the demand for an effective management information system (Cooke, 1989a) and the chance that the information reported is already produced for internal purposes (Raffournier, 1995). At the same time the competitive disadvantage related to more disclosure is smaller (Meek, et al., 1995). Also, for larger companies there is a higher chance of dispersed ownership, which could lead to more (voluntary) information disclosure to decrease associated agency costs (Cooke, 1989b; Mangena & Pike). Larger firms might also disclose more to reduce the chances of political action (Wallace, et al., 1994). The vast majority of studies find a result in line with the above expectation (e.g. Baginski, Hassell, & Kimbrough, 2002; Chow & Wong-Boren, 1987; Cooke, 1989a, 1992; Eng & Mak, 2003; Mangena & Pike; Schadewitz & Blevins, 1998).

Forker (1992) hypothesizes an opposite relationship between size and disclosure quality. According to him, larger firms will have larger collection costs and therefore produce information of lower quality. Also, the threat of takeovers is larger for smaller firms, which would therefore provide higher disclosure quality. The conducted study finds some support for this reasoning (Forker). Interestingly, Forker's study examines American companies, while most of the studies discussed above that find a significant positive result are European oriented.

To avoid being seen as a 'lemon' (Akerlof, 1970) more profitable companies are likely to disclose more information (Gray, Meek, & Roberts, 1995; Mangena & Pike, 2005). On the other hand disclosure could be a means for companies to report losses (Inchausti, 1997; Mangena & Pike). Evidence for either direction is weak. Both Cheng and Courtenay (2006) and Raffournier (1995) find some evidence that profitable firms disclose more information. A positive relationship between profitability and voluntary disclosure is documented by Haniffa and Cooke (2002). Support for the latter direction is found by Cheng and Jaggi (2006) who report that firms with a lower return on equity (ROE) are associated with more comprehensive disclosures, and Gul and Leung (2004) who also find that firms that report a loss have a higher voluntary disclosure rate. Other studies find no significant relationship (e.g. Gray, et al., 1995; Inchausti; Mangena & Pike; Wallace, et al., 1994).

Wallace et al (1994) find a positive relationship between debt and the level of disclosure. This can be explained by the fact that management tries to reduce agency costs caused by the presence of debt, by providing a higher level of disclosure (Mangena & Pike, 2005). Deumes and Knechel (2008) also find an increase in voluntary reporting on internal control when the level of debt increases. Some studies predict a negative relationship because debt reduces the free cash flow of the firm and therewith agency costs (Eng & Mak, 2003; Meek, et al., 1995). Other research finds no relationship between debt and disclosure (e.g. Chen & Jaggi, 2000; Chow & Wong-Boren, 1987; Raffournier, 1995).

Some studies examine the liquidity of a company. Two effects may be visible. On the one hand, firms that are in a stronger financial position will be more willing to disclose information relating to this. On the other hand, there might be more pressure on financially weak firms to explain this weaker position (Wallace, et al., 1994). Wallace et al. find evidence for the latter relationship. Two other studies do not find a significant influence (Gul & Leung, 2004; Mangena & Pike, 2005).

Industry is a variable that is included in studies more often, because the nature of the industry is thought to vary the requirements for disclosure (Wallace, et al., 1994). There is a large variety in the number of groups, and the kind of industries examined. For example, Bronson et al. (2006) include eight industry dummies, while Mangena and Pike (2005) study four industries. Other studies (e.g. Cooke, 1992; Gul & Leung, 2004) examine only one industry. Concerning the kinds of industries examined there does not seem to be a clear pattern of specific industries used for specific countries. Manufacturing for example is an often included industry, and is used in studies examining Switzerland (Raffournier, 1995), the U.S., UK and continental Europe (Mangena & Pike), Australia (Lim, Matolcsy, & Chow, 2007), and Hong Kong (Ho & Wong, 2001). Results are also mixed. Some studies find clear evidence for a relationship with the extent of voluntary disclosure (Cooke, 1992; Kent & Stewart, 2008), sometimes the results are not very strong (Meek, et al., 1995), and other studies find no influence at all (Gul & Leung; Mangena & Pike).

Quite some literature also examines the influence of a company's listing status. A listing can lead to more disclosure, because it can imply that more rules apply to the

specific company (Wallace, et al., 1994). Furthermore, listed companies are more closely watched by the public, which increases their need to provide adequate disclosure (Cooke, 1992). Lastly, when a company is listed, the number of shareholders is likely to be larger. This increases monitoring costs, which a company will seek to reduce by their disclosure practices (Cooke, 1993). As an exception to most studies, Wallace et al. examine the difference between firms that are listed on an Italian stock exchange and firms that are not listed. They find that listing status increases voluntary disclosure. Most studies examine the effect of multiple listings on disclosure practices. The results in this area are strong. Whether the sample used is European (Inchausti, 1997; Mangena & Pike, 2005; Meek, et al., 1995), Japanese (Cooke, 1992, 1993) or American (Turpin & DeZoort, 1998), the results are positive. Cooke (1989b) even finds that for Swedish companies multiple listing is (one of) the most important variables that influence disclosure. Contrary to these studies, Gul and Leung (2004) find no significant result for listing status. The authors do not discuss any possible reasons for this deviant finding. However, it is likely that these are caused by the fact that the study is conducted in Hong Kong, where at that time (the sample consisted of companies' 1996 annual reports) there was little attention to corporate disclosure, and listing requirements were less strict than those in the U.S. (Gul & Leung). This can explain why there is not much difference in disclosure between listed and unlisted companies.

Other variables that are used in limited research are for example diversity of operations (Boesso & Kumar, 2007; Kent & Stewart, 2008), multinationality (Meek, et al., 1995; Raffournier, 1995), growth possibilities (Bronson, et al., 2006; Schadewitz & Blevins, 1998) and market risk (Schadewitz & Blevins). Based on these studies it is not yet possible to make conclusive statements about the influence of these factors.

2.2.5 Ownership structure

The last factor discussed in this part of the literature review is ownership structure. Influence on the extent of disclosure can arise because of ownership diffusion or concentration. When ownership is more dispersed, there is a greater likelihood of small shareholders being present, which do not have the resources or time to closely monitor the company. Therefore, the demand for disclosure will increase. Generally, a

positive relationship is thus expected between the diffusion of ownership and the extent of voluntary disclosure. This relationship is confirmed by Deumes and Knechel (2008). However, Raffournier (1995) and Eng and Mak (2003) do not find evidence for this relationship to exist.

Another effect is expected to be found when there are specific groups of shareholders. An example is share ownership by institutional investors. This are companies that have the resources to monitor the company, and due to their normally larger stake can influence managerial actions. Furthermore, the nature of the companies makes them better able to evaluate the financial information provided by the company. Therefore, their demand for (high quality) information will be higher (Donnelly & Mulcahy, 2008). Results found in the literature are mixed. Mangena and Pike (2005) and Bronson et al. (2006) respectively report increased interim disclosure and a larger chance of the inclusion of a management report on internal control when institutional investors are among the shareholders. Donnelly and Mulcahy do not find a significant result.

Another form of ownership is that of family ownership. Chen and Jaggi (2000) consider there is family ownership when at least ten percent of the shares are family-owned and at least one family member serves on the corporate board. They find that there is a positive relationship between the number of INDs on the board and that this relationship is stronger when a firm is family-owned.

2.3 Audit committee formation literature

Many of the variables discussed above also appear in literature that studies factors that influence a company's decision to form an audit committee. The reasoning behind the expected influence of the variables is largely the same as in the research discussed in the previous section. Therefore, only the main findings are presented in this paragraph, except when the studies discussed present different theories. In line with the above research the proportion of independent board members is generally found to be of significant positive influence on the formation of audit committees (Chau & Leung, 2006; Collier, 1993; Pincus, Rusbarsky, & Jilnaught, 1989). Two of these studies, conducted in the US and the UK respectively, also study the influence of managerial ownership and find a significant negative relationship with audit

committee formation (Collier & Gregory, 1999; Pincus, et al., 1989). Adams (1997) studies a sample of publicly listed New Zealand companies and finds an insignificant result. Collier also studies the effect of CEO duality, for which some voluntary disclosure studies find a negative influence. In this case the result is insignificant. The last board characteristic discussed in the previous section is board size. In general results were found to be weak. In contrast, Bradbury (1990) finds that a larger board increases the chance that a company voluntarily forms an audit committee.

Research suggests that audit committees favor the appointment of a large audit firm (e.g. Eichenseher & Shields, 1985; Lynn, 1985), which leads to the expectation that only when a firm has a large auditor, an audit committee is formed. This idea is confirmed by two US studies (Eichenseher & Shields; Pincus, et al., 1989), while in the UK and New Zealand insignificant results are found (Bradbury, 1990; Collier, 1993).

A third group of variables relates to the company itself. One of them is firm size. Most studies discussed in the previous section find a positive result between size and voluntary disclosure. For audit committee formation, results are mixed. Pincus et al. (1989) and Adams (1997) find a significant positive result. The results in Collier (1993) and Bradbury (1990) are insignificant. The same four studies consider the influence of leverage, which is expected to be positive. Only in Bradbury this hypothesized relationship is not found. The different studies examine different other variables. A positive relationship is also found for firms that participate in the national market system of the NASDAQ (Pincus, et al.) and that have higher total monitoring costs (e.g. costs for external auditors, and non-executive directors) (Adams). Other variables studied are organizational form (Adams), assets-in-place (Adams; Bradbury; Collier), sales growth, and book-to-market ratio (Collier & Gregory, 1999). These variables are all insignificant.

Lastly, the ownership structure is considered. In contrast to the voluntary disclosure literature the dispersion of ownership is not studied. Only the number of shares and the number of shareholders, which both do not have a significant influence on audit committee formation are considered (Bradbury, 1990; Collier, 1993). Chau and Leung (2006), study the presence of audit committees in Hong Kong, where many

companies are (partly) family-owned. They hypothesize that the interests of the owner-manager and outside investor converge when the owner-manager's share increases (convergence-of-interest hypothesis). However, when the owner-manager's share increases above a certain point, the manager can behave purely in his own interest without having to fear a negative response of the outside investors (management entrenchment hypothesis). They find that when the family shareholding is between 5% and 25% the first hypothesis holds, while the second hypothesis applies to family shareholdings larger than 25% (Chau & Leung). Bradbury studies the influence of intercorporate control, which he finds to increase the chance that a firm forms an audit committee.

Two studies are critical to merely examining the presence of audit committees, since its presence does not automatically mean that the firm relies on the audit committee (Collier & Gregory, 1999; Menon & Williams, 1994). Menon and Williams use two proxies for a board's reliance on the audit committee; meeting frequency and board composition. Regarding board composition the proportion of outside directors is of importance, since they are more likely to be inclined to monitor management, and therefore the audit committee is more likely to be active. They find that company size and the proportion of outside directors on the board have a positive influence on audit committee activity (Menon & Williams). Collier and Gregory study the influence of several variables on the length of audit committee meetings. They find that the presence of a Big Six auditor has a positive influence on audit committee activity. A negative influence is found for CEO duality and the presence of inside directors on the audit committee (Collier & Gregory).

2.4 Audit committee effectiveness literature

Especially since the introduction of SOX in 2002, a body of research has developed to study the functioning of audit committees. Two important questions in this research seem to be 'What makes an effective audit committee?' and 'What do effective audit committees do?'.

To answer the first question, studies have examined proxies for audit committee effectiveness and sought to find a relationship between this proxy and different audit committee factors. One such proxy is the external audit fee. According to Collier and

Gregory (1996) there are two ways in which the audit committee can influence these audit fees. On the one hand, the audit committee is likely to make sure that a thorough audit is conducted and to meet regularly with the auditor. This will lead to more audit hours. Therefore, a positive relationship can be expected between the effectiveness of the audit committee and the audit fee. The opposite can also be true. An effective audit committee will lower the risk of an internal control failure, which will in turn lower audit risk, and consequently the audit fee. The authors find evidence for the first relationship, the second relationship does not find strong support (Collier & Gregory). Abbott, Parker, Peters, and Raghunandan (2003a) also assume a positive relationship between audit committee effectiveness and the audit fee. They examine the effect of audit committee independence, financial expertise and meeting frequency on the audit fee and find positive results for all-independent committees and committees that consist of at least one financial expert. Abbott, Parker, Peters, and Raghunandan (2003b) take the audit fee concept one step further by positing that effective audit committees are likely to reduce the non-audit fees in comparison to audit fees to help increase the independence of the external auditor. They therefore examine the influence of audit committee effectiveness on the ratio of non-audit to audit fees. Audit committee effectiveness is measured with a dummy variable, which is one when the audit committee is fully independent, and meets at least four times a year. Their findings show a negative relationship of this variable with the ratio of non-audit to audit fees, therewith supporting their statement. Ho Young and Mande (2005) use the variables from both Abott et al. (2003a) and Abbott et al. (2003b). They find the same positive relationship between the audit committee characteristics and the audit fee. For the audit committee effectiveness variable they find the same results as Abbott et al. (2003b). However, when audit and non-audit fees are modeled together, no significant results are found.

Proxies for financial reporting quality are also studied. One of the main responsibilities of the audit committee is to oversee the financial reporting process. More effective audit committees will be more precise in fulfilling this duty and are therefore expected to enhance the quality of financial reporting. One proxy of financial reporting quality that is often used is earnings quality. Wild (1996) finds an increase in stock return volatility in reaction to the release of earnings reports after the formation of audit committees which is not visible in the control group. This is an

indication that the audit committee enhances earnings quality. An Australian study finds the same result (Baxter & Cotter, 2009). Vafeas (2005) studies the impact of several audit committee characteristics on the quality of reported earnings. According to the results, insiders on the committee have a negative effect on earnings quality, while experience on other committees and more frequent meetings have a positive effect. Audit committee size is not found to have a significant influence.

A dependent variable that is related to earnings quality is earnings management. Earnings management can be reduced by audit committees because they oversee the accounting choices of managers, as well as the internal and external audit (Piot & Janin, 2007). Klein (2002) uses abnormal accruals to study earnings management. She finds that abnormal accruals are lower when the majority of audit committee members is independent. The results do not suggest that a fully independent committee is necessary.

