

Audit Committee Characteristics Proposed in the Corporate Governance Code in Brazil and Other Countries

Abstract

Corporate governance is expected to watch over the transparency of the accounting information that is presented to the public. In that sense, corporate governance codes propose the creation of the board of administrators and, for support, the audit committee. This study aims to compare the proposed characteristics of the audit committee in the corporate governance code of Brazil and other countries. A qualitative research was undertaken through content analysis of the corporate governance laws of 17 countries that report audit committee characteristics. In addition, the application of the audit committee characteristics proposed in Brazil by the Brazilian Corporate Governance Institute (IBGC) was analyzed in companies from the State of Santa Catarina whose stock is traded on the São Paulo Stock Exchange. The results show similarities in the proposed audit committee characteristics among the countries under analysis, particularly in the composition, qualification of the members and responsibilities. What the implementation of the proposed audit committee in the companies from Santa Catarina is concerned, the majority presents a fiscal council instead of an audit committee. In conclusion, despite the similarities in the characteristics of the audit committees identified in the corporate governance codes, further research is needed to create a pattern for regulatory entities to propose to the companies.

Key words: Corporate governance. Board of administrators. Audit committee.

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1 Introduction

Corporate Governance has motivated different studies after several accounting fraud scandals shook the financial market in the United States between 2000 and 2002. This interest derives from the fact that Corporate Governance offers mechanisms that are able to promote the minimization of risks that can affect the return on investments different investors have made in the organizations.

Guerra (2009) discusses that corporate scandals at the turn of the 21st century, especially in the United States, enhanced the mistrust and conflict in organizations. The fraud history of Enron, WorldCom and Tyco resulted from vicious processes based on information asymmetry, diverging interests and mistaken proposals, including doses of greed and the absence of basic principles of ethical behavior.

Based on the financial statements disseminated to internal and external users, the company aims to add value to the business but, for this purpose, needs to transmit confidence to its users. To gain further confidence, transparency is required. In that sense, corporate governance codes propose the creation of a board of administrators, recommended for all companies. This board can create committees to take care of specific topics, such as the human resource committee, the audit committee or any other it finds necessary.

Silva (2006) discusses that the board of administrators needs to stimulate the establishment of the audit committee to analyze the financial statements; promote the supervision and accountability of the accounting area; guarantee that the board of directors develops reliable internal controls; guarantee that the internal audit department plays its role satisfactorily; and that the independent auditors assess, through their own review, the board of directors and the internal audit department's practices. The audit committee should also watch over the compliance with the organization's code of conduct, as an important source of control inside organizations.

The corporate governance committees serve to enhance the efficiency of the board of administrators and to supervise more complex situations that require specific support. The audit committee is one of the committees the board can establish to deal with the company's accounting and risk management issues, as the audit committee is one of the governance components (Silva, 2006).

Based on this understanding, different codes of good corporate governance practices around the world have encouraged and guided the constitution and maintenance of this entity to contribute to the companies' governance process. In these codes, as well as in research in the area, different aspects and characteristics of the audit committee are presented and discussed, such as its composition (Vicknair, Hickman, & Carnes, 1993; DeZoort, Hermanson, Archambeault, & Scoot, 2002; Bronson, Carcello, Hollingsworth, & Neal, 2009), qualification (Dezoort, & Salterio, 2001; IBGC, 2009), mandate (IBGC, 2009) and responsibilities (Carcello, Hermanson, & Neal, 2002).

Based on the above, the following research question was elaborated: What are the similarities and differences in the characteristics of the composition, qualification, mandate and responsibilities of the audit committee proposed in the corporate governance code in Brazil and other countries? Thus, the study aims to compare the characteristics proposed for the audit committee in the corporate governance code in Brazil and other countries. The relevance of the research is related to the analysis of a possible convergence in the characteristics of the audit committee on a global scale, which would enhance the comparison of the companies' governance practices, besides inspiring greater confidence in the financial information presented to the public.

