

Estonian Business School

Department of Economics and Finance

**THE EFFECT OF AUDIT COMMITTEE FORMATION
AND ACTIVITY ON ORGANISATIONS IN ESTONIA**

Master's Thesis

by

Maris Valts

Supervisor: Ph.D Ülle Päril

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I herewith declare that I have written the Master's Thesis independently. References have been indicated for the publications, claims, options and different sources by other authors.

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..... /M.Valts/

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ABSTRACT

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AUDIT COMMITTEE EFFECTIVENESS, AUDITORS ACTIVITIES ACT, EXPERTISE, FORMATION, INDEPENDENCE, MEETINGS, SIZE, PUBLIC INTEREST ENTITY

This study examined how the formation and activity of audit committees (hereinafter AC) has affected organisations in Estonia which were obliged to form an AC in accordance with Auditors Activities Act. A survey as research strategy was adopted using the online questionnaire. The public interest entities were sample of this study; conclusions were based on 20 organisations. The AC formation and activity is perceived to have helped to improve the efficiency of risk management, internal audit and control; ensure compliance with legislation and the good practice of professional activities; to prevent or eliminate the deficiencies and inefficiencies in majority of organisations. In fewer organisations to have helped to improve the financial reporting quality and increased the independence of an audit firm. The expertise members possessed indicated that predominantly ACs have been composed of sufficiently qualified members. The size and the number of AC meetings per year was found also to be adequate. However, room for improvement was identified concerning AC independence; not all ACs fulfilled the responsibilities from regulations. The study filled the gap in research about AC formation and activity in Estonia and was not limited to financial reporting quality of an organisation only. The limitation of this study is that the results cannot be generalised.

INTRODUCTION

This study examines how the formation and activity of audit committees (hereinafter AC) as subcommittees of the supervisory boards has affected organisations in Estonia.

An AC is typically a subcommittee of the board (board of directors or supervisory board) of the company and has primarily an advisory role related to financial reporting and an audit.

The history of ACs has started in unitary governance system countries, namely in the United States where ACs of the board of directors were first recommended by the New York Stock Exchange in 1939 (Vera-Muñoz 2005). The ACs were not widely present in Europe before the 1990s, except the United Kingdom. Likewise, in 1992 in the United Kingdom as first in Europe, corporate governance requirements were issued for listed companies, including requirement for all listed companies to establish an AC (The Committee on the Financial Aspects of Corporate Governance and Gee and Co. Ltd. 1992). From mid-1990s and onwards ACs gained greater acceptance also in continental Europe (Collier and Zaman 2005).

According to Beasley et al. (2009) there are several theories with respect to corporate governance and ACs; however, the predominant view in the academic accounting literature is that the board and independent members of AC monitor management to prevent opportunistic behaviour by management, who otherwise may act in their personal interest and not in the interest of the principal (e.g. shareholders), representing the principles of the agency theory.

ACs are expected to have a key role in ensuring high standards in financial reporting that would strengthen the confidence in financial markets and have also been enormously topical following the corporate scandals such as Enron, WorldCom, Parmalat and Hollinger International (Collier and Zaman 2005). Corporate scandals of these companies have been also mentioned as trigger for defining the new Auditors

Activities Act (hereinafter also Act) in Estonia, as well as Company Accounting Reform and Investor Protection Act of 2002 in the United States (better known as Sarbanes-Oxley Act) and Directive 2006/43/EC of the European Parliament and the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts (Explanatory Memorandum of Draft Auditors Activities Act 2009).

In Estonia first regulations about ACs concerned the state companies and companies in which the state has at least a required interest and of state-founded foundations (*Auditi komitee moodustamise ja töökorra põhimõtted* 2004). Following this, Corporate Governance Recommendations (NASDAQ OMX Tallinn 2004) were released, including requirement for companies whose shares were admitted to trading on a regulated market operating in Estonia about disclosing information upon the establishment of the sub-committees (including AC) by the supervisory board.

As a result of enforcement of Auditors Activities Act in 2010, ACs have become imperative for public interest entities in Estonia, including listed companies, insurers, credit institutions, private as well as public sector companies and public sector entities whose annual accounts exceed stated limits (§ 99). The Act (Chapter 7, Division 2) also defines principles for formation and bases for activities of an AC. The decisions concerning appropriate number of AC members, ensuring sufficient expertise and balance between independent and non-independent members should be taken related to AC formation. The AC activity should cover the responsibilities of an AC in accordance with the Act § 98.

Whereas it is generally believed and stressed by regulators that AC formation and activity should improve the quality of financial reporting (Explanatory Memorandum of Draft Auditors Activities Act 2009; European Commission 1996 and 2003), there have been also a number of studies performed, which have resulted with evidence supporting this (including Klein 2002; Abbott et al. 2003; Meyers and Ziegenfuss 2006; Krishnan and Lee 2009; Lary and Taylor 2011; Kang et al. 2011; Jamil and Nelson 2011; Suárez et al. 2012; Romano and Guerrini 2012). On the contrary, in the literature fewer studies can be found that have led to the conclusion of AC having limited or no effect on quality of financial reporting of the organisations (Spira 1999; Rainsbury et al. 2009). The effectiveness of ACs has been predominantly investigated

in the studies performed (including Klein 2002; Abbott et al. 2003; Meyers and Ziegenfuss 2006; Krishnan and Lee 2009; Lary and Taylor 2011; Kang et al. 2011; Jamil and Nelson 2011; Suárez et al. 2012; Romano and Guerrini 2012). However, not many definitions of AC effectiveness can be found in extant literature. According to the DeZoort et al. (2002, 41) “*an effective audit committee has qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts*”. The author of this paper considers this definition with further explanation in form of determinants of AC effectiveness reflecting comprehensively the characteristics of an AC to operate effectively and attain its objective. The determinants described have been subject for number of studies performed. Limited evidence was found in former studies about AC formation and activity effect in wider perspective, not focusing only on financial reporting quality of an organisation. Also, in previous studies AC activities separately have not been examined and publications concerning AC formation and activity in Estonia were not found to be available.

The motivation to perform this study stems from the intensified focus on ACs both in terms of expectations as a result of regulatory changes and increased interest on the quality of AC oversight. Furthermore, Ministry of Finance, Estonian Association of Auditors and Estonian Association of Accountants have indicated the topic as one of the prioritised research areas (*Arvestusalaste uurimuste konkurss* 2013). The author of the current study has worked in the field of internal auditing in interaction with ACs of respective organisations for a number of years and based on the experience considers the AC effectiveness important for supporting the supervisory boards in order to fulfil their oversight role.

In the current study one main research questions is raised. It is examined how formation, activity and different characteristics of ACs have impacted the organisations in Estonia that were required to form and AC in accordance with Auditors Activities Act.

With the purpose to answer the research question a survey as a research strategy is adopted using an online questionnaire for primary data collection. Collected data are examined using exploratory data analyses techniques. The public interest entities in

Estonia that are obliged to form an AC are sample of this study. The sample selected constitutes of 116 organisations.

The remainder of this paper is organised as follows. The first chapter gives an overview of theoretical framework of AC formation and activity; including, (1) terminology related to the research subject, (2) an overview of AC concept background, development worldwide and key milestones; (3) legal framework for ACs in Estonia; (4) AC effectiveness definition and determinants; (5) an overview of previous studies on AC formation and activity, including samples, methods and main conclusions; (6) the task of research for the current study. The second chapter explains the research method chosen, analyses techniques and sample formed. Followed by AC formation and activity in practice based on the results of this study, including empirical data obtained in order to find the answers for the research question and interpretation of results, conclusions, limitations and suggestions for future research.

1. THEORETICAL FRAMEWORK OF AUDIT COMMITTEE FORMATION AND ACTIVITY

With the purpose to examine how the formation and activity of ACs as subcommittees of the supervisory boards has affected organisations in Estonia the theoretical framework of audit committee formation and activity was examined.

This chapter gives an overview of the theoretical framework related to AC formation and activity and is divided into six sections. Section One explains the terminology related to the research subject. In Section Two an overview of AC concept background, development worldwide and key milestones are presented. In the third section the legal framework for ACs in Estonia is explained. Section Four explains the AC effectiveness definition and determinants. Furthermore, Section Five gives an overview of previous studies on AC formation and activity, including samples, methods and main conclusions. In Section Six the task of research is explained for the current study.

1.1. Terminology concerning audit committee formation and activity

In order to introduce the main terminology concerning AC formation and activity and ensure common understanding of main terms used in this study, below the definitions used are given. The definitions were selected to be applicable for AC formation and activity in Estonia.

Audit Committee is an advisory body of the body or person that elected, approved or appointed its members in matters involving accounting, auditing, risk management, internal control and audit, exercising of oversight and budget preparation and legality of the activities (Auditors Activities Act § 96).

For **Audit Committee formation** the principles from Auditors Activities Act § 97 are applied. Hence, the AC is formed by recognisable resolution and members elected by the supervisory board or, in the absence thereof, by the highest management body. The decisions concerning an appropriate number of AC members, ensuring sufficient expertise and balance between independent and non-independent members should be taken related to AC formation.

Audit Committee activity should cover the responsibilities of an AC in accordance with Auditors Activities Act § 98 including, monitoring and analysing of (1) processing of financial information, (2) efficiency of risk management and internal control, (3) the process of auditing of annual accounts and consolidated accounts, (4) independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of the activities thereof with other requirements of this Act; and making recommendations or proposals to the body or person that elected its members concerning (1) appointment or removal of an audit firm, (2) appointment or removal of an internal auditor, (3) prevention or elimination of problems and inefficiencies in an organisation, (4) compliance with legislation and the good practice of professional activities.

Audit Committee operates in form of a **meeting**. According to ecoDa (2011) meeting agendas ultimately drive the work that the AC does and should therefore carefully be linked to AC terms of reference, and map across to significant related requirements and persuasive recommendations set out in regulations.

Expertise: according to Auditors Activities Act (§ 97) an AC shall have at least two members, at least two of whom shall be experts in accounting, finance or law. For purposes of this study a member is to be considered as an expert in the mentioned area in case has formal education, work experience or professional licence in this area.

Independence: according to ecoDa (2011) AC members are to be considered as independent only if they are free of any relations that might impair or might appear to impair their judgement. For example, a current and previous Member of Management Board, an employee of the company or person that represents a controlling or otherwise significant shareholder are not considered independent.

Quality of financial reporting is extent to which the financial statements of the organisation present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the applicable accounting standards. (International Accounting Standards Board 2011)

Public interest entity is an entity of significant public relevance because of the nature of their business, size or number of employees, in particular companies whose securities are admitted to trading on a regulated market, banks and other financial institutions and insurance undertakings (ecoDa, 2011). The more detailed and specific definition is included in Auditors Activities Act § 13.

Public sector entity and company is defined in Auditors Activities Act (§ 12), including a company, foundation, non-profit association or other person, in which the public sector entity has a majority holding or which is under the dominant influence of the public sector entity.

1.2. Development of audit committee concept

Last decades have led towards an Anglo-American model of corporate governance worldwide as ACs as one of the subcommittees of board of directors to which relevant supervisory functions are delegated is widely recognized in countries with both two-tier and unitary governance systems. Correspondingly, different regulations have been enforced to clarify the roles and responsibilities of an AC and increase the effectiveness. In this section compressed overview is given of AC concept background, development worldwide and key milestones are presented.

The theoretical background of the AC concept is mainly associated with the agency theory. According to Beasley et al. (2009) there are several theories with respect to corporate governance and ACs; however, the predominant view in the academic accounting literature is that the board and independent members of AC monitor management to prevent opportunistic behaviour by management, who otherwise may

act in their personal interest and not in the interest of the principal (e.g. shareholders), representing the principles of the agency theory.

DeZoort et al. (2002) suggest that boards of directors undertake an important role in corporate governance, as a result of separation of corporate management and ownership boards exist to protect the interest of shareholders. To handle the existent agency problem, the board assumes an oversight role that typically involves monitoring of the top executives, approving the corporation's strategy, and monitoring the control system. Given the diverse responsibilities, the board of directors delegates some of its oversight to the AC and other committees of the board.

Whereas the ACs, as subcommittees of the board of directors are regarded as a monitoring device and used to prevent opportunistic behaviour and strengthen the quality of financial reporting, according to Piot and Janin (2004) they also mitigate agency conflicts between preparers of financial statements and outside shareholders.

Additionally, firms with greater agency conflicts have been noted to have better quality of governance, including variables related to composition and functioning of the AC, as these firms are likely to have greater demands for improved monitoring mechanisms and thus have stronger governance systems in place (Dey 2008). Furthermore, Levitt (2000, 5) has highlighted the importance of AC role as *“one of the most reliable guardians of the public interest is a competent, committed, independent and tough-minded audit committee”*.

The history of ACs has started in unitary governance system countries, namely in the United States where ACs of the board of directors were first recommended by the New York Stock Exchange in 1939 (Vera-Muñoz 2005). Subsequently, the U.S. Securities and Exchange Commission (SEC) recommended publicly held companies to establish ACs in 1972 and it was quickly followed by stock exchanges by either requiring or recommending that companies establish ACs. Ultimately, the responsibilities of the ACs in the United States have been remarkably intensified with the release of Blue Ribbon Committee's Report and Recommendations on Improving the Effectiveness of Corporate Audit Committees (Blue Ribbon Committee 1999); and

the Company Accounting Reform and Investor Protection Act of 2002, known as the Sarbanes-Oxley Act (2002).

Vera-Muñoz (2005) has concluded that most notably, these reforms in the United States increased the scrutiny of audit ACs, whose role as guardians of investors' interests attracts substantially higher visibility and expectations. Therefore, firstly executing the role of the crucial monitor of the financial reporting process, the AC must be informed, attentive, and effective overseer of the financial reporting process. Secondly, independence is also a vital characteristic of an effective AC. And finally, the external auditors' ultimate responsibility has been redefined and they do not anymore work with management but for management, and are directly responsible to the AC.

The ACs were not widely present in Europe before the 1990s, except the United Kingdom. Likewise, in 1992 in the United Kingdom, as first in Europe, the corporate governance requirements were issued for listed companies (The Cadbury Report), including requirement that listed companies should establish an AC (The Committee on the Financial Aspects of Corporate Governance and Gee and Co. Ltd. 1992). From mid-1990s and onwards ACs gained greater acceptance also in continental Europe. (Collier and Zaman 2005)

As for promoting ACs among member states of European Union, the European Commission has declared its position in several guidance documents. For instance, the European Commission's Green Paper noted that "*in order to improve the system of checks and balances within the company, more attention should be paid to issues such as the creation of an AC and the establishment of a proper functioning system of internal control*" (European Commission 1996, 26).