Discretionary current accruals, the dependent variable used by Xie, Davidson, and DaDalt (2003) are lower when audit committee members have a financial and/or corporate background, and when the committee meets more often. Therewith they also show that a relationship exists between audit committee characteristics and earnings management. The studies by Klein (2002) and Xie et al. (2003) are conducted in an American context. Piot and Janin (2007) examine the effect of audit committees on earnings management in France, which provides a European context. Although the environment differs, the results still show that the presence of an audit committee decreases earnings management. No significant relationship is found for the independence of the majority of the committee members. This is in contrast to the findings of Klein as discussed above. Bédard, Chtourou, and Courteau (2004) also find a significant result for audit committee independence. However, this result only holds when the entire audit committee is independent, which differs from the finding of Klein that full independence is not necessary. The results for independence are therefore quite mixed. In line with the studies described above Bédard, et al. (2004) further find that audit committee expertise is of significant influence, while the number of meetings and committee size do not seem to matter.

Many other measures to test for audit committee effectiveness have been used in recent years, examples of which are restatements of annual results (Abbott, Parker, & Peters, 2004), reported sanctions as a result of fraud or misstatements in financial reporting (Abbott, Park, & Parker, 2000), disclosure of internal control weaknesses (Krishnan, 2005; Zhang, Zhou, & Zhou, 2007), and the likelihood of the firm receiving a going-concern report (Carcello & Neal, 2000).

Again, independence is an audit committee characteristic that is frequently studied, and results are largely consistent. In one of the internal control studies no effect is found (Zhang, Zhou, & Zhou, 2007), while a negative effect on the likelihood of internal control weaknesses being disclosed was found in another study (Krishnan, 2005). Furthermore, a higher percentage of inside directors on the committee decreases the chance of a going-concern report being issued (Carcello & Neal, 2000). The same effect is found on the likelihood of restatements or allegations due to fraud (Abbott, et al., 2000; Abbott, et al., 2004). The abovementioned studies use both the percentage of independent members on the audit committee and fully independent audit committees as independent variable. When all the research discussed above is considered, no conclusion can be drawn as to which measure provides better results.

Financial expertise of the committee members is also found to be of significant influence in the studies that include this variable (Abbott, et al., 2004; Krishnan, 2005; Zhang, et al., 2007). It is the only variable discussed here that is found to be of significant influence on the dependent variable under study, irrespective of the measurement method used.

The results for audit committee meeting frequency are less consistent. Audit committees that meet more frequently are often expected to be able to better perform their tasks, and therefore to be more effective. Judging from the differences in measurements used for the number of audit committee meetings, there are different opinions on the number of meetings an effective audit committee should have. Zhang et al. (2007) use the number of meetings, while Abbott et al. (2000) and Abbott et al. (2004) use a minimum of two and four meetings respectively. Despite the different measurements, the three studies all conclude that meeting frequency has an influence

on the dependent variable. However, as was discussed above, other studies have found insignificant results for this variable (e.g. Abbott, et al., 2003a; Bédard, et al., 2004).

The last audit committee variable discussed is the size of the audit committee. The presence of a committee of at least three members does not have an effect on the chance of an internal control weakness to be reported or the occurrence of a restatement (Abbott, et al., 2004; Krishnan, 2005). Therewith, the size of the audit committee is insignificant in all the studies discussed here, which could indicate that size is not important in determining whether an audit committee is effective, but that the other factors discussed above are crucial factors (Bédard, et al., 2004).

In conclusion, it becomes clear that there are different measures used in the literature to date to proxy for audit committee effectiveness. However, the audit committee characteristics that are expected to be of influence on these variables are generally the same, although results vary. Audit committee expertise is of influence irrespective of the measurement method used. The effect of size is insignificant in all studies discussed here, indicating that committees of any size can be effective. For independence and meeting frequency results are not consistent. This could be due to specific sample characteristics. Of these commonly used variables, the size of the audit committee, the independence of the members, and the number of meetings held are variables that are incorporated in this thesis. The influence of audit committee member expertise is not studied, due to the difficulty of reliably measuring this variable.

The thesis will add to the existing literature by examining whether the variables that are found to belong to effective audit committees are also of influence on the audit committee reporting practices.

As stated above, the second question the audit committee research is concerned with is ‘What do effective audit committees do?’. To answer this question researchers have used interview methods to get inside the ‘black box’ in which audit committees are said to operate (Spira, 2006). For example, Gendron, Bédard & Gosselin (2004) investigate the audit committee process in three Canadian companies and find that they put emphasis on issues such as the accuracy of financial statements, the

effectiveness of internal controls and auditor quality. Furthermore, Beasly, Carcello, Hermanson, and Neal (2009) interview 42 audit committee members of U.S. public companies and conclude that there are differences to the extent in which there is audit committee monitoring. In the area of financial reporting risk several key areas that audit committees concern themselves with are found, being revenue recognition, reserves, inventory, fixed assets and receivables.

Knowing what audit committees do in theory is not enough to increase investor's trust in management and the company's financial report. Therefore this study adds to this literature by examining what audit committees disclose about their actual performance.

Harder to grasp from the text in an audit committee report are the informal processes underlying their work. Turley and Zaman (2007) shed some light on this issue by conducting a case study. They find that informal communication with management or the auditors (internal as well as external) is very important. Furthermore, the audit committee is quite powerful, and can have a large impact on the organization. The audit committee can function as an ally, an arbiter or a threat.

2.5 Conclusion

This chapter discusses four bodies of literature. First, audit committee reporting literature is discussed, which forms the basis for the disclosure index developed in this thesis. Items that are reported in these American studies concern the composition of the audit committee, audit committee meetings and their tasks. In general, there is high disclosure on the composition of the audit committee, which concerns the number of members, their independence and their expertise. For meeting frequency there are different results, with one study that finds disclosure in almost all reports (Carcello, et al., 2002), and one in only 26% (Pandit, et al., 2005). The studies discussed mainly focus on the tasks of the audit committee relating to the external auditor, while oversight of the financial reporting process and internal control are generally not considered. The literature relating to audit committee disclosure does not examine which factors influence the extent of this disclosure. Therefore a second body of literature is discussed, which studies influences on voluntary reporting practices related to company characteristics (e.g. size, leverage and profitability), the

external auditor and the ownership structure of the company. The varying results for most of the variables are not surprising considering the many different contexts of the studies. One variable that shows a consistently positive relationship to voluntary disclosure is listing status.

Thirdly, the audit committee formation literature is discussed. The variables studied are largely the same as in the first two bodies of literature. Results are largely consistent. However, in contrast to the reporting literature CEO duality is found not to influence audit committee formation, while board size is of positive influence. For firm size mixed results are found. The effect of certain variables on the activity of the audit committee is also studied. Company size, the proportion of outside directors on the board and the presence of a Big Six auditor are of positive influence, while a negative influence is found for CEO duality.

Lastly, to discover which audit committee variables might be of influence on the reporting practices, audit committee effectiveness literature is studied. From this literature it can be seen that audit committee size, independence, expertise and meeting frequency are variables often explored. None of the studies finds a positive influence for audit committee size, while varying results are found for independence and meeting frequency. Member expertise, which is most difficult to measure, has a significant influence in all studies.

This thesis examines how the factors studied in other research influence the reporting practices of companies operating in a European environment.

3. Research design

3.1 Countries

The two countries included in the study are the UK and France.[1] The rationale for choosing France and the UK is that these two countries represent two different backgrounds. The UK on the one hand has an Anglo-Saxon history and a shareholder focus, while France is a continental European country where companies have a stakeholder focus (Maclean, 1999).

Heidrick and Struggles (2009), compare thirteen European countries on three dimensions of corporate governance: (1) transparency, which is related to disclosure concerning directors, remuneration and committees; (2) composition of the board (board independence, diversity, composition of the committees), and (3) working style of the board, comprising availability, committee structure, board evaluation and inertia factors (e.g. length of tenure). Higher scores indicate better corporate governance. The UK has the highest score, whereas France is in the middle.

Furthermore, in the UK the audit committee report has been given much attention since the Cadbury Report which was published in 1992 (Bauwhede & Willekens, 2008). In France the first recommendation to publish an audit committee report came three years later in the Viénot report (Piot, 2004). This might be in the advantage of the UK. Since these reports have been published in the UK is has become a standard for audit committees to be fully independent, while in France this is not the case (Heidrick & Struggles, 2009).

[1] At first, Germany was included instead of France. However, it turned out to be difficult to construct a reliable sample with German data. Of 25 reports studied, only two included clear information on the independence of the committee members. This is not to say that in all those reports nothing is reported regarding independence. However, most companies only report to be in compliance with the German corporate governance code. This code states that *"the Supervisory Board shall include what it considers an adequate number of independent members"* (Government Commission, 2009, p. 10). Thus when a company states that it is in compliance with this rule it is still not clear how many members of the supervisory board or any of its committees are independent. While independence is the variable that could most often not be measured, the overall impression is that the information in German reports is very summary. This is reason for concern and should be considered in future research.

Based on the above it can be expected that these two countries are likely to report enough information to construct a good sample, but leave enough possibilities to study the influence of different variables on the extent of reporting.

3.2 Development of hypotheses

3.2.1 Audit committee characteristics

3.2.1.1 Size

Size is one of the characteristics of the audit committee that is investigated in much research. Larger committees are commonly expected to be more effective due to their larger knowledge base (Karamanou & Vafeas, 2005) and expertise, and an increased diversity of views that could enhance monitoring (Bédard, et al., 2004). Too many members however can cause problems because of a decrease in effectiveness in communication and decision making (Bédard, et al.) as well as a diffusion of responsibility (Karamanou & Vafeas).

Both the BRC (1999) and the Cadbury Committee (1992) advise companies to install audit committees consisting of at least three members. Only the UK has a number of members specified in their Corporate Governance Code. A number of three members is required, only for small companies two members are deemed sufficient. Research to date finds mixed results as to whether size really matters. Archambeault and DeZoort (2001) report a negative relationship between size and suspicious auditor switches and Felo, Krishnamurthy, and Solieri (2003) find evidence that the quality of financial reporting increases with the size of the audit committee. Kent & Stewart (2008) on the other hand find a negative relationship between size and the level of disclosure relating to the transition to Australian International Financial Reporting Standards (IFRS), while Mangena and Pike (2005), and Abbott, et al. (2004) find no significant influence of audit committee size. Bédard, et al. (2004) also find evidence that committees composed of only two members can be effective when other factors like member expertise are as recommended.

The mixed nature of these previous results leads to the following non-directional hypothesis:

H_1: There is a significant relationship between audit committee size and audit committee disclosure.

3.2.2.2 Member independence

Previous research has often concluded that there is a positive relationship between audit committee independence and their effectiveness. McMullen and Raghunandan (1996) examine companies that experience reporting problems and find that those are much less likely to have fully independent audit committees. The presence of an independent audit committee also reduces the likelihood of earnings management (Bédard, et al., 2004). There is a positive relationship between independence and audit fees (Abbott, et al., 2003a; Ho Young & Mande, 2005). Lastly, shareholdings of audit committee members are negatively related to interim financial disclosures (Mangena & Pike, 2005). Some research finds no significant influence of independence, for example Bronson et al. (2006) and Kent and Stewart (2008). However, the former does find a positive relationship when examining the independence of the chair of the committee, irrespective of the independence of the rest of the committee members.

The reported reasons for the positive influence of audit committee independence on its effectiveness are twofold. On the one hand it is easier for an audit committee that has no ties to management to critically evaluate their work (Abbott, et al., 2003a; Carcello & Neal, 2000). On the other hand it is suggested that outside directors are concerned with the development or protection of their reputational capital. Their performance can increase this by showing that they understand the importance of decision controls and know how to work with them (Abbott, et al., 2004; Abbott, et al., 2003a; Beasley, 1996). However, they also have the risk of reputational damage when misstatements occur during their term on the audit committee (Abbott, et al., 2003a). Furthermore, an independent audit committee reduces the likelihood of misstatements by increasing the firm's internal control structure and by demanding more of the external auditor (Abbott, et al., 2004).

Recommendations for independence on audit committees differ, but it is always seen as an important element. The BRC (1999) recommends a fully independent audit committee, while the Cadbury Committee (1992) is of the opinion that a majority of independent members is necessary. France has followed the last recommendation,

whereas the UK requires a minimum of one member to be independent. Following the above reasoning and practices, the second hypothesis is:

H2: There is a significant positive relationship between audit committee independence and audit committee disclosure.

3.2.2.3 Number of meetings

The number of audit committee meetings is frequently used as an indicator of diligence (e.g. Kelton & Yang, 2008; Kent & Stewart, 2008). More diligent audit committees will be more responsible in performing their duties (Pucheta-Martínez & de Fuentes, 2007) and it is expected that this will also show in their reporting practices. Previous research provides support for this idea. When the audit committee meets more often, the level of disclosure increases (Bronson, et al., 2006; Kelton & Yang; Kent & Stewart), as well as the audit fee (Goodwin-Stewart & Kent, 2006; Ho Young & Mande, 2005), while the chance of restatements or reporting problems decreases (Abbott, et al., 2004; McMullen & Raghunandan, 1996). Therefore, the third hypothesis is as follows:

H3: There is a significant positive relationship between audit committee meeting frequency and audit committee disclosure.

3.2.2.4 Remuneration

The effect of audit committee remuneration on the effectiveness of the audit committee has not been the attention of much research to date. Two papers that address this issue can be found on ssrn.com. Engel, Hayes and Wang (2009) examine the influence of audit committee compensation on the demand for monitoring of the financial reporting process (which is reflected by a higher audit fee) and find a positive relationship. This implies that audit committees work more efficiently when they receive higher compensation. Bierstaker, Cohen, DeZoort, and Hermanson (2010) conclude that the structure of audit committee compensation can potentially have an effect on the decisions made by audit committee members and the quality of the financial reporting process. They suggest long-term compensation is important. From these studies it can cautiously be concluded that there will be some effect of audit committee compensation. In this thesis only the level of cash compensation an audit committee member receives for carrying out the audit committee duties will be

considered. Due to the limited prior results, a non-directional hypothesis is stated as follows:

H4: There is a significant relationship between the level of remuneration audit committee members receive for performing their audit committee duties and audit committee disclosure

Audit committee characteristics are likely not to be the only factors able to explain any differences in reporting practices. The environment in which the audit committee operates can be of large influence. Therefore some company characteristics as well as the presence of a large audit firm are also tested.

