

# ATKINSON

Faculty of Liberal and  
Professional Studies

## Research Working Paper

Audit Committees and Corporate Governance  
In a Developing Country

Dr Nelson Maina Waweru | Riro G Kamau  
SAS-ACC2008-05-Waweru-Kamau  
[www.atkinson.yorku.ca/Research](http://www.atkinson.yorku.ca/Research)

# **AUDIT COMMITTEES AND CORPORATE GOVERNANCE IN A DEVELOPING COUNTRY**

**Dr Nelson Maina Waweru\***  
School of Administrative Studies  
York University  
4700 Keele Street  
Toronto ON Canada, M3J 1P3  
Email: [waweru@yorku.ca](mailto:waweru@yorku.ca)

**Riro G Kamau**  
Department of Accounting  
Faculty of Commerce  
University of Nairobi  
P.O.Box 30197-00100  
Nairobi, Kenya  
Email: [kanua2nd@yahoo.com](mailto:kanua2nd@yahoo.com)

\* *Corresponding author*

## Abstract

*Market regulators, commissions and accountancy bodies have recommended the establishment of audit committees as an important step in improving corporate governance. Using a sample of 29 listed companies, this study examined the role of audit committees in corporate governance in Kenya. The study indicated that 93 percent of the companies had already established audit committees which had 4 directors on average. These committees met 4 times a year on average with each meeting lasting for about 2 hours. All the audit committees reported that they had a cordial relationship with the management, internal audit and the external auditors. The audit committees had greatly enhanced the independence of the internal audit function by ensuring that internal audit recommendations were implemented*

**Key words:** Audit committees, Corporate governance, Kenya, Listed Companies, Internal audit, External audit

### **1. Introduction and Motivation**

Jensen and Meckling (1976) defined an agency relationship as a contract under which one or more persons the (principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. The shareholders, or the principals, delegate the day-to-day decision making to the managers or agents. Managers are charged with the responsibility of using and controlling the economic resources of the firm. However, they may not always act in the best interest of the shareholders partly due to adverse selection and moral hazard. Shareholders must therefore monitor the activities of the managers to ensure that they live up to the provisions of their contracts (Goddard *et al* 2000).

To guard against management failures, Moldoveanu and Martin (2001) argued that shareholders should enact a ratification, monitoring and sanctioning (reward and punishment) mechanism. They defined ratification mechanisms as those used for validating the decisions of the agent, in giving final approval or veto for an initiative or directive or actionable plan of the agent. Monitoring mechanisms are designed for observing, recording and

measuring the output of the efforts and strivings of the agent. Sanctioning mechanisms are designed for providing selective rewards and punishment to the agents for the purpose of motivating them to exert effort in directions that are aligned with the interests of the shareholders.

Power (2002) argued that the primary means of monitoring is via the annual accounts whose reliability is enhanced by the audit report. However, accounts may be inadequate for monitoring purposes due to information asymmetry. Managers who have more information than the shareholders or auditors prepare the annual accounts and they may be unwilling to disclose private information for fear that it may be used against them. The nature of the audit is such that omissions or distortions may not be detected or reported to shareholders. In addition monitoring involves costs, which the shareholders may be unwilling to bear. To monitor management, shareholders have traditionally relied on the board of directors and audit committees.

A number of corporate governance studies have been carried out in developed countries of Europe, USA and Japan (Joshi and Wakil 2004). However there are only a few research studies that have been completed in developing countries. Tsamenyi *et al* (2007) observes that corporate governance studies in developing countries are limited and available only on an individual country basis.

### ***1.1 Corporate governance issues in developing countries***

Wallace (1990) defines developing countries as those in the mid-stream of development and refers to an amorphous and heterogeneous group of countries mostly found in Africa, Asia, Latin America, the Middle East and the Oceanic. There exist marked economic, political and cultural differences between developed and developing countries (Waweru and Uliana, 2005). For example unlike in developed countries, most developing countries suffer from lack of skilled/trained human resources, suggesting that companies in developing economies may experience difficulties

attracting people with accounting/finance knowledge in their audit committees. Cultural differences between developed countries of the North America (highly individualistic) and developing countries of Africa (highly collectivistic) may also lead to different corporate governance arrangements. Rabelo and Vasconcelos (2002) argue that the factors giving rise to corporate governance, such as economic trends towards globalization, together with structural characteristics of developing countries (undeveloped capital markets and government interventionism) will make the model of corporate governance different from that found in European or North American Contexts. In relation to African countries, Mensah (2002) suggests that due to the characteristics of the economic and political systems of these economies, such as state ownership of companies, weak legal and judicial systems and limited skilled human resource capacity, they are ill equipped to implement the type of corporate governance found in developed countries. He argues further that there is a dominance of state enterprises (even with privatization) or closely held family-owned and managed companies and listed companies makeup a very small proportion of GDP. For example Kenya has only 49 listed companies with a market capitalization that constitute 34% of GDP (World Bank 2007). This is relatively small when compared to South Africa which has 668 listed companies with a market capitalization that constitute 132% of GDP.

Tsamenyi *et al* (2007) argue that developing countries are often faced with a myriad of problems, such as underdeveloped and illiquid stock markets, economic uncertainties, weak legal controls and investor protection, and frequent government intervention. Furthermore, unlike the dispersed shareholding pattern in the developed world, there is a predominance of concentrated shareholding and controlling ownership in most developing countries. Rabelo and Vasconcelos (2002) argue that developing countries corporate structures are characterized by the desire to maintain control over firms by the majority shareholder, the reliance on debt finance, weak financial markets and an ineffective legal system.

In Kenya many large companies are institutionally owned. Where such institutions are government owned (e.g. by state managed pension schemes or treasury), many board members of the investee company serve by virtue of their position as management of the shareholder and not necessarily because of their qualification and experience (Mensah, 2002). We therefore we therefore expect variation on how audit committees operate in a developing country such as Kenya, when compared to practices in developed countries. We attempt to understand, how audit committees operate in developing countries, the challenges they face and their relationship with management, the internal auditor and the external auditor. However Joshi and Wakil (2004) cushion that the prevalence, composition and role of audit committees is likely to be affected by country-level variables. Therefore it may be difficult to generalize the results of this study to other developing countries.

The Kenyan Capital Market Authority (CMA) issued guidelines on corporate governance practices for publicly listed companies in 2002 (Hussein, 2003). One of the guidelines requires the board to establish an audit committee with at least three independent and non-executive directors. This committee shall report to the board and should have written terms of reference, which deal clearly with authority and duties. The chairman of the audit committee should be an independent and a non-executive director. The boards are required to disclose in their annual reports whether they have an audit committee and the mandate of such committees (CMA 2002). Through legal notice No 60, of 2002, CMA directed that every listed company should establish an audit committee that complies with the guidelines on corporate governance issued by the authority.

