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# Perceptions Over the Audit Committee Practices in the Context of Corporate Governance: Evidence From Romania

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*The aim of current study is to investigate the Romanian auditors' perceptions over the audit committee practices that should be take into account for an integrated framework of good practices in the context of corporate governance. Starting from this main objective, this study also aims to explore the actual applicability of the proposed audit committee practices. Statistical analysis was conducted on data obtained from questionnaires submitted to a significant sample of Romanian auditors, members of Chambers of Financial Auditors of Romania, the main organism that is coordinating the audit activity in Romanian context. In spite of the fact the response rate was not the most significant one; the author do still believe that these results could represent a relevant starting point in developing an integrated framework of good audit practices, including audit committee practices, in order to stimulate the corporate governance soundness.*

**Keywords:** *Romanian auditors, auditors' perceptions, audit committee, corporate governance, good audit practices*

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## Introduction

Until the end of 20<sup>th</sup> century, most of the researches and studies dedicated to the audit committee were focused mainly of the effectiveness of the audit committee (McMullen, 1996; Porter & Gendall, 1998; Beasley et al., 2000), but starting with the beginning of 21<sup>st</sup> century the audit committee and its responsibilities have began to be in the centre of various researchers interests, mostly under the perspective of the relationships between audit committee

and internal audit and external audit, the role and responsibilities of audit committee corroborated with the ones of internal audit being quite significant in the process of enhancing the quality of corporate governance system (Bishop et al., 2000; McElveen, 2002). The necessity to investigate the way that audit committee interact with internal and external audit is increasingly more growing, especially in the context of the increasing importance given to the ensuring the soundness of corporate governance (DeZoort, 2002), all these being resulted in developing different studies focused on the way that audit committee interacts with internal audit, and sometimes with external audit (Mat Zain & Subramaniam, 2007; Sarens & DeBeelde, 2006; Mat Zain et al., 2006; Goodwin and Kent, 2006; Krishnan, 2005; Gramlin et al, 2004; Gendron et al., 2004; Willekens et al., 2004; Turley and Zaman, 2004; Goodwin, 2003; Goodwin and Yeo, 2001). Trying to synthesize the findings of these studies into a general idea, there could be noticed the intensification of the relationships between audit committee and internal and external audit, but mostly with internal audit, being promoted the idea that as long this audit committee will be seen by internal auditors as an independent forum where various company' business affairs are discussed and solved, as long the premises for a good corporate governance will be ensured.

The connections that should exist between audit committee with internal audit and external audit are also highlighted by the latest findings of some researchers (Porter, 2009; Sikka, 2009) that emphasize the idea of audit trinity (internal audit, external audit, audit committee – the interface between internal and external audit) as a key element in the process of ensuring the corporate responsibility and governance. Same as internal audit and external audit, audit committee also had known significant mutations from its objectives' point of view, and so if at the beginning audit committee was mostly focused over the financial reporting process, actually the objectives of the audit committee started to be more extended, being strongly focused over the ensuring the soundness of corporate governance of the entity (Porter, 2009).

## **Audit committee's role in corporate governance's area – background literature**

As a result of many financial scandals that shuddered the economic world starting with the end of 20<sup>th</sup> century and the beginning of 21<sup>st</sup>, there

has been felt an increasing necessity for implementing measures designed to enhance corporate governance which should rebuild the investor confidence in the credibility of financial reporting and the soundness of capital markets from all over the world.

In this context, an increasing attention was given to the audit committee as a central supervising body within the company which should provide a carefully monitoring of financial reporting process and ensuring the reliability of the audited financial statements. In that direction, McMullen (1996) shows through his study the direct connections that could be identified between the presence of an audit committee and the reliability of financial reporting, but also with a reduced incidence of errors or irregularities. The audit committee is commonly view as a body or a mechanism which should supervise the soundness of financial reporting process, but also as a main provider of reasonable assurance for the relevance and reliability of annual reports and financial statements issued by management (DeZoort, 1997; Wolnizer, 1995; Bradbury, 1990), being in the same time the main responsible for improving the quality of flow information between the company owners (shareholders and potential shareholders) and the managers (Barako, 2007). The study of Bradbury (1990) focused on researching the audit committee formation in New Zealand identified at least three reasons for establishing audit committees:

- To contribute at the increasing the reliability of audited financial statements,
- To give a help to the board of directors in achieving their responsibilities,
- To ensure the auditor independence.

