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Audit Committee Effectiveness Among Malaysian Listed Companies

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ABSTRACT

This study investigates further the previous paper by Shamsul Nahar and Al-Murisi (1997) by examining the interactive effects of the variables in that paper and introducing other variables associated with corporate governance and political costs. The present study postulated that percentage of external directors on audit committee interacted with the presence of an accountant on audit committee and with the number of years an audit committee in existence, respectively, to influence audit committee effectiveness. The study also posited that the interaction of the presence of an accountant on audit committee and the number of years an audit committee in existence positively and significantly influenced audit committee effectiveness. Additionally, the roles of leadership structure, audit committee chairman, and a firm's size on audit committee effectiveness were also investigated. Using a multiple regression from a sample consisting the Kuala Lumpur Stock Exchange listed companies, results showed that only a firm's size significantly influenced audit committee effectiveness in the predicted direction. Other variables, on the other hand, did not show any significant influence on audit committee effectiveness.

ABSTRAK

Kajian ini meneliti lebih lanjut kajian yang telah dijalankan sebelum ini oleh Shamsul Nahar & Al-Murisi (1997) dengan melihat kesan interaksi angkubah-angkubah yang berkait dengan pengawasan korporat dan kos-kos politik. Kajian ini mencadangkan bahawa peratus pengarah bukan eksekutif dalam jawatankuasa audit berinteraksi dengan kehadiran seorang akauntan dalam jawatankuasa audit dan dengan jangka masa sesebuah jawatankuasa audit telah beroperasi dalam firma terbabit mempengaruhi keberkesanan sesebuah jawatankuasa audit. Di samping itu, kajian ini juga melihat peranan-peranan struktur kepimpinan syarikat, pengerusi jawatankuasa audit dan saiz syarikat ke atas keberkesanan jawatankuasa audit. Penemuan kajian dari penggunaan analisis regresi berbilang menunjukkan hanya saiz syarikat yang mempengaruhi secara negatif ke atas keberkesanan jawatankuasa audit, sebagaimana yang dijangka. Angkubah-angkubah yang lain tidak menunjukkan sebarang kesan signifikan ke atas keberkesanan jawatankuasa audit.

BACKGROUND

Audit committees have been mandated to all the Kuala Lumpur Listed Stock Exchange (hereafter referred as KLSE) since 1 August 1993 (KLSE Listing Requirements, Section 15A and Section 344A). However, companies already listed on the exchange on 1 August 1993 were given a one year "grace" period and thus, these companies were required to have audit committees formed by 1 August 1994.

As of end of 1996 (i.e., the date of the present research was carried out), KLSE listed companies listed prior to 1 August 1993 must have an audit committee in existence for at least two years. Therefore, it may be of utility to gauge their effectiveness as an audit committee was argued to need about 3-5 years to gain the required experience to be effective (Abdolmohamadi and Levy, 1992). Moreover, before the regulatory bodies in Malaysia imposing any further requirements on the Malaysian companies or to make an audit committee formation mandated through the (Malaysian) Companies Acts (1965), it may be useful to determine their effectiveness in discharging the already imposed requirements.

The recent paper by Shamsul Nahar and Al-Murisi (1997) provides some insights into the effectiveness of an audit committee in discharging its duties, particularly in Malaysia. In their study, they documented evidence of a positive and significant influence of having an accountant sitting on the committee on its effectiveness. However, the paper failed to uncover the roles of the number of years an audit committee in existence in the organisation and the percentage of external directors on the committee effectiveness. It is then the purpose of the present paper to reinvestigate further the roles of the percentage of external directors, having an accountant on an audit committee and the number of years an audit committee having been established on its effectiveness. In addition, the present study also incorporated other variables, namely leadership structure, audit committee chairman, and size of the firm.