3.2.2 Company size

Much research finds a positive relationship between company size and voluntary disclosure (e.g. Cooke, 1989a; Eng & Mak, 2003; Mangena & Pike, 2005; Meek, et al., 1995). As discussed earlier, reasons given for this are for example the fact that it is relatively less costly (Mangena & Pike; Wallace & Naser, 1995), there is more outside pressure to disclose the information (Cooke, 1989b; Mangena & Pike; Wallace et al., 1994) and the competitive disadvantage related to more disclosure is less high (Meek, et al.). Adams (1997) and Pincus et al. (1989) find evidence that economies of scale exist with respect to the formation and functioning of audit committees. Therefore the larger the firm, the more likely it is to have an audit committee. Forker (1992) finds some support for the opposite relationship which he blames on higher collection costs for large firms and a higher threat of takeovers for small firms. This last study is conducted in an American environment, while most other studies have a European focus, as does this thesis. Therefore, a positive relationship is predicted.

H5: There is a significant positive relationship between company size and audit committee disclosure.

3.2.3 Leverage

Higher levels of debt can increase agency costs, and therefore, to decrease these costs management could be induced to provide a greater level of disclosure (Mangena & Pike, 2005). Some support for this relationship is found in a sample of Spanish firms (Wallace, et al., 1994) and in a Dutch study (Deumes & Knechel, 2008). For the same

reason studies find that leverage is positively related to the presence of an audit committee (Adams, 1997; Collier, 1993; Pincus, et al., 1989). Eng and Mak (2003) find support for a negative relationship between the level of debt and voluntary disclosure and explain this by the theory that a higher debt level decreases the free cash flow of the firm, which would reduce agency costs. Other studies find the same negative relationship (e.g. Meek, et al., 1995). There is also quite some research that does not find support for either of the theories (Bradbury, 1990; Chen & Jaggi, 2000; Chow & Wong-Boren, 1987; Raffournier, 1995). No sign is predicted for this variable.

H6: There is a significant relationship between the leverage of a company and audit committee disclosure

3.2.4 Ownership

Shareholders that own a larger portion of the shares of a company will be more willing and able to monitor management. An ownership of five percent or more is referred to as blockholdership (Kelton & Yang, 2008). Therefore, the more dispersed the ownership of the firm, the larger the demand for disclosure (Haniffa & Cooke, 2002). Chau and Gray (2002) find a positive relationship between wider ownership and voluntary disclosure in firms in both Hong Kong and Singapore. In a Dutch and Australian sample respectively, more concentrated ownership was found to decrease the level of voluntary disclosure (Deumes & Knechel, 2008; Lim, et al., 2007). The presence of blockholders also decreases the chance of internet financial reporting (Kelton & Yang). Not all studies support this relationship. Insignificant results are found in for example Bronson et al. (2006) and Eng and Mak (2003). The following hypothesis is formulated:

H7: There is a significant negative relationship between concentrated ownership and audit committee disclosure

3.2.5 Cross-listing on American stock exchange

As discussed before, the disclosure environment in Europe is voluntary. In the U.S. however, legal requirements apply. These are also applicable to European firms that are listed on an American stock exchange. It is likely that a larger proportion of firms

that is cross-listed in the U.S. will report certain items that are required there than firms that are not, since they already have to report those items in their U.S. reports. Another factor could be that firms that are internationally listed also want to attract foreign capital and therefore raise their level of disclosure (Cooke, 1989b, 1993; Mangena & Pike, 2005).

Cooke (1989b), finds that Swedish companies disclose more information when they are also listed on a foreign exchange, Cooke (1992) also finds this for Japanese companies, and Inchausti (1997) documents this relationship in Spain. Gul and Leung (2004) do not find significant results, neither do Haniffa and Cooke (2002).

For this study the main interest is whether a listing on an American stock exchange, which has a legal reporting climate as opposed to the relatively voluntary European climate, increases the level of disclosure. The relationship is expected to be positive.

H8: There is a significant positive relationship between a listing on the NYSE or NASDAQ and audit committee disclosure.

3.2.6 Auditor

One of the important duties of the audit committee is to make recommendations on the appointment of the external auditor and to oversee his work. In general larger audit firms are expected to ensure higher disclosure by firms. One of the reasons is that they risk loss of reputation when they are associated with firms with low disclosure quality (DeAngelo, 1981; Inchausti, 1997). Companies contracting larger audit firms might do this because they are more concerned with confirming to their investors that the information reported is reliable (Inchausti). Furthermore, larger audit firms have more resources and therefore they are more likely to be well-informed about disclosure requirements (Kent & Stewart, 2008).

Results from previous research are not conclusive on this issue. Chen and Jaggi (2000) find lower disclosures for firms that are audited by a Big Six firm. Big Six firms are also associated with lower disclosure quality in research by Forker (1992). Some evidence for a positive relationship is found by Zezhong Xiao, He, and Chow (2004) supporting their hypothesis that larger auditors demand more disclosure. A

positive relationship between a Big Six auditor and disclosure is also found by Raffournier (1995), and Kelton and Yang (2008) document a positive relationship between internet financial reporting and the presence of a Big Four auditor. Many studies do not find any significant relationship between the size of the auditor and disclosure quality (Chau & Gray, 2002; Eng & Mak, 2003; Gul & Leung, 2004; Haniffa & Cooke, 2002; Lim, et al., 2007; Pucheta-Martínez & de Fuentes, 2007). Due to the mixed evidence, no sign is predicted for the auditor variable.

H9: There is a significant relationship between the presence of a Big Four auditor and audit committee disclosure

3.2.7 Industry

The industry a company operates in can influence the disclosure requirements (Wallace, et al., 1994) or the disclosure demanded by investors. Results vary as is discussed in the literature review.

In this thesis the intention was to examine whether disclosure would be different for a financial company compared to a non-financial company. The risky nature of the business of a financial company, might increase the investor's demand for information, and lead to higher disclosure by the company. However, the composition of the sample does not allow studying this effect. The sample does allow studying whether disclosure is different for holding companies or companies working with gas, oil or minerals. Due to a lack of previous findings for these specific industries, non-directional hypotheses are stated as follows:

H10: Whether the company is a holding company or not has a significant influence on audit committee disclosure

H11: Whether the company operates in the gas, oil or mineral industry has a significant influence on audit committee disclosure.

3.2.8 Country

The sample includes companies from France and the UK. Which of the two countries the company is located in can also influence the disclosure practices. Even though

through globalization the investor base of a company will be much more international, it is still likely that in general companies are expected to live up to a certain standard common for their home country. As was discussed before, corporate governance in the UK is stronger than in France (Heidrick & Struggles, 2009). Therefore it can be expected that disclosure is higher in companies from the UK. This leads to the following hypothesis:

H12: The fact that a company originates from the UK has a significant positive effect on audit committee disclosure.

3.3 Sample

Audit committee reporting is in the interest of the shareholders. It gives them more insight in the work the audit committee has performed to ensure the reliability of the financial information published by the company. The importance of audit committee reporting thus increases when there is a higher number of shareholders. Therefore it is chosen to select the companies with the highest market capitalization of both countries. This is done via the Amadeus database (amadeus.bvdep.com). For each country the 50 companies with the highest market capitalization are selected. In case not all information is available to test all the variables in the regression analysis, this company is excluded from the sample and replaced with the following company with the highest market capitalization. This approach ensures a sample size of 100 companies.

It is desirable that for each independent variable in the regression equation 15 to 20 observations are made (Hair, Black, Babin, Anderson, & Tatham, 2006). In this study twelve variables are tested, which would ask for a sample of around 180 to 240 companies. This is not achieved in this thesis. Another guideline is given by Green (1991). To test the overall model a minimum sample of 50 + 8k (k is the number of independent variables) is required. To test the individual variables a sample of 104 + k would be desirable. In this case samples of 146 and 116 would be required, of which the highest should be taken when both the total model and the separate variables are tested (Green). Again, the actual sample size is lower than the 146 observations that would be required. A general rule is that the ratio of observations to variables should not be lower than 5:1 (Hair, et al., 2006), which is not a problem. Therefore, there is

still a reasonable number of observations per variable, but one should be cautious in generalizing the results presented. The final sample of companies, as well as the companies that are excluded can be found in Appendix B.

When companies have to be excluded from the sample this is usually because they lack specific data on the number of independent members or the remuneration. This does mostly not mean that these items are not reported, but that the information is not specific enough. In France there are also some companies for which the report is not available in English. It should be noted that to come to a sample of 50 French companies, 26 companies have to be excluded. This can introduce a bias to the sample, because only the best reports are selected. Except for the reports of seven companies that did not have an audit committee at this company's level or for which the right report was not available in English, the annual reports of the excluded companies are also scored. An independent samples t-test is then conducted to see whether the two samples differ significantly. The result of the test is significant ($t=-5{,}148$, $p<0{,}0005$), with a large effect size (eta squared=0.26) indicating that the means of the two samples significantly differ which leads to an upward bias in the sample. This is something to keep in mind when evaluating the results.

For each company the 2008 annual report is evaluated. To see whether a company reports a certain item, the entire annual report is examined. The National Commission on Fraudulent Financial Reporting recommends in its report *"that the chairman of the audit committee write a letter describing the committee's activities and responsibilities for inclusion in the annual report to stockholders"* (National Commission on Fraudulent Financial Reporting, 1987, p. 42). Based on this recommendation one would expect the audit committee report to be equal to a management letter in the sense that it is addressed to the shareholder and signed by the chair of the committee. When evaluating a sample of 28 annual reports from seven European countries (Belgium, Germany, France, Italy, Spain, The Netherlands and the UK) it was noted that there were only few reports that included an audit committee report. Just focussing on audit committee reports might therefore greatly limit the sample. Separate paragraphs on the audit committee are more common, but also vary a lot in the amount of information that is presented in that specific part of the text. Surely, a clearly separated audit committee report will greatly enhance the

accessibility and therefore usefulness of the information reported. However, to have a more complete overview of the information relating to audit committees that is currently disclosed, the whole annual report will be evaluated.

3.4 Dependent variable

The disclosure index is the dependent variable in this study. The literature discussed in section 2.1, together with the corporate governance codes of the UK and France, the report of the BRC and the evaluation of a sample European annual reports referred to earlier form the basis of the disclosure index developed in this thesis. After completion of the list, a partner of a Big Four audit firm reviewed it and confirmed that all of the items included in the list are of relevance to audit committees.

Nine categories of disclosure items are included. The first category *Selection and appointment*, concerns the selection and appointment of the audit committee, training and induction and the audit committee charter. These are items that are not included in the research discussed above. The review of the annual reports shows that these are items companies report on. The corporate governance codes of the UK and France also refer to the importance of training for members of committees (Association Francaise des Entreprises Privees/MEDEF, 2008; Financial Reporting Council, 2008). Information on who appoints members to the audit committee and what criteria are used for selection can help an investor assess the credibility of the audit committee. Information about training and induction informs the reader whether the audit committee is kept up to date with rules and regulations. Category two examines disclosure relating to the audit committee *Composition*. The review of the literature shows that the number of members, their independence and expertise are important items. Other functions held by an audit committee member can be valuable for his knowledge, but also form a constraint, because he has less time to perform his tasks. Therefore this item is also included. Lastly, information about remuneration is important. Compensation that is too high might impair the independence of an audit committee member. However, compensation should also not be too low. Both in France and the UK the corporate governance code suggests that compensation should reflect the responsibilities and time commitment of the members (Association Francaise des Entreprises Privees/MEDEF; Financial Reporting Council). The number of meetings, committee member attendance and issues discussed compose the third

category: *Meetings*. Results in the literature differ on this item. For example, Carcello et al. (2002) find that 99% of the reports include the number of meetings, while Pandit et al. (2005) find this information in only 26% of the reports. Both the French and UK code demand companies to include the number of meetings held in the annual report, as well as the attendance at such meetings (Association Francaise des Entreprises Privees/MEDEF; Financial Reporting Council).

The other six categories concern the tasks of the audit committee. The categories *External auditor* and *Internal auditor* consist of items relating to audit plans, appointment and independence of the auditor and overview of the auditors' performance. All these items are discussed in the literature and the corporate governance codes. *Financial reporting* and *Internal control* consider the duties of the audit committee relating to the overview of these areas. Both are responsibilities that are also mentioned in the corporate governance codes. The oversight of internal control has only been included in one study in the research discussed above, but is an important task of the audit committee and therefore included in the disclosure index. It only contains two items, but due to the importance of internal control, which is reflected in SOX, it is included as a separate category. The category *Other committee responsibilities/authorities* includes other items discussed in the literature, like the processing of employee complaints, or found in the sample of annual reports, like the authority to hire independent counsel. Lastly, the evaluation of the audit committee's functioning and their access to information are included in the category *other*. The full list of disclosure items can be found in appendix A. Table 1 gives an overview of the disclosure items and whether for the two countries there is a recommendation or obligation to implement (column 'requirement') or disclose (column 'disclosure') a certain item. When deemed relevant some more information on the item is presented. It can be seen that for most of the items the comply or explain approach applies in the UK, and in France there is a recommendation to include them. In both countries only few items are legally required to be present in the annual report. This is typical for the European approach (Bauwhede & Willekens, 2008), and makes the countries suitable for the research in this thesis. The U.S. is also included in the table to show a comparison to a legal regime.

Table 1: Overview of audit committee requirements and disclosure requirements in the corporate governance codes of France, the UK and the US.

	France		**UK**		**US**	
	Requirement	***Disclosure***	***Requirement***	***Disclosure***	***Requirement***	***Disclosure***
Selection & Appointment						
procedure						
length	R	R				
date appointed to audit committee						
audit committee charter	R		C	C		
revision/adaptation charter						
induction and training	R		C			
Composition						
number of members		R	≥ 3, 2 in small companies (C)	L		
mentions chairman				C		
names of members				L		
independence	≥ 2/3 (R)		≥ 1 (L)		All	
expertise	all (R)		≥ 1 (C)		≥ 1 (L)	L
financial expert						
positions in other companies	R	R				
remuneration	R	R	C			
Meetings						
number		R		C		
items discussed						
attendance of members		L		C		
attendance of others			C			
External auditor						
appointment	R				L	
independence	L		L	C		
review audit plan						
review compensation	R		C		L	
non-audit services	R		L	C	L	L
communication					L	
separate meetings with	R					
overview of work			C		L	
expertise						
conclusion on review						

(Cont.)