The audit committee plays an important role for the companies' board of administrators, mainly because of its focus and involvement in the process and elaboration of financial statements. Having the characteristics of this committee aligned among different countries can contribute not only to the companies, but particularly to the capital market. A research by *PricewaterhouseCoopers (2007) involving companies listed on BM&FBovespa is noteworthy though, in which the inexistence of this committee was verified in 54% of the companies listed in the New Market and 31% of the companies listed on Level 2.*

Thus, in practical terms, the study is justified for the following reasons: for companies who do not have an audit committee yet to realize its importance in the organization; for companies that do have this committee to analyze whether it attends to the proposals of the Brazilian corporate governance code; for

regulatory entities to compare what is proposed by the IBGC with the code in other countries, so as to create a global standard; for the capital market, through the adoption of a single standard for the composition, qualification, mandate and responsibilities of the audit committee, which facilitates the users' understanding and enhances the information transparency, which is one way to add value to the company.

2 Corporate Governance and Audit Committee

Corporate governance has turned into an important element in organizations around the world, mainly if they are publicly traded. This form of control has been created to avoid possible frauds, besides serving as a code of conduct inside the company. Although the theme has recently gained attention due to large scandals in companies, it had been discussed for some time. Cipullo (2006, p. 5) emphasizes that, globally, corporate scandals "forced many companies to constitute their audit committee" as a way to imprint greater transparency and reliability on their business and, consequently, on their financial reports.

As another consequence of the different financial scandals occurred between 2000 and 2002, including Xerox, Delphi Corporation, Global Crossing, WorldCom and Enron, the establishment of a crisis in the North American capital market is highlighted, which culminated in the issuing of the Sarbanes-Oxley Act (SOX) in the United States in July 2002. This Act created different changes in companies' corporate governance and financial reports, in the attempt to recover the investors' trust in the capital market (Engel, Hayes, & Wang, 2007). Among the different aspects addressed in that Act, section 205 puts forward the audit committee as an entity set up by and among the members of the board of administrators, with a view to supervising the Accounting and the financial reports.

In parallel and in the same sense, to improve the monitoring of the financial reports through the SOX, in 2002, The Public Company Accounting Oversight Board (PCAOB) was created, a North American non-for-profit organization to supervise the audit companies, aiming to protect the public and investors' interests based on the opinions described in the audit reports (PCAOB, 2013).

The independent auditing is an important corporate governance agent for all stakeholders, as its basic responsibility is to verify whether the financial statements appropriately reflect the reality of society. Despite its independence in the analysis and issuing of the opinion, it is not sufficient to guarantee that the governance process will take place with the desired transparency level. The internal committees need to help the board of administrators and the executive board of directors to perform its functions and responsibilities with transparency, reliability and effectiveness.

The audit committees play an important role in the supervision and monitoring of the financial information process, of the internal controls and external audit (Sharma, Naiker, & Lee, 2009). The audit committee is a committee in the board of administrators, responsible for the financial statements, which involves the supervision of the accounting policy choices, the hiring of the external audit and the supervision of the auditing process and the monitoring process of the internal control (Chan, Liu & Sun, 2012).

Furuta (2010) comments that, despite the expectation that the audit committee permits greater transparency in the company's activities, not only regulatory and governmental entities, but also researchers in different countries have inquired about the effectiveness of the audit committee and its contribution to corporate governance. That is so because, in some companies with highly qualified members, these have not been capable of identifying irregularities inside the organization.

Niyama (2005) mentions that a country's legal system can influence its behavior and orientation with regard to the accounting profession and financial reporting. The author explains that the positions are classified in two currents: (i) Common-law – predominant in countries like Great Britain, the United States, Canada, Australia and New Zealand, where it is not necessary to detail the rules to be applied for all cases or for all situations; and (ii) Code-law – predominant in countries like Germany, France and Japan, which have a legal structure in which a high level of detail is required with regard to the rules that are to be complied with, including procedures the companies need to observe.

Different corporate governance studies highlight different aspects related to the audit committee. In this research, in accordance with the study objective, the specific focus is on the composition (Vicknair, Hickman, & Carnes, 1993; DeZoort, Hermanson, Archambeault, & Scoot, 2002; Bronson, Carcello, Hollingsworth, & Neal, 2009; Chatterjee, 2011), qualification of the committee members (DeZoort, & Salterio, 2001; McDaniel, Martin, Maines, & Peecher, 2002; IBGC, 2009; Mustafa, & Youssef, 2010), mandate (IBGC, 2009) and responsibilities (Carcello, Hermanson, & Neal, 2002).

