TWO DUELING PERSPECTIVES ON AUDIT COMMITTEES: A SECOND-ORDER ANALYSIS

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ABSTRACT

Over the last three decades, research on the impact of audit committees has proliferated. Yet, to date, there is little theoretical and empirical agreement regarding the question of how audit committees impact financial disclosure, auditors' roles, and earnings management. The main objective of this research review is to assess the existing literature by focusing on emerging trends and identifying several avenues for future research. Using content analysis of over 138 articles published in the top 19 accounting and finance journals from 1988 up to the year 2016, research on how the audit committee has evolved over time is analyzed. The analysis of this study is important to know how problems, opinions, perspectives, and causes of data combine and change insights about financial disclosure, auditors' role, and earnings management during specific time periods. Effects inspire future studies to analyze the collision of institutional and context-specific factors on the contribution (anticipated) of board strategies, also how to implement alternative means to adequately catch the result of audit committee methods. Best governance practices plus the emphasis upon audit committee implementation and control, however, may hinder the director's contribution towards stakeholders. This study contributes to making investors and policy-makers consider the requirements for an effective strategic task when they nominate board members and develop new regulations.

Keywords: Second Order Analysis, Corporate Governance, Audit Committee, Agency Theory, Literature Review

1. INTRODUCTION

Audit committees were virtually overlooked in the international arena in the 1970s. Within a time span of 20 years, the significance of the presence of audit committee/s in public companies has been increased drastically (Vanasco, 1994; Abbott, Parker and Peters, 2004; Bolton, 2014; Al-Shaer, Salama and Toms, 2017).

After the hefty corporate scandals of the early 2000s, the role that audit committees play in governing a firm's actions has come under considerable focus and regulators mandate audit committees for publicly listed companies. In some countries, however, like France, Japan, Chin, and Taiwan the formation of an audit committee is voluntary (Hansell, 2005; Tafara, 2006). Although the role of audit committees has been instrumental in implementing good governance in some countries but not all. For countries in the European Union, the European Commission stated, "In view of 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, p. 15).

The need and impact of the independent Audit committee have been widely acknowledged in the recent years, the however, following the high-profile corporate governance failures around the world, have proposed actions in a number of countries concerning the responsibilities and powers of audit committees (Turley and Zaman, 2007), their mandatory or voluntary status, membership, and composition. Audit committees have now become a regular setup in most listed companies in western countries.

2. RELEVANT LITERATURE

Two main lines of research can be discerned in the existing audit committee literature (Turley and Zaman, 2007). The first began with early studies published in the United States in the 1980s mainly aimed at assessing the impact and effectiveness of audit committees through their association with corporate governance variables such as auditor switching, overstatement of annual earnings and shareholder or third-party litigation against firms. These early studies presented mixed results. While Crawford (1987) concluded that audit committees were ineffective, other scholars (Kunitake, 1983; DeZoort, Hermanson and Houston, 2003) discovered that firms without an audit committee switched their auditors more frequently. This kind of control mechanism in the form of mandatory audit rotation in some countries helped to reduce improper accounting practices.

The second line of research explores the relationship between the audit committee and its impact on the quality of financial reporting, firm value and the external audit. , external audit attributes and firm value. As shown in the following section.

2.1 Audit Committee and Financial Reporting

Financial reports play an important role in a company. Therefore, corporate agents (management) is responsible fora sound preparation of financial statements to report financial position to the stockholders – this is known as the principal in the Agency Theory. This theory predicts that agency problems will become severe, so administrators are accountable for high-quality financial reporting.

Klein (2002) research was a pioneer in systematically studying the relationship between the audit committee independence and the financial reporting quality. Based on the 692 firm-year observations with data from the boards of S&P 500 firms during the period 1992-1993, the author found a negative relationship between audit committee independence and abnormal accruals. Carcello and Neal (2003) examined the disclosure practices of a sample of 138 publicly held manufacturing companies that experienced financial distress during 1994 in the US. They found a significant negative relationship between the percentage of independent directors on audit committees and the optimism of the going-concern discussion, in both the notes and the Management Discussion & Analysis.

Several previous studies contribute to observational support for a cross-sectional association within audit committees and financial reporting quality. Additionally, the Cadbury Committee (1992) and the Smith Committee (2003) recommended that the board of directors, through its audit committee, should present a balanced and understandable assessment of a company's position and prospects to ensure that shareholders and other investors are protected.