Furthermore, the European Commission has also declared its standpoints related to AC role in respect of supervision an audit function "*in view of the recent accounting scandals, special emphasis will be placed on the audit committee (or equivalent body), with a view to fostering the key role it should play in supervising the audit function...*"(2003, 15). Eventually, statements about formulation and principles for operation of ACs in member states were declared by European Commission (2006) in

Directive 2006/43/EC of The European Parliament and the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

The above mentioned directive (ibid.) states that each public-interest entity shall have an AC and at least one member of the AC shall be independent and have competence in accounting and/or auditing. Moreover, the responsibilities of the AC were explained, including (1) monitor the financial reporting process; (2) monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems; (3) monitor the statutory audit of the annual and consolidated accounts; (4) review and monitor the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity.

Following issuance of Statutory Audit Directive 2006/43/EC (ibid.) the European Consideration of Directors' Associations (ecoDa) published Audit Committee Guidance for European Companies (2011) with purpose to help the ACs to identify and achieve their objectives and add value to the supervisory boards, the organisations and their stakeholders. The guidance document explains further and in practical terms the declarative requirements from the Directive 2006/43/EC and gives suggestions for the implementation and ensuring efficiency of the AC.

Hence, although the history of AC has started in the United States, the last decades have led to acceptance of AC concept worldwide as one of the subcommittees of board of directors to which relevant supervisory functions are delegated and respective regulations have been put into practise. Accordingly, in European Union the statements about formulation and principles for operation of ACs in member states were declared by European Commission (2006) in Statutory Audit Directive 2006/43/EC which has been also one of the triggers for bringing into effect a new version of the Auditors Activities Act explained in following Section.

1.3. Legal framework for an audit committee in Estonia

The history of ACs in Estonia is rather short compared with the United States or the United Kingdom (see previous Section). According to the author's knowledge, the development of ACs in Estonia prior to the enforcement of related provisions in Auditors Activities Act (2010) has been closely linked with development of internal audit functions within organisations. The Institute of Internal Auditors standards include the principles for internal audit function interaction with board ("board" may refer to an AC to which the governing body has delegated certain functions), reporting and communication (The Institute on Internal Auditors, recent issue 2014). Therefore, whilst the AC is responsible to the board for oversight of management reporting on internal control and the internal auditors have a key role in assessing and reporting on risk management and internal controls, these two functions are interdependent.

First regulations related to formation of the ACs in Estonia concerned the state companies and companies in which the state has at least a required interest and of state-founded foundations (*Auditi komitee moodustamise ja töökorra põhimõtted* 2004). The requirements related to AC responsibilities, meetings frequency, members and operation were included. However, the requirements related to members expertise in areas of accounting or finance were not explicitly included. The new version of these requirements was passed in 2010, following the approval of the Act.

Following this, in November 2004 led by the Tallinn Stock Exchange and Financial Supervision Authority Corporate Governance Recommendations were released. The requirements in form "comply or explain" were defined to be implemented primarily by companies whose shares were admitted to trading on a regulated market operating in Estonia. The companies were required upon the establishment of the sub-committees (including AC) by the supervisory board to publish on its website their existence, duties, membership and position in the organization (NASDAQ OMX Tallinn 2004). No changes have been made in these recommendations afterwards and therefore no more detailed requirements have been included concerning ACs.

In 2009 headed by the Ministry of Finance the process of bringing into effect a new version of the Auditors Activities Act was started in Estonia. As mentioned in the

Explanatory Memorandum of Draft Act, “ACs and efficient internal control system help to decrease financial, operational and compliance risks and improve quality of financial reporting” (2009, 3). The Act formulates several requirements for public interest entities including the requirement to form an AC. The Act was passed in Parliament of Estonia in January 2010.

Accordingly, following public interest entities in Estonia are obliged to form an AC as stated in § 99 of the Act:

1. A company whose securities are admitted to trading on a regulated securities market within the meaning of the Securities Market Act.
2. A company which is a credit institution within the meaning of the Credit Institutions Act.
3. A company which is an insurer within the meaning of the Insurance Activities Act.
4. A legal person, except the state, in whose annual accounts or in the annual accounts of whose consolidation group at least two of the indicators of the financial year exceed the following conditions:
 - a) sales revenue or income 66 million euros;
 - b) assets as of the balance sheet date 33 million euros;
 - c) average number of employees 1 000 persons.
5. A company, foundation, non-profit association or other person, in which the public sector entity has a majority holding or which is under the dominant influence of the public sector entity, in whose annual accounts or in annual accounts of whose consolidation group at least three of the indicators of the financial year exceed the following conditions:
 - a) sales revenue or income 14 million euros;
 - b) assets as of the balance sheet date 7 million euros;
 - c) average number of employees 200 persons;
 - d) number of members of the supervisory board 8 persons¹.

As a consolidation group is not required to form several ACs if an AC is formed by a consolidating entity and its activity covers the whole consolidation group (Auditors Activities Act §99), then some companies operating in Estonia might have their ACs formed by parent companies in other countries, likely to be subject to different requirements (for instance concerning governance, and disclosure). The regulator has also specified deadlines for forming an AC varying for different types of organisations as can be seen in Table 1.

¹ Auditors Activities Act § 100 stipulates that in a local government which is a public interest entity, the functions of the AC are performed by the revision committee which involves a person who meets the requirements for an AC member. The revision committees executing AC functions in local governments were not subject of this study. (the author’s comment)

Table 1. Deadlines for Audit Committee Formation in Estonia

Type of organisation	Deadline to form an AC
Credit institution	1.07.2010
Insurer	1.07.2010
Company listed in NASDAQ OMX Tallinn	1.07.2010
Public sector entity or company	1.01.2011
Company whose annual accounts exceed set limits	1.01.2011

Source: Auditors Activities Act § 207.

Furthermore, the Act describes the bases for activities of the ACs (§ 98). The main responsibilities of AC are to monitor and analyse: (1) the financial reporting process; (2) the efficiency of the company's internal control and risk management systems; (3) carrying out of an audit; (4) the independence and objectivity of an audit firm and a sworn auditor representing an audit firm; (5) and make related recommendations or proposals to the body or person that elected its members (mainly supervisory board). These responsibilities are in compliance with Statutory Audit Directive 2006/43/EC (European Commission 2006).

According to § 97 of the Act an AC shall have at least two members and at least two of whom shall be experts in accounting, finance or law to ensure needed expertise for performing their duties. Here, the difference compared to Statutory Audit Directive 2006/43/EC (European Commission 2006) can be observed, which stipulates that at least one member of the AC shall have competence in accounting and/or auditing. Competence in auditing is not included among required competences in Estonia as well as in accordance with requirements ACs can be composed only of experts in law.

Besides, the AC member cannot be an internal auditor, a member of the management board, a procurator, an assistant minister or a secretary general of a ministry or a person performing an audit (Auditors Activities Act § 97). There are no other provisions included concerning independence of AC members in Auditors Activities Act. According to the ecoDa (2011, 7) *“it is generally accepted that a director should only be considered independent if he/she is free from any relations that might impair,*

or might appear to impair, their judgement". The samples of situations were potentially the independence might be lost are explained by ecoDa (ibid.), including situations where a person has been an executive director or an employee of a company for defined time period. However, past relation is not included in AC member independence clause in Estonia.

Dislike other countries' corporate governance requirements (Collier and Zaman 2005) the Act does not stipulate the required frequency of AC meetings, often considered as proxy of diligence of ACs (Braswell et al. 2012). Conversely, in accordance with the requirements for public sector entities or companies (*Riigi äriühingu ja sellise äriühingu, kus riigil on vähemalt otsustusõigus, ning riigi asutatud sihtasutuse auditikomitee moodustamise ja tasustamise ning töökorra põhimõtted* 2010) the ordinary AC meetings in those organisations should be held at least four times per year.

According to the information available for the author of this study there are no additional guidance documents created in Estonia (similar as Audit Committee Guidance for European Companies (ecoDa 2011)), that would explain the best practises and help organisations to implement the requirements from Auditors Activities Act in forming ACs and helping them to achieve their objectives, add value to the supervisory boards, the organisations and their stakeholders.

The follow-up on compliance with the regulations relating to ACs is not incorporated into the Act. Only the companies subject to Corporate Governance Recommendations (NASDAQ OMX Tallinn 2004) are required to disclose information related to AC.

Financial Supervision Authority is analysing and reporting results on quality of corporate governance reports of publicly traded companies. The results from analysis of the corporate governance reports of issuers in 2010 and 2011 (Financial Supervision Authority 2013) indicated deficiencies related to disclosing information related to ACs. Enhancing the quality of reports and information available for investors was suggested. It was noted that whilst all the companies had formed the ACs, the information about existence of those, the position in the organisational structure, tasks and members were not disclosed on the companies' websites.

In a nutshell, the history of ACs in Estonia is relatively short. However, during last years as a consequence of Statutory Audit Directive 2006/43/EC (European Commission 2006) the legal framework for an AC has enhanced and requirements concerning AC formation and activity have been incorporated into Auditors Activities Act.

1.4. Audit committee effectiveness

Various studies have been performed worldwide to investigate the effectiveness of ACs, often with the focus on financial reporting quality of a company (including Klein 2002; Abbott et al. 2003; Meyers and Ziegenfuss 2006; Krishnan and Lee 2009; Lary and Taylor 2011; Kang et al. 2011; Jamil and Nelson 2011; Suárez et al. 2012; Romano and Guerrini 2012). In order to explain the effectiveness of an AC, the purpose of AC must be clarified. A few definitions of audit committee effectiveness can be found in extant literature. Often definition by DeZoort et al. (2002) is referred (for instance Vera-Muñoz 2005; Abbott et al. 2004). According to DeZoort et al. (ibid., 41) definition “*an effective audit committee has qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts*”.

According to the DeZoort et al. (ibid.) in this definition the ultimate goal of ACs (namely, protection of stakeholder interests) as well as the manner in which the AC accomplishes its goals (by the use of qualified members with the authority and needed resources to provide diligent oversight) is covered.

Furthermore, determinants to achieve the AC effectiveness as output have been explained by DeZoort et al. (ibid.) including, basic inputs needed: (1) AC composition - members expertise, independence, integrity and objectivity; (2) authority - responsibilities of the AC and influence the AC has in the organisation; (3) resources - adequate number of members, access to management, external and internal auditors;

and diligence as main process factor, containing incentive, motivation and perseverance.

The author of this study agrees with Vera-Muñoz (2005) and Abbott et al. (2004) and considers this definition with further explanation in form of determinants of AC effectiveness to reflect comprehensively the characteristics of an AC to operate effectively and attain its objectives. These determinants for AC effectiveness have been also subject to a number of studies performed (see Section 1.5).

1.5. Audit committee formation and activity

Whereas it is generally believed and stressed by regulators that AC formation and activity should improve the quality of financial reporting (see Sections 1.2 and 1.3), there have been also a number of studies performed, which have resulted with evidence supporting this (including Klein 2002; Abbott et al. 2003; Meyers and Ziegenfuss 2006; Krishnan and Lee 2009; Lary and Taylor 2011; Jamil and Nelson 2011; Romano and Guerrini 2012). On the contrary, in the literature fewer studies can be found that have led to the conclusion of AC having limited or no effect on quality of financial reporting of the organisations (Spira 1999; Rainsbury et al. 2009). The results of the literature search, covering 18 publications relating to AC formation and activity and main conclusions can be seen in Table 2 (Appendix 1).

Mainly the agency theory is applied in the studies performed underlining directors' role as independent and careful monitors of management. Therefore, the ACs are seen to be mostly focused on actual monitoring. The studies, which have applied agency theory included Klein (2002), Abbott et al. (2003), Yang and Krishnan (2005), Meyers and Ziegenfuss (2006), Lin et al. (2006), Krishnan and Lee (2009), Rainsbury et al. (2009), Lary and Taylor (2011), Jamil and Nelson (2011), Kang et al. (2011), Ma et al. (2012), Habbash et al. (2012), Braswell et al. (2012), Chandar et al. (2012), Bhasin (2012), Suárez et al. (2012), Romano and Guerrini (2012).

Alternatively, the institutional theory have been applied by Spira (1999) emphasising the ceremonial role of ACs and creating legitimacy by engaging in appropriate ceremony and ritual. In the study performed the motivations behind formation of ACs in the United Kingdom were investigated. It was concluded that AC participants are sceptical about the ability of ACs to improve financial reporting quality by detecting the fraud. The benefits for the company due to the ceremonial role of the AC is proposed, which could explain the popularity of ACs despite the lack of clarity of their purpose and the lack of evidence in improving the financial reporting quality and standards of corporate governance.

The sample in the previous studies constituted only of listed companies that are required or volunteered to form an AC, varying in number from 20 to 1000 (see Table 2, Appendix 1). In researches by Abbott et al (2004), Lin et al. (2006), Lary and Taylor (2011), Romano and Guerrini (2012) in addition to sample companies (companies that had issued restated financial statements or were subject of accounting enforcement actions) control firms were included.

Primarily, the data concerning AC characteristics and financial reporting in studies examining AC formation and activity has been collected from secondary publicly available sources. As main source for information about AC characteristics company proxy statements or corporate governance reports have been used. The financial data have been attained from annual reports or from Compustat databases. As exceptions studies performed by Spira (1999) and Myers et al (2006) could be highlighted. Myers et al. (2006) performed their study based on data in The Institute of Internal Auditors GAIN database, representing information collected from 296 Chief Audit Executives in the United States for the respective period. Spira (1999) performed qualitative study through the perceptions of participants in AC, including AC chairs and members, finance directors internal and external auditors.

The research method predominantly used in past studies was archival research (see Table 2, Appendix 1). While evaluating various AC inputs and their relation to outputs by examining secondary data, first different characteristics of ACs (independent variables) and proxies for financial reporting quality (dependent variable) were identified or measured. This was followed by regression analyses to

test the association between the dependent variable and the independent variables. As well in terms of method the study performed by Spira (1999) could be mentioned as dissimilarity.