As regards the composition, the IBGC (2007) highlights that it is desirable for the audit committee to include only independent members. In some countries, according to *PricewaterhouseCoopers (2007, p. 41)*, *all members should not be executives and should be independent, as it is easier for independent members to express their opinions free and unrestrictedly.*

Bronson, Carcello, Hollingsworth, & Neal (2009) analyzed whether the composition of a completely independent audit committee is necessary to obtain effective monitoring results, in view of the debate to mitigate the requirements of the Sarbanes-Oxley Act (SOX) for small and foreign companies. The results suggest that the benefits of the audit committee members' independence are only achieved when this entity is completely independent. These results support the requirement formulated in the SOX that the audit committees should only include independent members. The audit committee should have at least three independent members and at least one knowledgeable in accounting and finance (Chatterjee, 2011).

The relation between the independence of the audit committee and the audit reports was examined by Carcello and Neal (2000). They analyzed companies that faced financial difficulties, considering the relation between the percentage of independent members on the audit committee and the probability of issuing an opinion on the company's going concern. For companies with greater financial difficulties and mostly non-independent members of the audit committee, the audit committee members did not provide support as to the type of audit report issued.

Another aspect of the audit committee, discussed in the Blue Ribbon Committee (1999), is its members' qualification. The document highlights that, due to the fact that the audit committee is responsible for overseeing the financial accounting and financial reports and controls, this committee clearly needs members who are knowledgeable about financial accounting and/or financial experts.

In this research, the qualification of the audit committee members takes the form of financial and auditing education or experience. DeZoort and Salterio (2001) investigated if the experience of the audit committee members and their knowledge about financial statements affect their decisions in conflict situations between the independent auditor and management. They verified how 68 Canadian audit committee members react in cases of divergences between the auditor and the managers about a problem involving accounting choices and policies. They found that an audit committee with independent members and knowledgeable on audit reports was positively associated with support for the auditor in a dispute between auditor and managers.

McDaniel, Martin, Maines and Peecher (2002) investigated the quality of financial statements in companies whose audit committee members possess financial expertise in comparison with members who were financially literate. Mustafa and Youssef (2010) investigated the relation between qualified audit committee members (with expertise) and the incidence of asset expropriation in North American companies. The results demonstrated that an audit committee with independent members reduces the expropriation of assets if they are also qualified.

What the responsibilities is concerned, Carcello, Hermanson and Neal (2002) analyzed the content of 150 reports that describe the activities of the audit committee. The main objective was to understand the activities of the audit committee and identify possible areas of improvement for the committee. They found a high level of compliance between what is compulsory in the functions of the audit committee and what is disseminated in their reports, such as information related to the review and discussion of the financial statements with management. The voluntary disclosure of audit committee activities was more common though for financial institutions, large companies, companies listed on the New York Stock Exchange (NYSE) and companies with a larger number of independent members on the committee.

The composition of the audit committee, the qualification of the members, the mandate and the responsibilities are elements addressed in the countries' corporate governance codes. In Brazil, the IBGC (2007) proposes the creation of the board of administrators in all companies and the creation of committees to take care of specific topics. In this case, the board of administrators could create the audit committee to take care of the company's accounting and risk management issues. Although the IBGC (2009) discusses the desirable characteristics of this committee, international research encourage further investigation of what is proposed in other countries' governance codes.

3. Research Method and Procedures

This research is characterized as descriptive which, according to Gil (2002, p. 42), "is primarily aimed at describing the characteristics of a certain population or phenomenon, or at the establishment of relations among variables". In this study, the characteristics of the audit committees in the corporate governance code of Brazil and other countries is described, analyzing similarities and differences, besides collating the characteristics of the audit committee in companies from the State of Santa Catarina with the IBCG proposal (2009).

As regards the procedures, the research is characterized as documentary, in which according to Lakatos and Marconi (2001, p. 174), "the data collection source is restricted to documents, whether written or not". In this study, the documentary research was based on the corporate governance codes from different countries, as obtained from websites. To analyze the implementation of the audit committee in accordance with the IBGC proposals (2009) in companies from the State of Santa Catarina, its corporate governance files were consulted, available on the website of the São Paulo Stock Exchange (Bovespa).

What the research approach is concerned, the qualitative strategy was used, which according to Richardson (1989) describes the complexity of a given problem and analyzes the mutual influence of certain variables, besides attempting to understand and classify dynamic processes experienced by social groups. In this research, the following were described in qualitative terms: (i) the content of the corporate governance codes from Brazil and other countries; (ii) the characteristics of the audit committee proposed in the corporate governance code in Brazil and other countries; (iii) the similarities and differences proposed for those countries' audit committees.