Hussein (2003) examined the effect of audit committees on major disclosures and other non-financial characteristics of companies listed at the Nairobi Stock Exchange (NSE). However the study did not address the issue of how audit committees operate, their relationship with management or whether the committees were effective in the performance of their duties.

Goddard and Masters (2000) stated that audit committees have become more important and prevalent in recent years but there is a relative paucity of empirical research concerning their value. Kalbers and Fogarty (1993) indicated that the issue of whether audit committees are actually discharging their important responsibility remains insufficiently understood. Therefore, there is need for a study to be carried out to examine the way audit committees operate in developing countries.

This study examined the practices of audit committees in terms of their composition, membership, independence, meetings, charter and guidelines, achievements and challenges. It also examined the relationship of the audit committees and management, internal audit and external auditor. The study addressed the following research questions:

- i) *How do audit committees operate in a developing country such as Kenya?*
- ii) *How do the audit committees relate to management, internal audit, and external auditors?*
- iii) *What are the major achievements and challenges facing audit committees in Kenya?*

## **2. Literature Review**

### **2.1 Corporate Governance**

Vinten (1998) stated that corporate governance is not a new issue. It dates back to when incorporation with limited liability became available in the nineteenth century, with the need for legislation and regulation. Recent debate has however, focused on more specific concerns. These revolve around the accountability of those in control of companies to those with residual financial interest in corporate success, normally the shareholders and other stakeholders.

There has been extensive discussion of corporate governance during the 1990's but views differ on what it is and how it might be improved. CMA (2002) defined corporate governance as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accountability with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders.

Zabihollah (2003) stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance. It holds management accountable to the board and the board accountable to shareholders. A key function of board is to ensure that quality accounting policies, internal controls, and independent and objective outside auditors are in place. This may deter fraud, anticipate financial risks, and promote accurate, high quality and timely disclosure of financial and other material information to the stakeholders.

Corporate failure and scandals have led to demand for reforms and for better regulations particularly in the field corporate governance. In the UK a number of issues in the early 1990's most notably the collapse of the Maxwell business empire, stimulated discussions and debate about structures for controlling executive power (Power 2002). A code of best practice was developed by a committee chaired by Sir Adrian Cadbury, 'the Cadbury Code' in December 1992 which included recommendations for companies to establish audit committees comprising independent non-executive directors (Power 2002). Power (2002) argued that as sub-committees independent from executive management, they would provide the natural reporting constituency for internal and external auditors. The Cadbury Code was later adopted by the London stock exchange as a condition of registration, and the public sector implications have been widely debated (Power 2002).

In the U.S.A an increasing number earnings restatements by publicly traded companies coupled with allegations of financial statements fraud and lack of responsible corporate governance of high profile companies (e.g. Enron, Global crossing, World com) has sharpened the ever increasing attention on corporate governance in general and audit committees in particular. The fall of the above companies has raised concerns regarding the lack of vigilant oversight functions of their boards of directors and audit committees in effectively overseeing financial reporting process and auditing functions (Zabihollah 2003). President George W. Bush, in a state of the union address, mentioned the seriousness of the corporate governance problem by stating that: *'Through stricter accounting standards and tougher disclosure requirements corporate America must be made accountable to employees and shareholders and held to the highest standards of conduct'* (Zabihollah 2003). A number of commissions and committees have been established to address the corporate governance issue in the USA, which include the Treadaway Commission and the Blue Ribbon Commission. Further, the Sarbanes-Oxely act of 2002 was signed into law and one of its major provisions was that listed companies establish audit committees (Joshi and Wakil, 2004).

In Kenya, the Private Sector Corporate Governance Trust (PSCGT) in conjunction with the Commonwealth Association for Corporate Governance produced a sample code of best practice for corporate governance in June 2000 (PSCGT 2000). One of the key recommendations in the PSCGT (2000) code was that companies establish audit committees composed of independent non-executive directors to keep under review the scope and results of audit, its effectiveness and the independence and objectivity of the auditors. The code states that a separate audit committee enables the board to delegate to a sub-committee the responsibility for a thorough and detailed review of audit matters, enables the non-executive directors to contribute independent judgment and play a positive role in an area for which they are particularly fitted and offer the auditors a direct link with the non-executive

directors. The appointment of properly constituted audit committees is therefore considered to be an important step in raising standards of corporate governance (PSCGT 2000).

## **2.2 Operations of audit committees**

Audit committees should have responsibilities tailor made for their organization (Guy and Burke, 2001). However, the primary function of the audit committees is to assist the board in fulfilling its oversight responsibilities by reviewing the financial information that will be provided to the shareholders and other stakeholders, the systems of internal controls, which management and the board of directors have established, and all audit processes (Bean 1999). Bean (1999) outlined the general responsibilities as:

- i. The audit committee provides open avenues of communication among internal auditors, the independent auditor and the board of directors.
- ii. The audit committee must report actions to the full board of directors and make appropriate recommendations.
- iii. The audit committee has the power to conduct or authorize investigations into matters within the committee's scope of responsibilities. The committee is authorized to retain independent counsel, accountants or others if needed to assist in an investigation.

Several studies have been undertaken on the audit committees' oversight responsibilities. In general, the findings indicated wide variations in both perceived and stated responsibilities. Cooper and Lybrand (1995) and DeZoort *et al* (1997) found that audit committee responsibilities revolved mainly in the areas of financial reporting, auditing and overall corporate governance. Kalblers and Fogarty (1993) found that the responsibilities of audit committee included oversight of financial reporting, external auditor and internal controls.

Pomeranz (1997) defined a charter as a formal statement of the charge, designed to acknowledge the existence of the audit committee in the

corporate by laws. Guy and Burke (2001) argued that every company that has an audit committee should develop a tailor made charter for the committee. The board should approve the charter, and this serves as a guide to the audit committee in carrying out the responsibilities delegated to it by the full board.

As a prerequisite for the effective performance of the audit committee, Braiotta (1999) stated that the board of directors should either pass a formal resolution or amend the by-laws of the corporation in order to document the establishment of the committee. Bean (1999) argued that a comprehensive charter enhances the effectiveness of the audit committee, serving as a roadmap for committee members. A well thought out charter should be tailor made for the company, describe the committee's composition, and specify access to appropriate resources. Bean (1999) also argued that a good audit committee charter organizes committee members' responsibilities, providing a systematic structure for discussions between the committee and management, the public accountant and others. Using the charter as a checklist focuses an audit committee's efforts and this makes it much more effective than it otherwise might have been. KPMG (1999) stated that the audit committee charter has become an increasingly important document for helping members to focus on their specific responsibilities and also to help shareholders to evaluate the role and responsibilities of the audit committees.