L = Legal requirement
C = Comply or Explain
R = Recommendation

If not indicated otherwise in the corporate governance code, whenever a sentence included 'must' this is regarded as a legal requirement, 'shall' is regarded as referring to comply or explain and 'should' or 'may' is seen as reference to a recommendation

Table 1 (concl.): Overview of audit committee requirements and disclosure requirements in the corporate governance codes of France, the UK and the US.

	France		UK		US	
	Requirement	***Disclosure***	***Requirement***	***Disclosure***	***Requirement***	***Disclosure***
Internal auditor						
review audit plan	R					
resource requirements						
appointment head						
communication						
separate meetings with						
overview of performance	R		L			
independence						
conclusion on review						
Financial reporting						
oversight of practices	R		L			
review of accounting principles	R					
review and discuss with management						
reviews statements other than annual						
conclusion on review						
Internal control						
monitor process	R		L			
conclusion on review						
Other responsibilities/authorities						
procedure for employee complaints			C		L	
overview of risk management	R		L			
compliance with code of ethics						
compliance with legal and regulatory requirements						
authority to investigate	R					
access to internal and external information sources	R		C	C	L	
reports to (supervisory) board						
Other						
performance evaluation			C			
conclusion on evaluation						
receipt of information to perform duties						

L = Legal requirement
C = Comply or Explain
R = Recommendation

If not indicated otherwise in the corporate governance code, whenever a sentence included 'must' this is regarded as a legal requirement, 'shall' is regarded as referring to comply or explain and 'should' or 'may' is seen as reference to a recommendation

The scores for all items together form the disclosure index score. The approach followed is that of Cooke (1989a, 1992), who uses a dichotomous approach, meaning that a score of one is awarded if an item is disclosed and a score of zero when the item is not disclosed. Another option would be to evaluate the extent of information disclosed as is used by for example Wallace, Naser, and Mora (1994) and Inchausti (1997). Since little research exists to date that examines audit committee disclosure this thesis aims to examine which items can or cannot be found in audit committee reports without evaluating the extent of disclosure for the separate items. Another reason why the extent of disclosure is not evaluated is because it would require subjective judgment to do so (Cooke, 1989b). Cooke (1992, p. 233) defines the disclosure index I_j for a set of accounts as:

$$I_j = \frac{\sum_{i=1}^{n_j} x_{ij}}{n_j}$$

Where

n_j = total number of disclosure items for *j*th firm

x_{ij} =1 if *i*th disclosure item is disclosed, 0 if *i*th disclosure item is not disclosed

In this thesis $n_{j\ is}$ 53, since there are 53 items in the disclosure index as presented in appendix A. Cooke (1989b, 1992) also examines whether a certain item is relevant to a firm, to prevent firms from getting a zero score for not disclosing an item, while this item is not relevant to them. In this thesis it is assumed that if a body in the company performs the items in the disclosure index, this will be the audit committee. There is a chance that another committee is responsible for this, but it is considered to be small, since all tasks are very specific. Therefore, the likelihood that an audit committee does not disclose a certain item because it is not relevant to them is small. Furthermore, an approach as in Cooke would be difficult to follow, because audit committees can also perform tasks that are not mentioned in their charter (Carcello, et al., 2002). Therefore, it will be difficult to judge whether an item is relevant or not, and it is probable that the sample will be more reliable when this issue is ignored.

With respect to the weighting of the index, previous research has taken different approaches. The main reason to use a weighted index is to reflect the fact that some information is more important to the main users of financial statements (investors)

than other information (Boesso & Kumar, 2007; Mangena & Pike, 2005; Zarzeski, 1996). In this thesis an unweighted index is used for several reasons. First, assigning weights to the different items is subjective, especially since two different countries are included in the research, and the weights might be different for each country (Chang, Most, & Brain, 1983). Second, the information contained in the audit committee reports is not evaluated with a specific user group in mind. Furthermore, although in general different user groups might find different pieces of information more important than others, the information in this research is less general in nature than in other research where disclosure in the annual report as a whole is examined. The disclosure entirely relates to audit committees, and large differences are not expected to exist between the importance attached to the different pieces of information disclosed. Even when this assumption would be wrong, according to Spero (1979) firms are consistent in their disclosures, meaning that when they are better at disclosing important items, they will also outperform other firms in the disclosure of less important items. Additionally, it can be expected that the weights will cancel each other out (Cooke, 1989b, 1992). Lastly, Chow and Wong-Boren (1987) and Mangena and Pike (2005) use both weighted and unweighted indices and find similar results for the two approaches.

As discussed above, the disclosure score is calculated by taking the total score on all items and dividing it by the total number of items, which is 53. A disadvantage of this approach is that not all categories in the index contain the same number of items, and therefore some items have a larger influence on the disclosure score than other items. However, two of the larger categories, *appointment and selection* and *other responsibilities/authorities*, contain items that are quite distinct, which decreases this problem. In general, even though some items are related and therefore grouped in one category for easier discussion, disclosure of one item does not necessarily mean that another item of the same category is also reported. In other words, each item has the same chance of being reported. Therefore the approach used is probably most suitable to the data.

The items included in the disclosure index are already discussed above. When scoring the annual reports it is considered how the information would be perceived by someone who has no specific knowledge about the company and the typical set-up of

the board of directors. Therefore, when it is not clear from a piece of information that it also concerns the audit committee it is marked as unreported. For some items additional explanation might be necessary (the full list of items can be found in Appendix A). For example, the first item regarding selection and appointment (item 1.1) is marked as being reported when any reference is made to who appoints the audit committee members or based on what criteria they are appointed. For any disclosure that indicates that an audit committee charter exists, item 1.4 is marked as reported. Item 2.5 relating to relevant expertise is deemed present when the report generally states that members have relevant expertise to perform their duties. Item 2.6 receives a score of one when the report states that there are members who have the right expertise or are a financial expert according to the corporate governance code of the country. Item 3.2, the issues discussed per meeting, is present when the subjects discussed at specific dates are included. Furthermore, there are two items relating to the communication with the external and internal auditor (item 4.6 and 5.6). These items capture information relating to how the external/internal auditor and the audit committee inform each other about findings. This could for example be via reports, or because the auditor is present at the audit committee meetings. Lastly, item 8.7 is concerned with audit committees reporting to the supervisory board or the board. Which of the two is applicable depends on the company. Most companies from the UK have a unitary board system, and therefore no supervisory board. Many of the French companies have a dual system, and do have a supervisory board.

A limitation in this respect is the fact that the reports are scored by only one person. Scoring by at least one other person will reduce the subjectivity involved, and should therefore preferably be applied in further research in this area.

3.5 Test variables

The expected directions of the independent and control variables are already discussed in the hypotheses development section. This section will discuss the measurement of those variables.

3.5.1 Independent variables

Only the UK specifies a minimum number of members for the audit committee (see table 1), and this is different for small companies (two as opposed to three). Therefore

audit committee size (ACSIZE) is measured as the number of members on the audit committee.

Bédard, et al. (2004) find evidence that independence only has a positive effect when all the audit committee members are independent. The BRC (1999) also recommends a fully independent audit committee. Therefore audit committee independence (ACINDEP) is measured with a dummy variable, which has a value of one when all audit committee members are independent, and zero otherwise. To collect the relevant data the judgment of the company on the independence of the members is relied upon.

With respect to the number of meetings (ACMEET) some research has used a dummy variable to examine the influence of a minimum number of meetings, which was set at three (Bédard, et al., 2004; McMullen & Raghunandan, 1996) or four (Abbott, et al., 2004; Abbott, et al., 2003a) meetings, while others have examined the exact number of meetings (e.g. Goodwin-Stewart & Kent, 2006; Ho Young & Mande, 2005; Pucheta-Martínez & de Fuentes, 2007). The Cadbury Report (1992) recommends at least two meetings per year, the BRC four. Neither the UK nor France specifies a minimum number of meetings. Therefore in this study ACMEET will be measured by the number of audit committee meetings held during they year.

Remuneration (ACREMUN) will be measured as the yearly base salary for an audit committee member in 2008 in euros. Only the base salary is included, because the total meeting fees received by a committee member depend on the number of meetings held. Furthermore, the base salary for serving as a non-executive director is also excluded, to only capture the incentive offered to serve on the audit committee. Any remuneration reported in a currency other than Euro is translated into euros using the average exchange rate over 2008, which is retrieved from www.oanda.com.

3.5.2 Control variables

Research to date uses different measures for company size (SIZE). Examples are total assets (Cooke, 1989b; Mangena & Pike, 2005) or the natural logarithm of total assets (e.g. Bronson, et al., 2006; Lim, et al., 2007), market value of equity (Kelton & Yang, 2008), number of employees (Boesso & Kumar, 2007), and sales (Cooke, 1989a, 1989b). The value of assets is the most often used option and less likely to be

influenced by market conditions, and therefore used in this thesis. Examination of the data shows that they are not normally distributed for this variable, therefore the natural logarithm of assets is used. The value of assets is measured at balance sheet date in euros. Non-Euro values were translated using the exchange rate at balance sheet date, retrieved from www.oanda.com.

Leverage (LEV) is measured as the total liabilities of the company at year-end in euros divided by the total assets of the company at year-end in euros, following for example Bronson et al (2006) and Haniffa and Cooke (2002). For non-Euro values the same approach is followed as for company size.

Ownership (OWN) is the total percentage of blockholders at year-end. A blockholder is defined as a shareholder with a share of at least five percent.

The presence of a large audit firm (AUDIT) is measured by a dummy variable taking the value of one when the auditor is a Big Four firm, and a value of zero when the auditor is not a Big Four firm. French companies are obliged to have two external auditors. The tasks are divided, but both auditors carry full responsibility. Consequently, if one of the auditors is a Big Four firm, one should still see the influence of the presence of a large auditor. Therefore, when one of the audit firms is a Big Four auditor a value of one is given for this variable.

To measure the influence of a cross-listing on an American exchange (CROSSL) a dummy variable is used which is one when the firm is listed on the NYSE or the NASDAQ, and zero otherwise.

Lastly, two industry dummies are included. The first one (INDUS1) has a value of one when the company is a holding company and zero otherwise. The second dummy (INDUS2) takes a value of one when the company operates in the gas, oil or minerals industry, and zero otherwise.

4. Results

4.1 Sample

As discussed above, the sample consists of 50 companies from the UK and 50 companies from France. Some general information about these companies is presented in table 2. From the table it can be seen that French companies in general are smaller and less profitable as companies from the UK. This is confirmed by independent sample t-tests that are conducted. The means of the country samples differ significantly for profitability and assets. Only with respect to market capitalization the samples do not significantly differ. The two samples are therefore not completely comparable. However, overall the sample represents a wide variety of companies when it comes to size and profitability, which increases the generalizability of the results.

Table 2: Company statistics

	Market capitalization (in milEUR) [2]			Profit/Loss (in milEUR) [3]			Assets (in milEUR) [2]		
	Mean	**Minimum**	**Maximum**	**Mean**	**Minimum**	**Maximum**	**Mean**	**Minimum**	**Maximum**
UK	86.276	1.793	3.540.181	69.680	-511.146	1.480.137	1.254.850	2.449	10.490.050
France	11.719	1.218	92.232	939	-875	10.590	28.102	862	200.492
Total	48.997	1.218	3.540.181	35.310	-511.146	1.480.137	641.476	862	10.490.050

Table 3 presents an overview of the industries represented in this sample. As can be seen holding companies and companies that work with gas, oil and minerals are somewhat over represented. It is also remarkable that there are almost no financial companies in the sample. Furthermore, it can be seen that some types of industries mainly occur in one of the two countries. The gas/oil/minerals category for example is mostly found in the English sample. Overall it can be concluded that the companies included in the sample are from a wide variety of industries, which adds to the credibility of the research.

[2] Non-Euro values are translated using the exchange rate at year-end retrieved from www.oanda.com
[3] Non-Euro values are translated using the average exchange rate over 2008 retrieved from www.oanda.com

Table 3: Industries represented in the sample

Industry	Number of companies UK	Number of companies France	Number of companies Total
Advertising	-	2	2
Books	2	-	2
Clothing	2	-	2
Construction	-	1	1
Consultancy	2	-	2
Cosmetic/pharmaceutical	4	3	7
Drinks/food	7	1	8
Electricity	3	1	4
Electronics	-	3	3
Gas/oil/minerals	12	2	14
Holding company	-	22	22
Household products	1	-	1
Industry	2	-	2
Investments	1	4	5
Metals	-	1	1
Property	1	3	4
Radio/Television	1	2	3
Telecommunication	2	3	5
Tobacco	2	-	2
Transport/Leisure	6	2	8
Water	2	-	2
Total	**50**	**50**	**100**

4.2 Disclosure index

4.2.1 Reliability of the scale

Correlations for the categories of the total scale and the total disclosure score are presented in table 4. Some correlation is preferable, because this indicates that there is some relation between the items included. However, when the correlation gets too high there might be overlap in the measurement. It can be seen that some items show low correlation with each other. This is for example the case for financial reporting with selection and appointment. This is logical, since these two categories measure clearly distinct things. None of the correlations is extremely high. The correlation of the separate items with the disclosure score also does not point to possible problems with the scale.