In summary, following variables have been used in literature as proxies for financial reporting quality: abnormal accruals/discretionary accruals/earnings management (Klein 2002; Yang and Krishnan 2005; Rainsbury et al. 2009; Jamil and Nelson 2011; Habbash et al. 2012); earnings restatements (Abbott et al. 2004; Lin et al. 2006; Lary and Taylor 2011); audit fees (Rainsbury et al. 2009, Lary and Taylor 2011) and fraud disclosure (Romano and Guerrini 2012). Typically, annual indicators have been used with exception of study performed by Yang and Krishnan (2005), focusing on quarterly earnings.

For measuring earnings management the discretionary accruals model of Dechow and Dichev (2002) has been applied by Jamil and Nelson (2011) and absolute value model of discretionary accruals for instance by Klein (2002) and Yang and Krishnan (2005). However, these models and results of measuring earnings management could be argued. According to Habbash et al (2012) the main limitation to their research is that despite the most advanced model developed in 2005 by Kothari et al. was used to estimate discretionary accruals, the measurement of earning management can be disputed. Furthermore, the limitations of Dechow and Dichev (2002) model have been characterised and empirical evidence of measurement error provided by McNichols (2002). The other proxies used for financial reporting quality, are not open for similar measurement errors.

Mostly the independent variables that association with the dependent variable have been tested in the studies have been AC independence, expertise, size and frequency of meetings (for details see Table 2, Appendix 1). Most often the AC independence has been examined (Klein 2002; Abbott et al. 2003; Lin et al. 2006; Rainsbury et al. 2009; Lary and Taylor 2011; Jamil and Nelson 2011; Kang et al.; Habbash et al. 2012; Suárez et al. 2012; Romano and Guerrini 2012). However, a number of other AC characteristics such as the business backgrounds of the AC members, the number of years served on the AC and their personal insights of the role and willingness to perform the duties have not been studied.

The past studies generally have suggested that AC member characteristics, such as independence and/or financial expertise, are positively associated with financial reporting quality (Klein 2002; Abbott et al. 2003; Meyers and Ziegenfuss 2006; Krishnan and Lee 2009; Lary and Taylor 2011; Kang et al. 2011; Jamil and Nelson 2011; Suárez et al. 2012; Romano and Guerrini 2012). However, Lin et al. (2006) found both mentioned characteristics to have no significant impact on the quality of reported earnings. Furthermore, some former studies, including Lin et al. (2006) and Kang et al. (2011) found association existing between AC size and financial reporting quality. Oppositely, studies performed by Abbott et al. (2003), Jamil and Nelson (2011) and Habbash et al. (2012) have resulted with no statistically significant association between AC size and financial reporting quality.

In several studies no statistically significant association between meeting frequency and financial reporting quality have been identified (Abbott et al. 2003; Lary and Taylor 2011; Jamil and Nelson, 2011). On the contrary, Suárez et al. (2012) found that the number of meetings of the AC is directly related to improvements in the quality of accounting information.

Consequently, the extant literature indicates that AC member characteristics, such as independence and/or financial expertise have most visible impact on financial reporting quality of the organisations based on the studies performed using archival research as survey method on sample of listed companies in different countries.

As a limitation of previous studies it was noted that while examining publicly available measures of the inputs and the process factor needed to achieve the AC effectiveness, the process by which the AC contributes to the improvements has remained largely unexamined. Furthermore, although, the roles and responsibilities of an AC have expanded over the years (Vera-Muñoz 2005), yet still the focus has been primarily on the oversight role of the financial reporting. The evidence of separately studying the activities of AC (see Section 1.3) were not found to be available. Also, limited evidence was found in earlier studies about the AC formation and activity effect on outcome in wider perspective, not limited only to financial reporting quality of an organisation, but also other AC focus areas. Additionally, publications

concerning AC formation and activity in Estonia were found not to be available. Therefore, the research question for this survey was defined wider with the aim to fill these research gaps.

1.6. Research question

With the aim to fill the gap in research related to AC formation and activity, the current study focused on examining how the formation and activity of ACs as subcommittees of the supervisory boards has affected organisations in Estonia. Based on the research objective and in line with the previous literature, following research question has been developed for the current study:

How formation, activity and different characteristics of ACs have impacted the organisations in Estonia that were required to form an AC in accordance with Auditors Activities Act.

In accordance with DeZoort et al. (2002) AC effectiveness definition and determinants, the current study focused on determinants explained in Figure 1.

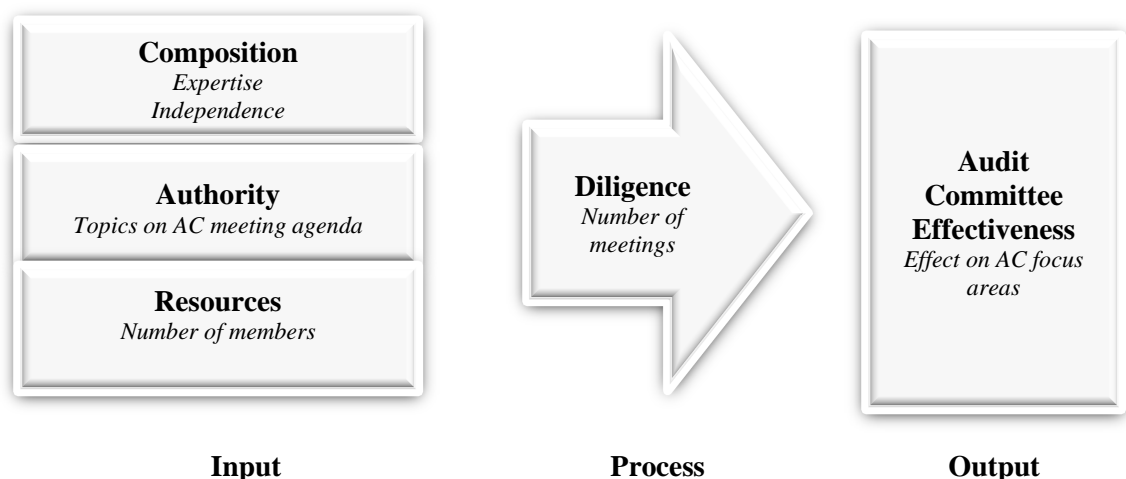


Figure 1. Determinants of Audit Committee Effectiveness (DeZoort et al. 2002) Combined with Author's Research Question (drawing by the author)

The following AC characteristics were examined in the current study as basic inputs needed to achieve effectiveness: (1) AC composition - expertise, independence; (2) AC authority - responsibilities of AC, expressed in terms of topics covered at AC meetings; (3) resources - number of AC members. Diligence as the primary process factor needed to achieve the AC effectiveness was examined in terms of the number of AC meetings.

Ultimately, achieving the AC effectiveness was evaluated in terms of effect on AC focus areas, including (1) financial reporting quality of an organisation; (2) independence of external audit; (3) efficiency of risk management, (4) internal control, (5) internal audit; (6) preventing or eliminating the deficiencies and inefficiencies and (7) ensuring the compliance with legislation and the good practice of professional activities.

Thus, the research question comprehensively covered the organisational aspects of AC formation, including the number of AC members, ensuring sufficient expertise and balance between independent and non-independent members. As well as the aspects related to AC activity, containing the number of AC meetings per year and the responsibilities in terms of topics on AC meeting agenda and the effect on AC focus areas as evidence of AC effectiveness. The research method chosen, analyses techniques and sample formed for the current study to answer the research question are explained in Section 2.1 of this paper.

2. AUDIT COMMITTEE FORMATION AND ACTIVITY IN PRACTICE

This chapter gives an overview of AC formation and activity in practice and is divided into three sections. In Section One the research method chosen, analyses techniques and sample formed for the current study is described. In Section Two empirical results obtained in order to find the answers for research question are presented using diagrams, tables and the author's explanations. In Section Three the results are interpreted, compared with results from previous studies and conclusions, limitations and suggestions included.

2.1. Materials and methods

With the intention of examine how the formation and activity of ACs as subcommittees of the supervisory boards has affected organisations in Estonia and answer the research question, a survey as research strategy was adopted using online questionnaire for primary data collection. Collected data were analysed using exploratory data analyses techniques.

2.1.1. Collecting empirical data

The purpose of the survey was to collect primary quantitative data concerning formation and activity of ACs in Estonia in order to answer the research question. The selected research strategy differs from most previous studies performed (see Section 1.5) where mainly archival research strategy was applied. The reasons for selecting a different strategy is that in Estonia the requirement to disclose information related to AC is only included in Corporate Governance Requirements (2004) applicable for listed companies (only one type of organisations included in the sample); however, not fully covering the information needed for performing the current study as well as not all companies complied with the requirement (see Section 1.3).

Also, this study comprehensively covered the aspects of AC formation, including the number of AC members, ensuring sufficient expertise and balance between independent and non-independent members as well as aspects related to AC activity, including the number of AC meetings per year and the responsibilities in terms of topics on AC meeting agenda. This information could not have been collected from publicly available sources and therefore the survey as research strategy was applied.

Furthermore, the current study examined the effect of forming and activity of AC in wider perspective, not limited only to financial reporting quality. Similarly, this information could not have been attained from annual reports which were the main data source in previous studies (see Section 1.5).

The online questionnaire was used in this study as method for primary data collection as according to Hirsijärvi et al. (2005) it is time efficient, allows collecting a large amount of data from a large sample and later enables easy analyse of the data using applicable analysis software. However, the limitation of using the questionnaire (ibid.) as a data collection method is that the data obtained is superficial as well as the respondents' attitude to the survey and opinion about the questionnaire design cannot be controlled. In the author's opinion, despite the limitations of a questionnaire as a data collection method, it was sufficient for the purpose of accomplishing the objectives of this study.

Opinion, behaviour and attribute questions (Saunders et al. 2004) were included in the questionnaire with the aim to identify needed information in accordance with the defined research question. The questionnaire was prepared covering the following information: (1) year of formation and (2) place of operation of the AC; (3) the number of members, (4) independence and (5) expertise they possess; (6) frequency and (7) topics covered at AC meetings; (8) opinion about the effect of formation and activity of the AC, (9) the name of an organisation and (10) position of respondent. Question number 7 was designed covering the main role of an AC and support actions connected to this based on the Auditors Activities Act (§ 98) and Audit Committee Guidance for European Companies (ecoDa 2011). Question number 8 was designed reflecting improvements as a result of fulfilling the role of AC, thus indicating the AC accomplishing its objectives.

The questionnaire was designed to consist of ten closed questions, including list, category, quantity and rating questions (Saunders et al. 2004). Furthermore, the covering letter was added to the questionnaire, explaining the purpose of the survey and introducing the questionnaire. The questionnaires were prepared in Estonian and in English taking into account that main respondents were Estonian speaking. Google Drive (<https://drive.google.com>) was selected for designing the questionnaire and further entering the data by respondents.

With the aim to refine the questions so that respondents would not have problems in answering the questions and data would be easy to record and analyse (ibid.), the pilot tests were performed. Also, the aim of the pilot testing was to evaluate the questions validity and reliability of data collected. In total 6 pilots were made, the questionnaires in both languages were tested. The persons involved in the pilot tests possessed expertise related to AC formation and activities, communication and research methods. Completed pilot questionnaires and comments from persons involved in pilots were reviewed and needed adjustments made in questionnaire. For some questions additional explanations were added. The questionnaire in both languages is attached to this paper (see Appendix 2 and 3).

The questionnaire was e-mailed to organisations included in the sample (for details see 2.1.3). General e-mail addresses from websites of those organisations were mainly used. The public interest entities that have an internal audit functions and the internal auditor(s) are members of The Institute of Internal Auditors Estonia were e-mails sent concerning their organisations using e-mail addresses identified from members list (<https://www.theiia.org/chapters/index.cfm/home.page/cid/300>, accessed 14.03.2014).

2.1.2. Analysing and interpreting empirical data

Quantitative analyses techniques were used with the aim of exploring, presenting, describing and examining relationships and trends within empirical data collected using the online questionnaire in order to find the answers for the research question.

Using exploratory data analyses the diagrams were created in order to explore and understand the empirical data collected concerning AC formation and activity. AC characteristics as basic inputs and diligence as the primary process factor needed to achieve AC effectiveness were covered as well as achieving the AC effectiveness in terms of effect on AC focus areas. The results of the explanatory analyses are presented in Section 2.2 of this study.

2.1.3. Selection of the sample

Public interest entities in Estonia that are obliged to form an AC were explained in Section 1.3 of this paper. The attempt was made to identify the total population of organisations subject of these requirements. However, as the information concerning all types of organisations is not easily available, the total population could not be identified and the sample was selected constituting of organisations as can be seen in Figure 2. In total 116 organisations were included in sample, of which 10 credit institutions, 11 insurers, 16 companies listed in NASDAQ OMX Tallinn, 26 public sector entities or companies and 53 companies whose annual accounts exceed set limits.

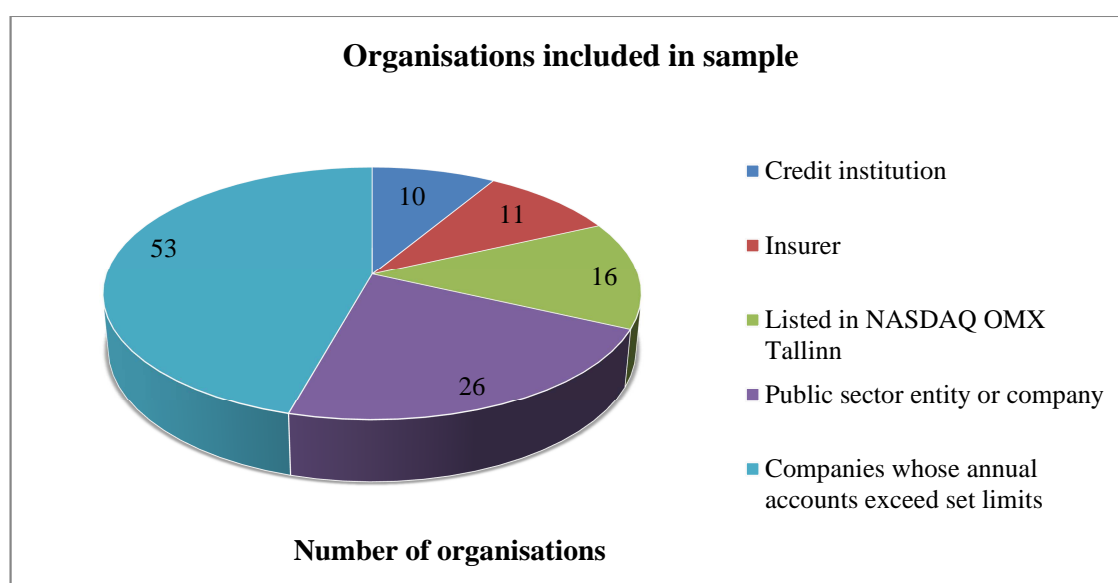


Figure 2. Proportion of Organisations Included in Sample by Type (N= 116, drawing by the author)

The credit institutions and insurers were identified from the web page of Financial Supervision Authority (www.fi.ee, accessed 14.03.2014). Companies whose annual accounts exceed the limits set in Auditors Activities Act (for details see Section 1.3) were identified based on the information disclosed in their annual reports of 2012. *Äripäeva Infopank* was used for accessing the annual reports (<http://infopank.aripaev.ee/>, accessed 14.03.2014). First, companies whose annual sales revenue exceeded 66 million euros were identified resulting in 100 companies. Secondly, it was identified, if one of the other indicators (assets as of the balance sheet date 33 million euros or the average number of employees 1,000 persons) exceeded the stated limits in annual reports of 2012 for those companies. The Auditors Activities Act § 13 requires at least two of the indicators to exceed the set limits. In total 53 companies were identified. Public sector entities or companies that should have formed AC were identified based on the public information available on the internet. The number of those organisations included in sample might vary the most from the total population.