The sample consisted of 17 countries, including Brazil. To select the countries, first, the corporate governance codes of the most developed countries around the world were sought, in this case the G8 group, which are: United States, Japan, Germany, England, France, Italy, Canada and Russia. Then, the codes were sought of the other countries that adopt or will have to adopt the International Financial Reporting Standards (IFRS). Finally, two other countries were included that publish their corporate governance codes on a website. Based on these three categories of countries, the sample was restricted to the corporate governance codes that were available for electronic access. Hence, a non-probabilistic convenience sample was used.

In Figure 1, the countries included in the research sample are displayed, as well as their corporate governance code and the website where the data on the sample were accessed.

Country	Title of the Code	Website
Germany	<i>German Code of Corporate Governance: Rules for German Quoted Companies.</i>	http://www.ecgi.org/codes/documents/code0700e.pdf
Argentina	<i>Código de Mejores Prácticas de Gobierno de las Organizaciones para la República Argentina</i>	http://www.ecgi.org/codes/documents/argentina_2004_es.pdf
Saudi Arabia	<i>Corporate Governance Regulations in the Kingdom of Saudi Arabia</i>	http://www.ecgi.org/codes/documents/cg_regulations_saudi_arabia_16mar2012_en.pdf
Austria	<i>Austrian Code of Corporate Governance</i>	http://www.ecgi.org/codes/documents/cg_code_austria_jan2012_en.pdf
Brazil	<i>Código de Melhores Práticas de Governança Corporativa do IBGC</i>	http://www.ecgi.org/codes/documents/ibcg_sep2009_pt.pdf
Canada	<i>The Toronto Report on Corporate Governance</i>	http://www.ecgi.org/codes/documents/tsx_gtgd.pdf
Chile	<i>Potenciando El Gobierno Corporativo de las Empresas em Chile.</i>	http://www.sbf.cl/sbifweb/servlet/Ebook?CTR=XXXXXXXXXXXXXXXXX&ID_EBOOK=L3062&position=0
China	<i>Provisional Code of Corporate Governance for Securities Companies</i>	http://www.ecgi.org/codes/documents/provisional_cgcode_csrc.pdf
Costa Rica	<i>Código Voluntario de Mejores Prácticas de Gobierno Corporativo</i>	http://www.supervalores.gob.pa/files/Gobierno_Corporativo/Codigo_de_Gobierno_Corporativo_de_CR.pdf
United States	<i>Principles of Corporate Governance: Analysis & Recommendations</i>	http://www.ecgi.org/codes/documents/brt_may2002.pdf
France	<i>Recommendations on Corporate Governance</i>	http://www.ecgi.org/codes/documents/afg_rec_jan2010_en.pdf
Netherlands	<i>Peters Report & Recommendations: Corporate Governance in Netherlands</i>	http://www.ecgi.org/codes/documents/nl-peters_report.pdf
Indonesia	<i>Code for Good Corporate Governance</i>	http://www.ecgi.org/codes/documents/indonesia_cg_2006_en.pdf
England	<i>The UK Corporate Governance Code</i>	http://www.ecgi.org/codes/documents/cg_code_uk_sep2012_en.pdf
Malaysia	<i>Malaysian Code on Corporate Governance</i>	http://www.ecgi.org/codes/documents/malaysian_cg_code_mar2012_en.pdf
Mexico	<i>Código de Mejores Prácticas Corporativas</i>	http://www.ecgi.org/codes/documents/codigo_de_mejores_practicas_corporativas_2010_es.pdf
Singapore	<i>Code of Corporate Governance</i>	http://www.ecgi.org/codes/documents/cg_code_singapore_2may2012_en.pdf

Figure 1. Corporate governance code of countries in the research sample

Source: Websites found on the site of the European Corporate Governance Institute (ECGI). *Index of codes*. Available from: <http://www.ecgi.org/codes/all_codes.php>. Accessed on: 03 Jan. 2013.

On the websites described in Figure 1, the corporate governance codes were collected from those countries included in the research sample, with a view to analyzing the content about the characteristics of their audit committees. These data were organized in worksheets, using the characteristics the IBGC (2009b) proposes for the audit committee in Brazilian companies as a reference, for the sake of further analysis of the similarities and differences found in the other countries' corporate governance codes.