The internal consistency of the scale used is tested by looking at Cronbach's Alpha. Of the separate categories only the External auditor scale has a Cronbach alpha

Table 4: Pearson rank and Spearman rho correlations of the separate categories and the disclosure score

Correlations											
Pearson rank / Spearman rho	Selection and appointment	Composition	Meetings	External auditor	Internal auditor	Financial reporting	Internal control	Other responsibilities/ authorities	Other	Disclosure score	Relative disclosure score
Selection and appointment		,232*	,270**	,324**	,270**	,040	,036	,276**	,224*	,563**	,563**
Composition	,232*		,259**	,317**	,295**	,022	,177	,350**	,379**	,613**	,613**
Meetings	,270**	,259**		,335**	,298**	,013	,185	,229*	,268**	,518**	,518**
External auditor	,324**	,317**	,335**		,330**	,216*	,070	,324**	,318**	,624**	,624**
Internal auditor	,270**	,295**	,298**	,330**		,165	,096	,305**	,400**	,660**	,660**
Financial reporting	,040	,022	,013	,216*	,165		-,064	,311**	,083	,311**	,311**
Internal control	,036	,177	,185	,070	,096	-,064		,109	,247*	,275**	,275**
Other responsibilities/ authorities	,276**	,350**	,229*	,324**	,305**	,311**	,109		,272**	,665**	,665**
Other	,224*	,379**	,268**	,318**	,400**	,083	,247*	,272**		,603**	,603**
Disclosure score	,563**	,613**	,518**	,624**	,660**	,311**	,275**	,665**	,603**		1,000**
Relative disclosure score	,563**	,613**	,518**	,624**	,660**	,311**	,275**	,665**	,603**	1,000**	

** Correlation is significant at the 0,05 level (2-tailed).*

*** Correlation is significant at the 0,01 level (2-tailed).*

coefficient above 0,7 (0,711). The other coefficients range from 0,017 to 0,511, which points to a bad internal consistency for these categories. The alpha coefficient for the total disclosure score is 0,710, which indicates that the internal consistency of the scale used is acceptable. Results show that the alpha coefficient for the disclosure score increases to 0,715 when the internal control category is removed. This could be due to the fact that this category only consists of two items, which measure a subject clearly distinct from the other categories. However, the increase in alpha is very small, and therefore the category is contained in the scale.

4.2.2 Results individual categories

This section will discuss the results of the separate categories of the disclosure index, which are presented in tables 5a-i.

4.2.2.1 Selection and appointment

This category contains 6 items relating to the selection and appointment of the audit committee. It can be seen from table 5a that most companies in the sample make reference to the existence of an audit committee charter, but only one third refers to a periodical revision of this charter. These numbers are high when compared to the findings of Carcello et al. (2002), where only 15% of the companies refer to the charter, and only three percent to a regular revision. Companies use a lot of different names for the audit committee charter. Examples are terms of reference, principles, remit and by-laws. About half of the companies make reference to the actual procedure by which committee members are selected. Mostly companies simply state who appoints the committee members, sometimes reference is made to the information that is considered before making the decision. The period for which committee members are appointed is reported in most of the reports. In most companies audit committee members serve a term of three years, which can be renewed a maximum of three times. Exceptions are companies where six-year terms are common, and there are two companies where the terms' length is undefined. Only ten percent of the companies also indicate when the committee members were appointed to the audit committee. Often is it mentioned when they were appointed as director, but they can have been appointed to the audit committee in a later year. A committee member that has served on the audit committee for some years will be more acquainted with the company and the specific audit committee tasks. Therefore

Table 5a-i: Disclosure results per category

5a Selection & Appointment													
	Procedure	Length	Date appointed to AC	AC charter	Revision/adaptation charter	Induction and training	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	25	42	6	50	20	20	2	5	3	6	33%	83%	50%
France	30	45	4	41	9	1	0	5	3		0%	83%	50%
Total	55	87	10	91	29	21	0	5	3		0%	83%	50%

5b Composition															
	Number of members	Mentions chairman	Names of members	Independence	Expertise	Financial expert	Positions in other companies	Remuneration	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	50	50	50	50	37	19	48	50	6	8	7	8	75%	100%	87,5%
France	50	49	49	50	11	9	50	50	5	8	6		62,50%	100%	75%
Total	100	99	99	100	48	28	98	100	5	8	7		62,50%	100%	87,5%

5c Meetings											
	Number	Items discussed	Attendance of members	Attendance of others	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	50	12	50	41	2	4	3	4	50%	100%	75%
France	50	10	44	20	1	4	2		25%	100%	50%
Total	100	22	94	61	1	4	3		25%	100%	75%

Table 5a-i (Cont.): Disclosure results per category

5d External auditor																	
	Appoint-ment	Inde-pen-dence	Review audit plan	Review compen-sation	Non-audit services	Com-muni-cation	Separate meetings with	Overview of work	Exper-tise	Conclu-sion on review	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	46	48	35	39	49	27	40	45	10	12	4	10	7	10	40%	100%	70%
France	35	26	23	34	12	28	16	30	1	0	0	8	4,5		0%	80%	45%
Total	81	74	58	73	61	55	56	75	11	12	0	10	6		0%	100%	60%

5e Internal auditor																
	Review audit plan	Resource require-ments	Appoint-ment head	Communi-cation	Separate meetings with	Overview of performance	Indepen-dence	Conclusion on review	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	39	16	10	31	28	43	4	2	0	5	4	8	0%	62,50%	50%
France	40	5	2	31	10	30	0	1	0	5	2		0%	62,50%	25%
Total	79	21	12	62	38	73	4	3	0	5	3		0%	62,50%	37,5%

5f Financial reporting												
	Oversight of practices	Review of accounting principles	Review and discuss with management	Review statements other than annual	Conclusion on review	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	50	35	5	38	2	1	5	3	5	20%	100%	60%
France	50	41	1	45	1	1	4	3		20%	80%	60%
Total	100	76	6	83	3	1	5	3		20%	100%	60%

Table 5a-i (Cont.): Disclosure results per category

5g Internal Control									
	Monitor process	Conclusion on review	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	49	12	0	2	1	2	0%	100%	50%
France	46	0	0	1	1		0%	50%	50%
Total	95	12	0	2	1		0%	100%	50%

5h Other responsibilities/authorities														
	Procedure for employee complaints	Overview of risk management	Compliance with code of ethics	Compliance with legal and regulatory requirements	Authority to investigate	Access to internal and external information sources	Reports to board	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	37	46	10	16	8	20	33	1	6	3	7	14,3%	85,7%	42,9%
France	5	45	7	10	12	25	34	0	5	3		0,0%	71,4%	42,9%
Total	42	91	17	26	20	45	67	0	6	3		0,0%	85,7%	42,9%

5i Other										
	Performance evaluation	Conclusion on evaluation	Receipt of information to perform duties	Minimum score	Maximum score	Median	Total items	Minimum relative score	Maximum relative score	Median relative score
UK	44	22	26	0	3	2	3	0%	100%	66,7%
France	18	6	11	0	3	0		0%	100%	0%
Total	62	28	37	0	3	1		0%	100%	33,3%

this information can be valuable to an investor. Induction and training is another item to which only few companies make reference in their reports. Mostly, only a general reference is made to induction or training for all non-executive directors. An exception is Lonmin, where the audit committee section states: *"All members of the Committee are provided with appropriate induction into the role of the Committee and the operation of its terms of reference on appointment. Access to training is provided on an ongoing basis to ensure that members are able to discharge their duties"* (p55).

None of the companies report on all of the six items, and one French company made no reference to any of the items. The items discussed in this category are not examined by previous research.

4.2.2.2 Composition

This category consists of eight items, for which reporting scores can be found in table 5b. In the UK, companies are required to disclose the number of members and their names. With respect to mentioning who the chairman is, the comply or explain approach applies. It is therefore not surprising that all companies report on these items. In France there is only a recommendation to report the number of members and their remuneration. Almost all companies in the sample follow these recommendations. Only 39 reports (nine from the UK, 30 from France) specifically mention the number of members. In the other reports the number has to be derived by counting the names for example. Previous studies also note this fact (Pandit & Subrahmanyam, 2005; Pandit, et al., 2006). The average number of members on the audit committee is four for both countries. The smallest audit committee can be found in France with two members (the smallest in the UK has three members) and in both countries there are a maximum of seven members on the audit committee.

Other items for which there is a high number of companies that report on them are independence, and positions in other companies. Interesting to note is that although the corporate governance code from the UK recommends that one audit committee member should be independent, while in France this is two-third of the members, in the UK only three audit committees are not fully independent, but in France only 15 of the 50 committees are fully independent. Although in their study there is an

increase in reporting regarding independence, Pandit et al. (2005) still find that only 82% of the American companies consider the independence of their members after SOX.

The average number of other positions held by audit committee members which are reported (some companies only report the most important other functions) is 4,5. Some members only serve on the audit committee reported on, other members have over 20 other positions.

Regarding financial expertise, disclosure is low, especially disclosure concerning the presence of a financial expert on the committee. The latter is not strange, since there is no requirement to include such an expert on the committee in either the French or English code. Most companies that refer to the presence of a financial expert do this to comply with American regulations. Most committees have one financial expert or person with relevant expertise, few committees consider all their members to have the right expertise or even be experts. The findings are in line with those of Pandit et al. (2005). In their study, before SOX was implemented only 15% of the companies referred to the presence of a financial expert, after SOX this was 43%.

It is not surprising that all the companies disclose the number of members and their independence. These are all items that are used as independent variables in the regression analysis, and therefore companies that do not report on these items are excluded from the sample. Even then, reporting in this category is generally high. The lowest score is five and twelve companies report on all of the items.

4.2.2.3 Meetings

Both in the UK and France the code recommends disclosing the number of meetings and the attendance of the committee members at these meetings. In the U.S. there is no such requirement. It is therefore not surprising that Pandit et al. (2006) find the number of meetings to be disclosed in only 26% of the reports studied. The companies that do report this, all had at least four meetings, which is according to the BRC (1999) recommendation. Carcello et al. (2002) on the other hand find 99% of the reports to disclose this number, which is more in line with the results in this thesis, which are presented in table 5c. It should be noted that companies that did not report

the number of meetings were excluded from the sample, therefore the result of 100% might be slightly overstated. The average number of meetings held in this sample is five. In France and the UK the maximum number of meetings was thirteen, and the minimum two and three respectively. Three companies only disclose the number of meetings.

There is also high disclosure on the attendance of members, with an average attendance rate of 94%. Insight in the other parties that attend the meetings can help an investor asses whether the audit committee is kept well informed and informs all the relevant persons about its findings. In the UK most reports mention this, in France this number is still quite low. Only few companies report what was discussed at the specific meetings. Twelve companies report on all items, most of which are from the UK.

4.2.2.4 External auditor

The oversight of the external auditor is one of the most important tasks of the audit committee. The French corporate governance code recommends to be involved in the appointment, independence, and compensation of the external auditor, as well as to review the non-audit services provided, and to have meetings with the auditor without management being present. In the UK the audit committee should be concerned with the independence, compensation, non-audit services and the actual work performed. Only their work relating to independence and the non-audit services should be reported. In general reporting on these items is relatively high, as can be seen from table 5d. These results are not entirely in line with previous research. Most of the American reports disclose a responsibility to oversee the work of the auditor, but disclosure regarding appointment and compensation is found in less than half of the reports. All reports mention the responsibility to ensure the independence of the auditor, but a conclusion as to whether the auditor actually is independent is not often given (Pandit & Subrahmanyam, 2005; Pandit, et al., 2006). In this thesis the last finding applies to this category as a whole. Only twelve audit committees provide any conclusion on the work they have performed relating to the external auditor. To increase the quality of the audit committee report this is an area for improvement. Information will give higher assurance to the investor when it is not only stated

whether for example the independence of the auditor is assessed, but when he also knows that the auditor is indeed found to be independent.

Regarding items as independence and non-audit services there is also quite a difference in what is reported about the work performed. Sometimes it is simply mentioned that the committee should review independence or has reviewed it. Other reports also mention which information is considered or what constitutes non-audit services. An example of such a report is that of Anglo American (p. 65).

It can also be noted that on all items except for communication (relating to how the audit committee receives information from the auditor) disclosure in the UK is better than in France. Especially regarding the procedures for non-audit services and whether separate meetings are held with the auditor, reporting in French companies is low. Three French reports do not even include one of the items of this category.

4.2.2.5 Internal auditor

Considering the internal auditor, the corporate governance codes are less specific. In the UK it is only mentioned that the audit committee should review the work of the internal auditor. In France, apart from this the audit committee should also review the internal audit plan. These are also the two items that are reported on the most as is shown in table 5e. Compared to previous research by Carcello et al. (2002), where only 33% of the reports refer to it, reporting on the audit plan is high. In the former, only 15% of the reports mention the review of the performance, compared to 73% in this study. In the Carcello et al. study, only three percent of the audit committees report to be responsible for the review of the independence of the internal auditor, which is in line with the four percent found in the current sample. Again, most companies do not provide a conclusion about the work they performed in this area. Overall disclosure is relatively low, with a highest score of five out of the eight items included.

4.2.2.6 Financial reporting

This category contains five items relating to the oversight of the financial reporting process. On none of these items reporting is demanded by the corporate governance codes. Still, all audit committees report to be responsible for the oversight of the

financial reporting practices (table 5f). A high percentage of audit committees also reports to have reviewed the accounting principles used, and mentions the review of statements other than the annual financial statements, like the half-year or quarterly results. In this case, French companies outshine the English. Carcello et al. (2002) and Zabihollah et al. (2003) find a high level of reports that mention that they discussed the review of the financial statements with management (40% and 97% respectively), which is in contrast with the six reports including the item in this study. This cannot be explained by different regulations, because SOX also does not include any requirements to report on financial reporting practices. What does cause the difference is not clear. As in the previous two categories, only a few companies provide a conclusion on whether they believe that the financial reporting practices of the company are appropriate. Only one of these companies also reports on the other four items.

4.2.2.7 Internal control

As discussed in the literature review, only Carcello et al. (2002) include the review of internal controls in their research. They find that 43% of the audit committees report on this. The results in this research are much higher, as is reported in table 5g. This is not surprising, considering that both corporate governance codes demand disclosure on this item. Twelve audit committees provide a conclusion on their review, which is again a relatively low number.

4.2.2.8 Other responsibilities/authorities

This category contains some other tasks that belong to the audit committee, as well as the authorities they have. Results can be found in table 5h. Of these tasks risk management is mentioned as an audit committee task in both the French and the English corporate governance code. The code from the UK also includes the overview of the procedures with which employee complaints are handled as an audit committee responsibility. In the U.S. there is no requirement for the audit committee to review risk management at the company, which could explain why Carcello et al. (2002) find that none of the reports mention risk management, compared to 91 reports in the current sample. Audit committees in the U.S. should concern themselves with the procedures for employee complaints, but here again no disclosure is found (Pandit, et

al., 2005), while almost half the companies in this thesis report on it, mostly from the UK.