The audit committee is responsible to the rest of the board and the shareholders, and its charter details what the shareholders reasonably can expect the committee members to do. Nonetheless, even though a good charter exists and the audit committee faithfully discharges the duties described by it, changing conditions can make a periodic review and update desirable. Thus, Bean (1999) stated that the best audit committee charters are living, changing documents.

One of the most important variables in the composition of an audit committee is the question of independence (Joshi and Wakil, 2004). Braiotta

(1999) stated that the effectiveness of the audit committee depends on the background of the members and of the chairman. He argued that the membership of the audit committee should consist of both financial and non-financial people so that the committee can draw upon members from various professionals such as accounting, economics, education, psychology, and sociology. Equally important, (Braiotta, 1999) the chairman has a critical role in coordinating the committee's tasks. The success or failure of the operation could depend on the chairman and therefore such a person should be chosen with great care. Although there is general consensus regarding the size of audit committees, obviously, the number of members will vary from corporation to corporation. The number of members depends not only on the committee's responsibilities and authority, but also on the size of the board of directors and the company (Braiotta 1999)

Bean (1999) argued that only independent directors should serve on the audit committees. The Blue Ribbon Committee also recommends that only independent directors should serve on the audit committees, a recommendation that was adopted in Kenya by the CMA in 2002 (Hussein, 2003). However, Attwood (1986) argued that the composition of the audit committee would depend on the circumstances of the particular company. Bean (1999) described an independent director as one who is free of any relationship that could influence his or her judgment as a committee member. Pomeranz (1997) stated that there are concerns as to what constituted independence on the part of an audit committee member. He argued that a further decision needs to be made as to whether emphasis should be placed on independence in fact rather than on independence on appearance. Herdman (2002) argued that because the road to becoming an audit committee member begins with the nomination process, independent parties, not the CEO/chairman, should be responsible for nominating members of the audit committee.

Tackett (2004) stated that although the audit committee represents the interests of stockholders, current procedures make it difficult for an

individual stockholder to become a candidate for the board of directors without the blessings of corporate management. He also stated that under normal circumstances, senior management or other directors nominate board candidates. Management fully recognizes the power implications of selecting board candidates who will be sympathetic to their needs. The result, Tackett (2004) argued, is often a board whose composition is biased towards the interests of management instead of the stockholders. If senior management can control the composition of the board of directors, then they also control the composition of the audit committees, which erodes their independence.

In addition to independence, audit committee members are required to be financially literate. The Blue Ribbon Committee recommends that all members of the audit committee need to be financially literate. Zabihollah (2003) defined financial literacy as the ability to read and understand fundamental financial statements including balance sheet, income statements, and cash flow statements. Jonathan and Carey (2001) stated that it is yet to be seen the level at which this financial literacy will finally settle and whether there are enough people who, making the grade, are willing to be members of an audit committee. Jonathan and Carey (2001) also wondered whether in a world of ever more complicated accounting standards, which even fully trained accountants can struggle to understand, if this is a completely realistic and necessary requirement for audit committee members. However, Herdman (2002) questioned whether the capital markets requirement about financial literacy of audit committee members went far enough.

Some studies have been carried out in the area of experience and expertise. For example, GAO (1991) found that approximately half of the 40 surveyed audit committee chairs from large US banks perceived that their audit committees had no members with expertise in assigned accounting, auditing, banking and law oversight domains.

Attwood (1986) stated that in practice the timing of meetings of audit committee need to be scheduled well in advance in order to fit in with what is normally a very tight timetable for the production of the company's interim and final accounts. Likewise the audit committee may want to plan meetings with different departments and subsidiaries, so that over a period of years it covers the whole of the areas included in the terms of reference. Guy and Burke (2001) stated that most audit committees today have two to four scheduled meetings per year depending on the scope of their activities and the size of the company. However Graziano (2004) argue that audit committees are meeting more frequently -both formally and informally. Formal meetings are held at least four, and sometimes up to twelve times per year. Typically, four of the meetings are in person, last about three to four hours and include senior management, external audit and internal auditor (Graziano 2004). Adequate time should be allowed at each meeting so that the agenda can be covered in a professional and complete manner. In addition to scheduled meetings, the audit committee must have authority to hold special meetings as needed (Guy and Burke, 2001).

Research studies involving meeting frequencies of audit committees and company variables have created some interest. Menon and Williams (1994) examined 200 companies and found that the number of audit committee meetings increased as the percentage of outside directors increased. Meeting frequency was positively associated with company's size, monitoring and need of audit committee meetings. In their survey of audit committees, PriceWaterHouseCoopers (1999) found that audit committees among European companies met on average three to four times a year.

The audit committee's report is the basis for reporting on the board of directors' charge to the committee. The report should be addressed to the full board of directors and should explain their findings and recommendations concerning primarily the overall effectiveness of both the internal and external auditing functions and other areas within the original

jurisdiction as defined in the charter. In addition, the report should be based on the member's participation in the audit planning process as well as their monitoring activities (Braiotta 1999).

A number of surveys and empirical tests have been carried out on the functioning and role of audit committees in various countries. For example, in Canada, Maingant and Zeghal (2000) investigated the motives, composition, selection, and frequency of audit committees meetings, audit committee's relationship with internal and external auditors and its broader role. In the USA, Abbot et al (2002) addressed the impact of certain audit committee characteristics identified by the Blue Ribbon Committee (Braiotta 1999) on improving the effectiveness of corporate audit committee and the likelihood of financial misstatement.

In contrast to the numerous studies that have been completed on the functions of audit committees in developed countries, minimal research has been done on developing countries. Consequently our study attempts to bridge this apparent gap in prior research by contributing to our understanding of the operations of audit committees in Kenya.

### ***2.3 Relationship with management, internal auditor and external auditor***

The Blue Ribbon Committee (1999) stated that quality financial reporting can only be achieved through open and candid communication and close working relationships among the company's board of directors, audit committee, management, internal auditors and the external auditors. The success of audit committees in fulfilling their oversight responsibilities depends on their working relationships with other participants of corporate governance.

Zabihollah (2003) stated that the more effective approach is the audit committee to work diligently with management and auditors to identify the most complex business activities, assess their relative risks, determine their accounting treatment, and obtain complete understanding of their impact on

fair presentation of financial performance conditions. Audit committee members should be sufficiently knowledgeable to ask management as well as the internal and external auditor's tough questions regarding quality, transparency, and reliability of financial reports.