Hence, the purposive sampling technique (Saunders et al. 2004) was used, as enabling to use the judgement to select the cases that will best enable to answer to the research question and meet the objective of the current study. The limitation of the selected sampling technique is that it cannot be considered statistically representative of the total population (ibid.).

The aforementioned practice for forming a sample differs also from the previous studies, where only listed companies were included in a sample (see Section 1.4). This has been decided as the number of listed companies in NASDAQ OMX Tallinn is 16 (<http://www.nasdaqomxbaltic.com>, accessed 14.03.2014), which is too low for proper study and conclusions. The organisations included in the sample were questionnaires e-mailed with the aim to collect the primary information related to AC formation and activity.

2.2. Analysis of audit committee formation and activity

With the purpose to achieve the objective of the study and find an answer to the research question the online questionnaire was created and submitted to sample organisations with the aim to gather the information. In total 116 sample organisations were addressed that should have formed an AC in accordance with the requirements of Auditors Activities Act.

There were 34 replies received on the questionnaire. From those, three persons informed via e-mail that their organisation has not formed an AC. Furthermore, six persons informed that AC of their organisation is formed in the consolidation group according to Auditors Activities Act § 99 and is not operating in Estonia. 25 persons filled in the questionnaire. From those three responses were removed as duplicates (more than one person replied about the same organisation) and were not included in further analyses. Excluded were replies of persons that do not have direct interaction with AC or have past experience.

The total response rate² calculated according to *Sunders et al. (2004)* was 27.4% taking into account respondents that did not meet the criteria (three companies that have not formed an AC) and were ineligible to respond. The highest number of responses was received from public sector entities or companies (in total 13). Eight companies whose annual accounts exceed set limits responded; however, five of them having their AC operating in another country (two of them filled in the questionnaire) and one that does not have an AC formed. From three companies listed in NASDAQ OMX Tallinn, one had not yet formed an AC, as the company was established only in 2013. Both the credit institution and the insurer informed that their AC is not operating in Estonia.

From the responses received in form of filled in questionnaire two were concerning ACs operating not in Estonia and were also excluded from future analyses as possibly subject to different requirements. The author of the current study considers, that several organisations that are obliged to form an AC as insurers, credit institutions and

² *total response rate = total number of responses/(total number in sample- ineligible)*

companies whose annual accounts exceed the set limits might have their ACs operating outside Estonia in accordance with Auditors Activities Act § 99 and therefore the questionnaire was not filled in. Future analyses were based on the sample of 20 organisations. The distribution of responses included in analyses by types of organisations in comparison with total sample is presented in Table 3.

Table 3. The Distribution of Responses Included in Analyses by Types of Organisations and in Comparison with Total Sample

Type of organisation	Number of organisations in sample	Responses	%
Credit institution	10	0	0%
Insurer	11	0	0%
Listed in NASDAQ OMX Tallinn	16	2	11,9%
Public sector entity or company	26	13	50,0%
Company whose annual accounts exceed set limits	53	1	1,9%
Organisation not marked		5	
Total	116	20	17,2%

Source: Calculations by the author.

The most responses on the questionnaire were received from Heads of Internal Audit/Internal Auditors in the organisation (in total 13 responses). Because of internal audit function interaction with AC, the knowledge of subject questioned, could be considered realistic and answers reliable. From other positions fewer responses were received, including Audit Committee Members (three responses), Management Board Members (two responses) and other positions (two responses). Also, those positions understanding of subject questioned should be at expected level and answers reliable. No replies were received from Supervisory Board Members.

The data collected in form of online questionnaire were based on the respondents' self-reported perspectives and estimates and not verified with information from other sources. However, it was assumed that respondents should have had possibility to check the data from secondary sources (e.g. AC charter, meeting minutes), except opinion question concerning the effect on AC focus areas. Therefore, the results were interpreted with caution. Furthermore, achieving the AC effectiveness, which was

evaluated in terms of effect on AC focus areas, was considered to represent the perceived effect.

2.2.1. Year of forming an audit committee

According to the information submitted by respondents, the highest number of ACs in Estonia has been formed during years 2010 and 2011 (four during both years). The first ACs were formed in 2004³ in public sector entities or companies (in total three). During other years one to two organisations have formed an AC. Also, it was noted that before 2010 only in public sector entities or companies the ACs were formed. Two companies listed in NASDAQ OMX Tallinn formed their ACs in 2010 and a company whose annual accounts exceed set limits in 2011. The trend of forming and ACs in organisations by years can be seen in Figure 3.

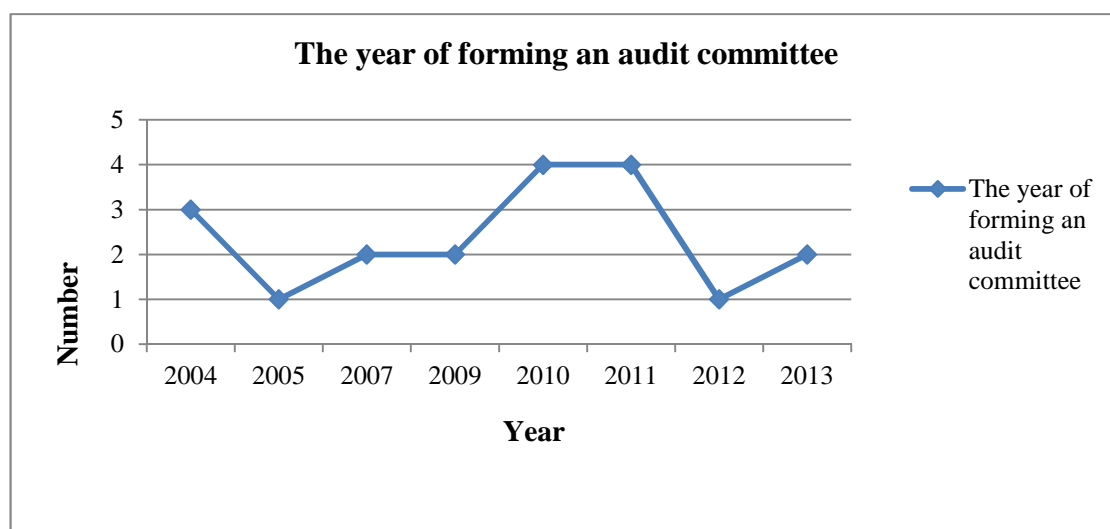


Figure 3. The Year of Forming an Audit Committee (N= 20, drawing by the author)

According to the information disclosed by the respondents two more organisations have planned to form an AC during 2014. The data indicates that ACs is organisations

³ In one eliminated questionnaire the year of forming an AC was marked to be 2002. (the author's comment)

have been formed following the deadlines for AC formation (see Table 1) and history of AC in Estonia is rather short.

2.2.2. Basic inputs needed to achieve audit committee effectiveness

The following AC characteristics were examined in the current study as basic inputs needed to achieve effectiveness (see Figure 1): (1) AC composition - expertise, independence; (2) AC authority - responsibilities of AC, expressed in terms of topics covered at AC meetings; (3) resources - number of AC members.

The proportion of **expertise** the AC members possessed among respondent organisations can be seen in Figure 4. The results revealed that half of the organisations (ten organisations) had accounting and finance experts in their AC and four organisations all required experts. Only one organisation lacked both accounting and finance expert in the AC. The other organisations (five) had their AC composed from experts in one or two required areas, including at least one expert in finance or accounting. The total number of the experts by required areas in ACs was not verified with the organisations with the questionnaire.

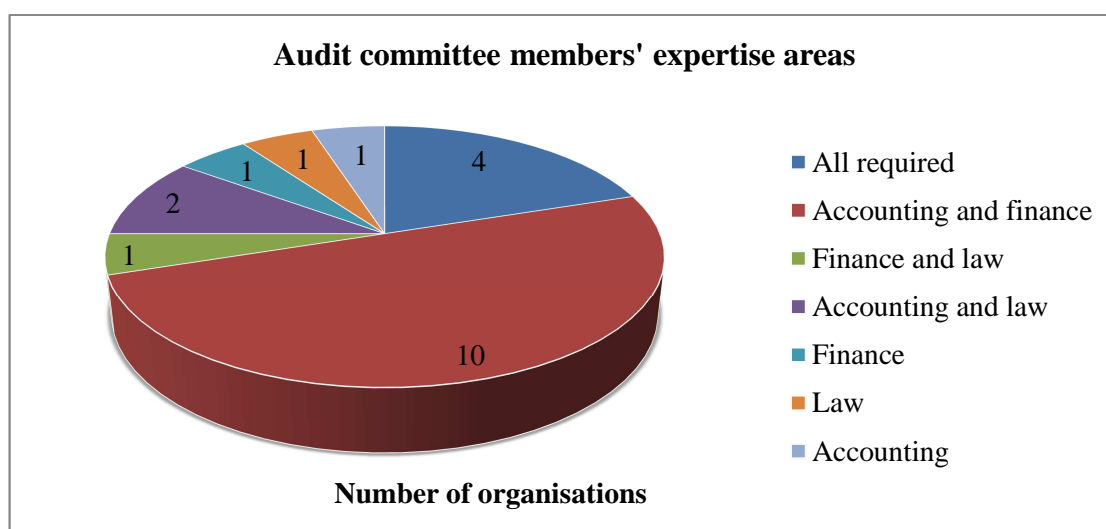


Figure 4. Audit Committee Members' Expertise Areas (N= 20, drawing by the author)

The results indicated that ACs in Estonia have been generally composed of sufficiently qualified members. However, with aim to ensure the AC effectiveness in all AC focus areas, expertise only in law might be insufficient.

In terms of AC members **independence** the organisations could be divided into four groups. There were seven organisations that ACs constituted of only independent members. Five organisation had more than 50% of their members independent (excluding 100% independent) and four organisations had less than 50% of their members independent (excluding organisations without independent members). Consequently, there were four organisations that did not have any independent members in their AC. In total in 12 organisations (60%) at least half of members were independent. Figure 5 displays the comparison of the total number of AC members with the number of independent members by organisations. Unexpectedly, one organisation with 6 members (highest number of AC members) in AC has all of those independent. The organisation with smallest number of AC members (two persons) had none of them independent.

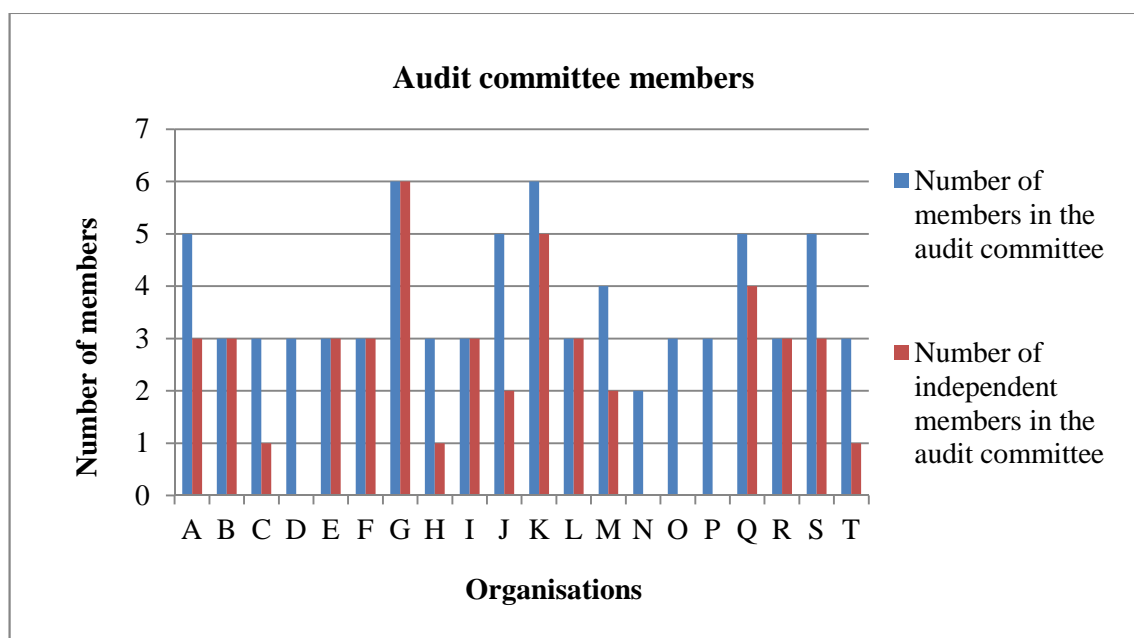


Figure 5. Comparison of the Total Number of Audit Committee Members with the Independent Members (N= 20, drawing by the author)

The results indicated that some organisations could put more attention on ensuring also independent members in their AC. However, majority of organisations have already reasonable balance between independent and non-independent members.

Regarding **topics on AC meeting agenda** the respondents had possibility to mark either usually or according to need. Also, it was possible to mark that the topic is not on meeting agenda or respondent does not know. The results from the responses received can be seen in Figure 6.