On the authority items there is moderate disclosure, though companies should have investigative authority in France and have access to all information sources in both countries. It is important to disclose this information, because it shows to investors that the audit committee is able to perform its job without any hindrance. Previous research has not devoted much attention to these items, and the study of Carcello et al. (2002) finds no or little disclosure in these areas, so compared to that sample, disclosure is high.

4.2.2.9 Other

This last category includes items not discussed in previous research. As can be seen from table 5i many audit committees in the UK report to have evaluated their performance, only half of those committees also provides the conclusions of this evaluation. In France only 18 committees report on an evaluation, and one third of these provide a conclusion. The absence of a conclusion is a recurring pattern in the results, and again it would be useful to provide such a conclusion. This can increase the assurance to the investor that the audit committee adequately performs its duties. Not disclosing this information might be seen as a sign that performance is not up to standard. Lastly, there are only few audit committee which inform the investor about how they receive the information they need to perform their duties.

In general disclosure in this category greatly varies between companies. There are 28 companies that do not provide disclosure on any of these items, but also eleven that disclose all three.

4.2.3 Results disclosure index

The results for the complete disclosure index are presented in table 6. In general it seems that English companies disclose more than French companies. This is confirmed by statistical analysis ($p<0,0005$; mean difference=14,9). The maximum score, which is achieved by one company only, is still far below the total number of items that can be reported. Fortunately, the low minimum score of thirteen is an

exception. Only seven companies have a disclosure score below 20. However, an average score of 29 is still relatively low.

Table 6: Results disclosure index

Disclosure score							
	Minimum score	**Maximum score**	**Median**	**Total items**	**Minimum relative score**	**Maximum relative score**	**Median relative score**
UK	21	40	33	53	39,6%	75,5%	62,3%
France	13	38	24,5		24,5%	71,7%	46,2%
Total	13	40	30		24,5%	75,5%	56,6%

4.2.4 Presentation of the information

To ensure the accessibility of the information it is preferable that all information relating to the audit committee is presented in one report. In that case the reader does not have to go through the entire annual report to find the information he needs. Not many companies present the information in such a way. Mostly part of the information is included in a separate section of the corporate governance report under de heading 'audit committee', while the rest of the information is spread throughout the report.

Only six companies include an audit committee report, which are all from the UK. A report is said to include an audit committee report when there is a separate section in the report that is addressed to the shareholders and signed by the chairman of the audit committee. This number is very low if you compare it to the 41 English companies that include a separate report from the remuneration committee. The other 94 companies include a separate paragraph dedicated to the audit committee. The information contained in this paragraph usually relates to the composition of the audit committee, the meetings and the tasks they have performed. Information about the selection and appointment of the audit committee, the length of their appointments, induction and training and their remuneration are mostly included elsewhere in the report as a part of more general information which relates to non-executive directors. Regarding remuneration it is good to present this in one place of the annual report so comparison with compensation for members of other committees is possible. However, reference to this information and where it can be found should still be made in the audit committee report/paragraph, which is often not the case.

The length of the main report or paragraph regarding the audit committee also differs significantly per company. The longest paragraph is 4,5 pages in the report of the Imperial Tobacco Group, while Next dedicates only seven lines to the audit committee in its annual report. On average companies present one page with audit committee information, with the UK being above (1,3 pages) and France below the average (0,8 pages). It should be noted that length is no indication of the quality of the information. A concise report of one page which includes all or most of the items included in the disclosure index can be much more valuable to an investor than a story of five pages about everything the audit committee has discussed, which does not mention any of the other items. Research has made an attempt to measure the quality of the information, but mainly does this by looking at the quantity. Kent and Stewart (2008) use the number of lines as a proxy for the quality of information, Wallace et al (1994) the number of words, with an additional reward when the text contributes to the understanding of the numbers in the financial statements. Future research should try to find better measures to examine the quality of the information presented.

As is also found by other studies (e.g. Pandit & Subrahmanyam, 2005; Pandit, et al., 2005, 2006) the surveyability of the information greatly varies. Sometimes it is presented in just one section, while other reports contain subheadings and bullet points. Again, whether a report is organized or not does not tell anything about the quality of the information. However, it increases the accessibility of the information to the investor, and is therefore something companies should concern themselves with.

Pandit et al. (2006) and Zabihollah et al. (2003) find that some, respectively many of the audit committee reports (specific numbers are not given) include a disclaimer. In this sample only two companies, both from the UK, include a disclaimer. Contrary to what is found by the two studies mentioned, these disclaimers do not relate to the audit committee itself, but to the internal control system. The Tesco report states referring to the internal control system *"It should be understood that such systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss"* (p. 25). This statement is applicable to the internal control system in general, and not a specific mitigation of the responsibilities of the audit committee.

4.2.5 Conclusion

Considering the results presented above, it can be concluded that there is large variety in audit committee reporting. Concerning the information that is reported, the disclosure scores for the separate categories differ significantly. Relatively high disclosure is found on the composition of the audit committee and their meetings. There is low disclosure relating to selection and appointment of the audit committee members, the duties performed with respect to the internal auditor and the other responsibilities and authorities of the audit committee. Furthermore, audit committees might improve the value of their reports by not only providing information on the tasks they have performed, but also on the conclusions they draw from their work. In general it is shown that reporting is higher in the UK than in France.

More attention could also be given to how the information is reported. In the reports included in the sample too much information is spread throughout the entire annual report. It is advisable that this information is presented in one separate section of the report. If there are reasons to report it elsewhere, it should be clearly stated where this information can be found. Finally, in the audit committee report or section, attention to the layout is important. These are all small changes that can greatly increase the accessibility and quality of the information provided to the investor.

4.3 Regression analysis

4.3.1 Data

A multiple regression analysis is performed with the relative disclosure score (RELSCORE) as the dependent variable and ACSIZE, ACINDEP, ACMEET, ACREMUN, SIZE, LEV, OWN, LIST, AUDIT, INDUS1, INDUS2 and COUNTRY as independent variables. This leads to the following regression model:

$$RELDISCL = \beta_0 + \beta_1 ACSIZE + \beta_2 ACINDEP + \beta_3 ACMEET + \beta_4 ACREMUN + \beta_5 SIZE + \beta_6 LEV + \beta_7 OWN + \beta_8 LIST + \beta_9 AUDIT + \beta_{10} INDUS1 + \beta_{11} INDUS2 + \beta_{12} COUNTRY + e$$

One of the assumptions underlying multiple regression analysis is that the data should be normally distributed. The continuous variables ACSIZE, ACMEET, ACREMUN,

SIZE, LEV and OWN are tested for this assumption. The Kolmogorov-Smirnov statistic is significant for all these variables, which suggests violation of normality. Examination of the histograms of these variables as well as the normal Q-Q plot suggests that the data have a reasonably normal distribution, except for SIZE, which is therefore transformed into the natural logarithm of total assets. The other variables are included as previously specified.

For some of the variables outliers are detected. If the value of a certain company would be removed only for the variable where it is an outlier, there will be a different number of cases for each variable in the regression. This is not preferable. However, removing all the cases from the sample which have an outlier in one or more variables would cause the sample to be reduced to 80 companies. Furthermore, the sample would be unbalanced, with 44 cases from France and only 36 from the UK. Therefore, it is chosen not to remove these outliers.

The data is also tested for multicollinearity. One does not want to include variables in the equation that show very high correlation, because this is an indication that they measure the same. The Pearson correlations are shown in table 7 and there are no signs for multicollinearity, which would be indicated by correlations above 0,8 (Field, 2005). The variance inflation factor (VIF), which should not be higher than 10 (Field, 2005), also gives no reason for concern, with a maximum value of 3,6. The Tolerance level (1/VIF) should preferably not be below 0,1 (Field, 2005), which is not the case. Both are reported in table 9.

Furthermore the normal P-P plot and the scatter plot are examined. There are no signs of heteroscedasticity.

To test for outliers the mahalanobis distances are examined. The overall model includes four outliers. The critical chi-square value for twelve independent variables and an alpha of 0,005 is 28,2995. Only one of these four mahalanobis distances is substantially higher than this critical value (74,9). Therefore it is decided not to remove these four outlier cases from the analysis.

Table 7: Pearson rank correlations for the independent and dependent variables

	ACSIZE	ACINDEP	ACMEET	ACREMUN	SIZE	LEV	LIST	OWN	AUDIT	INDUS1	INDUS2	COUNTRY	Disclosure score	Relative disclosure score
ACSIZE														
ACINDEP	-0,064													
ACMEET	0,102	-0,002												
ACREMUN	0,036	0,052	-0,007											
SIZE	0,09	-0,125	0,114	0,001										
LEV	-0,043	-,249*	0,026	-0,054	-0,08									
LIST	,197*	-0,175	,297**	,247*	0,031	0,049								
OWN	0,031	-0,03	0,05	-0,07	-,363**	-0,05	-,322**							
AUDIT	-0,121	0,102	-,215*	0,02	-0,05	0,028	0,133	-0,166						
INDUS1	-0,019	0,073	-0,11	-0,048	-0,19	0,015	-0,176	,442**	-,199*					
INDUS2	0,063	-0,032	,231*	0,15	0,171	-,207*	0,124	-0,185	0,013	-,214*				
COUNTRY	0,036	0,138	-0,028	-0,083	,429**	-0,11	,293**	-0,756	,221*	-0,531	,288**			
Disclosure score	0,163	-0,112	-0,036	0,017	,299**	-0,02	,427**	-,473**	0,189	-,259**	,206*	,639**		
Relative disclosure score	0,163	-0,112	-0,036	0,017	,299**	-0,02	,427**	-,473**	0,189	-,259**	,206*	,639**	1,000**	

** Correlation is significant at the 0,05 level (2-tailed).*

*** Correlation is significant at the 0,01 level (2-tailed).*

4.3.2 Results

This section discusses the results of the multiple regression analysis.

4.3.2.1 Model

Descriptive statistics for the dependent and independent variables are shown in table 8, the results of the multiple regression analysis are presented in table 9. Independent t-tests show that there are differences in the data for France and the UK. The mean disclosure score is significantly lower (mean difference=14,9) for France than for the UK. Ownership is much more concentrated in France, with a significant mean difference of 57,9. The size variable also shows a significant difference, indicating that French companies on average are smaller than English. For audit committee size, meetings and remuneration and for leverage there is no difference in the sample. The dummy variables are tested with a chi-square test for independence. There is no significant difference in the proportion of audit committees that is fully independent, but significantly more companies from the UK are listed on an American stock exchange, have a Big Four auditor, or operate in the gas, oil or minerals industry. More companies from France are holding companies.

From table 9 it can be seen that the regression model is significant with an F-value of 7,623 ($p<0,0005$). R square is 0,513, but due to the relatively small sample size the adjusted R square might be a better measure. This still indicates that the model explains 44,5 percent of the variance in the disclosure score. This result is comparable to that of Schadewitz and Blevins (1998), who find an adjusted R square of 0,421 in their research to identify factors influencing interim disclosures. This seems to be a moderate result. Some studies report significantly lower adjusted R squares (e.g. a value of 0,19 in Gul and Leung (2004) and of 0,220 in Kent and Stewart (2008)). Higher adjusted R squares are found by for example Cooke (1989b) (0,66) and Cooke (1992) (0,604).

4.3.2.2 Independent variables

All four audit committee variables in this study are insignificant. For audit committee size ($p=0,259$) this finding is in line with previous literature, which consistently finds

Table 8: Dependent and independent variable statistics

		Minimum	Maximum	Mean	Standard deviation	Median	Dummy	
							Value is 1	Value is 0
Relative disclosure score	**UK**	39,6%	75,4%	62,2%	0,65%	62,3%	n/a	n/a
	France	24,5%	71,7%	47,2%	0,99%	46,2%	n/a	n/a
	Total	24,5%	75,4%	54,7%	1,4%	56,6%	n/a	n/a
ACSIZE	**UK**	3	7	4,08	1,03	4	n/a	n/a
	France	2	7	4,00	1,23	4	n/a	n/a
	Total	2	7	4,04	1,13	4	n/a	n/a
ACINDEP	**UK**	2	7	4,00	1,03	4	47*	3
	France	1	5	2,74	1,16	3	15*	35
	Total	1	7	3,37	1,26	3	62*	38
ACMEET	**UK**	3	13	4,98	2,06	4	n/a	n/a
	France	2	13	5,10	2,33	4	n/a	n/a
	Total	2	13	5,04	2,19	4	n/a	n/a
ACREMUN	**UK**	0	30.145	4.276	6.867	0	n/a	n/a
	France	0	40.000	5.482	7.809	2.588	n/a	n/a
	Total	0	40.000	4.879	7.341	0	n/a	n/a
SIZE	**UK**	7,8	16,2	11,4	2,5	10,4	n/a	n/a
	France	6,8	12,2	9,5	1,3	9,5	n/a	n/a
	Total	6,8	16,2	10,4	2,2	9,9	n/a	n/a
LEV	**UK**	0,009	1,01	0,63	0,21	0,67	n/a	n/a
	France	0,05	3,55	0,71	0,44	0,68	n/a	n/a
	Total	0,009	3,55	0,68	0,35	0,68	n/a	n/a
LIST	**UK**	n/a	n/a	n/a	n/a	n/a	14*	36
	France	n/a	n/a	n/a	n/a	n/a	3*	47
	Total	n/a	n/a	n/a	n/a	n/a	17*	83
OWN	**UK**	0	100	17,5	26,5	6,9	n/a	n/a
	France	0	100	75,4	24,1	80,6	n/a	n/a
	Total	0	100	46,4	38,5	45,6	n/a	n/a
AUDIT	**UK**	n/a	n/a	n/a	n/a	n/a	49*	1
	France	n/a	n/a	n/a	n/a	n/a	43*	7
	Total	n/a	n/a	n/a	n/a	n/a	92*	8
INDUS1	**UK**	n/a	n/a	n/a	n/a	n/a	0*	50
	France	n/a	n/a	n/a	n/a	n/a	22*	28
	Total	n/a	n/a	n/a	n/a	n/a	22*	78
INDUS2	**UK**	n/a	n/a	n/a	n/a	n/a	12*	38
	France	n/a	n/a	n/a	n/a	n/a	2*	48
	Total	n/a	n/a	n/a	n/a	n/a	14*	86
COUNTRY	**UK**	n/a	n/a	n/a	n/a	n/a	50*	0
	France	n/a	n/a	n/a	n/a	n/a	0*	50
	Total	n/a	n/a	n/a	n/a	n/a	100	0