2.2 Audit Committee and External Audit Attributes

Corporate regulation in the accounting, auditing, and corporate governance areas are, generally, increasingly global. The Enron and Maxwell scandals in 2001–2002 fueled concerns about financial disclosure, external audit quality and corporate governance which, in turn, prompted substantial regulatory changes in corporate governance regulation. In particular, audit committees were given an enhanced role in many jurisdictions, is required to engage more closely with external auditors on audit issues (e.g., in the USA the Sarbanes–Oxley Act (2002) (SOX), in the UK the Smith Committee (2003). This was mirrored by changes to auditing standards that required auditors to engage with audit committees on audit-related matters.

2.3 Audit Committee and Firm Value

It is widely believed that good corporate governance rules and particularly audit committee practices are important factors in improving companies' effectiveness, especially in developing countries and during periods of global economic crisis. However, audit committee activities are different in each country due to disparate corporate governance structures resulting from dissimilar social, economic and regulatory conditions (Szczepankowski, 2012). The relationships between corporate governance, audit committee, shareholders and boards of managers are important in formulating efficient financial and operating management practices. Corporate governance including audit committees plays an essential role. The main aim is to develop the benefits of companies and the profitability of their market activities.

Cohen et al. (2011) argued that the independence of audit committees is an important part of audit committee effectiveness by keeping a check on managers' manipulative, self-centered activities. Firms that have more independent members in their audit committees have a lower probability of becoming victims of fraud. Abbott (2004) also found an inverse relationship between audit committee independence and earnings management.

In summary, from the above-discussed literature (Sections 2.1, 2.2 and 2.3) it can be concluded that the reliability of financial reporting depends on better corporate governance.

Corporate governance and audit committees play an important role, mainly in improving the value of companies and the efficiency of their market activities. Another significant matter revealed by the above literature is Agency theory. This theory elucidates that the financial executives shoulder the ultimate responsibility of holding the accuracy of financial reports prepared and presented to the shareholders. The literature also highlights the significance of the role played by auditors in audit committee deliberations. It was also found that external auditor can fight against financial distress and controlling earnings management only with increased audit committee independence. Whereas audit fee is an evident influencer for a number of factors, such as organization size, complexity, riskiness and the type of country.

3. PROMINENT THEORIES IN LITERATURE

While analyzing the theoretical development in the fields of the Audit Committee and Corporate Governance, we found various relevant theories used by authors through literature. To name a few: Agency Theory, Stewardship Theory, Institutional Theory, Power theory, Source Dependence Theory, Source Credibility Theory, Social Identity theory and Group Theory. We used observation method of approach and found some theories are widely accepted and used than others. Based on the popularity and usage of theories number of times in various articles published, we have classified and used it in the following manner.

- Presented some theories under separate headings. Like Agency theory (Section 3.1) and Source Dependence theory (Section 3.2) comes in this category.
- In most of the papers, we found the usage of more than one theory, so our next category used is 'multiple theories'.
- Some theories gained low popularity so we have grouped all these in 'Other theories' (Section 3.3) category excluding Agency theory and Source Dependence theory.
- We also found some articles without the use of any theory, so our 'No theory' category.

3 Agency Theory

Over the last two decades, agency theory has strongly influenced audit committee research, reform, and policy. It is therefore not surprising that research tends to characterize audit committees as exercising monitoring and oversight roles consistent with agency theory. The predominance of agency theory in research on audit committees, and the associated mischaracterization of their role as monitors rather than overseer has led to an expectation gap concerning the function of audit committees and their power and influence. According to agency theory, to ensure the effectiveness of an audit committee, managers are encouraged to prepare financial statements adequately to specify the return generated by the companies.

Observed from an agency theory aspect, that audit panel is another governance mechanism that can be used to follow the importance of managers, including shareholders. The objective regarding an audit panel is to help in fixing the agency difficulty of any possible conflict of interests within its board and its management.

Governance, support and audit perspective towards researching audit representatives approaches the main activities of audit representatives. Selecting good governance guidelines and implementing them properly creates a high probability of the desired outcome.