As a result of this influence of audit committees on the process of financial reporting and annual reports, Barako (2007) tested a research hypothesis that confirms the level of voluntary disclosure is higher for firms that have an audit committee, which is one more reason to highlight the significant role of the audit committee in corporate governance context.

Braiotta et al (2010) had dedicated a very extensive and valuable work to the audit committee, its role and its practices in the context of corporate accountability and corporate governance. Accordingly to Sections 205 and 301 of the Sarbanes-Oxley Act of 2002, Braiotta et al (2010) emphasize the fundamental roles for the audit committees:

1. *The audit committee has oversight responsibility for the accounting and financial reporting processes of the company and for its financial statements*

audited.

2. The audit committee is responsible for appointing, compensating and supervising the external auditor.

3. The audit committee must establish the procedures for solving different complaints about accounting, internal control or auditing matters, ensuring in the same time the confidentiality for different questionable accounting or auditing issues submitted by employees.

4. The audit committee also should ensure that the company has the appropriate systems implemented for the effective monitoring and management of risk.

Next, in figure no.1, we tried to offer a synthesis of the main roles and responsibilities attributed to the audit committee in the vision of Braiotta et al (2010), considering that it could be a good starting point in designing a set of good practices of the audit committee in the context of corporate governance, starting from the main objectives that the audit committee has to fulfil within a company.

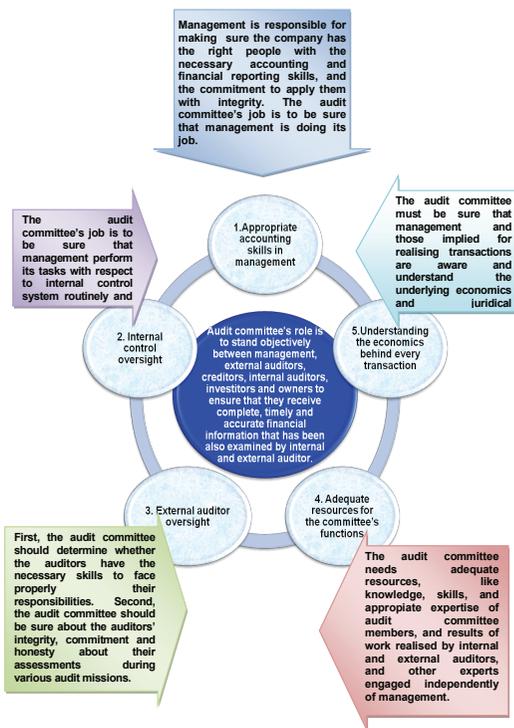


Figure 1: Audit committee's role and responsibilities

Source: adapted from Braiotta et al (2010)

## Research Methodology Development

### *Scientific approach*

The scientific research of this current study is based on fundamental type, under the influence of mainstream research approach. Starting from the review of relevant literature, with a focus on significantly research developments and studies with respect to the audit committee's role and responsibilities it was developed a synthesis of main audit committee practices that should be taken into account into an integrated framework of good audit practices in the context of corporate governance. The following step was to test these practices based on empirical study which has the main goal to highlight the Romanian auditors' perception over the audit committee practices in corporate governance's area. For all audit committee practices tested through this survey there were tested two main criteria as presented below in Figure no.2



**Figure 2:** Criteria used for testing the proposed audit committee practices, Source: developed by the author of this study

### *Development of empirical study – purpose and objectives*

This current study aimed to become a relevant starting point in the process of delineation the good audit committee practices in the context of more and more stringent latest requirements over the soundness of corporate governance, but without claiming that there were identified the most relevant audit committee practices. More exactly, the main objectives followed in developing such a study were represented by:

- To get a synthetic view from the Romanian auditors' perspective with regard to the audit committee good practices that should be taken into account.
- To test the real applicability of the proposed audit committee

practices from the respondents' point of view

- To try to obtain other proposals of good audit committee practices from respondents' point of view that should also be taken in consideration.

Based on relevant literature review, it was made a selection of the most significant and relevant audit committee practices, all these being included in questionnaire used to develop this present study. In Table no.1 are summarised all these audit committee practices over it was tested the auditors' perception from their proposal but also from their applicability point of view.