LITERATURE REVIEW AND HYPOTHESES

Audit Committee and External Directors

The concept of audit committees in Malaysia is very recent. It only became a widely known concept following the financial fiasco of the Bumiputra Finance Berhad (BMF) in the early 1980's (Al-Murisi, Ayoib and Chek, 1995). In other parts of the world, particularly in the North America, audit committee has long been part of the corporate governance system. Mautz and Neuman (1970, 1977), for instance reported that in their 1970's survey, 32 percent of the companies that responded to their study indicated that they had audit committees established in their firms. The figure increased by almost triple in their 1977's survey whereby 88 percent of the companies had audit committees present in their firms. In the UK, Collier (1992, p. 169) revealed that the number of companies having an audit committee in place was growing steadily, whereby two-thirds of the companies listed on the London Stock Exchange had an audit committee in their companies.

In Malaysia, *Bank Negara Malaysia* (BNM) required all financial institutions under its supervision form a committee with a non-executive director serving as the chairman (BNM/GP1, 1985). The requirement was later extended to the insurance companies (JPI/GPI 1, 1990) (note: the actual implementation of the requirement was in 1995). The Malaysian Institute of Accountants (MIA) has also issued its own guidelines as an attempt to spell out the attributes of a good audit committee (MIA,1994).

The recent paper by Shamsul Nahar and Al-Murisi (1997) attempted to gauge audit committee effectiveness by using a questionnaire-based survey method. The paper examined three variables that were hypothesised to have influence on audit committee effectiveness, namely percentage of external directors on the committee, the number of years the audit committee in existence in the organisation and having a qualified accountant on the committee. Their study showed only having a qualified accountant on the committee positively and significantly influences its effectiveness, as predicted. However, with regard to the percentage of external directors and the number of years an audit committee has been in place in a firms, the study showed that both of these variables had a negative and insignificant influence on audit committee effectiveness.

The negative influence of the percentage of external directors on audit committee, as they argued, may be due to external directors not being conversant in financial reporting issues or due to the external directors acting as a ceremonial "rubber-stamp" to the management (Mace, 1986; Kosnik, 1987; Mallette and Fowler, 1992). If this were true, it is then argued that merely having an audit committee comprised of wholly external directors as proposed by the MIA (1994) or at least the non-executive directors make up the majority of the committee (JPI/GPI 1, 1990) may not serve the objective of having a good audit committee. Though the benefits of having external directors on a board of directors are well recognised in the literature (Jensen and Meckling, 1976; Fama and Meckling, 1983; Weisbach, 1988), their roles on audit committee effectiveness are not yet well documented. Though the evidence by Wild (1994) showed that the presence of an audit committee in an organisation leads to higher management accountability, the explanatory power of test was low (i.e., the p-value was between 5-10 percent), as the author argued.

Recently, Beasley (1996) evidence showed that extent of external directors on the board negatively associated with the incidence of frauds in financial statements. Though the existing evidence suggests that external directors are better monitors of management, their roles on financial reporting may be enhanced with the assistance of a director who is well conversant in accounting. Therefore, the influence of external directors on the effectiveness of an audit committee may be moderated by the presence of an audit committee who is a qualified accountant. In other words, the effectiveness of the external directors in overseeing the financial reporting process will be improved with the presence of an accountant on the committee. Hence, an alternative hypothesis is as follows:

H_1: The relation between the percentage of external directors sitting on audit committee and audit committee's effectiveness is positively and significantly influenced by the presence of an accountant on the committee.

External Directors, Audit Committee Experience and Expertise

The number of years an audit committee has been established has been argued to reflect its experience (Abdolmohammadi and Levy, 1992; Shamsul

Nahar and Al-Murisi, 1997). However, an audit committee may not be effective if it is not made up, in majority, of external directors. As argued in the earlier section, the extent of external directors making up an audit committee influences audit committee effectiveness. Moreover, if an audit committee is made up by majority of inside directors, its formation is seen to merely satisfy the KLSE Listing Requirements rather in a good faith.