4 Resource Dependence Theory

The main origin of Resource Dependence Theory (RDT) is by Jeff Pfeffer's Ph.D. dissertation committee. RDT has been developed on the notion that organizations survival depends on their ability to procure critical resources from external sources (Pfeffer & Salancik, 1978). RDT plays an effective role to help the organizations to handle and mitigate uncertainty and dependence on external influences (Hillman, Withers, & Collins, 2009). Where power plays a part in the conduct of organizational life, RDT will be useful for providing insights into it. It predicts when and in what direction organizations are likely to respond (Klein and Pereira, 2016).

5 Other Theories in Audit Committee Literature

Stewardship Theory: The basic idea of stewardship came from McGregor's study (1960), in which he posed theory Y to explain autonomy, self-governance and hard work as important elements to motivate managers to achieve corporate goals. Stewardship theory adopts a psychological and sociological perspective of human behavior, rejecting the premise that all decisions are driven by economic considerations. The premise is that individuals are motivated by non-economic means such as acceptance, recognition, personal growth and the need to gain satisfaction through their corporate actions.

The institutional theory argues that audit committees' activities may be only loosely coupled with claims of audit committee effectiveness, such that formal audit committee activities are primarily ceremonial/ritualistic and designed to create legitimacy outside the organization. There is another theory which suggests that the internal auditors should be empowered with the power to reduce the management's influence.

The results of these studies show that the notion of comfort is a fundamental aspect of the work performed by audit committee members. Source credibility theory argues that incentives and motivation to influence the auditor will be lower when management favors its preferred accounting treatment. On the other hand, Social Identity theory, points out that auditors develop client management with frequent interactions and familiarity with an audit client.

Group theory suggests that team experts in the audit field perceived to posses task-related knowledge. Due tothe increase in the differences, arguments, and complexity the critical influence on the financial health of the organization. The prevalence of agency theory on audit committees eventually has become the victim for the expectation gap between monitors and overseers. According to the literature, agency theory points out that the audit committee is another governance mechanism to resolve agency problem between a board and its management. The institutional theory stresses that the audit committee activities are designed to provide legitimacy outside the organization whereas Power theory proposes internal auditors feel empowered and pressurized in a larger extent to correct financial misstatements than external auditors.

6 METHODOLOGY

Collection of Records and Papers

To review the evolving report about audit committees, we chose to concentrate on peer-reviewed studies declared in top-tired finance records, despite regarding their impact factor (Seglen, 1994; Pugliese et al., 2009). We selected all journals included in the management category within the 'ISI-Web of Knowledge' during 2016. During this period, we maintained the databases ABI/Inform, Business Source Premier, Ebsco-Host, JSTOR and Swetsnet to explore every paper publications containing the word 'audit committee' in the heading, abstract, and/or keywords.

Content Analysis

In this present study growing nature of research studies on audit committees has been analyzed by two independent raters and coded a set of 138 articles. Coding has been done based on the elements of each paper, (1) type of article; (2) main research topic; (3) use of theories; (4) research setting; (5) source of data; and (6) the definition of board's strategic involvement. The coding used in this was pre-tested with two sub-samples and analyzed the results for each category and the final results were satisfactory.

Type of Articles

The total sample size of this study is 138 papers which are segregated according to their nature: "conceptual" and "empirical". Articles were coded as "conceptual" only when the article is based on the existing theory, refine theory or to advance without any empirical metrics. Papers are coded as "empirical" only when authors implemented inductive reasoning, quantitative and qualitative methods of data collection, survey, analysis has been used in the papers.

Main Research Topic

Building upon prior studies (e.g., Zahra and Pearce, 1989; Pugliese et al., 2009), we recognized four groups of articles which is relative to the main research topic. The first group explores some determinants of corporate governance on audit committees' strategic involvement. Some authorities have attempted to link environmental characteristics, ownership structure, and board composition also incentive mechanisms to multiple levels of strategic involvement. The second group of learning examines some results of audit committees on financial reporting quality. For example, scholars have discussed some consequences of a particular audit committee features on financial reporting transparency, reporting accruals and the quality of mandatory financial disclosure. The third group of papers explore audit committees' participation amid external audit chores, i.e., the ways by which audit committees contribute internally to facilitate external audit functions. Finally, the fourth group of papers discusses the audit committee impact on earnings management. Issues of discussion in this group involve the analyses for the learned passivity of audit committees.