**Table 1:** The synthesis of audit committee practices proposed and tested

No.	The audit committee practices proposed within this study
1.	The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.
2.	The audit committee monitors the internal audit's position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives.
3.	The audit committee monitors that internal audit to have the full access to the whole personnel and the entire documentation within the company.
4.	The audit committee is responsible with the selection, appointing and dismissing the chief audit executive within the company.
5.	The audit committee has periodical meetings with the internal audit department in order to be informed over the internal audit activity's results.
6.	The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results.
7.	The audit committee should know the assessment of internal audit activity made by external audit.
8.	The audit committee charter is complementary with the internal audit charter.
9.	The audit committee examines the recommendations made by internal audit for improving corporate governance and internal control system, looking for the best solutions.
10.	The audit committee assesses the way that internal audit achieves its objectives with respect to disclosure and transparency.
11.	Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.
12.	The audit committee should provide the necessary framework to encourage the effective communication between internal audit, external audit, board and executive management, for ensuring good corporate governance.

13.	The audit committee should know very well the company risk profile and to monitor the effectiveness of risk management process.
14.	The audit committee makes the proposals/recommendations for the selection of external audit firm, being responsible for supervising the entity's relationships with external auditors.
15.	The audit committee monitors the independence of external auditors and develops policies with respect to the contractual provisions referring to the non-audit services provided by the external auditors.
16.	The audit committee review together with the external auditors and executive management the accounting policies applied by the company, but also the quality of professional judgements and accounting estimates made by the management.
17.	The audit committee should understand very clearly the way that internal control system works, and it should monitor its effectiveness regularly together with internal and external auditors.
18.	The audit committee should monitor the compliance with the legal framework applied, including with the ethical code specific for this company.
19.	The audit committee review with the external auditors and executive management the entity's financial statements, and based on the external audit's conclusions following to make a recommendation to the Board for these financial statements to be approved and published.
20.	The audit committee may adopt a "revolving door" policy which refers to the requirement of certain restrictions with respect to the employment in some positions like financial manager by some persons who were previously members of the internal audit or external audit team.

Source: a projection made the author based on relevant literature review

## Tools and sample used

This empirical survey was developed based on an emailed questionnaire sent to members of Chambers of Financial Auditors of Romania (CAFR) working in various positions connected in one way or another to the audit activity. The questionnaire as research technique was used in conjunction with the sample as a tool research. The sample used in this research was determined starting from the members of professional body which coordinates the audit activity at Romanian level. Thus, our statistical population included the active members of CAFR, whose email and contact details were available on the CAFR's website. The period for developing this research was February – May 2011. In spite of its disadvantages, the option for using the e-mail questionnaire

was argued by the necessity of including in the sample a large number of respondents, while an alternative direct approach would be quite difficult. We decided to use such a sample formed from Romanian auditors in order to test the audit committee practices, because of the difficulties in finding information about the audit committee's structure acting in Romania entities. Actually, there is no public database available in Romania, from where to find about the details contact of the members of all audit committees that are functioning in Romanian economic context. So, we decided to test these audit practices from the perspective of the auditors that should interact effectively with the audit committee's members.

The used questionnaire was developed on next sections:

**1. Part I** – *General Information*

**2. Part II** – *Perceptions over internal audit's role and practices in corporate governance*

**3. Part III** – *Perceptions over external audit's role and practices in corporate governance*

**4. Part IV** – *Perceptions over audit committee's role and practices in corporate governance*

The specific objective of this paper is to analyse the results of Part I and Part IV (the other parts (Part II and Part III) of this questionnaire were developed and discussed in other studies), more exactly, the respondent' perceptions over the audit committee's role and good practices in the context of corporate governance. It is necessary to mention that for each section, the respondent had the possibility to propose another good audit practices, beside the ones mentioned within the questionnaire, because as it was mentioned before, this study claims to be only a starting point in the identifying the best audit practices in the field of corporate governance. The sample used in this survey is presented in Table no.2.

**Table 2:** Sample used and response rate obtain in the present study

<b>Sample of members CAFR selected</b>	1	<b>924</b>
<b>Invalid email contacts</b>	2	<b>386</b>
<b>Valid contacts</b>	3=1-2	<b>538</b>
<b>Respondents with no audit experience</b>	4	<b>67</b>
<b>Final sample</b>	5=3-4	<b>471</b>
<b>Questionnaires received</b>	6	<b>44</b>

<b>First response rate</b>	7= 6/5*100	<b>9,34%</b>
<b>Invalid questionnaires</b>	8	<b>20</b>
<b>Final number of valid questionnaires</b>	9=6-8	<b>24</b>
<b>Final response rate</b>	10= 9/5*100	<b>5,10%</b>

Source: projection made by the author

Unfortunately, from the first sample, a quite big numbers of selected contacts proved to be invalid due to the failures messages received at the mail delivery. After the questionnaire was sent there were some respondents that honestly admitted they have the quality of member CAFR, but they don't have enough or not all audit experience (67 respondents). From the total of 44 received questionnaires, a significant number of 20 questionnaires were considered invalid due to some errors in proper fulfilling of questionnaires. The first part was included general information about the respondents, especially about their professional experience. In the final lot of valid questionnaires there were not included the questionnaires completed by the respondents with no audit experience, starting from their statement about their professional experience.