Additionally, if an audit committee is made up by mainly of the inside directors, the committee is not perceived as effective as it is not seen as independent of the management. Thus, it is argued that conflict of interests would arise which would render audit committee to become ineffective. Similarly, the number of years an audit committee in existence in the organisation may not be viewed as having substantial experience in financial reporting if none of the audit committee members is an accountant. Hence, two alternative hypotheses are as follows:

H_2: The relation between the number of years an audit committee has been established in the organisation and audit committee effectiveness is positively and significantly influenced by the percentage of external directors making up the committee.

H_3: The relation between the number of years an audit committee has been established in the organisation and audit committee effectiveness is positively and significantly influenced by the presence of an accountant on the committee.

Leadership Structure

Collier (1993b) argued that the presence of a dominant personality in an organisation blocks the formation of an audit committee. His evidence was in the hypothesised direction though it was not statistically significant. Thus, though insignificance, his finding did suggest the negative influence of a dominant personality on the likelihood of the formation of an audit committee. Daynton (1984) argues that the board "... needs a chairman who is not also CEO." (p. 35). He argued further that if one person holds both the posts of board chairman and CEO, "It is the always the governance hat that is doffed." (p. 35). In other words, it is the internal corporate governance mechanism in this organisation is perceived to be weak.

In Malaysia, since audit committee is mandatory and hence the presence of a dominant personality may not be able to block the formation of an audit committee, because not complying with the KLSE Listing Requirements could result in a costly penalty. Therefore, in this setting, it may be expected that the presence of a dominant personality in the organisation may block audit committee effectiveness as all the recommendations made by the committee are likely to be kept by the board of directors without appropriate actions being taken. Hence, the related alternative hypothesis is as follows:

H_4: The presence of a dominant personality negatively and significantly influence audit committee effectiveness.

Audit Committee Chairman

The chairman of an audit committee plays a major role in leading the operation of an audit committee. If the chairman is not committed to discharging his or her chairmanship roles, the other committee members are expected to follow suit. Thus, the audit committee, as a whole, will not be effective.

The extent to which the chairman is committed is predicted to be reflected in the status of the chairman. If the chairman of the committee is not independent of both the management and the board, it is less likely that the committee is effective in discharging its duties. Audit committee independence may be hampered if its chairman are either the board's chairman, chief executive directors, or executive directors. Thus, conflict of interests will inevitably arise, as those who are expected to be monitored by the audit committee and the ones to whom an audit committee was accountable to, sit on the audit committee. The need for an independent audit committee chairman has also been stipulated in the BNM/GP1 (1985) which requires the chairman of the committee be a non-executive director. Since an audit committee is a subcommittee of the board and if the chairman of the committee is also the chairman of the board, the accountability of the committee is therefore questionable. Therefore, an alternative hypothesis is as follows:

H_5: Audit committee effectiveness is negatively and significantly influenced by the audit committee chairman who is not independent.

Firm's Size

In the positive accounting theory, a firm's size has been argued and shown to have influence on the management tendency to choose income decreasing procedures (e.g., Watts and Zimmerman, 1986). Furthermore, large firms usually involve in many businesses (i.e., conglomerates) and their operations are predictably complex.Hence, given the complexities in the operations, an audit committee may face difficulty understanding the financial reporting requirements of each of the firm's businesses. Therefore, audit committee effectiveness may be adversely affected by the myriads of businesses the organisation involves in.

The political costs hypothesis (Watts and Zimmerman, 1986) also suggests that large firms tend to minimise their associated political costs, which are in the forms of wealth transfer to the public. This is, as they argued, achieved through the use of income decreasing methods, which reduces the large firms' political visibility. Hence, given the presence of such an incentive, we argue that the accounting methods of large firms are of various combinations in order to achieve that objective. This will inevitably further complicate the ability of the audit committee members to oversee the financial reporting process of the firms. Therefore, based on the theory of political costs and business complexity, it is expected that an audit committee may not be effective in large firms. Hence, the alternative hypothesis is as follows:

H_6: Size of the organisations negatively and significantly influences audit committee's effectiveness.