As regards the sample of companies to verify the implementation of the audit committee according to the IBGC (2009) proposal in Brazil, the first criterion used related to companies traded on Bovespa. To further restrict the research, as this was not the general objective of the study, companies from Santa Catarina were focused on whose corporate governance file was available on the Bovespa website. Thus, 12 companies were selected for this specific research objective. Companies from that state were selected because of easy access in case further clarifications were needed besides what had been published for the companies' external audience.

4. Data Description and Analysis

Initially, this section presents the content of the corporate governance codes in Brazil and other countries, focusing on the characteristics proposed for the audit committee. Next, the similarities and differences between the countries are indicated in relation to what has been proposed for the audit committee in Brazil. Finally, based on these characteristics, the implementation of the audit committee is analyzed in companies from the State of Santa Catarina which are publicly traded on the São Paulo Stock Exchange.

4.1 Characterization of the Audit Committee in Brazil

In Brazil, the IBGC (2007) recommends that the audit committee be constituted among members of the board of administrators, preferably independent, including at least three members, all of whom should have basic finance and accounting knowledge. At least one of them should be more experienced in accounting, auditing and financial management. Mandates can be limited through an automatic turnover and/or the restriction of the number of committees on which a member can serve in other companies.

Among the proposed functions for the audit committee, the following can be highlighted: analyzing the financial statements; enhancing the supervision and accountability of the financial area; and guaranteeing that the board of directors develops reliable internal controls, that the internal audit department performs its role satisfactorily and that the independent auditors assess the practices of the board of directors and the internal audit department through its own review (IBGC, 2007). The committee should also watch over the compliance with the organization's code of conduct.

The audit committee should meet regularly with the board of administrators, the fiscal council, the Chief Executive Officer (CEO) and the other directors of the company in order to present the financial reports and other topics of interest. It should also guarantee the quality of the information from controlled and associated companies or third parties (as experts), considering the reflexes of this information in the investing company's financial statements (IBGC, 2007).

As regards the adoption of the fiscal council instead of the audit committee in companies, the IBGC (2007) informs that the fiscal council does not replace the audit committee, as both have distinct functions. It is highlighted, however, that the proposal of the Brazilian Corporate Governance Institute is not a standard companies have to comply with, which explains why their practice can differ from the recommendation presented here.

4.2 Characteristics of the Audit Committee in Other Countries

In the analysis of the content of the corporate governance codes in the countries analyzed – Germany, Argentina, Saudi Arabia, Austria, Canada, Chile, China, Costa Rica, United States, France, the Netherlands, Indonesia, Malaysia, Mexico and Singapore –, the following recommendations were identified with regard to the characteristics of the audit committee.

In Germany, the president of the audit committee should not be a former member of company's board of administrators, whose mandate has ended less than two years earlier. The committee should include people who are knowledgeable in accounting and finance, and the president of the audit committee should be knowledgeable about and experienced in the application of accounting principles and internal control. His responsibilities are to deal with accounting matters, risk management and compliance, required auditor independence and management of the external audit mandate.

In Argentina, the audit committee should include at least three directors. Each member needs to demonstrate sufficient knowledge and experience in accounting and auditing, finance and risk management aspects. The committee is expected to oversee: the integrity and exactness of the financial statements

and all accounting information for external disclosure; compliance with laws and rules; appropriateness and independence of external auditor; performance of internal and external audit role; and operations of the internal control system. In addition, periodical reports should be presented to the board about the measures taken and the problems discussed during its meetings.

In Saudi Arabia, upon the recommendation of the board of administrators, the general meeting of the shareholders should issue rules for the nomination of audit committee members and define the duration of their mandate and procedures the committee needs to follow. The quantity of members can be no less than three, and executives who are members of the board are not eligible to the audit committee. Its members should include one accounting and finance expert. The responsibilities of the audit committee are to: (i) oversee the internal audit department to guarantee its efficacy in the execution of the activities and obligations specified by the board of administrators; (ii) analyze the internal audit process and prepare a report about the audit and its related recommendations; (iii) review the internal audit reports and put in practice corrective measures with regard to the comments included; and (iv) recommend the nomination and remuneration of the external auditors to the board of administrators.