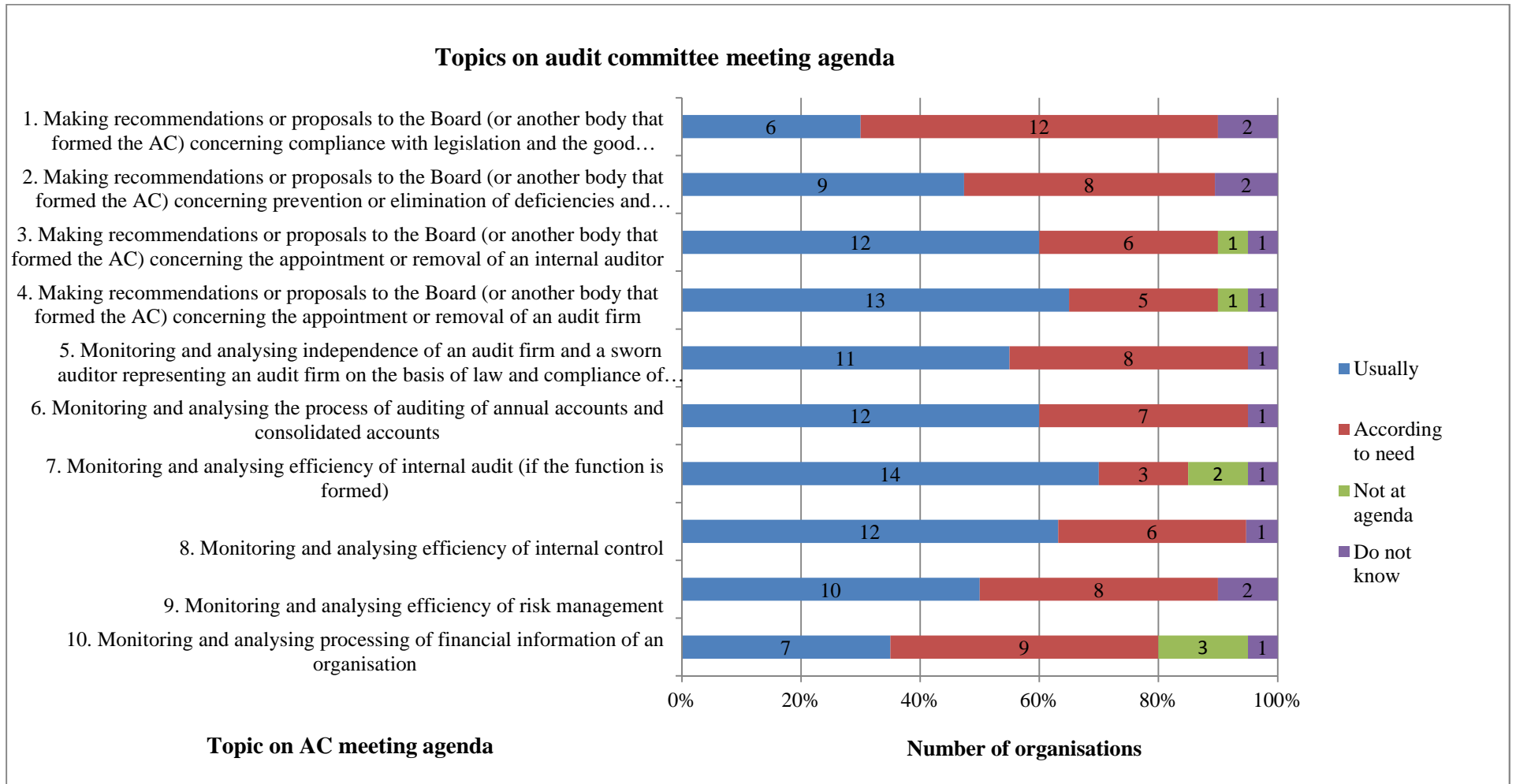


Figure 6. Topics on Audit Committee Meeting Agenda (N= 20, drawing by the author)

It was noted that more than 50% of organisations (ten and more) have usually on their AC meeting agenda the following topics: monitoring and analysing efficiency of risk management (10 organisations, 50%), internal control (12 organisations, 60%) and internal audit (14 organisations, 70%); monitoring and analysing the process of auditing of annual accounts and consolidated accounts (12 organisations, 60%) and independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of their activities with applicable regulations (11 organisations, 55%); making recommendations or proposals to the Board (or another body that formed the AC) concerning the appointment or removal of an audit firm (13 organisations, 65%) and the appointment or removal of an internal auditor (12 organisations, 60%).

Conversely, the results indicated that monitoring and analysing processing of financial information of an organisation is on AC meeting agenda usually only in seven organisations (35%). Making recommendations or proposals to the Board (or another body that formed the AC) concerning prevention or elimination of deficiencies and inefficiencies in an organisation is usually on the meeting agenda in nine organisations (45%) and making recommendations or proposals to the Board (or another body that formed the AC) concerning compliance with legislation and the good practice of professional activities is on meeting agenda in six organisations (30%). These topics were marked to be on the AC meeting agenda according to need (45%, 40% and 60% accordingly).

Furthermore, there were some topics that were marked by some organisations not to belong to AC meeting agenda, including monitoring and analysing processing of financial information of an organisation (three organisations, 15%); monitoring and analysing the efficiency of internal audit (two organisations, 10%); making recommendations or proposals to the Board (or another body that formed the AC) concerning the appointment or removal of an audit firm (one organisation, 5%) and making recommendations or proposals to the Board (or another body that formed the AC) concerning the appointment or removal of an internal auditor (one organisation, 5%). The answers concerning subjects related to internal audit might have been marked so due to the reason that internal audit function is not formed in the organisation. Having the other mentioned topics not on AC meeting agenda suggested

that ACs in those organisations did not fully fulfil their responsibilities. The type of organisation or year of forming an AC was noted not to affect the subjects included on AC meeting agenda.

The **number of AC members** varied in range from two to six in sample organisations (see Figure 5). The organisations having five or six members in AC could be considered quite uncommon considering a rather low number of members typically in supervisory boards in Estonia. Organisations as public sector entities or companies, one company listed in NASDAQ OMX Tallinn and organisations that had not disclosed the name were noted to have such number of members. The majority of the organisation had three members in their AC (in 12 organisations out of 20). Only one organisation from the sample had their AC constituting of two members as the minimum requirement in Auditors Activities Act (§ 97). The other organisations had either four or five members in their AC. Hence, the results indicated that ACs in organisations constituted of suitable number of members and the resources were sufficient.

2.2.3. Diligence as the primary process factor needed to achieve the AC effectiveness

Diligence as the primary process factor needed to achieve the AC effectiveness was examined in terms of the number of AC meetings per year (see Figure 1). The number of AC meetings per year was disclosed by respondents to be in range from one to ten. Three respondents did not include the number of meetings per year. There were four organisations that had either one, five, six or eight meetings per year. Two organisations had two meetings and four organisations four meetings. Six organisations had ten AC meetings per year, which is an unusually high number. The organisation having only one AC meeting per year might have it only for purpose of fulfilling the legal requirement. Public sector entities or companies were noted to have a higher number of AC meetings per year and all of those at least four meetings per year. The number of AC meeting per year by organisations can be seen in Figure 7.

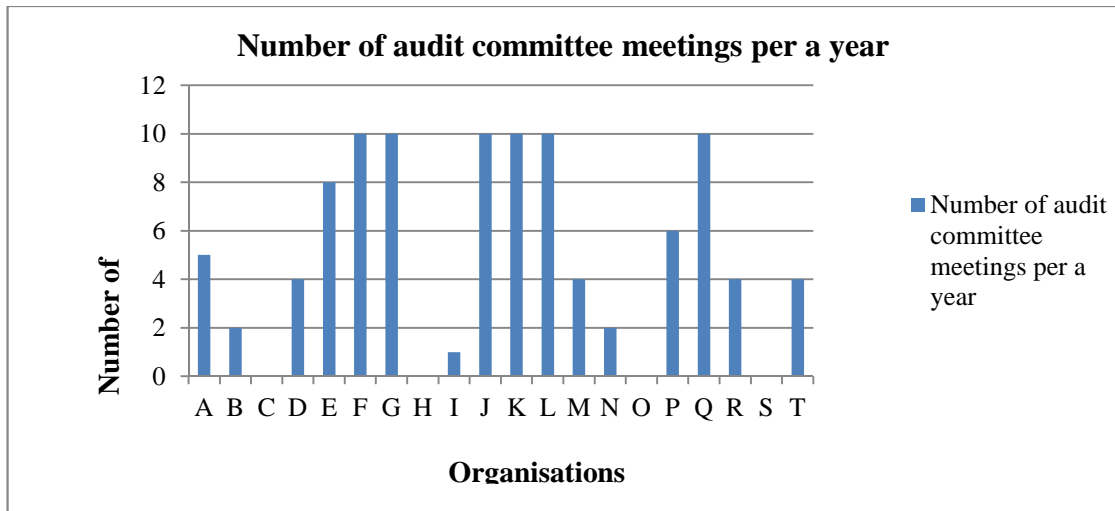


Figure 7. Number of Audit Committee Meetings per year (N= 20, drawing by the author)

Therefore, the number of AC meetings complied with regulations for those organisations it is stated. However, less than four AC meetings per year might be insufficient for purpose of ensuring effectiveness in all AC focus areas.

2.2.4. Achieving the audit committee effectiveness: the effect on audit committee focus areas

Ultimately, achieving the AC effectiveness was evaluated in terms of effect on AC focus areas, including (1) financial reporting quality of an organisation; (2) independence of external audit; (3) efficiency of risk management, (4) internal control, (5) internal audit; (6) preventing or eliminating the deficiencies and inefficiencies and (7) ensuring the compliance with legislation and the good practice of professional activities (see Figure 1).

For evaluating the effect of AC formation and activity the respondents were requested to respond by marking whether AC formation and activity has helped or not to improve the area. Also it was possible to mark that AC formation and activity has no effect or the respondent does not know the effect. The results from the responses received can be seen in Figure 8.

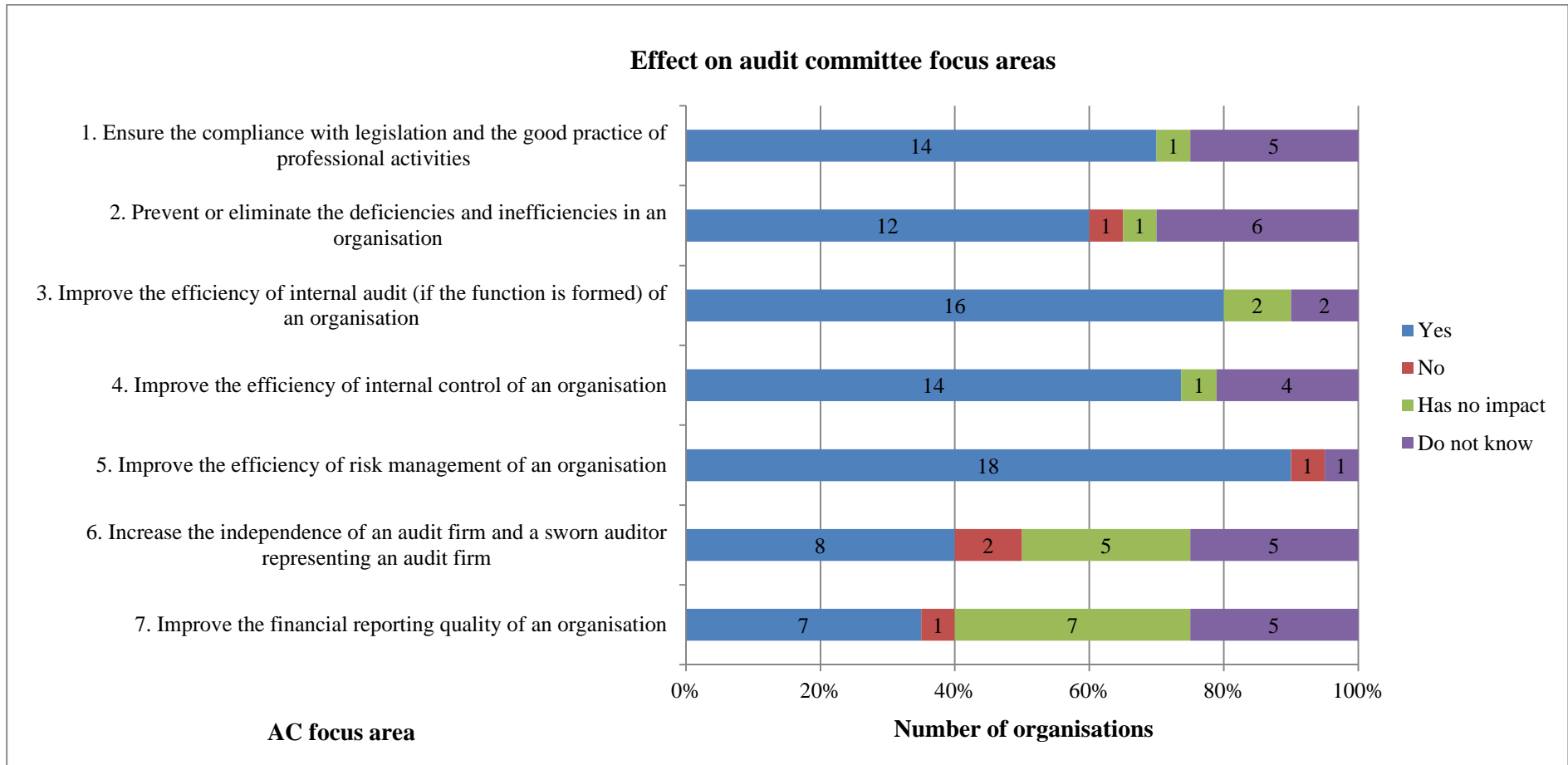


Figure 8. Effect on Audit Committee Focus Areas (N= 20, drawing by the author)

The results argued that in 18 organisations (90%) the perceived effect of AC formation and activity is that it has helped to improve the efficiency of risk management of an organisation. In 16 organisations (80%) has helped to improve the efficiency of internal audit. Equally, in 14 organisations (70%) has helped to improve the efficiency of internal control and ensure compliance with legislation and the good practice of professional activities. In 12 organisations (60%) has helped to prevent or eliminate the deficiencies and inefficiencies.

Unexpectedly, only in seven organisations (35%) the perceived effect of AC formation and activity is that it has helped to improve the financial reporting quality. At the same time, seven organisations (35%) marked forming an AC and its activity to have no effect on financial reporting quality. Furthermore, one organisation (5%) has marked that forming AC and its activity has not helped to improve the financial reporting quality. There was no relation noted between type of organisation and AC not having effect or not having improved the financial reporting quality of an organisation. However, only public sector entities or companies marked that AC and its activity has helped to improve the financial reporting quality. No relation related to year of AC formation in respect to this AC focus area was noted.