METHODOLOGY

Data Collection

A questionnaire-based survey method was employed to collect the data, similar to the approach used by Shamsul Nahar and Al-Murisi (1997). Data were collected by sending a letter containing a package of questionnaire and a reply-paid envelope to the group internal auditors of the sample firms. Internal auditors were selected to respond to the questionnaire because they are expected to work closely with their respective firms' audit committees and hence we believe that they should be able to judge audit committee effectiveness.

Sample Selection

Sample companies were taken from the KLSE Main board and the Second board. The total population was 529 companies, from which a total of 181 companies were included in the sample after using a systematic-stratified random selection method. This sample size represented 35 percent of the total population.

Variable Measurement

Audit committee effectiveness. The variable was measured by adopting the 8 functions prescribed by the KLSE (contained in KLSE Listing Requirements, Section 344A) (The items are listed in the Appendix for reference). Similar procedure was used by Shamsul Nahar and Al-Murisi (1997) to measure audit committee effectiveness. The 8 functions were adopted as a measure of audit committee effectiveness as they are expected to be implemented by all companies listed on the KLSE. Moreover, the 8 functions represent the minimum functions to be performed by an audit committee.

In the questionnaire, respondents were asked to rate on the scale of "1" to "5" on the extent of his or her audit committee "satisfactorily" performing each of the functions, with "1" representing the "least satisfactorily" and "5" representing "very satisfactorily". Other methods to gauge audit committee effectiveness are also available, such as by incidence of fraudulent financial reporting (McMullen 1992; Cobb, 1993; Beasley, 1996). Nonetheless, this procedure focuses on the end-result of an audit committee's operations. Such methodology may be appropriate in the markets where audit committees are developed and matured, such as in the US or UK. However, in the Malaysian market, audit committees are still at their beginning stage and thus the focus is on the actual "operations" of an audit committee. Therefore, we adopted a questionnaire-based study by asking the individuals who are expected to maintain their *independence* and *objectivity* (i.e., the corporate internal auditors) to judge the effectiveness of their respective audit committees. Therefore, corporate internals are expected to satisfy these criteria. Moreover, internal auditor of a firm is expected to work closely with the respective audit committee.

External directors. The variable was measured by taking the percentage of both independent and non-executive audit committee members to the total audit committee members. External directors were defined as those directors who hold no executive responsibilities in the organisations.

Number of years an audit committee establishment. The variable was measured by the number of years an audit committee has been established in the organisation. Four categories were given, from which the respondents would select. The categories were "Less than 1 year", "Between 1-3 years", "Between 3-5 years" or "More than 5 years". The respondent would then tick in the appropriate box, located next to each category.

Accountant on audit committee. Therespondents were asked to answer either "yes" or "no" to the question: Is any of your audit committee members a qualified accountant?

Audit committee chairman. Respondents were asked to tick in the appropriate box to the question: Who is your audit committee chairman? They would tick either in the boxes next to board's chairman, chief executive officer, independent non-executive director, or others.

Leadership structure. Respondents were asked to tick either in the boxes of "yes" or "no" to the question: Are the posts of chief executive officer (or managing director) and the board chairman held by the same person?

Size. The respondents were asked to state (in the Malaysian currency) the group turnover as per the latest annual report.

Data Analysis

A multiple regression model was developed to test the hypotheses. The model is as follows:

$$Y=a_0+b_1.X_1+b_2.X_2+ b_3.Z_1+ b_4.X_1.Z_1+ b_5.X_1.X_2+ b_6X_2.Z_1+ b_7.Z_2+ b_8.Z_3+ b_9.X_3+e, \quad (1)$$

where:

Y	audit committee effectiveness,	
X_1	percentage of external directors making up the audit committee,	
X_2	the number of years an audit committee in existence,	
Z_1	1	at least one audit committee member a qualified accountant or,
	0	otherwise,
Z_2	1	presence of dominant personality or
	0	otherwise,
Z_3	1	audit committee chairman is independent or
	0	otherwise,
X_3	turnover,	
e	error term, assumed be random with mean 0.	