## Data Analysis And Findings

### *Analysis of results*

In spite of the lower response rate obtained and even if our common sense can't afford us to accept this response rate as being one of the most relevant one, we do still believe that the relevancy of our findings are significant in the manner they will be considered as a starting point in developing more complex studies, probably using also other research tools that could increase the relevancy of the results. By presenting on overview of the main findings and conclusions resulting from this study, we hope to stimulate further research and to initiate constructive debates in this interesting research area.

Referring to the disadvantages of email surveys, we identified an interesting meta-analysis of comparing response rates in email and paper surveys developed by Shih and Fan (2009). Their findings show that e-mail survey mode generally has considerably lower response rate than traditional mail survey mode regardless of other survey characteristics (e.g. target population, use of reminders for non-respondents, use of incentives). Also, Shih and Fan (2009) show that lower response rate in e-mail survey might

partially be the result of prevalent junk/spam e-mails nowadays, which may have caused many potential respondents to ignore legitimate e-mail surveys. Anyway, in spite of these disadvantages, Shih and Fan (2009) are agreed that this does not necessarily mean that e-mail survey should not have its place in the repertoire of survey researchers. There shouldn't be ignored the advantages of e-mail survey like:

- A shorter response time,
- Considerably lower survey cost,
- Capability of reaching a large sample of respondents,
- Knowledge about whether an e-mail survey has been delivered to the correct e-mail address, etc.

In the vision of Shih and Fan (2009), in spite of its disadvantage in terms of survey response rate currently shown in the recent literature, we don't have to forget about these unique characteristics of email survey that make it a relevant and useful tool for survey researchers in certain research situations and area, where the application of other research tools would be quite difficult or even impossible.

Referring to our results, the first point discussed is the respondents' professional experience. As it is presented in Table no.3, over 70% of our respondents state they have a professional experience on the audit activity over 5 years. Our assumption is that starting from this significant proportion of the respondents with relevant professional experience, we could considered it as a significant argument in considering the results of this current study as a good starting point for stimulating further research with respect to the developing an integrated framework of good practices in corporate governance's area.

**Table 3:** The professional experience of respondents

The respondents' position	Professional experience			Total
	under 2 years	between 2 and 5 years	over 5 years	
Internal auditor	8,3%	12,5%	50,0%	70,8%
External auditor	8,3%	0.0%	20,8%	29,2%
<b>Total</b>	<b>16,7%</b>	<b>12,5%</b>	<b>70,8%</b>	<b>100,0%</b>

Source: author's projection by using SPSS 16

As we mentioned above, for all audit committee practices indicated in Table no.1, the main objective was the investigation of the auditors' perception from next points of view:

• **Their proposal** for inclusion into a set of good practices for audit committee activity. Thus the respondents had the possibility to express their agreement or disagreement about the proposals of audit committee practices by using Likert Scale where: (1) – *Strongly disagree*; (2) – *Disagree*; (3) – *Not sure*; (4) – *Agree*; (5) – *Strongly agree*.

• **Their actual applicability** was tested by using also Likert scale, where: (1) – *Unknown*; (2) – *Known, but never applied*; (3) – *Known, but rarely applied*; (4) – *Known and often applied*; (5) – *Known and always applied*.

Next, in Table no.4 and Table no.5 there are presented the statistical frequencies obtained for the tested audit committee practices from both perspectives: their proposal and their applicability.