Similarly, only in eight organisations (40%) it is perceived that the AC formation and its activity had increased the independence of an audit firm and a sworn auditor representing an audit firm. Five organisations (25%) saw no effect of AC in this respect and two organisations (10%) noted that forming an AC and its activity has not helped to improve independence on an auditor. No relation between this area and type of organisation or year of forming an AC was identified.

2.3. Discussion

The purpose of this study was to examine how the formation and activity of ACs as subcommittees of the supervisory boards has affected those organisations in Estonia. In this section the results are interpreted, compared with the results from previous studies and conclusions, limitations and suggestions for the future research included.

The results of the current study revealed that the highest number of ACs has been formed in Estonia during years 2010 and 2011, and the first ACs have been formed in 2004 in public sector entities or companies (before 2010 the AC were formed only in this type of organisations). This practice corresponded with the requirement from Auditors Activities Act § 207 and *Auditi komitee moodustamise ja töökorra põhimõtted* (2004). Given this, it may be inferred that ACs in organisations in Estonia have been formed with intention to comply with the legal requirements, not voluntarily.

From 34 responses received eight organisations (24%) had their AC operating outside Estonia in accordance with Auditors Activities Act § 99. The author of the current study considers that several other organisations that are obliged to form an AC as insurers, credit institutions and companies whose annual accounts exceed set limits might have their ACs operating outside Estonia.

2.3.1. Interpretation of results and comparison with extant literature

The information related to **basic inputs needed to achieve AC effectiveness** was collected in this study (see Figure 1). The expertise AC members possessed suggested that half of the organisations had accounting and finance experts in their AC and four organisations all required experts. Only one organisation disclosed lacking both accounting and finance expert in the AC. The Auditors Activities Act (§ 97) requires that at least two of AC members shall be experts in accounting, finance or law, therefore such practice does not deviate from legal requirement. The number of the experts in different areas was not verified in the current study.

However, it was identified that the legal requirement in Estonia does not fully comply with Statutory Audit Directive 2006/43/EC (European Commission 2006) suggesting that at least one member of the AC should have competence in accounting and/or auditing. In addition, a number of previous studies have resulted with evidence that highlight the significance of having finance or accounting expertise in AC (including, Abbott et al. 2003; Meyers and Ziegenfuss 2006; Krishnan and Lee 2009; Lary and

Taylor 2011; Kang et al. 2011). The evidence of this current study suggested that ACs in majority of the organisations in Estonia have been composed of sufficiently qualified members to ensure the AC effectiveness.

Most of the organisations (60%) were noted to have at least half of their AC members independent. However, there were also some organisations that did not have any independent members in their AC. The independence of AC members has been considered to be an essential AC characteristic to increase the quality of financial reporting of the organisation, supported by evidence from a number of previous studies (Klein 2002; Abbott et al. 2003; Lary and Taylor 2011; Jamil and Nelson 2011; Kang et al. 2011; Suárez et al. 2012; Romano and Guerrini 2012). Therefore, with the purpose of ensuring the AC effectiveness, some organisations could consider involving also independent members in their AC. One possible explanation why AC independence has not been prioritised could be that Auditors Activities Act includes limited requirements in this respect.

According to ecoDa (2011) meeting agendas ultimately drive the AC work. The question concerning topics on AC meeting agenda in this study was designed covering the main role of an AC and support actions connected to this based on the Auditors Activities Act (§ 98) and Audit Committee Guidance for European Companies (ecoDa 2011). The results from the study argued that not all ACs fulfilled these responsibilities. The responsibilities not included on AC meeting agenda in some organisations included monitoring and analysing processing of financial information of an organisation; making recommendations or proposals to the board (or another body that formed the AC) concerning appointment or removal of an audit firm. The topics connected to internal audit activity which were not covered could have been marked not belonging to AC meeting agenda by reason of not having the internal audit function formed in the organisation. Thus, it can be deduced that AC responsibilities in some organisations could be further clarified in order to ensure AC effectiveness and ensure compliance with the requirements from Auditors Activities Act.

The number of AC members varied in range from two to six in sample organisations. The majority of the organisation had three members in their AC. Only one organisation had their AC constituting of two members as a minimum requirement in

Auditors Activities Act (§ 97). On this basis, it may be inferred that the ACs in most organisations were not only formed as to comply with the legal requirements. The evidence suggested that organisations had sufficient resources in terms of the number of AC members available for ensuring AC effectiveness. Some former studies, including Lin et al. (2006) and Kang et al. (2011) found association existing between AC size and financial reporting quality. Oppositely, studies performed by Abbott et al. (2003), Jamil and Nelson (2011) and Habbash et al. (2012) have resulted with no statistically significant association between AC size and financial reporting quality. Therefore, the importance of the number of the AC members should not be exaggerated.

In conclusion, on the evidence of the findings, it appeared that from basic inputs to achieve AC effectiveness some organisations in Estonia could consider including also independent members in their AC and clarify further AC responsibilities for ensuring compliance with Auditors Activities Act (§ 98). The ACs in the organisations had a sufficient number of members as well as the members possessed expertise in required areas.

Furthermore, the information concerning **diligence as the primary process factor needed to achieve the AC effectiveness** was identified (see Figure 1). The Auditors Activities Act does not specify a mandatory number of AC meetings per year. The requirement of at least four ordinary AC meetings per year is included in the requirements for public sector entities or companies (*Riigi äriühingu ja sellise äriühingu, kus riigil on vähemalt otsustusõigus, ning riigi asutatud sihtasutuse auditikomitee moodustamise ja tasustamise ning töökorra põhimõtted 2010*). The number of AC meetings per year in organisations was identified to vary in range from one to ten. From those six organisations had ten AC meetings per year, which is unusually high number. Public sector entities or companies were noted to have a higher number of AC meetings per year and all of those at least four meetings per year. Thus, the practice complied with the requirements. In total, 13 organisations (65%) had four or more meetings per year. Only one organisation had one AC meeting per year which might have been only for the purpose of fulfilling the legal requirement.

In a number of previous studies no statistically significant association between meeting frequency and financial reporting quality have been identified (Abbott et al. 2003; Lary and Taylor 2011; Jamil and Nelson 2011). On the contrary, Suárez et al. (2012) found that the number of meetings of the AC is directly related to improvements in the quality of accounting information. Therefore, the importance of the number of the AC meetings separately should not be overstated. Diligence as the primary process factor needed to achieve the AC effectiveness expressed in the number of the AC meetings per year was found to be adequate in sample organisations in Estonia.

Ultimately, **achieving the audit committee effectiveness** expressed in terms of **the effect on audit committee focus areas** was examined (see Figure 1). The perceived effect based on the respondents' self-reported perspectives was examined. The results argued that in 90% of organisations the AC formation and activity has helped to improve the efficiency of risk management of an organisation. AC formation and activity has also helped in majority of organisations to improve the efficiency of internal audit, efficiency of internal control, ensure compliance with legislation and the good practice of professional activities and prevent or eliminate the deficiencies and inefficiencies.

Unexpectedly, only in seven organisations (35%) forming an AC and its activity has helped to improve the financial reporting quality. Furthermore, seven organisations (35%) suggested AC and its activity to have no effect on financial reporting quality of an organisation. In one organisation forming AC and its activity has not helped to improve the financial reporting quality. It was noted that only public sector entities or companies had marked AC to have a positive effect on financial reporting quality. This finding contradicted with regulators expectations (Explanatory Memorandum of Draft Auditors Activities Act 2009; European Commission 1996 and 2003). Also, it was inconsistent with evidence from several previous studies (for instance Abbott et al. 2003; Lin et al. 2006; Lary and Taylor 2011; etc.), but it agrees with conclusion by Spira (1999) and Rainsbury et al. (2009).

Similarly, in eight organisations (40%) forming an AC and its activity was believed to have increased the independence of an audit firm and a sworn auditor representing an

audit firm. Five organisations (25%) saw no effect of AC in this respect and two (10%) noted that forming an AC and its activity has not helped to improve independence on an auditor. Also, this finding expressed the opposite of regulators' expectations.

Consequently, the perceived effect of the AC formation and activity was that it has helped to improve the efficiency of risk management, the efficiency of internal audit, and the efficiency of internal control, ensure compliance with legislation and the good practice of professional activities and prevent or eliminate the deficiencies and inefficiencies in majority of organisations. However, AC formation and activity has not resulted in the anticipated effect on all AC focus areas. In fewer organisations AC formation and activity has helped to improve the financial reporting quality of an organisation and increased the independence of an audit firm and a sworn auditor representing an audit firm. This finding could be associated with the aforementioned inefficient basic inputs needed to achieve AC effectiveness, including lack of independent AC members in some organisations and some ACs not fulfilling all responsibilities as stated in Auditors Activities Act (§ 98).

2.3.2. Limitations and suggestions for future research

There were certain limitations that should be emphasised concerning this study. First, the purposive sampling technic was used and therefore the conclusions cannot be considered statistically representative of the total population. Furthermore, the conclusions drawn were based on a small number of responses and representing mainly evidence of public sector entities or companies (only one type of organisations that were obliged to form an AC in accordance with Auditors Activities Act). Finally, only online questionnaire was used in this study as data collection method. The limitation of not linking the questionnaire used with other methods (for example in-depth interviews) was the inability to explore and further understand the opinions expressed by respondents. Also, the data collected represented the respondents' self-reported perspectives and estimates and was not verified with information from other sources. In future studies instead of questionnaire the archival research could be selected as research strategy as in many previous studies in order to ensure sufficient

evidence to base conclusions on that could be generalised to the total population. Also, the use of other methods (including in-depth interviews) could be considered in order to complement the empirical data collected and enable to explore and further understand the linkages between AC inputs, process and the outcome in terms of the effect of AC formation and activity.

The results from the study revealed that not all ACs were fulfilling their responsibilities as expected and AC formation and activity has not resulted in the anticipated effect on AC focus areas in some organisations. There are no additional guidance documents created in Estonia (as Audit Committee Guidance for European Companies (ecoDa 2011), that would explain the best practises and help organisations to implement the requirements from Auditors Activities Act in forming ACs and helping them to achieve their objectives, add value to the boards, the organisations and their stakeholders. In future studies the reasons for not complying practises could be examined and need for describing the aforementioned AC guidance clarified.

In addition, the current study focused on organisational aspects of AC formation and activity in order to ensure the effectiveness in accordance with DeZoort et al. (2002) AC effectiveness definition and determinants. The personal aspects, including AC member objectivity, integrity, and willingness to work together as needed as well as influence the AC has in the organisation were not covered. For the future studies these aspects could be also considered possibly applying the case study approaches as the research strategy.

Nevertheless, the practical contribution of this paper was that it gave an indication how formation, activity and different characteristics of ACs have impacted the organisations in Estonia that were required to form an AC in accordance with Auditors Activities Act and suggestions for possible improvements. The study covered wider perspective and was not limited only to financial reporting quality of an organisation, but also other AC focus areas. The theoretical contribution of this paper was that it provided the key insights from main surveys related to AC activity and formation during last decades based on the comprehensive literature review. As methodological contribution, the suggestions for the future surveys could be emphasised.

CONCLUSIONS

The purpose of this paper was to examine how the formation and activity of ACs as subcommittees of the supervisory boards has affected organisations in Estonia. The research objective was accomplished.

Extant literature was reviewed in the course of this study with the purpose to identify and give an overview of previous studies relating to AC formation and activity and its effect on organisations. Based on 18 publications examining the AC formation and activity in countries including the United States, the United Kingdom, Australia, Malaysia, Italy, and Spain it was concluded that mostly the effectiveness of ACs has been investigated, often with the focus on financial reporting quality of a company. Predominantly in previous studies archival research method has been used and sample constituted of listed companies. Primarily the data concerning AC characteristics and financial reporting has been collected from secondary publicly available sources.

The key findings from previous studies indicated AC member characteristics, such as independence and/or financial expertise to have the most visible impact on financial reporting quality of organisations. Furthermore, some studies have suggested also AC size and meetings frequency to affect the financial reporting quality of an organisation.

In Estonia the history of ACs is rather short. The first regulations concerning AC were issued in 2004 and concerned the state companies and companies in which the state has at least a required interest and of state-founded foundations. During the same year also Corporate Governance Recommendations were released including requirements concerning disclosing information about AC upon establishment by the supervisory board for companies whose shares were admitted to trading on a regulated market operating in Estonia. The AC have become obligatory for a number of organisations (including, listed companies, insurers, credit institutions, private as well as public

sector companies and public sector entities whose annual accounts exceed stated limits) after enforcement of Auditors Activities Act in 2010.

In the current study one main research questions was raised. It was examined how formation, activity and different characteristics of ACs have impacted the organisations in Estonia that were required to form an AC in accordance with Auditors Activities Act.

In order to answer the research question survey as research strategy was adopted using online questionnaire for primary data collection. Collected data were examined using exploratory data analyses techniques. The public interest entities in Estonia that are obliged to form an AC were the sample of this study. The sample was selected using purposive sampling technique constituting of 116 organisations. There were in total 34 responses received, the total response rate was 27.4%. However, analyses were performed and conclusions based on 20 organisations.

The results of the study revealed that the highest number of ACs has been formed in Estonia during years 2010 and 2011 and the first ones in 2004 in public sector entities or companies. Before 2010 the AC were formed only in this type of organisations. The practice corresponded with the legal requirements. Given this, it may be inferred that ACs in organisations in Estonia have been formed with intention to comply with the legal requirements, not voluntarily.

The number of the AC members, AC meetings per year and expertise AC members possessed were noted to be adequate in accordance with the requirements and sufficient to ensure the AC effectiveness in majority of the organisations. However, it was identified that the legal requirement in Estonia does not fully comply with Statutory Audit Directive 2006/43/EC (European Commission, 2006) suggesting that at least one member of the AC should have competence in accounting and/or auditing.

Most of the organisations were noted to have at least half of their AC members independent. However, there were also some organisations that did not have any independent members in their AC. The independence of AC members is considered to be essential to increase the quality of financial reporting of the organisation, supported

by evidence from a number of previous studies. Therefore, with the purpose of ensuring the AC effectiveness, some organisations could consider involving also independent members in their AC.