Braiotta (1999) stated that it is essential that the audit committees be totally independent from the chief executive officers (CEO). In a study based on an examination of audit committees of 13 companies listed on the New York Stock Exchange (NYSE), M.L Lordal found that effective audit committees permit the CEO to attend committee meetings on invitation only (Braiotta 1999). The CEO is the best source of information relating to the business and he can ensure quick action on committee requests. In achieving appropriate relationship with the CEO, a key ingredient is the quality of the audit committee chairman. He must have both the sensitivity to know when to bring the CEO into the group's deliberations and the strength to stand up to him when the committee wants to pursue an inquiry or change policy. Terrell (2003) stated that a more effective audit committee is a more focused and informed committee. The audit committee should expect the management to be an integral element in helping it to expand its awareness of the company's financial reporting process, including identifying risks and understanding the controls surrounding those risks. Haka and Chalos (1990), found evidence of agency conflict between management and the audit committee chair.

Although the responsibility for reviewing the effectiveness of internal controls lies with the board of directors, in reality, the board is likely to delegate this task to its audit committee. The role of the audit committee in the review process is for the board to decide and will depend upon factors such as the size, composition of the board, and the nature of the company's principal risks (Zaman 2001). It is important that the audit committee and the internal auditor establish a working relationship that is not counterproductive (Braiotta 1999).

The work of the audit committee and the independent auditors is very closely related because both groups have common objectives regarding the financial affairs. Tackett (2004) stated that prior to the Sarbanes-Oxley Act in the USA, it was legal for auditors to report to their clients' management. The Sarbanes-Oxley Act required that auditors report to and are overseen by a company's audit committee. This committee must approve all audit and non-audit services, must receive all new accounting and auditing information from the auditors, and must serve as the official line of communication between the auditor and the client company. Tackett (2004) argued that requiring the audit committee to make all decisions about hiring or firing the auditors removes from management the ability to threaten or coerce the auditors with dismissal if the auditor fails to perform in a manner acceptable to management. Also requiring the audit committee to approve all payments made to the auditor for auditing and non-auditing services makes it difficult for management to purchase unneeded consulting services from the auditor with the intent of paying a 'legal bribe' in the hope of getting more favorable treatment from the auditor. Finally, requiring the audit committee to deal with disagreements between the auditor and management on accounting matters makes it difficult for management to prevail on questionable accounting practices.

Knapp (1987) surveyed 179 audit committee members and found that in audit disputes the audit committee tended to support the auditors rather than management. In another study, Dockweiler *et al*, (1986) surveyed 731 accountants nationwide to ascertain if they perceived that audit committees enhanced their auditing independence or improved effectiveness of their audits - a primary audit committee objective. They found moderate support for both propositions, with respondents from larger firms agreeing more strongly with the statements than did those from smaller firms.

Previous studies in developing countries have not addressed the issue of how audit committees relate to management, internal auditor and the external auditor. We seek to fill this gap in literature by investigating how

audit committees in Kenya relate to management, the internal auditor and the external auditor

#### ***2.4 Achievements and challenges facing audit committees***

There is a growing body of research literature on audit committees. However opinions on the usefulness of audit committees are mixed. Binder (1994) found that only 15% of executive directors of FTSE 100 companies believed that audit committees were vital in order to achieve sound corporate governance. A further 7% saw them as helpful, leaving the remaining 78% unconvinced about their value. However, 89% of non-executive directors employed by FTSE100 companies believed audit committees were vital or helpful. Menon and Williams (1994) investigated whether companies relied on their audit committee reports. They found that although companies voluntarily formed audit committees, they did not appear to rely on them, implying that the audit committees were formed for other purposes. Furthermore, audit committees appear to be used more in larger firms and where there are a higher proportion of non-executive directors (Joshi and Wakil, 2004).

Sweeping changes in and additional focus on corporate governance has placed greater pressure on corporate audit committees to oversee the integrity of their companies' financial reporting process. This uncertain and rapidly shifting regulatory climate has created higher visibility and expectations for audit committee members, who function as the ultimate guardians of investors (Terrell 2003).

Jonathan and Carey (2001) stated that for the non- executive directors who serve on audit committees, expectations are raising. Matters concerned with management of risk, internal control, additional regulatory requirements, external auditor independence, as well as the move to international accounting standards, are potentially creating extra headaches for the members of such committees. Combine all these issues with the many stakeholders who are interested in the company's activities, all with

their own agenda to push, and it is hardly surprising that matters are getting trickier by the day for boards and their audit committees.

Zabihollah (2003) noted that the inclusion of audit committee reports in the proxy statements presents challenges for audit committees. It raises concerns that audit committee members are not thoroughly involved in the preparation of financial statements and, thus, this requirement increases their liability. This increased oversight function and associated liability may ultimately result in higher compensation for audit committee members or fewer qualified directors willing to serve on audit committees.

In order to take reasonable care, Jonathan and Carey (2001) suggested that audit committee members should check that the terms of reference and agenda items explicitly cover all matters. They should also ensure that they have enough meetings and significant sources of assurance to ensure that they can meaningfully discharge their duties.

Given the new corporate governance environment, it is essential for audit committee to focus on a process to supports effective oversight -one that goes beyond mere compliance with the new rules. This requires an oversight framework that facilitates the coordination of the activities and information needed to support the audit committee's understanding and monitoring of the company's financial reporting process. Audit committees should avoid becoming unduly focused on compliance for the sake of compliance- potentially at the expense of a quality oversight process (KPMG 2001).

Taking Kenya as a case study, our study sought to determine the achievements and challenges facing audit committees in developing countries.

### **3. Research Method**

In this study we used the survey method. The internal audit directors of the target companies were initially contacted on telephone to explain the purpose of the study and to request their participation. The heads of internal audit were chosen as respondents since the CMA guidelines requires them to attend all the audit committee meetings and the internal audit function is also under the supervision of the audit committees.

A cover letter explaining the purpose of the study and a questionnaire were then sent to the internal audit directors. The questionnaire, which was developed from an extensive review of related literature and pre-tested with a group of academicians and practitioners, had 50 questions directly addressing the specific objectives of the study. The questionnaire focused on the composition, independence and financial literacy, relationships, self-evaluation, key achievements and challenges. Most of the questions were of the 'Yes' or 'No' type. Other questions requested the respondents to rate the achievements of the committees on a scale of 4 (to a very large extent) to 1 (Not at all)

Questions 1-6 of the questionnaire covered the company's demographic information while questions 7-36 covered the operations/functions of the audit committee corresponding to the first research question. Questions 37-45 dealt with issues relating to the relationship between the audit committee, management, the internal auditor and the external auditor while questions 46-50 explored the achievements and challenges facing the audit committees corresponding to the second and third research questions respectively.