**Table 4:** Proposals for audit committee practices

No.	Proposals for audit committee practices	Response options					Total
		(1)	(2)	(3)	(4)	(5)	
1	The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.	0%	4,2%	16,7%	8,3%	70,8%	100%
2	The audit committee monitors the internal audit's position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives.	0%	0%	16,7%	20,8%	62,5%	100%
3	The audit committee monitors that internal audit to have the full access to the whole personnel and the entire documentation within the company.	0%	4,2%	20,8%	8,3%	66,7%	100%
4	The audit committee is responsible with the selection, appointing and dismissing the chief audit executive within the company.	0%	8,4%	20,8%	20,8%	50%	100%
5	The audit committee has periodical meetings with the internal audit department in order to be informed over the internal audit activity's results.	0%	4,2%	20,8%	25%	50%	100%
6	The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results.	0%	0%	20,8%	12,5%	66,7%	100%

7	The audit committee should know the assessment of internal audit activity made by external audit.	0%	0%	29,1%	16,7%	54,2%	<b>100%</b>
8	The audit committee charter is complementary with the internal audit charter.	4,2%	0%	25%	29,1%	41,7%	<b>100%</b>
9	The audit committee examines the recommendations made by internal audit for improving corporate governance and internal control system, looking for the best solutions.	0%	0%	20,8%	25%	54,2%	<b>100%</b>
10	The audit committee assesses the way that internal audit achieves its objectives with respect to disclosure and transparency.	0%	0%	25%	20,8%	54,2%	<b>100%</b>
11	Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.	0%	0%	20,8%	12,5%	66,7%	<b>100%</b>
12	The audit committee should provide the necessary framework to encourage the effective communication between internal audit, external audit, board and executive management, for ensuring good corporate governance.	0%	0%	25%	12,5%	62,5%	<b>100%</b>
13	The audit committee should know very well the company risk profile and to monitor the effectiveness of risk management process.	0%	0%	20,8%	16,7%	62,5%	<b>100%</b>
14	The audit committee makes the proposals/recommendations for the selection of external audit firm, being responsible for supervising the entity's relationships with external auditors.	0%	0%	25%	16,7%	58,3%	<b>100%</b>
15	The audit committee monitors the independence of external auditors and develops policies with respect to the contractual provisions referring to the non-audit services provided by the external auditors.	0%	4,2%	33,3%	20,8%	41,7%	<b>100%</b>
16	The audit committee review together with the external auditors and executive management the accounting policies applied by the company, but also the quality of professional judgements and accounting estimates made by the management.	0%	0%	25%	25%	50%	<b>100%</b>

17	The audit committee should understand very clearly the way that internal control system works, and it should monitor its effectiveness regularly together with internal and external auditors.	0%	0%	20,8%	25%	54,2%	<b>100%</b>
18	The audit committee should monitor the compliance with the legal framework applied, including with the ethical code specific for this company.	0%	4,2%	25%	25%	45,8%	<b>100%</b>
19	The audit committee review with the external auditors and executive management the entity's financial statements, and based on the external audit's conclusions following to make a recommendation to the Board for these financial statements to be approved and published.	0%	0%	20,8%	12,5%	66,7%	<b>100%</b>
20	The audit committee may adopt a "revolving door" policy which refers to the requirement of certain restrictions with respect to the employment in some positions like financial manager by some persons who were previously members of the internal audit or external audit team.	0%	0%	25%	37,5%	37,5%	<b>100%</b>

Source: author's projection by using SPSS 16

**Table 5:** Application of the proposed audit committee practices

No.	Actual application of audit committee practices	Response options					Total
		(1)	(2)	(3)	(4)	(5)	
1	The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.	0%	16,6%	29,2%	25%	29,2%	<b>100%</b>
2	The audit committee monitors the internal audit's position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives.	0%	16,6%	37,6%	29,2%	16,6%	<b>100%</b>
3	The audit committee monitors that internal audit to have the full access to the whole personnel and the entire documentation within the company.	0%	16,6%	20,8%	41,8%	20,8%	<b>100%</b>

4	The audit committee is responsible with the selection, appointing and dismissing the chief audit executive within the company.	0%	12,4%	41,8%	20,8%	25%	<b>100%</b>
5	The audit committee has periodical meetings with the internal audit department in order to be informed over the internal audit activity's results.	0%	12,4%	33,4%	37,5%	16,7%	<b>100%</b>
6	The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results.	0%	12,4%	25%	29,2%	33,4%	<b>100%</b>
7	The audit committee should know the assessment of internal audit activity made by external audit.	4,2%	12,4%	33,4%	20,8%	29,2%	<b>100%</b>
8	The audit committee charter is complementary with the internal audit charter.	8,3%	16,7%	29,2%	25%	20,8%	<b>100%</b>
9	The audit committee examines the recommendations made by internal audit for improving corporate governance and internal control system, looking for the best solutions.	0%	16,6%	37,6%	25%	20,8%	<b>100%</b>
10	The audit committee assesses the way that internal audit achieves its objectives with respect to disclosure and transparency.	0%	16,6%	41,7%	29,2%	12,5%	<b>100%</b>
11	Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.	0%	12,5%	20,8%	16,7%	50%	<b>100%</b>
12	The audit committee should provide the necessary framework to encourage the effective communication between internal audit, external audit, board and executive management, for ensuring good corporate governance.	0%	16,6%	37,6%	25%	20,8%	<b>100%</b>
13	The audit committee should know very well the company risk profile and to monitor the effectiveness of risk management process.	0%	16,6%	37,6%	20,8%	25%	<b>100%</b>
14	The audit committee makes the proposals/recommendations for the selection of external audit firm, being responsible for supervising the entity's relationships with external auditors.	8,4%	16,6%	29,2%	16,6%	29,2%	<b>100%</b>