The results from the study argued that not all ACs fulfilled the required responsibilities. The responsibilities not covered in the AC meeting agenda in some organisations included monitoring and analysing processing of financial information of an organisation; making recommendations or proposals to the board concerning the appointment or removal of an audit firm. The topics connected to internal audit activity which were also not covered in some organisations might be due to not having the internal audit function formed in these organisations. Thus, it can be deduced that AC responsibilities in some organisations could be further clarified in order to ensure AC effectiveness.

Consequently, the perceived effect of AC formation and activity is that it has helped to improve the efficiency of risk management, the efficiency of internal audit, and the efficiency of internal control, ensure compliance with legislation and the good practice of professional activities and prevent or eliminate the deficiencies and inefficiencies in majority of organisations.

However, in fewer organisations it is recognised that AC formation and activity has helped to improve the financial reporting quality of an organisation and increased the independence of an audit firm and a sworn auditor representing an audit firm. This finding contradicted with regulators' expectations and was also inconsistent with evidence from a number of previous studies. The finding could be associated with the aforementioned inefficient basic inputs needed to achieve AC effectiveness, including lack of independent AC members in some organisations and some ACs not fulfilling all responsibilities as stated in Auditors Activities Act.

As limitation of this study it should be emphasised that the purposive sampling technique was used and conclusions were drawn based on small number of responses representing mainly evidence from public sector entities or companies, therefore the conclusions cannot be considered statistically representative and generalised. Furthermore, the online questionnaire used for data collection was not linked with

other methods and therefore the data were not explored further with the aim to understand the opinions expressed by respondents. Finally, the data collected represented the respondents' self-reported perspectives and estimates and was not verified with information from other sources. In future studies instead of questionnaire the archival research could be selected as research strategy in order to ensure sufficient evidence to base conclusions on that could be generalised to the total population. Also, the use of other methods for data collection and verification could be considered.

Since the evidence from the study revealed that ACs in some organisations were not fulfilling their responsibilities and AC formation and activity has not resulted with the anticipated effect, in future studies the reasons for not complying practises could be examined. Besides, need for describing the guidance documentation that would explain the best practises and help organisations to implement the requirements from Auditors Activities Act could be clarified.

Additionally, this study focused only on organisational aspects of AC formation and activity in order to ensure the effectiveness in accordance with DeZoort et al. (2002) AC effectiveness definition and determinants. Personal aspects could be considered for future studies, possibly applying the case study approaches.

Nevertheless, the practical contribution of this paper was that it gave an indication how formation, activity and different characteristics of ACs have impacted the organisations in Estonia that were required to form and AC in accordance with Auditors Activities Act and suggestions for possible improvements. The study covered wider perspective and was not limited only to financial reporting quality of an organisation, but also other AC focus areas. The theoretical contribution of this paper was that it provided the key insights from main surveys related to AC activity and formation during last decades based on the comprehensive literature review. As methodological contribution, the suggestions for the future surveys could be emphasised.

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APPENDIXES

Appendix 1. Extant literature

Table 2. Extant Literature on Audit Committee Formation and Activity

#	Study	Method	Companies/ Subjects	Domain	Dependent variable	Independent variables	Results
1	Spira (1999)	Survey	12 listed companies (The United Kingdom)	Financial reporting	Not applicable	Not applicable	AC participants are sceptical about the ability of ACs to improve financial reporting quality by detecting the fraud. The benefits for the company due to the ceremonial role of the AC are proposed, which could explain the popularity of ACs despite the lack of clarity of their purpose and the lack of evidence in improving the financial reporting quality and standards of corporate governance.
2	Klein (2002)	Archival research	692 firm-years on S&P 500 (The United States)	Financial reporting	Earnings management	AC and board independence	AC independence is negatively associated with abnormal accruals, and reductions in AC independence are associated with large increase in abnormal accruals.
3	Abbott et al. (2003)	Archival research	88 listed companies (The United States)+ 88 control companies	Financial reporting	Financial restatements	Independence, AC size, financial expertise, activity level, meetings frequency	Independence and activity level of the AC exhibits a significant and negative association with the occurrence of financial restatements. Significant negative association is identified also between AC that includes at least one member with financial expertise and restatements. No statistically significant association between meeting frequency and AC size and financial restatements.
4	Yang and Krishnan (2005)	Archival research	250 publicly traded firms, 896 firm-years (The United States)	Financial reporting	Quarterly earnings management	AC members expertise, stock ownership, tenure	Quarterly earnings management is lower for firms whose AC directors have greater governance expertise. The extent of stock ownership by AC directors is positively associated with quarterly earnings management. The average tenure of AC directors is negatively associated with quarterly earnings management.
5	Meyers and Ziegenfuss (2006)	Archival research	296 companies (The United States), based on data in GAIN database	Implementation of Blue Ribbon Committee recommendations (1999)	Not applicable	Not applicable	It was found that AC responsiveness of effectiveness steps from BRC recommendations (1999) is remarkably high. These steps include, (1) requirement to compose the AC from 3 members financially literate members; (2) the AC charter to be adopted and reassessed annually, (3) proxy statement to be included information about AC; (4) AC is responsible for outside audit relations; (5) AC must communicate with

#	Study	Method	Companies/ Subjects	Domain	Dependent variable	Independent variables	Results
							outside auditors about independence issues (consulting engagements etc.); (6) auditors should discuss quality of a company accounting; (7) discloses that AC has reviewed financial statements with management, (8) auditors review quarterly reports.
6	Lin et al. (2006)	Archival research	106 listed companies (The United States)+ 106 control companies	Financial reporting	Earnings restatements	ACs size, independence, financial expertise, activity, stock ownership	A negative association between the size of ACs and the occurrence of earnings restatement. Thus, larger AC may provide more oversight. The other AC characteristics (independence, financial expertise, activity, and stock ownership) are found not to have a significant impact on the quality of reported earnings.
7	Krishnan and Lee (2009)	Archival research	Fortune 1000 firms (The United States)	AC composition	Accounting financial expert in AC	Litigation risk, good corporate governance	Firms with higher litigation risk are more likely to have accounting financial experts in their AC. However, the association between litigation risk and the likelihood of appointing accounting financial experts occurs for firms with relatively strong governance but not for those with weak governance.
8	Rainsbury et al. (2009)	Archival research	87 listed firms (New Zealand)	Financial reporting quality, external audit fees	Accounting choices, audit fee	Quality of AC (independence, expertise)	No significant association between the quality of an AC and the quality of financial reporting is found. Similarly, the quality of ACs has little impact on the level of fees paid to external auditors.
9	Lary and Taylor (2011)	Archival research	60 listed companies (Australia) + 60 control firms	Financial reporting quality, non-audit service fee ratio	Financial statement restatements, non-audit service fee	AC members independence, financial and industry competency, diligence	Stronger AC independence and competence, but not diligence, is significantly related to a lower incidence and severity of financial restatements; hence, higher integrity of financial statements. And greater AC diligence, but not independence or competence, is significantly related to lower non-audit fee ratio; hence, higher external auditor independence.
10	Jamil and Nelson (2011)	Archival research	20 Government Link Companies (Malaysia)	Financial reporting quality	Discretionary accruals	AC independence, size, expertise of members and meetings frequency	Presence of independent ACs reduces earnings management practices; thus, leading to higher financial reporting quality. AC size and frequency of meetings is found not to have significant impact on financial reporting quality. In addition, AC financial expertise is found to be non- significant as the study focused on AC members who are qualified accountants.
11	Kang et al. (2011)	Archival research	288 listed low- and mid-cap firms (Australia)	Financial reporting quality	Earnings management	AC independence, expertise, activity and size	A significant association between all three characteristics and lower earnings management. The significant measure for independence is the proportion of independent directors on the AC; for expertise, it is that at

#	Study	Method	Companies/ Subjects	Domain	Dependent variable	Independent variables	Results
							least one member of the AC has an accounting qualification; and for activity and size, it is the frequency of AC meetings.
12	Ma et al. (2012)	Archival research	Top-300 firms listed firms (Australia)	Comparison of mandatory and voluntary AC practises	Corporate governance attributes, lower purchases of non-audit services, use of a Big 4 auditor	Mandatory AC formation, AC meetings frequency	ACs of firms subject to mandatory requirements meet more frequently, after controlling for known causes of meeting frequency such as size, growth, loss, potential distress, institutional investors and Big 4 auditor. No evidence is identified that firms substitute the establishment of an AC with other corporate governance measures, whether the AC's establishment is mandatory or voluntary. Also, no evidence is identified that AC diligence leads to better decisions. Top-300 firms are found to make lower non-audit services purchases, confirming their ability to make more independent decisions.
13	Habbash et al. (2012)	Archival research	392 listed firms (The United Kingdom)	Financial reporting quality	Performance-adjusted discretionary current accruals	The number of AC members and meetings, independence, directors' remuneration, outside directorships, financial expertise	While investigating effect of various AC characteristics (including the number of members and meetings, independence, directors' remuneration, outside directorships, various types of financial expertise), apart from the regulated industry sector and the presence of a member with a relevant academic degree other than accounting, the results indicate no significant relationship with the absolute magnitude of earning management.
14	Braswell et al. (2012)	Archival research	2,715 firm-years, S&P Small, Mid-Cap and Large-Cap firms (The United States)	AC diligence	AC diligence	AC tenure, financial expertise, AC size, strong governance characteristic, high agency costs, regulatory pressure of SOX 2002	The results: (1) active ACs are associated with presence of financial experts, but firm-specific knowledge reduced the need for frequent meetings; (2) stronger governance structures are evident by more active and independent boards and are associated with greater AC diligence; (3) firms with greater agency costs, as indicated by firm size, litigation risk and retention of Big 5 auditors, are most likely to maintain more diligent ACs; (4) an increased level of meeting activity following the implementation of Sarbanes-Oxley Act 2002 is also noted, indicating that attention given to ACs during that period is a sufficient catalyst for increased AC diligence.
15	Chandar et al. (2012)	Archival research	1,032 firm years, nonfinancial S&P 500 firms	Financial reporting Quality	Financial reporting quality	Overlapping AC and compensation committee	Firms with overlapping audit and compensation committees have higher financial reporting quality than those without such overlap. In addition, there is an inverted U-shaped relationship between overlapping

#	Study	Method	Companies/ Subjects	Domain	Dependent variable	Independent variables	Results
			(The United States)			membership	magnitude and financial reporting quality, suggesting that there are costs as well as benefits to overlapping committees.
16	Bhasin (2012)	Archival research	Top-500 listed firms (India)	Implementation of Security Exchange and Board of India requirements	Not applicable	Not applicable	All corporations examined have adopted AC charters that were published at least once every three years. All studied corporations included a report of an AC in their annual report or proxy statement. The majority of an AC composition, structure, meetings, and qualification are in compliance with the requirements. The report of an AC is intended to ensure that financial statements are legitimate, the audit is thorough, and the auditors have no flagrant conflicts of interest that may have jeopardize their objectivity, integrity, and independence. Concerning AC and auditor independence the increasing trend in compliance with regulations is noted; however, at the same time, a tendency to gravitate to the minimum standards with respect to an AC composition is noted also.
17	Suárez et al. (2012)	Archival research	209 firm-year observations 43 non-financial listed companies (Spain)	Financial reporting quality	Removal of avoidable qualifications in the audit report	Voluntary, compulsory AC development, members independence, the number of meetings	Compulsory ACs are more effective than voluntary ones; ACs with a higher proportion of independent members do not lead to greater improvements in the quality of accounting information; and the number of meetings of the AC is directly related to improvements in the quality of accounting information.
18	Romano and Guerrini (2012)	Archival research	22 listed companies (Italy) + 22 control firms	Financial reporting quality	Accounting enforcement actions	Board size, independence, presence of AC (and its composition), nomination, remuneration committee and big audit firm	It is found that board independence is the sole effective mechanism in detecting financial reporting fraud as the higher the percentage of independent directors on the board, the lower the likelihood of financial fraud. Hence, a higher relative weight of independent directors appeared to ensure more effective control over administrative procedures and financial statements. The same applied to the number of non-executive and independent directors in the AC.

Appendix 2. Questionnaire in English

International Business Administration Master's Thesis research project questionnaire concerning Audit Committee formation and activity in Estonia

Dear Sir or Madam,

This questionnaire is part of International Business Administration Master's Thesis research project in Estonian Business School. The purpose of the research is to identify the effect of Audit Committee formation and activity on the quality of financial reporting of those organisations in Estonia.

The questionnaire should take about ten minutes to complete. Please answer all the questions to ensure maximum quality of the research results.

The information provided will be treated confidentially and is important input for the second part of the research. In the second part of the research the annual reports of companies will be analysed for the periods preceding and following the formation of the Audit Committee. The results will be presented only at generalised level.

Please mark your e-mail address at the end of the questionnaire, if you would be interested to receive the summary with the results of the research.

Thank you for your time, please submit your answers until March 31, 2014.

Yours faithfully,

Maris Valts

Master's student

International Business Administration

Estonian Business School

1. The year of forming an Audit Committee in Your organisation (*mark only one*)

- 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
 2011 2012 2013 Other

2. Country where the Audit Committee operates (*mark only one*)

- Estonia Sweden Finland Denmark Latvia Lithuania Russia Other

3. Number of members in the Audit Committee (*mark only one*)

- 1 2 3 4 5 6 7 8 9 10 Other

4. Number of independent members in the Audit Committee (*mark only one*)

The members are to be considered as independent only if they are free of any relations that might impair or might appear to impair their judgement. For example, current and previous Member of Management Board, employee of the company or person that represents a controlling or other vice significant shareholder are not considered independent.

- 1 2 3 4 5 6 7 8 9 10 Other

5. Audit Committee members are experts in following areas (*tick all that apply*)

Mark an area if at least one of the Audit Committee members has formal education, work experience or professional licence in this area.