Use of Theories

To examine the theoretical development of the field, we mapped the theories to which each paper explicitly referred to. Given the widespread application of agency theory and stewardship theory in the literature on audit committees, we decided to create a variable capturing whether a paper referred to: (1) agency theory solely; (2) stewardship theory; (3) multiple theories; and (4) Other theories (5) Articles with none of the theories.

Research Setting

Examined Context is highlighted by former comparative corporate governance studies, institutional circumstances broadly differ from nation to other nations, which holds a profound influence on local corporate governance formations and systems (Zattoni and also Cuomo, 2008). Hence, an essential dimension towards our review was testing the observed settings, meanwhile in which research on audit committee was conducted. If we found articles from specific countries in our sample, we used the following categorizations: (1) articles usingexclusive data drawn from that country; (2) articles using data from multiple countries, including the specific country; and (3) articles using data drawn not from that specific country's context.

METHODOLOGIES USED IN RESEARCH

To provide insights on the use of different data sources, we codified the empirical articles with the following six categories: (1) interviews; (2) anecdotal evidence; (3) archival data; (4) survey data; (5) direct observations; and (6) combinations of the above-mentioned sources. Under category 6, we included articles using combinations of interviews and survey data, interviews and archival data, and survey data and archival data.

7 FINDINGS

Our current study sheds light on previous literature and its evolution. This can help the scholars and practitioners to focus on future research. Figure 1 depicts the progress of published articles on audit committee literature. As shown in the figure 1 the very first paper was published in 1988 and moved towards a steady increase afterward. Thoughts on audit committees were issued erratically during the period, although there was a considerable development from 2002 to 2015, the year with an immense number of researches issued on the topic.

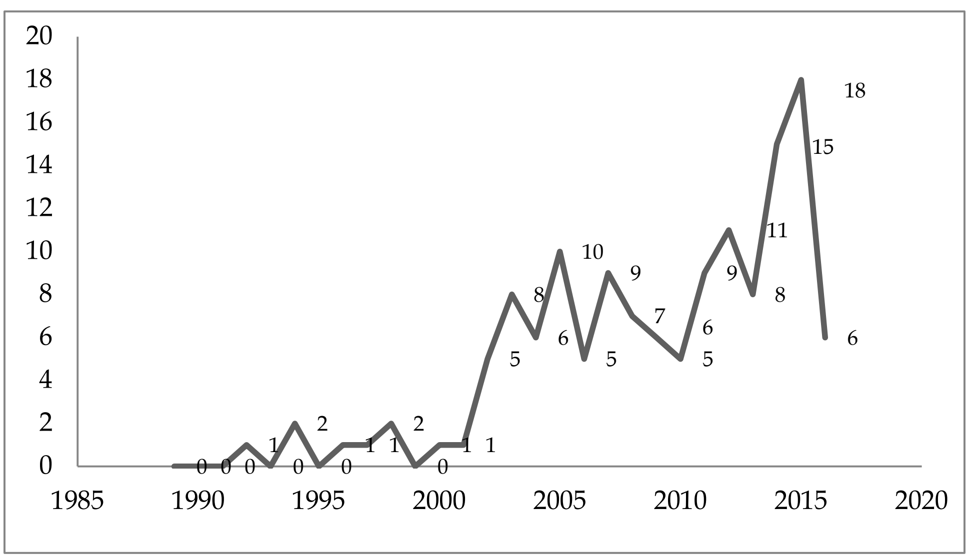

Figure 1: ***Historical Development Research on Audit Committee***

During the years 1988-2000, most of the papers were distributed in general, with *Corporate Governance: an International Review*, *International Journal of Auditing* and the *Accounting Review* contributing the most (see Table 1).