15	The audit committee monitors the independence of external auditors and develops policies with respect to the contractual provisions referring to the non-audit services provided by the external auditors.	8,4%	16,6%	25%	25%	25%	<b>100%</b>
16	The audit committee review together with the external auditors and executive management the accounting policies applied by the company, but also the quality of professional judgements and accounting estimates made by the management.	0%	20,8%	29,2%	25%	25%	<b>100%</b>
17	The audit committee should understand very clearly the way that internal control system works, and it should monitor its effectiveness regularly together with internal and external auditors.	0%	12,5%	41,7%	25%	20,8%	<b>100%</b>
18	The audit committee should monitor the compliance with the legal framework applied, including with the ethical code specific for this company.	4,2%	12,5%	45,8%	12,5%	25%	<b>100%</b>
19	The audit committee review with the external auditors and executive management the entity's financial statements, and based on the external audit's conclusions following to make a recommendation to the Board for these financial statements to be approved and published.	0%	16,6%	33,4%	12,5%	37,5%	<b>100%</b>
20	The audit committee may adopt a "revolving door" policy which refers to the requirement of certain restrictions with respect to the employment in some positions like financial manager by some persons who were previously members of the internal audit or external audit team.	4,2%	12,5%	50%	20,8%	12,5%	<b>100%</b>

Source: author's projection by using SPSS 16

Analysing the above tables, it could be noticed there are some audit committee practices like the audit committee practice no.1 (*"The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements."*) for which more than 70% are strongly agreed to be included as a good audit committee practice into an integrated framework, but only 25% admitted that they are known and often applied, while 29,2% said they are know but quite rarely applied. The same situation is also available for other audit committee practices like

no.2 (“The audit committee monitors the internal audit’s position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives”), where 62,5% are strongly agreed with these good practice, but only 29,2% state there are known and often applied. Same differences between the agreement of their inclusion within an integrated framework of good audit practices and their real applicability at this moment could also be noticed for practices no.3, 6, 12 and 19 from the tables presented above.

For many of those practices tested through this present study there seems to be significant differences between the respondent’s perception over their proposals and their real applicability at this moment. In the author’s opinion, these significant differences between their proposal and their applicability at this moment could be interpreted as a strong signal that it’s time to pay a lot more attention to the process of reviewing the audit committee audit practices, to develop a consistent analysis in order to see exactly the necessary changes required by this difficult and volatile economic context. Next, in tables no.6 and no.7 for each of the audit committee practices tested there are presented the basic statistical parameters, for both perspectives (proposal and application), mentioning that the display order will be descending means.

**Table 6:** Statistical parameters for proposals of audit committee practices

Proposals of audit committee practices	N	Min.	Max.	Mean	Std. Deviation	Variance
1.The audit committee review with the external auditors and executive management the entity’s financial statements, and based on the external audit’s conclusions following to make a recommendation to the Board for these financial statements to be approved and published.	24	3,00	5,00	4,4583	,83297	,694
2.The audit committee monitors the internal audit’s position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives.	24	3,00	5,00	4,4583	,77903	,607
3.The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.	24	2,00	5,00	4,4583	,93153	,868
4.Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.	24	3,00	5,00	4,4583	,83297	,694