- Accounting Finance Law None of mentioned

6. Number of the Audit Committee meetings per year (*mark only one*)

- 1 2 3 4 5 6 7 8 9 10 Other

7. Topics at Audit Committee meeting agenda (*mark only one per row*)

	Usually	According to need	Not on agenda	Do not know
Monitoring and analysing processing of financial information of an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitoring and analysing efficiency of risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitoring and analysing efficiency of internal control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitoring and analysing efficiency of internal audit (if the function is formed)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitoring and analysing the process of auditing of annual accounts and consolidated accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monitoring and analysing independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of their activities with applicable regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making recommendations or proposals to the Board (or another body that formed the Audit Committee) concerning appointment or removal of an audit firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making recommendations or proposals to the Board (or another body that formed the Audit Committee) concerning appointment or removal of an internal auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making recommendations or proposals to the Board (or another body that formed the Audit Committee) concerning prevention or elimination of deficiencies and inefficiencies in an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making recommendations or proposals to the Board (or another body that formed the Audit Committee) concerning compliance with legislation and the good practice of professional activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. The Audit Committee formation and activity has helped to (*mark only one per row*)

	Yes	No	Has no impact	Do not know
Improve the financial reporting quality of an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase the independence of an audit firm and a sworn auditor representing an audit firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve the efficiency of risk management of an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve the efficiency of internal control of an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve the efficiency of internal audit (if the function is formed) of an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prevent or eliminate the deficiencies and inefficiencies in an organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ensure the compliance with legislation and the good practice of professional activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Name of organisation (*write*)

.....

10. Your position in the organisation (*mark only one*)

Supervisory Board Member Audit Committee Member Management Board Member Head of Internal Audit/Internal Auditor Other:

In case you would be interested to get the summary with the results of the research, please mark your e-mail address (*write*)

.....

Thank you for completing this questionnaire!

Appendix 3. Questionnaire in Estonian

Rahvusvahelise ärijuhtimise magistritöö küsimustik auditikomiteede moodustamisest ja tegevusest Eestis

Hea vastaja!

Järgnev küsimustik on koostatud Estonian Business School'i rahvusvahelise ärijuhtimise eriala magistritöö uurimuse jaoks. Küsitlus on üheks osaks uurimisest, mille eesmärgiks on selgitada auditikomiteede moodustamise ning nende tegevuse mõju organisatsioonide finantsaruandluse kvaliteedile Eestis.

Teie vastuseid käsitletakse konfidentsiaalselt ning need on oluliseks sisendiks uurimuse teisele osale, mille käigus analüüsitakse auditikomitee moodustanud organisatsioonide majandusaasta aruandeid sellele eelnenud ning järgnenud perioodil. Uurimuse tulemused esitatakse üldistatud kujul.

Küsimustiku täitmine võtab aega ligikaudu 10 minutit. Palun Teil vastata kindlasti kõikidele küsimustele, et tagada uurimistulemuste maksimaalne kvaliteet.

Juhul, kui soovite kokkuvõtet uurimuse tulemustega, palun lisage selle kohta märge küsitluse lõpus.

Olen väga tänulik, kui leiate aega küsimustikule vastamiseks hiljemalt 31.03.2014 ja annate seega oma panuse akadeemilistel eesmärkidel läbiviidavasse uurimusse.

Lugupidamisega,

Maris Valts

Estonian Business School

Rahvusvahelise ärijuhtimise magistrant

1. Auditikomitee moodustamise aasta Teie organisatsioonis (märgi üks)

- 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
 2011 2012 2013 Muu

2. Riik, kus auditikomitee tegutseb (märgi üks)

- Eesti Rootsi Soome Taani Läti Leedu Venemaa Muu

3. Auditikomitee liikmete arv (märgi üks)

- 1 2 3 4 5 6 7 8 9 10 Muu

4. Auditikomiteesse kuuluvate sõltumatute liikmete arv (märgi üks)

Sõltumatuna käsitletakse neid auditikomitee liikmeid, kes on vabad igasugustest sellistest suhetest, mis võiksid kahjustada või hakata kahjustama nende otsuseid. Näiteks, sõltumatutena ei käsitleta praegust või endist juhatuse liiget, töötajat või isikut, kes esindab ettevõtte enamusaktsionäri huve.

- 1 2 3 4 5 6 7 8 9 10 Muu

5. Auditikomitee liikmed on asjatundjad järgmistes valdkondades (märgi kõik sobivad)

Märgi loetletud valdkond kui vähemalt üks auditikomitee liikmetest omab antud valdkonnas erialast haridust, töökogemust või eriala kutsetunnistust.

- Arvestus (inglise keeles *accounting*) Rahandus Õigus Mitte ükski mainitutest

6. Auditikomitee koosolekute arv aastas (märgi üks)

- 1 2 3 4 5 6 7 8 9 10 Muu

7. Auditikomitee koosolekute päevakorda kuulub (märgi üks rea kohta)

	Tava- pärast	Vastavalt vajadusele	Ei kuulu	Ei oska öelda
Organisatsiooni rahandusinformatsiooni töötlemise jälgimine ja analüüs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Riskijuhtimise tõhususe jälgimine ja analüüs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sisekontrolli tõhususe jälgimine ja analüüs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Siseauditi (kui vastav funktsioon on loodud) tõhususe jälgimine ja analüüs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Raamatupidamise aastaaruande või konsolideeritud aruande audiitorkontrolli protsessi jälgimine ja analüüs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Audiitorettevõtja ja audiitorühingut esindava vandeaudiitori sõltumatuse ja tegevuse seaduse nõuetele vastavuse jälgimine ja analüüs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Soovituste või ettepanekute tegemine nõukogule (või muule auditikomitee moodustanud organile) audiitorettevõtja nimetamise või tagasikutsumise küsimuses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Soovituste või ettepanekute tegemine nõukogule (või muule auditikomitee moodustanud organile) siseaudiitori nimetamise või tagasikutsumise küsimuses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Soovituste või ettepanekute tegemine nõukogule (või muule auditikomitee moodustanud organile) probleemide ja ebatõhususe vältimiseks või kõrvaldamiseks organisatsioonis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Soovituste või ettepanekute tegemine nõukogule (või muule auditikomitee moodustanud organile) organisatsiooni tegevuse õigusaktide ja kutsetegevuse heale tavale vastavuse küsimuses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Auditikomitee moodustamine ja tegevus on aidanud kaasa (märgi üks rea kohta)

	Jah	Ei	Ei oma mõju	Ei oska öelda
Organisatsiooni finantsaruandluse kvaliteedi tõstmisele	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Audiitorettevõtja ja audiitorühingut esindava vandeaudiitori sõltumatuse suurenemisele	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organisatsiooni riskijuhtimise tõhusamaks muutumisele	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organisatsiooni sisekontrolli tõhusamaks muutumisele	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Siseauditi (kui vastav funktsioon on loodud) tegevuse tõhusamaks muutumisele	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Probleemide ja ebatõhususe vältimisele või kõrvaldamisele organisatsioonis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organisatsiooni tegevuse vastavuse tagamisele õigusaktidele ja kutsetegevuse heale tavale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Organisatsiooni nimi (kirjuta)

.....

10. Vastaja ametikoht antud organisatsioonis (märgi üks)

- Nõukogu liige Auditikomitee liige Juhatuse liige Siseauditi juht/Siseaudiitor
 Muu:

Juhul, kui soovid saada kokkuvõtet antud uuringu tulemustega, palun märgi oma e-maili aadress (kirjuta)

.....

Suur tänu küsitluses osalemise eest!

AUDITIKOMITEE MOODUSTAMISE JA TEGEVUSE MÕJU ORGANISATSIOONIDELE EESTIS

Maris Valts

Resümee

Magistritöö eesmärgiks oli selgitada, kuidas auditikomitee moodustamine ning nende tegevus nõukogu allkomiteena on mõjutanud organisatsioone Eestis. Auditikomitee on tavapäraselt ettevõtte nõukogu juurde moodustatud allkomitee, millel on peamiselt nõuandev roll ettevõtte finantsaruandluse ning auditiga seoses. Auditikomiteede tegevus sai alguse Ameerika Ühendriikides, kus 1939. aastal New York Stock Exchange soovitas esmakordselt auditikomiteede moodustamist ettevõtete nõukogude juurde. Enne 1990. aastate algust polnud auditikomiteed Euroopas veel laialdaselt levinud, väljaarvatud Suurbritannias, mis oli ka esimene riiki Euroopas, kus auditikomitee moodustamise kohustus kehtestati börsiettevõtetele. Alates 1990. aastate keskpaigast on auditikomiteed pälvinud laiema heakskiidu ka mandri Euroopas.

Peale mitmeid laiaulatuslikke rahanduslikke kahjusid tekitanud skandaale (n. Enron, WorldCom, Parmalat ja Hollinger International) on auditikomiteede tegevust puudutav regulatsioon kogu maailmas suurenenud eesmärgil avalikke huve senisest paremini kaitsta (sh. *Company Accounting Reform and Investor Protection Act of 2002* Ameerika Ühendriikides ehk *Sarbanes-Oxley Act* ning Euroopa Komisjoni direktiiv 2006/43/EC). Peamine ootus auditikomiteedele on, et need aitaksid kaasa finantsaruandluse kvaliteedi tõstmisele ning audiitori iseseisvuse paranemisele.

Audiitortegevuse seaduse jõustamise tulemusel 2010. aastal on auditikomitee moodustamine muutunud kohustuslikuks ka reale avaliku huvi üksustele Eestis. Sealhulgas äriühingud, mille väärtpaberitega on lubatud kaubelda reguleeritud väärtpaberiturul; krediidasutused; kindlustusandjad; eraõiguslik juriidilised isikud, mille aruandeaasta näitajad ületavad seaduses sätestatud piirmäärad ning avaliku

sektori üksused või ühingud. Audiitortegevuse seadus sätestab ka auditikomitee moodustamise põhimõtted ning tegevuse alused.

Auditikomiteede tegevust käsitlevas kirjanduses on peamiselt lähtutud esindusteooriast (*agency theory*), mille kohaselt nõukogu ning auditikomitee sõltumatud liikmed jälgivad juhtkonna tegevust vältimaks nende soovi tegutseda isiklikes, mitte volitaja (ettevõtte omanikud) huvides.

Magistritöös on välja toodud ülevaade viimastel kümnenditel avaldatud 18 teadusartiklist ning nende põhiseisukohtadest, käsitledes auditikomitee moodustamist ning tegevust muuhulgas Ameerika Ühendriikides, Suurbritannias, Austraalias, Malaisias, Itaalias ja Hispaanias. Antud uuringutes selgitati enamasti auditikomitee mõjusust, sageli fookusega organisatsioonide finantsaruandluse kvaliteedile. Peamised leiud viitavad, et auditikomitee liikmete sõltumatus ning asjatundlikkus rahanduse valdkonnas omab kõige nähtavamalt mõju organsatsioonide finantsaruandluse kvaliteedile. Mõnede uurimuste tulemused viitavad, et ka auditikomitee suurus ning koosolekute arv aastas omavad mõju ettevõtete finantsaruandluse kvaliteedile.

Töös püstitati üks uurimisküsimus, et selgitada, kuidas auditikomitee moodustamine, tegevus ning selle erinevad karakteristikud on mõjutanud organisatsioone Eestis, millele laienes auditikomitee moodustamise kohustus vastavalt Audiitortegevuse seadusele. Andmekogumismeetodina kasutati elektroonilist küsimustikku, valim moodustati eesmärgist lähtuvalt ning see koosnes 116 avaliku huvi üksusest Eestis. Tulemused ning järeldused põhinevad 20 organisatsiooni andmetel.

Magistritöö tulemusel toodi välja, et enim organisatsioone Eestis on moodustanud auditikomiteed aastatel 2010 ja 2011 ning esimesed 2004. aastal. Enne 2010. aastat moodustasid auditikomitee vaid avaliku sektori üksused või ühingud, mis viitab sellele, et tõenäoliselt auditikomiteed Eestis ei ole moodustatud vabatahtlikult vaid tagamaks vastavust õigusaktidest tulenevatele nõuetele. Tulemused viitasid ka, et auditikomitee koosolekute arv aastas, liikmete arv ning asjatundlikkus nõutavates valdkondades oli soovitaval tasemel. Samas tuvastati vastuolu Audiitortegevuse seaduse ja Euroopa Komisjoni direktiivi 2006/43/EC vahel, mis soovitab, et vähemalt üks auditikomitee liige võiks olla asjatundja arvestuse või auditi valdkonnas. Enamus

organisatsioonides olid vähemalt pooled auditikomitee liikmed sõltumatud, kuid esines ka organisatsioone, millel auditikomiteesse ei kuulunud sõltumatuid liikmed. Kuna auditikomitee liikmete sõltumatust peetakse oluliseks organisatsiooni finantsaruandluse kvaliteedi mõjutajaks, siis võiksid antud organisatsioonid kaaluda võimalust sõltumatute liikmete kaasamiseks.

Magistritöö tulemustest nähtub, et auditikomiteed mõnedes organisatsioonides ei täida kõik Audiitortevuse seadusest tulenevaid kohustusi. Sealhulgas organisatsiooni rahandusinformatsiooni töötlemise jälgimine ja analüüsimine ning soovitude või ettepanekute tegemine audiitorettevõtja nimetamise või tagasikutsumise küsimuses. Mistõttu autor leidis, et antud organisatsioonides tuleks täiendavalt rõhku pöörata auditikomitee vastutusala selgitamisele.

Enamasti auditikomitee moodustamise ja tegevuse tunnetatud mõju organisatsioonides oli, et see on aidanud kaasa riskijuhtimise, sisekontrolli ja siseauditi tõhusamaks muutumisele; probleemide ja ebatõhususe vältimisele või kõrvaldamisele ning organisatsiooni tegevuse vastavuse tagamisele õigusaktidele ja kutsetegevuse heale tavale. Vähemal hulgal organisatsioonides on aga aidanud kaasa finantsaruandluse kvaliteedi tõstmisele ning audiitorettevõtja ja audiitorühingut esindava vandeaudiitori sõltumatuse suurenemisele.

Magistritöö piirangutena ei ole võimalik tulemusi üldistada, kuna need tuginevad väikesele hulgal organisatsioonidele ning esindatud ei olnud kõik organisatsioonide tüübid, millele auditikomitee moodustamine on kohustuslik. Teema jätkuva uurimise puhul oleks otstarbekas tugineda teistele andemetele. Samas võiks aga kaaluda organisatsiooniliste aspektide kõrval personaalsete selgitamist, sh. auditikomitee liikmete objektiivsus, ausus, ning tahe antud rolli täita.

Kuna magistritöö tulemused viitasid, et auditikomiteed osades uuringusse kaasatud organisatsioonides ei täida Audiitortevuse seadusest tulenevaid kohustusi ning tunnetatud auditikomitee moodustamise ja tegevuse mõju organisatsioonides ei vasta ootustele mõnedes valdkondades, siis järgnevad uuringud võiks keskenduda mittevastavuste põhjuste selgitamisele.