**The number of companies that have a fully independent audit committee, are listed on an American stock exchange, have a Big Four auditor, are a holding company, operate in the gas, oil or mining industry, or are from the UK respectively. Companies that do not posses a specific characteristic receive a value of zero.*

Table 9: Multiple regression results

R square	,513
Adjusted R square	,445
Standard error	8,74658
F-value	7,623
Significance	,000

	Predicted sign	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
Constant		35,768	8,510		4,203	,000		
ACSIZE	?	,929	0,817	,089	1,136	,259	,910	1,099
ACINDEP	+	,027	2,000	,001	,014	,989	,812	1,232
ACMEET	+	-,683	,476	-,127	-1,436	,155	,713	1,402
ACREMUN	?	,000	,000	-,002	-,023	,982	,778	1,285
SIZE	+	,434	,471	,082	,922	,359	,707	1,415
LEV	?	2,209	2,739	,065	,806	,422	,853	1,172
LIST	+	9,299	2,904	,299	3,202	,002	,643	1,556
OWN	-	,032	,038	,106	,857	,394	,368	2,716
AUDIT	?	1,417	3,536	,033	,401	,690	,831	1,203
INDUS1	?	2,830	2,601	,100	1,088	,280	,659	1,517
INDUS2	?	1,746	2,885	,052	,605	,547	,763	1,310
COUNTRY	+	14,681	3,329	,628	4,410	,000	,276	3,622

insignificant results on this variable (e.g. Abbott, et al., 2004; Bédard, et al., 2004; Krishnan, 2005; Vafeas, 2005). The positive sign, as predicted, for a fully independent audit committee is in line with findings by Abbott et al. (2003a) and Ho Young and Mande (2005). However, results in these studies are significant, the result in this thesis is not (p=0,989). The contradicting results might be explained by the fact that these studies were both conducted with a sample of American firms, and studied the effects of audit committee characteristics on audit fees, which is a very different dependent variable. Zhang et al. (2007) study internal control disclosures, which is more closely related to the subject studied here and also find an insignificant relationship. The negative sign for audit committee meeting frequency is surprising as studies consistently find a positive influence of meeting frequency on disclosure levels (Bronson, et al., 2006; Kelton & Yang, 2008; Kent & Stewart, 2008). These three studies find significant results, contrary to the results in this research (p=0,155). A possible explanation could be that the dependent variable used here is more complex, consisting of 53 items, while for example Bronson et al. (2006) only

examine the presence of a management report on internal control. Two working papers find an influence for audit committee remuneration (Bierstaker, et al., 2010; Engel, et al., 2009), which is not supported by the results found in this thesis (p=0,982).

4.3.2.3 Control variables

All the control variables have a positive sign, including ownership for which a negative relationship was predicted. This could be an indication that the more concentrated ownership is, the higher the demand for disclosure, contrasting the negative relationship found in previous research (e.g. Chau & Gray, 2002; Deumes & Knechel, 2008; Lim, et al., 2007). However, the ownership variable is not significant (p=0,394), as are most of the variables. Only listing status and country have a significant influence on the dependent variable. The significant positive result for a listing on an American stock exchange (p=0,002) is in line with findings of Cooke (1989b), Cooke (1992), and Inchausti (1997). The result is not surprising, since companies that are also listed in the U.S. have rules to comply with in their reporting, and this is likely to reflect in their home country reports. The finding also lends support to the idea of Cooke (1989b, 1993) and Mangena and Pike (2005) that firms that are internationally listed raise their level of disclosure to be able to attract foreign capital.

The significant positive result for the country variable (p<0,0005) is in line with the expectation that due to an overall stronger corporate governance system in the UK (Heidrick & Struggles, 2009), companies from this country will have higher levels of disclosure.

Both country and listing status are demand variables, which could be an indication that the market influences firms in their decisions regarding reporting practices, and that the firm structure (the supply variables) is less influential (Rainsbury, Bradbury, & Steven, 2008).

The insignificant result for size (p=0,359) might be an indication that the costs of disclosure are not that much larger for smaller firms as is suggested by for example Mangena and Pike (2005), or that firms are not very concerned about these costs.

Also, concerns about political actions (Wallace, et al., 1994) or a competitive disadvantage related to more disclosure (Meek, et al., 1995) might not be as important.

Previous research finds mixed results on the influence of a Big Four auditor. In this thesis the result is insignificant (p=0,690). This result could partly be caused by the fact that only eight of the firms in the sample have a non-Big Four auditor. Future studies that have more variation on this variable might find different results.

Lastly, insignificant results are found for leverage (p=0,422), and the two industry variables (p=0,280 and p=0,547).

4.3.2.4 Conclusion

The overall model presented in this thesis is significant. Tests find that there is a significant difference in the mean reporting score between France and the UK, and therefore it is not strange that country is one of the two variables that have a significant impact on the disclosure score. The other variable is listing status. As expected, when companies are also listed on the American stock exchange, and have to comply with certain disclosure rules for this listing, this is reflected in their statutory financial statements. None of the audit committee variables is of significant influence on the dependent variable, nor are company size, leverage, the presence of a Big Four auditor, the concentration of ownership and the two industry variables. Therefore only hypothesis eight and twelve are supported. The results suggest that outside factors are more important than the corporate governance structure of the company, or its size.

The insignificance of most of the independent variables could partly be caused by the relatively small sample size for a study that includes twelve independent variables. Furthermore, it seems as if the country variable captures most of the variation. When the analysis is repeated without this variable, audit committee meeting frequency is significant at the ten percent level, company size at the five percent level. However, the explanatory value of the model considerably decreases (R square=0,413, adjusted R square=0,340), which is a clear sign that the country variable should be included.

4.4 Sensitivity analysis

Apart from the variables studied in the above regression, other factors might be of influence on the model. Therefore, some additional tests are performed to test the robustness of the results.

When checking the data for normality it was found that some variables have outliers. To prevent the sample from being reduced and being unbalanced these were not removed. The influence of this decision is tested by doing a regression analysis without the twenty cases that have an outlier in one or more of the variables. The model fit increases (R square=0,555, adjusted R square=0,476, F=6,973, p<0,0005). Without these outliers, the model explains 47,6 percent of the variance in the dependent variable as opposed to the 44,5 percent in the original model. Also, meeting frequency and company size are now found to be significant at the ten percent level (p=0,077 and p=0,092 respectively). However, the generalizability of this model is questionable, due to the small sample size (80 cases) and the unequal number of French and English companies included.

As was mentioned in the discussion of the results, four outliers were also found in the sample when conducting the regression analysis and it was decided not to remove them. To test whether this decision has significantly influenced the results the regression analysis is rerun without the cases identified as outliers. These are three French companies, and one from the UK. The results slightly change, with a small decrease in the model fit (R square=0,509, adjusted R square=0,438, F=7,159, p<0,0005).

In the regression it was chosen to take the relative score by dividing the total score by the number of items in the disclosure index, instead of applying a weighted approach. To test whether a weighted approach would yield a different result relative scores have been computed for each category, which have then been combined into a total score, each carrying the same weight. Using this approach the overall model again has less explanatory power than the model used in this thesis (R square=0,483, adjusted R square=0,411, F=6.766, p<0,0005). However, apart from the country and listing variables, audit committee size is also significant at the five percent level (p=0,050).

This is striking, considering the consistently insignificant results found in previous research as discussed in the literature review. It could be that because the disclosure score is more condensed with this approach, the model has become more sensitive to the variations in this variable. The result for holding companies has also changed. The sign was positive, and is now negative. However, the variable is still insignificant.

In the literature two different measures are used for audit committee independence, and results are inconclusive as to which is a better measure. Kent and Stewart (2008) for example use the percentage of independent members on the audit committee, while Bronson et al. (2006) examine the effect of all independent audit committees. The last measure is used in this thesis. To explore whether there is any difference between the two variables, the regression is rerun with the percentage of independent audit committee members as variable for audit committee independence replacing the original dummy variable. The model slightly improves (R square=0,519, adjusted R square=0,453, F=7,826, p<0,0005), but the independence variable remains insignificant. The sign does change from positive to negative. This would be an indication that audit committee members who are related to the company have a positive influence on disclosure. This could be for example because of a greater knowledge of the practices of the company.

The companies in the sample are chosen based on their market capitalization, to reflect the interest of the shareholder. Therefore this would be a good proxy for the size of the company as well. Just as for assets, the data do not have a normal distribution, therefore the natural logarithm of market capitalization is taken. When the regression is run with market capitalization as a proxy for size instead of assets, the results do not change (R square=0,518, adjusted R square=0,452, F=7,795, p<0,0005).

Lastly, some additional variables are included in the regression. The first is another audit committee variable. In the current model audit committee remuneration is included. Often, the chair receives extra payment. This extra payment in euros is included as extra variable. The second is profitability. Previous research finds evidence for a positive (e.g. Mangena & Pike, 2005) as well as a negative (e.g. Inchausti, 1997) relationship. The relatively high variance in profit number

(min=-511.146, max=1.480.137) provides the possibility to study this direction. Furthermore, the sample provides the opportunity to study the influence of two extra industry categories. The industries books, clothing, drinks/food, household products, tobacco and one company from the cosmetic/pharmaceutical industry are combined into a retail industry dummy, which contains 16 companies. The other six companies from cosmetic/pharmaceutical, together with the electronics, industry and metals industries are combined into a production industry dummy. Twelve companies are included in this category.

Adding the four variables increases the model fit (R square=0,569, adjusted R square=0,480, F=6,429, p<0,0005), but none of them is significant. However, in this new model audit committee meeting frequency is significant at the ten percent level (p=0,075). What causes this is not clear.

Adding one variable at the time shows that it is the chairman remuneration variable that causes this difference in the model. When the chairman remuneration variable is included instead of the audit committee remuneration variable this effect is not visible. It therefore seems that remuneration of the audit committee chairman is a variable that could be of importance, in combination with audit committee member remuneration.

The above results show that the model explored in this thesis is quite robust. Still there are two cases where a change in model fit is visible. When applying a different method to compute the dependent variable one extra variable (size of the audit committee) becomes significant. Both approaches have their advantages and disadvantages. Future research might be dedicated to further explore the weighted approach, and apply different weights to the categories in the disclosure index.
Furthermore, research could examine the influence of the remuneration of the audit committee chairman. The results of the above analyses suggest that it is of influence on audit committee disclosure practices.

5. Discussion

5.1 Conclusion

The aim of this thesis was to answer the question *"What information do audit committees of UK and French companies include in their annual report and what factors influence the extent of audit committee reporting?"*. To answer this question, information from corporate governance codes, previous literature and reports like that of the BRC (1999) are combined in one disclosure index. The disclosure index applied includes 53 items which are divided into nine categories relating to the selection and appointment, composition, meetings, and tasks of the audit committee. Furthermore, variables are identified that can be of influence on the disclosure score of a company. These variables relate to the audit committee, the company's board, company characteristics and the external auditor.

A descriptive analysis of the separate items of the disclosure index shows that the level of reporting on items relating to the composition of the committee and their meetings is relatively high. This is in line with the findings of Carcello et al. (Carcello, et al., 2002). It should be noted that for some items a score of 100% is not surprising, because companies that did not report on these items where excluded from the sample. This practice was applied to ensure a sample of 100 companies for the regression analysis.

Low levels of disclosure are found on other items. For example those relating to the internal auditor and other audit committee responsibilities and authorities, as the responsibility to consider the procedure for employee complaints or compliance with the code of ethics, and the authority to investigate issues the audit committee deems important. Still results are generally higher than in previous research (e.g. Carcello, et al., 2002; Pandit, et al., 2005).

One finding that is particularly striking is the fact that hardly any conclusions are provided on the work performed by the audit committee. Surely, the audit committee mainly has the responsibility to examine certain issues and report on them to the board. However, the ultimate goal of this practice is to increase the investor's trust in the information presented in the annual report. Therefore, audit committee information is also reported in this annual report. Just describing the tasks the audit

committee has performed might not fully bring this assurance. Knowing that the audit committee has concluded that the external auditor is independent for example, has a greater chance of doing this. This could certainly be an area for improvement.

Improvements can also be made in the presentation of the information. In general only a small part of the information is concentrated in one part of the annual report. A separate report addressed to the shareholder and signed by the audit committee chairman is the most preferable way to present the information. Only six companies in this sample present such a report, all from the UK. The length of the paragraphs dedicated to the audit committee also varies considerably per company. Of course, length is not an indicator of quality. However, some reports only include ten lines, which surely is not sufficient to cover even half of the items included in the disclosure index. This variety in length is in line with previous audit committee reporting literature, as well as the finding that the surveyability of the information is different for every report (e.g. Pandit & Subrahmanyam, 2005; Pandit, et al., 2006). Contradictory to findings by Pandit et al. (2006) and Zabihollah et al. (2003) hardly any of the audit committees includes a disclaimer.

The results also show that, in general, companies from the UK provide higher levels of disclosure than French companies. It is therefore not surprising that country is found to be a significant variable in the regression analysis. This analysis is conducted with the relative disclosure scores (total score divided by total possible items (being 53)) as dependent variable and the independent variables audit committee size, meeting frequency, independence and remuneration, company size, leverage, auditor, two industry variables, listing status and country. Two of the variables are found to be significant. First, a company that has a listing on an American stock exchange has a higher disclosure score than a company that is not. This result provides support to hypothesis eight, and is in line with previous research that finds a positive relationship between a cross-listing and voluntary disclosure practices (e.g. Cooke, 1992; Inchausti, 1997). It also lends support to the idea that firms with a cross-listing provide information in their home-country report that they are legally required to publish in their U.S. reports. Second, as mentioned, country is of significant influence. Companies from the UK provide a higher level of disclosure, as was predicted. Therefore hypothesis twelve also finds support.

Sensitivity analyses show that the model applied is fairly robust. One question that arises from these analyses is whether it might be better to use a weighted index, instead of the unweighted one employed in this thesis. Furthermore, the remuneration of the audit committee chair might be of influence on disclosure results. These are both items that should receive attention in future research.