5.The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results.	24	3,00	5,00	4,4583	,83297	,694
6.The audit committee should know very well the company risk profile and to monitor the effectiveness of risk management process.	24	3,00	5,00	4,4167	,82970	,688
7.The audit committee monitors that internal audit to have the full access to the whole personnel and the entire documentation within the company.	24	2,00	5,00	4,3750	,96965	,940
8.The audit committee should provide the necessary framework to encourage the effective communication between internal audit, external audit, board and executive management, for ensuring a good corporate governance.	24	3,00	5,00	4,3750	,87539	,766
9.The audit committee should understand very clearly the way that internal control system works, and it should monitor its effectiveness regularly together with internal and external auditors.	24	3,00	5,00	4,3333	,81650	,667
10.The audit committee makes the proposals/recommendations for the selection of external audit firm, being responsible for supervising the entity's relationships with external auditors.	24	3,00	5,00	4,3333	,86811	,754
11.The audit committee examines the recommendations made by internal audit for improving corporate governance and internal control system, looking for the best solutions.	24	3,00	5,00	4,3333	,81650	,667
12.The audit committee assesses the way that internal audit achieves its objectives with respect to disclosure and transparency.	24	3,00	5,00	4,2917	,85867	,737
13.The audit committee should know the assessment of internal audit activity made by external audit.	24	3,00	5,00	4,2500	,89685	,804
14.The audit committee review together with the external auditors and executive management the accounting policies applied by the company, but also the quality of professional judgements and accounting estimates made by the management.	24	3,00	5,00	4,2500	,84699	,717
15.The audit committee has periodical meetings with the internal audit department in order to be informed over the internal audit activity's results.	24	2,00	5,00	4,2083	,93153	,868
16.The audit committee may adopt a "revolving door" policy which refers to the requirement of certain restrictions with respect to the employment in some positions like financial manager by some persons who were previously members of the internal audit or external audit team.	24	3,00	5,00	4,1250	,79741	,636
17.The audit committee is responsible with the selection, appointing and dismissing the chief audit executive within the company.	24	2,00	5,00	4,1250	1,03472	1,071

18.The audit committee should monitor the compliance with the legal framework applied, including with the ethical code specific for this company.	24	2,00	5,00	4,1250	,94696	,897
19.The audit committee charter is complementary with the internal audit charter.	24	1,00	5,00	4,0417	1,04170	1,085
20.The audit committee monitors the independence of external auditors and develops politics with respect to the contractual provisions referring to the non-audit services provided by the external auditors.	24	2,00	5,00	4,0000	,97802	,957

Source: author's projection by using SPSS 16

**Table 7:** Statistical parameters for application of audit committee practices

Proposals of audit committee practices	N	Min.	Max.	Mean	Std. Deviation	Variance
1.Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.	24	2,00	5,00	4,0417	1,12208	1,259
2.The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results	24	2,00	5,00	3,8333	1,04950	1,101
3.The audit committee review with the external auditors and executive management the entity's financial statements, and based on the external audit's conclusions following to make a recommendation to the Board for these financial statements to be approved and published.	24	2,00	5,00	3,7083	1,16018	1,346
4.The audit committee monitors that internal audit to have the full access to the whole personnel and the entire documentation within the company.	24	2,00	5,00	3,6667	1,00722	1,014
5.The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.	24	2,00	5,00	3,6667	1,09014	1,188
6.The audit committee should know the assessment of internal audit activity made by external audit.	24	1,00	5,00	3,5833	1,17646	1,384
7.The audit committee has periodical meetings with the internal audit department in order to be informed over the internal audit activity's results.	24	2,00	5,00	3,5833	,92861	,862
8.The audit committee is responsible with the selection, appointing and dismissing the chief audit executive within the company.	24	2,00	5,00	3,5833	1,01795	1,036

9.The audit committee should understand very clearly the way that internal control system works, and it should monitor its effectiveness regularly together with internal and external auditors.	24	2,00	5,00	3,5417	,97709	,955
10.The audit committee review together with the external auditors and executive management the accounting policies applied by the company, but also the quality of professional judgements and accounting estimates made by the management.	24	2,00	5,00	3,5417	1,10253	1,216
11.The audit committee should know very well the company risk profile and to monitor the effectiveness of risk management process.	24	2,00	5,00	3,5417	1,06237	1,129
12.The audit committee examines the recommendations made by internal audit for improving corporate governance and internal control system, looking for the best solutions.	24	2,00	5,00	3,5000	1,02151	1,043
13.The audit committee should provide the necessary framework to encourage the effective communication between internal audit, external audit, board and executive management, for ensuring a good corporate governance.	24	2,00	5,00	3,5000	1,02151	1,043
14.The audit committee monitors the internal audit's position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives.	24	2,00	5,00	3,4583	,97709	,955
15.The audit committee monitors the independence of external auditors and develops politics with respect to the contractual provisions referring to the non-audit services provided by the external auditors.	24	1,00	5,00	3,4167	1,28255	1,645
16.The audit committee makes the proposals/recommendations for the selection of external audit firm, being responsible for supervising the entity's relationships with external auditors.	24	1,00	5,00	3,4167	1,31601	1,732
17.The audit committee should monitor the compliance with the legal framework applied, including with the ethical code specific for this company.	24	1,00	5,00	3,4167	1,13890	1,297
18.The audit committee assesses the way that internal audit achieves its objectives with respect to disclosure and transparency.	24	2,00	5,00	3,3750	,92372	,853
19.The audit committee charter is complementary with the internal audit charter.	24	1,00	5,00	3,3333	1,23945	1,536
20. The audit committee may adopt a "revolving door" policy which refers to the requirement of certain restrictions with respect to the employment in some positions like financial manager by some persons who were previously members of the internal audit or external audit team.	24	1,00	5,00	3,2500	,98907	,978