Table 1: Overview of Journals with the publication time period

	IF	ABDC	1988-2000	2001-2009	2010-2016	Overall
Accounting and Business Research	0.957	A	0	1	6	7
Accounting and Finance	0.746	A	0	3	5	8
Accounting Auditing and Accountability Journal	1.188	A	0	2	1	3
Accounting, Organizations and Society	1.672	A*	1	1	2	4
Academy of Management Journal	6.448	A*	3	1	0	4
British Accounting Review	1.126	A	1	2	2	5
Corporate Governance: An International Review	1.734	A	1	12	3	16
International Journal of Auditing	-	A	0	7	10	17
International Journal of Management Reviews	3.857	A	0	1	1	2
Journal of Accounting and Economics	2.724	A	0	1	4	5
Journal of Accounting Auditing and Finance	0.854	A	1	2	6	9
Journal of Accounting Research	2.384	A*	0	5	0	5
Journal of Banking and Finance	1.299	A*	0	1	1	2
Journal of Business Research	1.48	A	1	0	0	1
Journal of Corporate Finance	1.193	A*	1	1	1	3
Journal of Management Studies	3.763	A*	0	0	4	4
The Accounting Review	-	A*	0	16	24	40
The International Journal of Accounting	-	A	0	1	1	2
Review of Accounting Studies	1.379	A*	0	0	1	1

Table 2: *Descriptive and Interactions of Topics, Theories, Settings, and Data Sources*

	Empirical Papers [n=113: 82%]						Theoretical Papers [n=25: 18%]	Overall
	US Context	European Context	Emerging Countries Context	Other Countries Context	Multiple Countries Context	Total		
Main Research Topic:								
Audit Committee impact on financial disclosure	16 (24%)	8 (38%)	0 (0%)	2 (13%)	1 (25%)	27 (24%)	3 (12%)	30 (22%)
Audit Committee impact on Earnings Management	18 (26%)	1 (5%)	1 (20%)	4 (27%)	0 (0%)	24 (21%)	5 (20%)	29 (21%)
Audit Committee impact on External Audit	8 (12%)	2 (10%)	1 (20%)	5 (33%)	1 (25%)	17 (15%)	6 (24%)	23 (17%)
Corporate governance impact on Audit Committee	26 (38%)	10 (48%)	3 (60%)	4 (27%)	2 (50%)	45 (40%)	11 (44%)	56 (41%)
Total:	68 (100)	21 (100)	5 (100)	15 (100)	4 (100)	113 (100)	25 (100)	138 (100)
Theories Used:								
Agency Theory	4 (6%)	7 (33%)	0 (0%)	4 (27%)	1 (25%)	16 (14%)	6 (24%)	22 (16%)
Multiple Theories	1 (1%)	3 (14%)	0 (0%)	1 (7%)	0 (0%)	5 (4%)	1 (4%)	6 (4%)
Resource Dependence Theory	3 (4%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	3 (3%)	0 (0%)	3 (2%)
Other Theories	5 (7%)	2 (10%)	1 (20%)	1 (7%)	1 (25%)	10 (9%)	1 (4%)	11 (8%)
Articles with no theory	55 (81%)	9 (43%)	4 (80%)	9 (60%)	2 (50%)	79 (70%)	17 (68%)	96 (70%)
Total:	68 (100%)	21 (100%)	5 (100%)	15 (100%)	4 (100%)	113 (100%)	25 (100%)	138 (100%)
Research Method:								
Secondary Source Data	61 (90%)	17 (81%)	2 (40%)	14 (93%)	3 (75%)	97 (86%)	-	97 (86%)
Interview	3 (4%)	1 (5%)	1 (20%)	0 (0%)	0 (0%)	5 (4%)	-	5 (4%)
Survey	4 (6%)	2 (10%)	2 (40%)	1 (7%)	0 (0%)	9 (8%)	-	9 (8%)
Multiple Source Data	0 (0%)	1 (5%)	0 (0%)	0 (0%)	1 (25%)	2 (2%)	-	2 (2%)
Total:	68 (100%)	21 (100%)	5 (100%)	15 (100%)	4 (100%)	113 (100%)	-	113 (100%)
Sample Selection:								
One Year Data	30 (44%)	9 (43%)	4 (80%)	7 (47%)	3 (75%)	53 (47%)	-	53 (47%)