In Austria, the audit committee is responsible for monitoring the preparations for the accounting procedures, the auditor's work, the audit and the preparation and confirmation of the financial statements. Also, the committee has to control the efficacy of the company's internal control system and of the risk management system. At least one member of the committee should have specific knowledge to attend to the company's requirements, besides practical experience in the area. The committee president cannot have served on the board of administrators or personnel management committee, as an auditor or cannot have signed the audit opinion in the last three years, or if he is not independent for any other reason.

In Canada, the audit committee should include at least three directors, who should be financially independent and knowledgeable about finance and accounting. Their responsibilities include: the nomination of the external auditors; supervision of the external auditors' work, including the solution of disagreements between the administration and the external auditors; establishment of procedures to deal with complaints related to accounting or auditing; and supervision of external auditors.

In Chile, the goal of the audit committee is to guarantee the completeness, precision, relevance and timeliness of the financial information the company publishes. The responsibility of the audit committee is to discuss the most relevant events that have happened in the years being audited with the external auditors. The company also needs to define and inform the public about the turnover policy of the audit company.

In China, the audit committee should exclusively consist of board members and be presided by an independent director, who needs to be an Accounting professional. The main functions of the committee are to: recommend the hiring or replacement of the external audit company; review the internal audit system and its execution; inspect the company's financial information and disclosure; and monitor the internal control system. All audit committee proposals should be presented to the board of administrators for review and approval. Each specialized committee will be held responsible before the board of administrators.

In Costa Rica, the audit committee should preferably consist of independent directors. Its functions should be clearly described and published on the company website. Committee functions include: (i) to promote the responsibility and oversight of the financial area and guarantee that the executive team develops reliable internal controls; (ii) to elaborate periodical reports to the board about its actions; (iii) to guarantee that the external auditors have the independence they need to act objective and efficiently; and (iv) to guarantee that the recommendations and assessments of the external auditors were addressed, in the sense that the presentation of the financial statements is consistent with them. In addition, the audit committee should discuss issues with the external auditors, such as changes in the application of the accounting principles, use of reserves and provisions; relevant matters used in the preparation of financial statements; audit changes in the identification of high-risk areas; significant deficiencies and gaps in internal controls; external factors (economic, regulatory, sectorial, etc.) that affect the accounting and audit reports.

In the United States, the audit committee includes between three and five members, at least one of whom should be knowledgeable about financial accounting or management. The committee is responsi-

ble for supervising the company's financial information process and should understand and be familiar with the corporation's system and internal controls. It should also oversee the internal audit, including the review of the reports presented by the internal audit team, and review the nomination and replacement of the senior internal audit executive. The meetings of the audit committee should take place at frequent and sufficient intervals to permit the appropriate monitoring of annual and three-monthly reports. For many companies, that means four or more meetings per year.

In France, the proportion of independent auditors in the audit committee should represent two thirds and the committee should not include any company employee. The audit committee members should be knowledgeable about finance or accounting. The length of the mandate has been set at six years. The main functions are: review the accounts and guarantee the relevance and consistency of the accounting methods used, besides guaranteeing that safe procedures be adopted for information collection and analysis.

In the Netherlands, at least one member of the audit committee should have financial expertise, in the acceptance of the best practices, and the committee should not be presided by the president of the fiscal council or by a former member of the company's board of administrators. The audit committee should serve as the main contact with the external auditor.

In Indonesia, the audit committee is presided by an independent auditor and the members can be directors and/or professionals external to the company, at least one of whom should be knowledgeable about accounting. Its function is to help the board of administrators to guarantee the appropriate presentation of the financial reports, in accordance with the generally accepted accounting principles; the appropriate and effective internal control structure; the execution of internal and external audits in compliance with the applicable audit standards; and the monitoring of the audit results by company management.

In England, the board of administrators should establish an audit committee with at least three members; all of them should be non-executive managers; and at least one member of the audit committee should possess relevant and recent financial experience. The functions of the audit committee include: monitor the integrity of the company's financial statements; review internal financial controls; review and monitor the work of the external auditor, the independence and objectivity and efficacy of the audit process; develop and implement a policy for the hiring of the external auditor, considering relevant ethical orientations about the delivery of audit services; and that the annual report should explain to the shareholders how the auditor provides the audit services.