Source: author's projection by using SPSS 16

Based on the above tables, it was developed a ranking for the *good practices*, from both their proposal and their application, starting from the display order by descending means (first 5 means).

From the point of view of their proposals, **the good audit committee practices that should be taken into account for an integrated framework from the respondents' point of view are** (their statistical mean is around 4,4583):

- *The audit committee review with the external auditors and executive management the entity's financial statements, and based on the external audit's conclusions following to make a recommendation to the Board for these financial statements to be approved and published.*

- *The audit committee monitors the internal audit's position within the company, so that internal audit to be so placed in the hierarchical structure in order to have ensured the necessary independence for the achievement of its objectives.*

- *The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.*

- *Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.*

- *The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results.*

From the point of view of their application, **the good audit committee practices which are more applied, taking in consideration their statistical mean** (around 3,6667- 4,0417, which signifies these practices are more often applied):

- *Following the findings and recommendations issued by internal audit, the audit committee will report to the board the main illegal acts and irregularities found during the audit missions.*

- *The audit committee should report to the board main results over the effectiveness of internal audit activity, its capabilities and its results.*

- *The audit committee review with the external auditors and executive management the entity's financial statements, and based on the external audit's conclusions following to make a recommendation to the Board for these financial statements to be approved and published.*

- *The audit committee monitors that internal audit to have the full*

*access to the whole personnel and the entire documentation within the company.*

- *The audit committee is invested with authority by the board in order to be able to fulfil its role as a major factor for the increasing quality of the information provided to both internal and external users of financial statements.*

Based on statistical parameters obtained for the audit committee practices tested through this study, it could be notice that, generally speaking, the statistical mean obtained when speaking about their application is lower than the one resulted in case of their proposal, which could reflects the respondents' position about their agreement for inclusions of those practices into an integrated framework of good audit committee practices in corporate governance, in spite of the fact that these proposed practices, according to their statements expressed through the questionnaire used in this survey, seem to be more rarely and less often applied. Also, it could be noticed that all the audit committee practices tested received at least a formal agreement, even if it is not a strong agreement for all of them (one evidence in this way being the smallest statistical mean obtained from all the audit committee practices tested of at least 4,00).

## **Limits of current study and suggestions for further research**

One major disadvantage of this study is represented by the lower response rate, which even is over 5% (as recommended by statistical literature), still our common sense can't afford us to consider this response rate as being the most relevant one. But, in spite of this great disadvantage, we do still believe the value of this paper is argued by its possibilities to generate the premises that will stimulate further researches in such area, taking in consideration the pressure of the actual economic context over the auditors, audit committee' members, that all are called to rebuild the investor trust in the reliability and credibility of financial statements and annual reporting provided to the owners, shareholders and potential shareholders.

Also, we do still believe that these results should be corroborated with the ones obtained by testing these audit committee practices among respondents, having the quality of audit committee member. But, for the moment, at least in Romanian context, it is quite difficult to obtain a homogeneous database with contact details for audit committee members. Most likely, it would help more if this kind of research would be extended at international level, where the information available would certainly be more

consistent.

## Conclusions

A general conclusion that could be observed is the general agreement of Romanian auditors for developing an integrated framework of good audit practices, most of the proposed practices obtaining their agreement for the inclusion into such a synthesis of good practices. Thinking of some the respondents' comments that mentioned some real situations when there is no clear understanding in some Romanian entities about the real role and responsibilities that the audit committee should achieve, it's obviously the stringent necessity for developing such a research theme with practical added-value for the entities. Developing studies in this research direction with more complex statistical analysis applied at international level, but also connected to the real economic life, could provide significant value that would help to obtain the real effectiveness of the audit committee in the context of corporate governance.

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