Overall it can be concluded that audit committee reporting practices of companies in the UK and France provide quite some room for improvement. In the UK this is somewhat less than in France. These results are an indication that there might be a wide variety in the quality of disclosure throughout Europe. It is important that more research is done in this area, to make companies aware that they should turn op their game with respect to audit committee reporting. Hopefully this will ensure that in the future the full benefits of the presence of audit committees in companies can be enjoyed.

5.2 Implications

5.2.1 Theoretical implications

This thesis adds to the existing academic literature in several ways. First, it combines information from corporate governance codes, previous literature and reports like that of the BRC (1999) into one disclosure index which measures the extent of audit committee disclosure in a sample of 100 companies. It therefore gives a more complete overview of the status quo of audit committee reporting than existing studies.

Second, whereas previous research has studied reporting practices in the U.S., where a legal system applies, this study focuses on the more voluntary context provided in France and the UK. This provides an environment in which one can examine which information audit committees choose to present to investors.

Lastly, previous research has been mainly descriptive in nature. This thesis applies variables studied in other voluntary disclosure literature in a regression analysis to study their effects on disclosure. It therewith directly adds to the existing voluntary

disclosure literature, and provides evidence as to whether factors that influence voluntary reporting on for example internal control, also affect audit committee reporting practices.

5.2.2 Practical implications

The findings of this thesis can be of value to both audit committees and investors. Audit committees can use the results to benchmark their practices in two ways. First, the disclosure index gives an overview of issues that audit committees could be concerned with. Therefore, it can be used as a basis to decide where the audit committee should direct its attention to. Second, the audit committee can compare its own reporting practices with the average found in this thesis to see whether it is performing above or below average, and whether it can improve its reporting practices considering the specific characteristics of the company.

An investor can use the findings of this thesis to form his expectations about the performance of a particular audit committee and the information the audit committee will publish.

5.3 Limitations

The study conducted in this thesis is subject to some limitations. First, the sample of 100 companies is relatively small, especially for a regression that includes twelve independent variables. Also, in the French sample, many companies have to be excluded because their reports do not include all the necessary information. A t-test has shown that the excluded part of the sample significantly differs from the sample that is included. Therefore, there is an upward bias in the disclosure score for the French companies.

A further limitation is posed by the scoring of the index. Scoring for some of the items is subjective and it is only done by one person. Even though the scoring has been done with care, this fact reduces the reliability of the sample. Furthermore, the scoring only takes into account whether a certain item is present or not. However, the quality of the information can substantially differ and this is not captured by the index.

5.4 Future research

The disclosure index provided in this thesis is a first attempt to capture the necessary disclosure for an audit committee in one index to examine the detail of audit committee disclosure by European companies. Future research could examine whether this index is complete, and whether some items should receive a higher weighting than others.

Also this thesis does not examine the extent of reporting, which can vary greatly among companies. According to Pandit et al. (2006) there are broadly three categories audit committees can fall in: committees (1) reporting significantly more than the minimum, (2) reporting only the bare minimum (3) reporting a reasonable amount of information. Future research could examine whether these differences are also prominent in Europe. An attempt to capture the level of detail has already been made by Kent and Stewart (2008) and Wallace and Naser (1995) who measure the number of sentences and number of words respectively. However, length of the text might not be a reliable indication of the quality, and therefore other possible measures should be explored.

Research should also include the investor in the story. It should be examined which information the investor demands and in how far companies meet these needs. The detail of the information is also important in this respect. One should consider whether a complete description of what the audit committee has done during the year is necessary, or if a simple reference to the tasks described in the audit committee charter, with additional explanation where needed will suffice. Also, attention should be given as to how the information is presented to be easily accessible to the reader.

Furthermore, this thesis is one of the first to study audit committee reporting in the more voluntary European environment. Future research should dedicate more attention to the differences in reporting in European countries and the reasons underlying them. Also the advantages and disadvantages of this voluntary environment for this specific reporting area should be examined.

Moreover, many studies focus on only one year. It might be interesting to see whether disclosure changes over the years, for example when audit committee members serve on the audit committee for a longer period.

Lastly, as stated before, Carcello et al. (2002) find that there is a difference between what is stated in the audit committee charter that audit committees should be doing, and what they report that they have been doing. Therefore, research should also focus on how the results found in this thesis relate to the results one could expect based on the charters of these audit committees.

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Appendix A: Disclosure items

1. Selection & appointment
    1.1 Reference is made to the procedure for selecting and/or appointing audit committee members
    1.2 Reference is made to the date of appointment to the audit committee
    1.3 Reference is made to the length of appointment/the ending date of the appointment
    1.4 Reference is made to the audit committee charter
    1.5 Reference is made to the (periodical) revision/adaptation of the audit committee charter
    1.6 Reference is made to induction and training of the audit committee members

2. Composition
    2.1 The number of audit committee members is reported
    2.2 It is reported who is the chairman of the audit committee
    2.3 The names of the audit committee members are reported
    2.4 It is reported whether one or more members are independent
    2.5 It is reported whether one or more members have the relevant expertise
    2.6 It is reported whether one or more members are a financial expert or an equivalent under the code applicable
    2.7 Positions held by audit committee members in other companies are reported
    2.8 The remuneration of the members of the audit committee is reported

3. Meetings
    3.1 The number of meetings held during the year is reported
    3.2 Reference is made to the issues discussed during the meetings
    3.3 It is reported how many meetings were attended by each committee member
    3.4 It is reported which other parties usually attend/have attended the audit committee meetings

4. External auditor
    4.1 It is reported that the audit committee is responsible for the appointment of the external auditor
    4.2 It is reported that the audit committee is responsible for ensuring the independence of the external auditor
    4.3 It is reported that the audit committee is responsible for the review of the external audit plan
    4.4 It is reported that the audit committee is responsible for reviewing the compensation paid to the external auditor
    4.5 It is reported that the audit committee has pre-approved certain non-audit activities or has a policy for approving non-audit activities
    4.6 It is reported how the communication between the audit committee and the external auditor is organized
    4.7 It is reported that the audit committee has meetings with the external auditor without management being present
    4.8 It is reported that the audit committee is responsible for the overview of the external auditors work

4.9 It is reported that the audit committee is responsible for evaluating the expertise of the auditor
4.10 Conclusions about the review of (some of) the items 4.1-4.9 are reported

5. Internal auditor
5.1 It is reported that the audit committee reviews the internal audit plan
5.2 It is reported that the audit committee reviews the resource requirements of the internal audit department
5.3 It is reported that the audit committee is responsible for the appointment of the head of the internal audit department
5.4 It is reported that the audit committee has meetings with the internal auditor without management being present
5.5 It is reported that the audit committee is responsible for the overview of the performance of the internal audit department
5.6 It is reported how the communication between the audit committee and the external auditor is organized
5.7 It is reported that the audit committee reviews the independence of the internal audit department
5.8 Conclusions about the review of (some of) the items 5.1-5.6 are reported

6. Financial reporting
6.1 It is reported that the audit committee is responsible for the oversight of the company's financial reporting practices
6.2 It is reported that the audit committee is responsible for the review of the accounting principles applied
6.3 It is reported that the audit committee reviews and discusses the audited financial statements with management
6.4 It is reported that the audit committee reviews statements other than the annual financial statements
6.5 The audit committee reports a conclusion about the review of the financial statements

7. Internal control
7.1 It is reported that the audit committee monitors the internal control process
7.2 The audit committee reports a conclusion about the review of the internal control process

8. Other audit committee responsibilities/authorities
8.1 It is reported that the audit committee has established a procedure for processing complaints received from employees regarding internal control, accounting and auditing matters/the audit committee monitors compliance to these procedures
8.2 It is reported that the audit committee is responsible for the overview of the company's risk management
8.3 It is reported that the audit committee monitors compliance with a code of ethics
8.4 It is reported that the audit committee monitors compliance with legal and regulatory requirements
8.5 It is reported that the audit committee has the authority to investigate any matter

8.6 It is reported that the audit committee has the possibility to consult inside and outside sources whenever necessary to fulfill its duties
8.7 It is reported that the chairperson of the audit committee reports to the (Supervisory) Board on the work of the committee on a regular basis

9. Other
9.1 It is reported that the audit committee or another organ in the company has evaluated the performance of the audit committee
9.2 The conclusion of the evaluation of the performance of the audit committee is reported.
9.3 It is reported how and when the audit committee receives the information it needs to perform its duties

Appendix B: Companies included in the sample

B.1 UK companies included in the sample

	Company	Market Capitalization 2008 (milGPB)
1	BHP Billiton Plc	3.540.181,01
2	BP Plc	112.952,94
3	Glaxosmithkline Plc	71.514,06
4	Vodafone Group Plc	69.331,81
5	Royal Dutch Shell Plc	68.259,66
6	Astrazeneca Plc	41.703,21
7	British American Tobacco Plc	36.906,53
8	BG Group Plc	32.890,52
9	Tesco Plc	29.329,45
10	Diageo Plc	25.629,01
11	Anglo American Plc	20.996,10
12	Imperial Tobacco Group Plc	19.927,04
13	Reckitt Benckiser Group Plc	19.111,32
14	Sabmiller Plc	17.692,26
15	Rio Tinto Plc	15.276,79
16	National Grid Plc	13.998,82
17	Centrica Plc	13.955,92
18	Bae Systems Plc	13.647,36
19	Scottish and Southern Energy Plc	10.957,07
20	British Sky Broadcasting Group Plc	9.673,81
21	WM Morrisson Supermarkets Plc	7.913,41
22	Compass Group Plc	7.036,42
23	BT Group Plc	6.518,54
24	Rolls-Royce Group Plc	6.315,49
25	Associated British Foods Plc	6.133,52
26	Tanjong Plc	6.061,56
27	Reed Elsevier Plc	5.992,32
28	J Sainsbury Plc	5.890,97
29	Pearson Plc	5.328,44
30	Marks and Spencer Group Plc	5.026,61
31	Tullow Oil Plc	4.870,61
32	Smiths Group Plc	4.741,55
33	The Capita Group Plc	4.667,21
34	Eurasion Natural Resources Corporation Plc	4.365,16
35	Antofagasta Plc	4.308,92
36	Smith & Nephew Plc	3.977,42
37	Lonmin Plc	3.880,20
38	International Power Plc	3.848,12
39	Kingfisher Plc	3.649,73
40	United Utilities Group Plc	3.597,89

	Company	Market Capitalization 2008 (milGPB)
41	Land Securities Group Plc	3.557,88
42	The Sage Group Plc	2.789,18
43	Cairn Energy Plc	2.703,14
44	Tui Travel Plc	2.629,04
45	Wolseley Plc	2.627,82
46	Next Plc	2.578,26
47	Cobham Plc	2.398,51
48	Thomas Cook Plc	2.342,81
49	Severn Trent Plc	2.331,48
50	Templeton Emerging Markets Investment Trust Plc	1.792,80

B.2 UK companies excluded from the sample

	Company	Market Capitalization 2008 (milGPB)
1	Unilever	20.504,90
2	Xstrata	6.257,07
3	Carnival	2.927,81

B.3 France companies included in the sample

	Company	Market Capitalization 2008 (milEUR)
1	Total SA	92.232,36
2	GDF Suez (GDF)	77.463,02
3	Electricité De France (E.D.F.)	75.620,10
4	France Telecom	52.182,40
5	L'Oreal	37.530,32
6	Vivendi	27.224,07
7	Danone	22.185,98
8	Schneider Electric SA	13.112,22
9	Compagnie de Saint Gobain	12.852,18
10	Alstom	11.190,56
11	Hermes International	10.548,45
12	Veolia Environnement	10.490,31
13	Lafarge	8.456,05
14	Christian Dior SA	7.314,51
15	Sodexo	7.279,44
16	Essilor International Compagnie Generale D'optique	7.074,29
17	Thales	5.916,30
18	Suez Environnement Company	5.900,87
19	PPR	5.897,48
20	Vinci (SGE)	5.543,40

	Company	Market Capitalization 2008 (milEUR)
21	Michelin	5.447,32
22	Casino Guichard Perrachon	5.293,76
23	Renault	5.285,58
24	Vallourec	4.356,89
25	Eutelsat Communications	4.041,10
26	Safran	4.017,66
27	Cap Gemini	3.971,04
28	Dassault Systemes	3.825,64
29	Lagardere SCA	3.802,87
30	Eramet	3.608,41
31	Legrand	3.590,05
32	Publicis Groupe	3.576,80
33	Gecina	3.099,70
34	Icade (E.M.G.P.)	2.927,05
35	Peugeot	2.843,69
36	JcDecaux	2.742,88
37	Technip	2.381,86
38	Ipsen	2.352,37
39	Television Francaise 1	2.228,01
40	Ciments Francais	2.216,54
41	Imerys	2.052,24
42	Air France-KLM	2.011,47
43	Pagesjaunes Groupe	1.972,93
44	Neopost SA	1.965,13
45	EDF Energies Nouvelles	1.958,60
46	Eurazeo	1.855,19
47	Metropoles Television M6	1.785,38
48	Wendel	1.782,98
49	Mercialys	1.702,15
50	Rexel	1.218,27

B.4 France companies excluded from the sample

	Company	Market Capitalization 2008 (milEUR)
1	Sanofi Aventis	59.705,47
2	LVMH-Moet Hennessy Louis Vuitton (LVMH)	23.404,31
3	Carrefour	19.398,92
4	Pernod Ricard	11.602,25
5	Bouygues	9.841,81
6	Accor	7.878,08
7	L'air liquide SA	5.922,92
8	Autoroutes Paris Rhin-Rhone	5.623,65

	Company	Market Capitalization 2008 (milEUR)
9	Aeroports de Paris (A.D.P.)	4.788,70
10	Colas	4.621,63
11	Dassault Aviation	4.070,61
12	Alcatel-Lucent	3.552,67
13	Eiffage	3.422,47
14	Iliad	3.357,40
15	Bureau Veritas Registre Internat Classification Navires Aeronefs	3.108,51
16	Klepierre	2.908,75
17	Biomerieux	2.367,22
18	Bollore	2.099,60
19	Fonciere des Regions	2.013,03
20	BIC SA	1.998,20
21	Zodiac Aerospace	1.907,30
22	Vicat	1.679,26
23	CIE Generale de Geophysique Veritas	1.596,40
24	F Marc de Lacharriere Fimalac SA	1.346,24
25	Ubisoft Entertainment SA	1.285,25
26	Atos Origin	1.248,94