Two Years Data	7 (10%)	4 (19%)	0 (0%)	2 (13%)	1 (25%)	14 (12%)	-	14 (12%)
Three to Five Years Data	16 (24%)	3 (14%)	0 (0%)	3 (20%)	0 (0%)	22 (19%)	-	22 (19%)
Five to Ten Years Data	12 (18%)	3 (14%)	0 (0%)	3 (20%)	0 (0%)	18 (16%)	-	18 (16%)
More than Ten Years Data	3 (4%)	2 (10%)	1 (20%)	0 (0%)	0 (0%)	6 (5%)	-	6 (5%)
Total:	68 (100%)	21 (100%)	5 (100%)	15 (100%)	4 (100%)	113 (100%)	-	113 (100%)
Research Team								
One Author	10 (15%)	2 (10%)	0 (0%)	2 (12%)	1 (25%)	15 (13%)	12 (48%)	27 (20%)
Two Authors	25 (37%)	9 (43%)	2 (40%)	8 (50%)	0 (0%)	44 (39%)	8 (32%)	52 (38%)
More than Two Authors	32 (48%)	10 (48%)	3 (60%)	6 (38%)	3 (75%)	54 (48%)	5 (20%)	59 (43%)
Total:	67 (100%)	21 (100%)	5 (100%)	16 (100%)	4 (100%)	113 (100%)	25 (100%)	138 (100%)
Audit Committee Contribution:								
Unspecified	11 (16%)	5 (24%)	1 (20%)	1 (7%)	0 (0%)	18 (16%)	3 (12%)	21 (15%)
Audit Committee improves financial disclosure	7 (10%)	7 (33%)	0 (0%)	2 (13%)	1 (25%)	17 (15%)	3 (12%)	20 (14%)
Audit Committee encouraging Earnings Management	17 (25%)	0 (0%)	1 (20%)	3 (20%)	0 (0%)	21 (19%)	5 (20%)	26 (19%)
Audit Committee impact positive on External Audit	8 (12%)	1 (5%)	1 (20%)	1 (7%)	0 (0%)	11 (10%)	6 (24%)	17 (12%)
Corporate governance strengthen Audit Committee	25 (37%)	8 (38%)	1 (40%)	8 (53%)	3 (75%)	46 (41%)	8 (32%)	54 (39%)
Total:	68 (100%)	21 (100%)	5 (100%)	15 (100%)	4 (100%)	113 (100%)	25 (100%)	138 (100%)

Table 2 presents a summary of some characteristics of those articles that have provided to develop concentration on audit committees. These records are powerfully observed (N= 113: 82%). The most experimented studies were either handled in the US (N= 68: 60%) or European context (N = 21: 15%). Regarding the main research topic, most articles contributed to the myth of corporate governance implementation's impact on audit committee structure (N = 26: 38%), in spite of the fact that this final sample is spread equally across all divisions. Most studies did not use any theory (N = 79: 70%); meanwhile, almost 86% of studies used secondary source data. Finally, the largest group of studies used data from one year (N = 53: 47%).

Furthermore, Table 2 shows how the issues, methods, and analysis methods also settings and data sources combined. Most importantly their key variations among experimental studies that were carried in the US conditions and those were carried in every non-US conditions. Meanwhile the US conditions, scholars have distributed maximum on corporate governance implementation, audit committee structure (N = 26: 38%) and the impact of audit committee variables on earnings management.

Table 3: ***Evaluation of the Literature on Audit Committee***

	1988-2000	**2001-2009**	**2010-2016**	**Overall**
Summary:				
Number of Articles	9	57	72	138
Average number of articles per year	0.69	6.33	10.29	17.31
Average number of articles per journal per year	0.04	0.33	0.54	0.91
Type of Articles				
Conceptual	1 (11%)	12 (21%)	12 (17%)	25 (18%)
Empirical	8 (89%)	45 (79%)	60 (83%)	113 (82%)
Total:	9 (100%)	57 (100%)	72 (100%)	138 (100%)
Main Research Topic				
Audit Committee impact on financial disclosure	0 (0%)	7 (12%)	21 (29%)	28 (20%)
Audit Committee impact on Earnings Management	1 (11%)	12 (21%)	13 (18%)	26 (19%)
Audit Committee impact on External Audit	0 (0%)	9 (16%)	6 (8%)	15 (11%)
Corporate governance impact on Audit Committee	8 (89%)	29 (51%)	32 (44%)	69 (50%)
Theories Used:				
Agency Theory	1 (11%)	4 (7%)	17 (24%)	22 (16%)
Multiple Theories	0 (0%)	1 (2%)	5 (7%)	6 (4%)
Resource Dependence Theory	0 (0%)	1 (2%)	2 (3%)	3 (2%)
Other Theories	1 (11%)	2 (4%)	8 (11%)	11 (8%)
Articles with no theory	7 (78%)	49 (86%)	40 (56%)	96 (70%)
Research Method:				
Secondary Source Data	7 (78%)	38 (67%)	53 (74%)	98 (71%)
Interview	1 (11%)	3 (5%)	3 (4%)	7 (5%)
Survey	0 (0%)	4 (7%)	5 (7%)	9 (7%)