Seven respondents agreed to participate in a personal interview. The remaining 22 completed questionnaires which were later picked by the researchers directly from the respondents. This enabled the researchers to clarify any issues that were not clear to the respondents. However two of the

22 respondents who completed the questionnaire indicated that their companies had not established audit committees.

The population of interest for this study comprised all companies listed at the Nairobi Stock Exchange as at June 30, 2004. As is shown in Table 1, 29 of the 48 companies responded to the questionnaire, which represent a response rate of 60%. The data was analyzed using SPSS. In particular, frequencies were used to group or organize raw data for ease of interpretation. Percentages provided a general summary of collected data, while means were used to rank the scores.

**Table 1. Number of respondents**

<b>Industry</b>	<b>No. of companies in the population</b>	<b>No. of respondents</b>	<b>Percentages</b>
Agricultural	9	6	67%
Commercial and services	10	7	70%
Industrial and allied	17	8	47%
Finance and investment	12	8	67%
Total	48	29	60%

## **4. Findings and Discussions**

The findings indicate that 27 out of the 29 respondents had established audit committees. Eight (30 percent) respondents indicated that their audit committees were established before 1998 when the CMA guidelines became effective, 4 (15 percent) were established in 1998, while

15 (55 percent) were established after 1998. Neither the type of the industry nor the size of the company was seen to be a determinant of whether a listed company established an audit committee or not. Joshi and Wakil (2004) reported that the size of the company and the audit firm (whether international or local) influenced the establishment of audit committees. This inconsistency may be due to the fact that audit committees in Kenya were established as a result of the CMA guidelines unlike in Bahrain where this was done voluntarily. It however interesting to note that two companies had not established audit committees despite this being a legal requirement, suggesting a weak legal/judicial system in Kenya (Rabelo and Vasconcelos, 2002)

Section 4.1 below, details the study findings on the operations of audit committees in Kenyan listed companies. The report is based on the 27 respondents who had established audit committees

#### ***4.1 Operations of Audit Committees***

All the 27 respondents had already developed audit committee charters for effective functioning of their audit committees. However, only 56 percent of the respondents update their charters annually while the remaining 44 percent indicated that their charters were updated on a need basis only. This may be attributed to the limited human resource capacities in developing countries (Mensah, 2002). There is a lot of literature on the need for audit committee charters. The key issue is that every company that has an audit committee should develop a tailor made charter for the committee and that the charters should be updated annually.

The main responsibility of the audit committees is to oversee the financial reporting system. Audit committees should have the ultimate responsibility to select the external auditor. The results on Table 2 indicate that 89 percent of the respondents indicated that their audit committees were responsible for appointing the external auditor while 81 percent reported that they also specify the auditor's fees. This is a very important part of the audit committee's job as it ensures the independence and

qualifications of the external auditor. However, only 41 percent of the audit committees are responsible for the appointing and dismissing the internal audit manager. Eight percent of the respondents indicated that their audit managers are hired through professional recruitment firms and can be dismissed by the management in consultations with the audit committees. Other responsibilities of audit committees which were listed in their proxy statements included monitoring risks, ensuring compliance with internal controls, and ensuring management’s compliance with relevant local regulations, enforcing the recommendations of the internal audit and defining the scope of internal audit.

**Table 2: Responsibilities of audit committees**

<b>Responses</b>	<b>Number of respondents</b>	<b>Percentages</b>
Appointing the external auditor	24	89%
Appointing and dismissing the internal audit manager	11	41%
Specifying the external auditors fees	22	81%
None of the above	4	15%

The audit committees should monitor internal and external audit coverage to ensure that all key risk areas are considered. This may involve reviewing and discussing with the auditors the current year’s audit plan, together with the resolution of prior year issues. According to our findings 89 percent of the respondents stated that their audit committees conducted meetings with the external auditors before the start of the audit. These planned meetings are important as they ensure that the external auditors focus their attention on risky and material areas of the business. However, 11 percent of the respondents indicated that the committees do not conduct any such meetings.

All the respondents indicated that the audit committees reviewed the management letter issued by the external auditor. This is important as it

results in the audit committees becoming aware of the areas of weaknesses of the company's financial system and also ensures that the recommendations are implemented promptly.

The performance of the finance and accounting department is normally not the responsibility of audit committees. As indicated in Table 3, only 19 percent of the audit committees discuss the performance of the accounting and finance department to a very great extent, 41 percent discuss it to a large extent, 26 percent to some extent, while 14 percent do not discuss it at all.

**Table 3: Discussion of the performance of the A/F dept**

<b>Extent of discussion</b>	<b>Number of respondents</b>	<b>Percentages</b>
To a very large extent	5	19%
To a large extent	11	41%
To some extent	7	26%
Not at all	4	14%

When the external auditors provide many other non-audit services on top of normal audit services, it may erode their independence. The audit committees should therefore monitor these non-audit services. Our findings indicate that, only 52 percent of audit committees monitor these services while 48 percent do not. Mensah (2002) observes that where government institutions own majority shares in companies, board members of the investee companies serve by virtual of their position as management of the shareholder and not necessarily because of their qualification and experience. This could be the case in Kenya, where the government still owns majority shares in listed companies. However all the respondents indicated that the external auditor and the internal auditor have direct access to the audit committees, which greatly increase their independence.

Eighty nine percent of audit committees conduct meetings with the external auditors prior to the start of the annual audit and review the management letter issued. External and internal auditors have direct access to the audit committees and 56 percent of the committees monitor the extent of non-audit services performed by the external auditors. Studies that

have been undertaken on the oversight responsibilities of audit committees found that the responsibilities revolved mainly in the areas of financial reporting, auditing and overall corporate governance. This was found to be the case in this study.

To ensure the independence of the members of the audit committees and to avoid conflict of interest, all members should be appointed by the board of directors and not by the management. The CMA guidelines require that audit committees be composed of at least three independent and non-executive directors, who shall report to the board. Having independent non-executive members in the audit committee is a primary and a fundamental requirement that was addressed in the Treadway Report. As recommended by the CMA, all respondents have three or more members in their audit committees. The average membership per committee is 4. However, contrary to the CMA guidelines, 33 percent of the respondents had less than 3 independent non-executive directors in their Audit committees. Forty percent had 3 non-executive directors, while 27 percent had more than 3 independent non-executive directors. Again, this may be attributed to the desire to maintain control over the firms by the majority shareholder (Rabelo and Vasconcelos, 2002).

All the respondents indicated that the board of directors appoints the members of the audit committees. Three respondents representing 11 percent indicated that the members of the committees appoint the chairmen of the committees while 89 percent indicated that the board appoints the chair. All the respondents indicated that their chairmen are independent non-executive directors.