In Malaysia, the audit committee includes at least three members, mostly independent, and all of them should be non-executive managers. The board should provide the audit committee with a written document that specifies its rights and duties. All committee members should be financially literate and at least one should be a member of an accounting association or entity. In addition, all members should be capable of reading, analyzing and interpreting the financial statements to enable them to effectively comply with their functions. The functions of the audit committee should include the following: nominate the external auditor; discuss the nature and extent of the audit with the external auditor before the start of the audit; review the board of directors' three-monthly and annual statements; review the internal audit program and the results of the internal audit process; approve any nomination or termination by members of the senior internal audit team; consider all transactions with related parties from the company or group; and consider other themes, as defined by the board of directors.

The corporate governance code in Mexico establishes that the audit committee needs to meet regularly with the internal and external auditors; contribute to the definition of guidelines for internal control, internal audit and assess their effectiveness; coordinate the work of the external and internal auditors and commissioners; analyze and assess the operations with related parties with a view to recommendations to the board of administrators; and verify compliance with the corporate code of ethics. The code also suggests the turnover rule of the financial statement reviewers every five years. In Practice 15, the *Consejo Coordinador Empresarial* (http://www.ecgi.org/codes/documents/codigo_de_mejores_practicas_corporativas_2010_es.pdf), recommends that the Board of Administrators puts in practice the audit functions and others through intermediary entities; and Practice 16 presents eight items related to the audit entity.

In Singapore, the corporate governance code emphasizes the importance of the audit committee's independence. It endorses the idea that the committee president should be an independent director. The committee members should be properly qualified to enhance the members' confidence and the independent treatment between the committee and the management. At least two members should be knowledgeable about accounting or be related to financial management competencies. The committee considers that the requirement of at least two members with the necessary competency or experience would strengthen the objectivity of the audit committee's opinion and improve the effectiveness of the board of administrators. The committee also shares the responsibility of the management for maintaining a good internal control system.

4.3 Comparison between the Characteristics of the Audit Committee in Brazil and Other Countries

Based on the description of the audit committees in different countries, the similarities and differences between what is proposed in the Brazilian corporate governance code by the IBGC (2009b) can be compared with the other countries under analysis. Figure 2 indicates the similarities identified with regard to the composition, mandate, qualification and responsibilities of the audit committee, in comparison with the proposal of the Brazilian corporate governance code.

Brazil		Germany	Argentina	Saudi Arabia	Austria	Canada	Chile	China	Costa Rica	USA	France	Netherlands	Indonesia	England	Malaysia	Mexico	Singapore
Composition	Consists of at least three members of the board of administrators, preferably independent.		X	X		X				X				X	X		
	All members should possess basic finance and accounting knowledge.	X	X			X					X				X		X
Qualification	At least one member should be more experienced in accounting, auditing and financial management.	X		X	X					X		X		X			
	Can be limited through an automatic turnover and/or restriction in the number of committees a member can serve on in other companies.																
Mandate	Analyze the financial statements and that the internal audit department plays its role satisfactorily		X	X	X		X	X	X	X	X		X	X	X		
	Promote the oversight and accountability of the financial area								X	X				X			
	Guarantee that the board of directors develops reliable internal controls		X		X			X	X	X			X			X	X
	The independent auditors should assess, through their own review, the practices of the board of directors and the internal audit department.		X			X					X						
			X													X	

Figure 2. Similarities among audit committees from other countries and Brazil

Source: research data.

In Figure 2, various similarities are observed in the characteristics of the audit committee according to the corporate governance codes of the countries under analysis in relation to the proposal of the Brazilian Corporate Governance Institute. The analysis of the financial statements by the audit committee is highlighted though, which is the predominant item in almost all countries in the study sample.

The characteristics related to the composition, qualification and responsibilities of the audit committee are more similar to the proposal of the Brazilian corporate governance code. What the mandate is concerned though, few codes mention this aspect and, even in the codes that do, no similarities were verified. Based on the above, it is observed that the codes often express the committee responsibilities differently from what the Brazilian corporate governance code presents, but that the financial statement analysis is highlighted in most countries.

As regards the differences proposed in the characteristics of the audit committee in the countries under analysis, in Figure 3, a comparison is presented with the proposal of the Brazilian corporate governance code.