Multiple Source Data	1 (11%)	12 (21%)	11 (15%)	24 (17%)
Total:	9 (100%)	57 (100%)	72 (100%)	138 (100%)
Research Team				
One Author	6 (67%)	14 (25%)	9 (13%)	29 (21%)
Two Authors	2 (22%)	20 (35%)	29 (40%)	51 (37%)
More than Two Authors	1 (11%)	23 (40%)	34 (47%)	58 (42%)
Total:	9 (100%)	57 (100%)	72 (100%)	138 (100%)
Research Setting:				
US Context	7 (78%)	25 (50%)	37 (58%)	69 (56%)
European Context	1 (11%)	9 (18%)	12 (19%)	22 (18%)
Emerging Countries Context	0 (0%)	5 (10%)	3 (5%)	8 (7%)
Other Countries Context	1 (11%)	8 (16%)	8 (13%)	17 (14%)
Multiple Countries Context	0 (0%)	3 (6%)	4 (6%)	7 (6%)
Audit Committee Contribution:				
Unspecified	1 (11%)	7 (12%)	8 (11%)	16 (12%)
Audit Committee improves financial disclosure	0 (0%)	4 (7%)	14 (19%)	18 (13%)
Audit Committee encouraging Earnings Management	2 (22%)	12 (21%)	12 (17%)	26 (19%)
Audit Committee impact positive on External Audit	0 (0%)	8 (14%)	9 (13%)	17 (12%)
Corporate governance strengthen Audit Committee	6 (67%)	26 (46%)	29 (40%)	61 (44%)
Total:	9 (100%)	57 (100%)	72 (100%)	138 (100%)

Based on the year of publication (see Table 3) the study identified and used three different time periods to assign the article into any one of the categories of time period following Pugliese et al. (2009).

Firstly, as shown in Table 1, we can observe some change in the slope of the curve only when cumulative number of articles published is increased over a period of time. Secondly, only when any innovative articles have been published during the year or year before the study, we considered that as a new period. Even though our outcomes became less notable, overall the observed progress showed to be powerful.

Table 4: Evaluation of the Research on Audit Committee

	Time-Period 1 (1988-2000)	**Time-Period 2 (2001-2009)**	**Time-Period 3 (2010-2016)**
Type of Articles	Empirical papers grasp a considerable amount of attention with their written work and have emerged as the largest category by far.	Both conceptual and empirical papers give reasonable input in the field.	Empirical papers are gaining importance on a large scale, whereas the share of conceptual papers has halved compared to the previous era.
Main Research Topic	Researchers endeavor to uncover the association of corporate governance variables with the audit committee.	Corporate governance association with audit committee was still the focal matter but there is a stir to tap the earnings and disclosure issues.	Audit committee practical functioning was the main issues in this era. Financial disclosure attains sound attention.
Theories Used	In this period most of the studies did not use theory at all.	Most of the studies do not use any theory, even though the period is characterized by a multi-theoretical approach.	Agency theory was then introduced and became the most commonly used framework for exploring audit committee impacts.
Research Method	Studies used secondary source data in this ear.	Still, the secondary source was the main source of data but multiple source data gain sound attention.	Secondary source data is still the key research method.
Research Setting	Empirical articles most often use US samples.	US scholars are taking the lead in the field.	European and Pacific samples gain importance in the database.
Audit Committee Contribution	Studies found that good corporate governance practices impact on the audit committee and audit committee strengthen earnings of firms.	This era is also important for the disclosure and corporate governance impact on the audit committee.	Financial disclosure impact of audit committee gains attention in this period but the impact of corporate governance variable on the audit committee is stilla key issue of time.

A detailed discussion of the distinctive characteristics of articles published during each period is presented in the following sections (see Table 4).