All the respondents indicated that they had a financial expert in their committees. Members of audit committees in the field of finance and accounting averaged 2.3 members per committee. All the respondents were also unanimous that their audit committee members have the knowledge, industry experience and the financial expertise to effectively serve in their role. Seventy percent of the respondents indicated that they engage experts,

while 30 percent reported that they have never had to engage experts though they have this provision in their charters

In 1998, Arthur Levitt, Chairman of the SEC remarked that an ideal audit committee is the one "*that meets 12 times a year before each board meeting.*" In this study, only one of the respondents (4 percent) complies with this requirement. Most of the respondents had quarterly audit committee meetings (63 percent). Of the remaining, 11percent meet twice per year, another 11 percent meet thrice, 7 percent meet six times while the remaining 4 percent meet eight times. The results suggest that quarterly meetings are adequate unless there is an urgent issue to be discussed immediately by the committee. The average number of meetings in a year was 4 times.

Most of the committees meet for two hours on average (85 percent). Eleven percent met for three hours while only 4 percent meet for four hours. On average audit committee meeting lasted for about 2 hours. No respondent indicated that they require any additional time to complete their responsibilities. All the respondents indicated that they were fully in charge of setting the agenda of committee meetings. This is important as it ensures that other people especially management will not influence the committees. Forty eight percent indicated that they use the charter to a very large extent in setting their agenda. Another 48 percent said that they use the charter to a large extent while 4 percent said that they use it to some extent.

All the respondents indicated that their audit committees meet the three minimum number of committee members required by the CMA guidelines with the average number of members being 4 per committee. Members and the audit committee chairmen are appointed by the board of directors, which increases their independence from the management. All committees have a financial expert and the audit committee members have the knowledge, industry experience and financial expertise to be effective in their role. Literature has a lot on the membership of audit committees. For example, theory suggests that the composition of audit committees should

depend on the circumstances of a particular company. However, there is agreement that the members should be independent of management to be able to be effective. GAO (1991) reported that half of the 40 surveyed audit committee chairs from large US banks perceived that their audit committees had no members with expertise in assigned accounting, auditing, banking and law oversight domains. In this study, all the respondents indicated that their committees had the knowledge and industrial experience to perform their job.

In this study the average number of meetings was 4 per year while each meeting took an average of 2 hours. Literature has it that formal meetings are held at least four and sometimes up to twelve times per year. PriceWaterHouseCoopers (1999) found that audit committees among European companies met on average three to four times in a year. It is apparent that audit committees in Kenya are doing well when it comes to the number of meetings.

The audit committee members are in charge of setting the agenda and they use the charter as a guide to a very large extent. The audit committees report to the board mainly on a need basis and the board follows all their recommendations. Theory suggests that, the chairperson of the committee should be in charge of setting the agenda and that at no time should the management alone prepare the audit committee agenda. To ensure that the audit committees cover all the areas included in their charters, they should use it as a guide when setting the agenda. At the end of every year, they should assess their performance to see how well they have discharged their mandate. Audit committees in Kenya appear to be doing well in this area.

Informative reporting to the boards is a pre-requisite for the committees' effectiveness (CMA, 2002). No matter how good the work of the committees is the companies will not be able to benefit from their efforts if the boards are not informed of their findings. Lines of reporting between the committees and the boards should be formalized, normally within the terms of reference of the committees. Regardless of the mode of communication, it

is important that the relationships and communication channels between the committees and the boards are clearly defined and that the committee reports to the main boards on a regular basis. Through effective reporting, the board members will be aware of any issues or disagreements that may have been settled before the accounts are presented for approval.

According to the study findings, 89 percent of the respondents report to the shareholders. However 37 percent indicated that they give their reports through the boards. Seventy percent of the committees report to their boards after every meeting while the remaining 30 percent reports quarterly. However given that most committees meet four times in a year, it seems that even those that reports quarterly may be reporting after every meeting. All the respondents were unanimous that the board of directors follows all the recommendations of the audit committees. All the respondents indicated that their current annual reports had a reference to the effect that they had an audit committee. However, the reference is mainly a two to three paragraph report that do not give enough details as proposed by the CMA guidelines.

#### ***4.2 Relationship with management, internal auditor and external auditor***

The audit committee questionnaire included questions that intended to capture the relationships of the audit committees with management, internal auditors and the external auditors. Other questions captured how they correspond, and how they resolve any disagreements.

The results in Table 4 indicate the extent to which the respondents perceived the relationships between the audit committees and the management, internal and external auditors is considered positive. According to the findings 41 percent perceived the relationships to be positive to a very large extent while 59 percent indicated that it was positive to a large extent. This is commendable as audit committees can only be effective when the working relationship is positive. All the respondents

indicated that they could communicate by mail, telephone and e-mail. Fifty nine percent indicated that they communicate on a need basis, 37 percent communicate quarterly, while 4 percent communicate semi-annually.

**Table 4: Nature of relationship with mgt, internal and external auditor**

<b>Extent of relationship being positive</b>	<b>Number of respondents</b>	<b>Percentages</b>
To a very large extent	11	41%
To a large extent	16	59%
To some extent	0	0
Not at all	0	0

For the audit committees to be effective, it must be independent and especially resist influence from the chief executive officer (CMA, 2002). In this regard, the committees may find it useful or necessary to hold separate private meetings with both the internal and external auditors without the presence of the executive directors. Private meeting(s) would help to ensure a free and frank exchange where the expression of views might otherwise be restricted. According to the study findings, 74 percent of the respondents indicated that the CEO attends audit committee meetings on invitations only while 26 percent indicated that the CEO could attend at will. All the respondents were unanimous that their audit committees were independent of management. They also indicated that there were procedures in place for reporting to the audit committee significant deficiencies and material weaknesses on a timely manner. They further reported that disagreements between management and outside auditors are reported timely to the audit committee. Fifty six percent of the respondents indicated that the audit committee constructively challenges management while 44 percent advised that there has been no challenge to date. The appointment of directors on the basis of their relationship with the majority shareholder rather than their qualification and experience could be a major factor (Rabelo and Vasconcelos, 2002). All the respondents indicated that differences of opinion

on accounting policies are always resolved to the satisfaction of the audit committees.

In this study, the relationship with management, internal auditor and external auditor is positive to a large extent. Management and auditors correspond with the audit committee using mail, telephone and e-mail on a need basis. The audit committees are independent of management and 74 percent of CEO's attended audit committee meetings on invitation only. Literature has it that the success of audit committees in fulfilling their oversight responsibility depends on their working relationships with other participants in corporate governance. The CEO is the best source of information relating to the business and he/she can ensure quick action on committee requests. The chairperson of the committee should have the sensitivity to know when to bring the CEO in to the committees' deliberations and the strength to stand up to him when the committee wants to pursue an inquiry or change policy. A study in the USA found that effective audit committees permit the CEO to attend its meetings on invitations only which seems to be the case in this study. In an earlier study Haka and Chalos (1990) had found evidence of agency conflict between management and the audit committee chair. Audit committees in Kenya appear to be doing well in this respect as 74 percent indicated that CEOs attend meetings on invitation only. The respondents also indicated that the relationship of audit committees with other players in corporate governance is positive. This will ensure that they will be able to achieve their objectives.