To support the alternative hypotheses, b_4 (i.e. H_1), b_5 (i.e. H_2), b_6 (i.e. H_3) and b_8 (i.e. H_5) would need to be positive in signs and be statistically significant. While b_7 (i.e. H_4) and b_9 (i.e. H_6) were predicted to be negative in signs and statistically significant.

RESULTS

Out of a total of 181 sets questionnaire sent to the sample companies, 45 were returned, which represented a response rate of 25 percent. However, 2 sets were excluded for analysis purpose as they were incomplete, resulting in 43 usable sets. Of the 43 sets, 35 companies were listed the KLSE Main Board and 8 were listed on the KLSE Second Board. A great majority (i.e., 81 percent) of the sample companies had been listed on the KLSE for more than 3 years, with an average annual turnover being RM977.6 million. With regard to years an audit committee having been established, about 63 percent indicated that their firms had formed an audit committee between 1-3 years. As for the reason for having an audit committee, 84 percent indicated their agreement to the statement "It was formed to comply with the KLSE Listing Requirements".

Descriptive Statistics

Table 1 presents the mean, standard deviation, skewness and kurtosis for each of the eight items used to measure audit committee effectiveness.

The Cronbach's alpha reliability test was carried out to determine the reliability of the eight items to measure the construct of audit committee effectiveness. The coefficient was 93.87 percent, suggesting a very high reliability. A factor analysis was carried to determine the construct validity of the eight items used to measure audit committee effectiveness. Results from Principal Component Analysis showed that one factor accounted for 71.18 percent of the total variance, while the remaining seven factors accounted for only 28 percent of the total variance. The findings also showed that only one factor that had an eigenvalue of greater than 1. Therefore, this evidence suggested one factor (i.e., audit committee effectiveness) was adequate to represent the eight items.

From Table 1, the mean score on the item of reviewing the balance sheet and the profit and loss account was the highest. This finding is consistent with the primary role of an audit committee which was to review the financial statements with the external auditor prior to submitting them to the board. The item on reviewing the assistance given by the company's officer to the auditor received the lowest mean score was not entirely unexpected. This is because audit committee members are usually directors of other companies and hence they are always busy. Therefore, they are not expected to pay too much attention with regard to the assistance given by the company officers to the external directors. What they are primarily concerned is the audited financial statements.

Hypothesis Testing

Hypotheses that were developed earlier were tested using the multiple regression model, which was presented in the preceding section. The results of the regression analysis are presented in Table 2.

As shown in Table 2, the overall model did not explain significantly the variance in the audit committee effectiveness, as indicated by the low R^2 and insignificant F-value. Hence, the joint null hypotheses of all the explanatory variables not significantly different from "0" were not rejected.

From Table 2, only H_6 was accepted and the coefficient was significant at 5 percent. Hence, the alternative hypothesis of an inverse influence of

Table 1

Descriptive Statistics of Items Measuring Audit Committee Effectiveness

Items	Mean	Standard Deviation	Skewness	Kurtosis
Review with the assistance given by the company's officer to the auditor	3.372	1.134	-.386	-.443
Review with the external auditor, his evaluation of the internal accounting control systems,	3.405	1.289	-.532	-.706
Review with the external auditor, the audit plan,	3.571	1.085	-.493	-.155
Review any related party transactions that may arise within the company or group,	3.581	1.200	-.678	-.092
Consider the nomination of a person or persons as auditor	3.674	1.128	-.771	.265
Review with the external auditor, his audit report	3.762	1.031	-.613	.089
Review the scope and results of the internal audit procedures,	3.930	.856	-.101	-1.111
Review the balance sheet and the profit and loss account of the company or group	3.953	.899	-.525	-.415

size on audit committee effectiveness was accepted. The influence of the percentage of external director, as evident by b_1, on audit committee effectiveness was positive. However, the influence was not statistically significant. Similarly, the relation between the number of years an audit committee having been established, as evident by b_2, and audit comittee effectiveness, was positive but it was not statistically significant. As for the role of having an accountant on audit committee, as shown by b_3, it was negative but it was not significant. Therefore, merely having an accountant on the committee will not result in it being effective, which contradicted the earlier findings by Shamsul Nahar and Al-Murisi (1997).