Period 1 (1988-2000):

The empirical audit committee literature is both diverse and expansive, with rapid growth based on increased concerns about corporate governance and the quality of financial reporting (Turley and Zaman, 2007). Audit committees date back to 1939 when the concept was first adopted. In this period (1988-2000), audit committees have become a vital force for protecting investor interest, maintaining public confidence in financial reporting and enforcing corporate accountability and transparency. The practical needs of the US business community drove the need for a debate over the issue. Audit committees typically oversee the reliability of an entity's financial statements, compliance with rules and regulations, qualifications and independence of the external auditor and effectiveness of the entity's internal audit function and internal control. The early studies of the late 80s reveal the impact of the existence of audit committees on a firm's performance, disclosure and external auditors' scrutiny (Seabright, Levinthal and Fichman, 1992).

In sum, the main characteristics of research during this period were: (1) the lack of one prevailing theory; (2) an over-focus on secondary source data use; (3) the impact of corporate governance implantation on the audit committee structure, not audit committee functionality.

Period 2 (2001-2009)
The role of the Sarbanes-Oxley Act after the outsized corporate failures like Enron and WorldCom attracted significant attention from legislators, regulators, and media. In this period, published articles were mostly empirical, in a US context and often used an agency theory perspective. They sought (with limited success) to identify relationships between a range of variables posited to influence the effectiveness of audit committee operations and investigate the impact of corporate governance structure on audit committee effectiveness and expediency. Besides the continuously heated discussion on how to improve corporate governance, shareholder activists showed that casualties could be withdrawn if publicly-listed companies have more observant audit committees. Three reputed journals, *Corporate Governance: An International Review*, *International Journal of Auditing* and *The Accounting Review* (see Table 1) contributed studies in this era. The importance of audit committees as a corporate governance mechanism is increasing its emphasis (e.g., Abbot and Parker, 2000), as have the underlying characteristics of audit committees and their ability to carry out their duties diligently.

Research in this area was problematic because of the restricted access to observe board meetings, since the nature of the discussions was sensitive, with permission to scrutinize meeting documentation limited for the same reason. Parallel literature, produced by professional bodies, consultancies, and accounting firms, provided advice to directors on practical aspects of their tasks, often claiming to base this advice on "best practices", but gave little indication of the criteria on which this judgment was based. The impact of these publications on practice is unknown, but they offer some insight into the concerns of those involved with audit committees.

Period 3 (2010-2016)
As the average number of papers published sharply increased (N = XX), research on audit committees gained even more momentum during this period. The point to note is the focus of research on the impact of audit committees on the quality of financial reporting, which was observed (29%). This term also endured the maximum publications from the US context. The non-US context studies were characterized by the co-existence of different research approaches and most of the articles referred to agency theory.

8 CONCLUSIONS

Over the last three decades, interest in research on audit committees has grown significantly. Scholars, practitioners, and regulators have brought into limelight the contributions of audit committees. The main focus of this review is on the evolution of the literature on audit committee highlighting the significant implications of the researcher, potential researchers, and practitioners.

Our results throw light on two important trends in particular, regarding the literature on audit committees. Firstly, our findings show that research on the development of audit committees from normative and structural approaches to behavioral and cognitive approaches (see Tables 2 and 3). In this regard, it is important to recollect the attention of earlier studies. Firstly, earlier studies focused only on audit committees for their board functions (Period 1: 1988-2000) and used external audits as an important tool (Period 2: 2001-2009). Secondly, the results obtained highlight that research questions, theories, settings and sources of data. We identified the gap that these studies didn't pay much attention to the audit committees and its transparency. The present study is mainly concentrated to fulfill the gap of the relationship between audit committees and transparency issues.

This study exemplifies the development over periods of time; of the number of published articles on audit committees. We found that many articles got published during the period 2010-2016. The journal listed in ABDC as A* entitled, "The Accounting Review" published 24 articles in this period of time (Table 1). This shows the scope and consistency in publishing articles on an audit by the journal editorial team and potential research scholars can be considered as the first choice to test their luck. The second position goes to the 'International Journal of Auditing'.

This study also sheds lights on major changes in the field of the audit committee and corporate governance and contributes to the new scholars by bringing the theoretical approaches, developments, categories of theories/methods. Another major contribution of this research is the importance of the audit committee to the society in the recent period (2010-2016). Audit committees periodically consider the permanence that whether the firm is providing the highest quality financial disclosure.

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