#### **4.3 Achievements and challenges of audit committees**

The achievements of audit committees were captured using three questions. a) the influence of audit committees on the internal auditors; b) whether the committees increased reliability of financial statements and c) the major achievements and challenges facing audit committee.

The performance and efficiency of the internal audit department is the responsibility of the audit committees. As indicated in Table 5, 74 percent of

the respondents indicated that the audit committees improved the efficiency and effectiveness of the internal auditors to a very large extent while 26 percent indicated that the improvement was to a large extent. Given that the internal audit is one of the key responsibilities of the audit committees, this can be seen as an indicator that audit committees are achieving their objectives in Kenya.

**Table 5:Extent to which having an A.C has improved the efficiency and effectiveness of the internal auditors**

<b>Extent of believe</b>	<b>Number of respondents</b>	<b>Percentages</b>
To a very large extent	20	74%
To a large extent	7	26%
To some extent	0	0
Not at all	0	0

In this study, the major achievements of the audit committees was in providing the internal audit with a communication channel and ensuring that the audit issues raised by the internal audit were attended to promptly which then enhances department's independence. Audit committees have also increased the reliability of the financial statements to a very large extent. Literature, however, is divided on the achievements of audit committees. A study by Guy and Burke (2001) found that only 15 percent of executive directors of FTSE 100 companies believed audit committees were vital in order to achieve sound corporate governance. However AICPA (2004) consider audit committees as vital in improving internal controls.

The results in Table 6 indicate that most of the respondents (67 percent) believe that the audit committees have increased the reliability of the financial reports to a very great extent. The remaining (33 percent) indicated that the committees increased the reliability to a large extent. The study findings are surprising since Kenya, like other developing countries experience a shortage of qualified accountants (Waweru and Uliana, 2005).

**Table 6: Extent to which an A.C increases the reliability of financial reports**

<b>Extent of believe</b>	<b>Number respondents</b>	<b>of</b>	<b>Percentages</b>
To a very large extent	18		67%
To a large extent	9		33%
To some extent	0		0
Not at all	0		0

The major achievement cited by most respondents had to do with the internal audit. Most respondents indicated that audit committees ensure that audit issues taken to management are promptly resolved. This has had the effect of enhancing the independence of the internal audit function. Other achievements noted included significant improvement in corporate governance practices, improved risk management and control processes, clarifying the role of internal audit Vis-à-Vis policy setting, forcing management to pay greater attention to internal controls, improving the tendering system and reducing time spent by the external audit hence cutting down on auditing costs.

Most respondents indicated that there were no major challenges facing audit committees. However, a few respondents indicated that the challenges posed by the rapidly changing environment coupled with the increased local and international regulations were a major challenge. Further, the audit committee idea, being a new concept created a problem in the setting of boundaries within the company, while some dominant senior managers would interfere with the work of audit committee if they not closely watched. Others felt that audit committees were being asked to take major responsibilities over the financial reports although their involvement in the preparation of the accounts was minimal.

We asked the respondents why some listed companies had failed to establish audit committees. Only two respondents (7 percent) indicated the absence of audit committees. One indicated that the audit committee had not been established owing to frequent management changes but they were set to establish one in 2005. The other respondent indicated that they had

not established an audit committee as they had adequate internal control measures. This revealed ignorance of the CMA guidelines an apparent weakness in the legal systems of developing countries (Mensah, 2002).

Literature gives the challenges facing audit committees as increased liability as a result of their reports being included in the proxy statements. Other challenges include many stakeholders interested in companies' activities, additional regulatory requirements and greater visibility and expectations of audit committees. Audit committees in Kenya seem to be facing similar challenges as they indicated that the major challenges were the changes in legal and operating environment, increased liability and the problem of setting the boundary between the committee and the management.

## **5. Conclusions**

This paper has presented the results of research that investigated the operations, achievements and challenges facing audit committees of Kenyan listed companies. Surprisingly, most of the findings are consistent with those of studies carried out in the major economies. Factors such as cultural differences, varying levels of governance, size of the markets may have been expected to influence the findings. However the results indicate that limited human capacity, dominant shareholder and government interventionism have influenced the operations of audit committees in Kenya. Almost half of the respondents did not update their audit charter annually as is required, suggesting a limited human resource capacity that is prevalent in most developing countries. Forty –eight percent of the respondents did not monitor other audit services provided by the external auditor, while 44% had never challenged management since their inception. These findings may be attributed to the fact that most directors in Kenya are appointed to the board based of their management position at the investee

company (mostly the government) and not on their qualifications and experience. Contrary to the CMA requirements, 33% of the respondents had less than the three non-executive directors in their audit committees, suggesting a desire by the majority shareholders to maintain control of the firm. The results are consistent with observations of Tsamenyi *et al* (2007), Rabelo and Vasconcelos (2002) and Mensah (2002)

Most of the listed companies meet the CMA requirements in terms of the composition, membership and independence of audit committee members. Audit committees have increased the independence of internal and external auditors. The major challenge is the increased liability the committee members are exposed to as a result of the inclusion of their report in the proxy statements. The relationship of the audit committees with management, internal audit and external auditor is cordial to a large extent.

This was an empirical study, which means that it had a broad coverage but shallow depth. An in-depth examination may therefore be required to confirm these findings. Out of the forty-eight companies, only twenty-nine responded to the questionnaire. However this was not a major limitation as the respondents did not exhibit significant variations.

Future research may be directed to the role of audit committees in companies that are not listed at the NSE. Further studies could be carried out to examine the effect of audit committees on audit fees. Additionally, there are some encouraging findings regarding the reduced likelihood of financial reporting problems when audit committees are more active and more independent, but much more need to be discovered about how the audit committees influence the financial reporting quality.