As for H_1, the positive b_4 suggests that the relation between percentage of external directors on audit committee was positively influenced by the presence of a qualified accountant on the committee, which was as predicted. However, the interactive effects of external directors and having an accountant on the committee were not statistically significantly. With regard to H_2, the negative b_5 suggests that the number of years an audit committee inexistence in the firm and the percentage of external directors adversely affect audit committee effectiveness, which contradicts the prediction. However, the coefficient was not statistically significant. The alternative hypothesis of H_3 predicts that the interaction between the number of years an audit committee in existence and having an accountant on the committee positively influences audit committee effectiveness. The positive b_6 supports the prediction, nonetheless, its not being

Table 2
Multiple Regression Results (n=43)

Variables	Predicted Signs	Parameter Estimates	Standard Deviations	T-values	P-values
b_1	+	11.83405	27.69117	.427	.6733
b_2	+	6.360178	9.824945	.647	.5243
b_3	+	-8.24927	13.71717	-.601	.5537
b_4	+	14.74646	18.62639	.792	.4370
b_5	+	-7.29587	10.53599	-.692	.4959
b_6	+	.177460	3.558540	.050	.9607
b_7	-	.127714	3.213644	.040	.9687
b_8	+	3.43757	2.779714	1.237	.2293
b_9	-	-1.52E-09	6.63E-10	-2.301	.0312*
Constant	?	.6003510	21.5597	.742	.4658
Adjusted R^2 0.6346					
F-value 1.23339					
Significance of F .3235					

* Significant at 5 percent level.

statistically significant leads to accepting the null hypothesis of no interaction between the two variables.

As for H_4, it was postulated that the presence of a dominant personality negatively influence audit committee effectiveness. However, as shown by the positive b_7, the finding suggests that the presence of a dominant personality favourably influences audit committee effectiveness. However, the influence was not statistically significant and hence the null hypothesis of no influence was accepted. Finally, the prediction of a positive influence of an independent audit committee chairman on audit committee effectiveness was supported by the positive b_8. However, the positive influence was not statistically significant.

DISCUSSION

Results from the multiple regression analysis showed that only the influence of a firm's size on audit committee effectiveness was significant in the expected directions. This finding, therefore, supports the "political costs" theory and the complexity existing in large firms. The insignificant influence of accountant on audit committee effectiveness was not consistent with that of Shamsul Nahar and Al-Murisi (1997). Therefore, examining the role of an accountant on the committee is not adequate. Rather, the presence of other variables interacting with having an accountant on an audit committee will need to be included as well. This was evident by, though insignificant, the positive interactive effects of both the percentage external directors and the number of years audit committee in existence with having an accountant on audit committee on its effectiveness, Nonetheless, the interactive effects of both variables were not statistically significant.

Perhaps, the insignificant interactive effects of the percentage of external directors and the number of years an audit committee having been established on audit committee effectiveness reinforced the earlier findings by Shamsul Nahar and Al-Murisi (1977) who found neither the percentage of external directors nor the number of years an audit committee having been established had any significant impact on audit committee effectiveness. In fact, this study replicated the insignificant direct influence of these variables on audit committee effectiveness, as found by Shamsul Nahar and Al-Murisi (1977).