## References

- Abbot, J.L., Parkar, S and Peters, G.F. (2002). *The effectiveness of Blue Ribbon Committee Recommendations in Mitigating Financial Misstatements: An Empirical Study*, available at: <http://fettew.ugent.be/AccoEco/nederlands/downloads/informatie%20seminaries/midyear%20conf>
- AICPA (2004), " *Conducting audit committee self-evaluation guidelines and question*", Audit Committee Effectiveness Center, New York
- Attwood, F. (1986), " *Auditing*", Pitman Publishing, London
- Bean, J. W. (1999), " *The audit committees roadmap*", A.I.C.P.A
- Blue Ribbon Committee (BRC) (1999), " *Improving the effectiveness of corporate audit Committee*", AICPA, New York.
- Braiotta, L. (1999), " *The audit committee handbook*", 3<sup>rd</sup> Ed John Wiley and sons Inc New York
- CMA (2002), " *Guidelines on corporate governance practices by public listed companies in Kenya*, CMA, Nairobi, Kenya
- Sarbanes, P and Oxley, M. (2002), " *Sarbanes-Oxley Act of 2002*", USA Congress, Washington, DC.
- Coopers & Lybrand (1995), " *Audit committee guide* ", Coopers & Lybrand, New York
- DeZoort F.T., Hermanson, R.D., Archambeault, D.S and Reed, S.A. (2002), " *Audit committee effectiveness: a synthesis of the empirical audit committee literature*", *Journal of accounting literature*' Vol. 21, PP 38-75
- Dockweiler, R.C., Nikolai, L.A. and Holstein, J.E., " *The effect of audit committees and changes in the code of ethics on public accounting*", Proceedings, 1986 Midwest Annual Meeting, American Accounting Association, 1986, pp. 45-60
- General Accounting Office (GAO), (1991), " *Audit Committees: legislation needed to strengthen bank oversight*", Report to Congressional Committee, Washington, DC
- Goddard, A and Masters C. (2000), " *Audit committee, Cadbury code and audit fees; an empirical Analysis of UK companies* ", *Managerial Auditing Journal* Vol. 15 no 7 pp 355-371

- Graziano. C, (2004),"Audit committee step up", *Corporate Board Member*, Vol. 7 no 4, pp 7
- Guy, K.W and Burke, F.M, (2001), "*Audit committees; A guide for Directors, Management, and Consultants*", Aspen publishers, New York
- Haka, S and Chalos, P, (1990), "Evidence of agency conflict among management, auditors and the audit committee chair", *Journal of Accounting and Public Policy*, Vol. 9, pp 271-292.
- Herdman R.K (2002),"*Making audit committee more effective*", Tulane Corporate law Institute, New Orleans
- Hussein, S (2003)," The effect of audit committees on major disclosures and other non-financial characteristics of companies listed at the NSE. *Unpublished MBA Thesis University of Nairobi, Kenya*
- Jensen M.C and Meckling, W.H, (1976), "Theory of the firm: managerial behavior, agency costs, and ownership structure", *Journal of financial economics* Vol. 11 pp 305-360
- Jonathan, H and Carey, A, (2001),"*Audit committees: Effective against risk or just overloaded?*" *The balance sheet*, Vol. 9, no 4, pp 37-39
- Joshi, P.L and Wakil, A, (2004), "A study of the audit committee function in the Brahmin, Empirical findings, *Management Auditing Journal*, Vol. 19, no7, pp 832-858
- Kalbers, L.P and Fogarty, T.J, (1993), "Audit committee effectiveness: an empirical investigation of the contribution of power" *Auditing: A Journal of Practice & Theory*, 12, pp 24-49
- Knapp, M.C., "An empirical study of audit committee support for auditors involved in technical disputes with client management", *The Accounting Review*, Vol. 62 No. 3, July 1987, pp. 578-88
- KPMG (1999)," *Corporate Governance: a guide to corporate accountability*", KPMG Audit Committee Institute, London
- KPMG, 2001 [www.KPMG.com/aci/surveys.htm](http://www.KPMG.com/aci/surveys.htm)
- Maingat, M and Zeghal, D, (2000), "A *survey of audit committees in Canada*", paper presented at the 23<sup>rd</sup> EAA Annual Congress, 29-31 March, 2000, Munich

- Menon, K and Williams, D. (1994), "The use of Audit Committees for Monitoring", *Journal of accounting and Public policy*, Vol. 13, pp, 121-139
- Mensah, S. 2002. "Corporate governance in Ghana: issues and challenges, Paper presented at the African Capital Markets Conference, December
- Moldoveanu, M and Martin, R. (2001),"Agency theory and the design of an efficient governance mechanism, Working Paper, Rotman School of management, University of Toronto, Canada
- Pomeranz, F. (1997)," Auditing committees: Where do we go from here", *Managerial Auditing Journal* Vol. 12, no 6, pp, 291-294
- Power, M. (2002); "*The audit society*" Oxford University press, London
- PriceWaterHouseCoopers (1999), "*Audit committees: Good practices for meeting market expectations*" PriceWaterHouseCoopers, London
- PSCGT (2000)," *Principles for corporate governance in Kenya*", PSCGT, Nairobi
- Reay, C. (1994), "Non-executives and the expectations gap", *Accountancy*, Vol. 114 No.1213, pp.74-5
- Reinstein, A and Weirich, T.R. (1996)', "Testing for bias in the audit committee", *Managerial Auditing Journal* vol. 11 no 2 pp 28 -35
- Rabelo, F and Vasconcelos, F. 2002. Corporate governance in Brazil, *Journal of Business Ethics*, Vol 37 no. 3, pp 321-35
- Tackett, J. (2004)," Sarbanes -Oxley and audit failure management auditing", *Managerial Auditing Journal*, Vol. 19, no 3, pp 340 - 35
- Terrell, M. (2003),"CFOs and audit committees: mutual expectations" Financial executive, Financial Executive institute, New York
- Treadway Commission,(1987), "*Report of the National Commission on Fraudulent Financial reporting*", Washington DC
- Tsamenyi, T., Enninful-Adu, E and Onumah, J. 2007. Disclosure and Corporate Governance in Developing Countries: evidence from Ghana, *Managerial Auditing Journal*, Vol.22. no. 3, pp 319-334
- Vinten, G. (1998); "Corporate governance: An International state of the art", *Managerial Auditing Journal*, Vol. 13, no 7, pp, 419-31

- Vinten, G. (2002)," The corporate governance lessons of Enron ", *Corporate Governance*, Vol. 2, no 4, pp 4-9
- Wallace, R.S.O.1990. Accounting in developing countries, *Research in Third World Accounting*, JAI Press, 1: 3-54
- Waweru, M.N and Uliana, E. 2005. Predictors of management accounting change in South Africa: evidence from five retail firms, *SA Journal of Accounting Research*, 19 (1), 37-71
- World Bank (2007), Data & Statistics:  
<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/>
- Zabihollah, R. (2003); "Improving corporate governance: The role of audit committees" *Management Auditing Journal*, Vol. 18, no6/7, pp 530 - 537
- Zaman, M. (2001)," Generating undue expectations of the corporate governance Role of audit committees", *Managerial Auditing Journal*, Vol. 10, no 1, pp 5-9