The fact that external directors not being effective in the presence of a qualified accountant on the committee is inconsistent with the "agency theory". However, the finding supports the managerial "hegemony" theory whereby external directors act merely as rubber stamps to the board (e.g., Mace, 1986). Perhaps, the present finding fail to support the finding of Beasley because external directors may only be effective in discharging their duties when confronting with a "crisis" (Kosnik, 1987; Beasley, 1996), Hence, frauds in financial statements may be interpreted as a "crisis" situation as having prauds in financial statements reflect negatively external director' reputations and hence their market "value". Merely overseeing financial reporting process in a "normal" circumstances, as done in this study, may not be able to gauge their effectiveness as a "criss" associated variable was not controlled. Hence, using "crisis" as another explanatory variable may help gauge their effectiveness.

The remaining two explanatory variables, namely the presence of a dominant personality and the status of an audit committee chairman, also did not have significant influence on audit committee effectiveness. The finding on the presence of a dominant personality in a firm is therefore consistent with that of Collier (1993b) which did show a significant influence of the presence of a dominant personality on audit committee formation among top 250 UK companies. Perhaps, the insignificant finding on the presence of a dominant personality might be explained by the fact that audit committees were formed, by majority of the companies, subsequent to the KLSE Listing Requirement (Section 15A). Moreover, 63 percent of the sample firms indicated that audit committees had been formed in the respective firms for 1-3 years prior to this research (i.e., 1996). Thus, the presence of a cominant personality and the status of an audit committee chairman may not be important determinants as it may take several years before an audit committee is fully operationalised.

Additionally, the fact that audit committees were formed to comply with the KLSE Listing Requirement, as indicated by 84 percent of the respondents, might have contributed to the insignificant influence of almost all the variables on audit committees. Having been formed to comply with the mandatory requirement, audit committees may not function as they are supposed to perform. Thus, companies may not "fully" utilise the audit committees as they are not formed to assist to board of directors in financial reporting aspects, as expected by the public.

LIMITATIONS, FURTHER RESEARCH AND CONCLUSIONS

This study attempts to investigate further on the determinants of audit committee effectiveness. The motivation to carry out this study came from the earlier paper by Shamsul Nahar and Al-Murisi (1997) which found insignificant influence of external directors and the number of years an audit committee having been established on audit committee effectiveness in Malaysia. Their study found that having an accountant on an audit committee, nonetheless, significantly influenced audit committee effectiveness, as hypothesised.

The findings of the present paper, though disappointing, provide some useful and practical implications. Examining the roles of external directors, number of years an audit committee in existence, having an accountant on the committee, individually and their interactions, fail to show the significance influence of the variables investigated in determining audit committee effectiveness. Therefore, based on the findings, the appropriate explanation may be that external directors and accountant are not effective in discharging their duties. Similarly, the number of years an audit committee in existence in an organisation showed no influence on its effectiveness which perhaps supports further the contention made by Shamsul Nahar and Al-Murisi (1997) in that it may not be the number of years an audit committee in existence, rather it is the number of years an audit committee member has served as an audit committee member, which reflect their experience, that may matter. Therefore, a further study could investigate this variable. Additionally, instead of using a questionnaire-based method, another method, perhaps a case-study approach, may be employed so that actual working and the chemistry of the audit committee may be better understood. Only after using various data collection methods have been used can definite conclusions on these variables be made.

As for the individual serving as the committee chairman, the finding suggests that an external director who is not at the same time, serves as the board chairman, favourably influences audit committee effectiveness, the influence was, however, not statistically significant. Nevertheless, having an audit committee chairman not being the CEO or board chairman should be seriously implemented by all companies.

The evidence of a negative and significant influence of firm size on audit committee effectiveness should not be taken lightly. Given their financial capability, having an audit committee is not a problem to them as they can pay the salary of the directors. Therefore, compared to small companies, large companies are more able to for man audit committee with "prestigious" directors sitting on it. Hence, audit committees should be used more effectively by large firms as the owners of these firms are usually dispersed and hence their interests need to be protected by a good corporate governance system. Unfortunately, audit committees if the target firms may not be doing their job effectively to fulfill the shareholders' expectations.

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