Brazil		Germany	Argentina	Saudi Arabia	Austria	Canada	Chile	China	Costa Rica	USA	France	Netherlands	Indonesia	England	Malaysia	Mexico	Singapore
Composition	Consists of at least three members of the board of administrators, preferably independent.	x									x	x	x				
	All members should possess basic finance and accounting knowledge.																
Qualification	At least one member should be more experienced in accounting, auditing and financial management.											x					x
	Can be limited through an automatic turnover and/or restriction in the number of committees a member can serve on in other companies.										x						
Mandate	Analyze the financial statements and that the internal audit department plays its role satisfactorily																
	Promote the oversight and accountability of the financial area																
	Guarantee that the board of directors develops reliable internal controls																
	The independent auditors should assess, through their own review, the practices of the board of directors and the internal audit department.																
	Watch over compliance with the organization's code of conduct.																

Figure 3. Differences among audit committees from other countries and Brazil

Source: research data.

As observed in Figure 3, few differences are found. In the composition of the audit committee, it is emphasized that, in Germany, the committee president should not be a former member of the company's board of administrators, whose nomination should have terminated at least two years earlier. In France, the proportion of independent members serving on the committee should equal two thirds and cannot include company employees. In the Netherlands, the committee should not be presided by the fiscal council president or by a former member of the company's board of administrators. In Indonesia, the committee is presided by an independent member and the members can be professionals external to the company.

What the qualification is concerned, in the Netherlands, at least one member of the audit committee should be a financial expert, in the acceptance of the best practices. The Dutch code also proposes the company's tax planning policy and information and communication technology (ICT) applications for the audit committee. In Singapore, as opposed to the Brazilian code, at least two members should be knowledgeable about accounting or possess financial management competencies.

What the mandate of the audit committee is concerned, one main difference can be indicated in the French corporate governance code, in which the length of the mandate is set at six years and renewable, so as to guarantee its independence. It is highlighted that few of the corporate governance codes under analysis made any mention in this respect, which may justify the few differences identified in this characteristic.

In general, few differences exist between the proposals in the corporate governance code of the other countries analyzed and in Brazil. Differences were only verified in the length of the mandate and the qualifications required in other countries. As regards the length of the mandate, the country that mentions this aspect informs another period, while the other countries do not comment on this aspect in their codes.

Some corporate governance codes also indicate the presentation of periodical reports to the board about the measures taken and the problems discussed during meetings as a responsibility of the audit committee. These meetings should be held at certain intervals, as expressed in some countries' code. Other aspects that are frequently discussed include the hiring of the external audit company and the oversight of its work, but the Brazilian corporate governance code does not make any comment in this respect, but simply discusses aspects that should be addressed with the independent auditors.

4.4 Characteristics of the Audit Committee in Companies from Santa Catarina

As a complement, with a view to collating theory with experience, in this topic, the characteristics of the audit committees in the investigated companies from Santa Catarina are described. The data were collected from the Bovespa website, where the companies published information about the adopted corporate governance practices, besides their financial reports.

As some companies have a fiscal council, with characteristics that are sometimes equivalent to the audit committee, this aspect was analyzed by checking whether the companies have an audit committee and/or a fiscal council. The following companies have an active audit committee or fiscal council: BRF - Brasil Foods S.A.; Centrais Elétricas de Santa Catarina S.A - CELESC; Cremer S.A.; Döhler S.A.; Marisol S.A.; Renar Maçãs S.A.; TEKA - Tecelagem Kuehnrich S.A.; Tractebel Energia S.A.; and WEG S.A.

Two of the companies that were investigated, Buettner S.A. and Eletro Aço Altona S.A., did not inform on their website whether they have an active audit committee or fiscal board in the company but, as both are publicly traded, in compliance with Chapter XIII of 6.404/76, they should have at least a Fiscal Council. The sole company that informs it has both an audit committee and a fiscal council is Souza Cruz S.A.

As regards the activities of the audit committee and the fiscal council in the companies under investigation, the analysis was based on the categories composition, qualification, mandate and responsibilities, as displayed in Figure 4.

Company	Audit committee/Fiscal Council			
	Composition	Qualification	Mandate	Responsibilities
BRF – Brasil Foods S.A	Audit committee including three independent members.	One of its members should be a financial expert.	No reference	Meets monthly and, when necessary, can deliberate together with the board of administrators.
Buettner S.A	No reference	No reference	No reference	No reference
CELESC	Counselors, directors and employees.	No reference	No reference	Compliance in verification of information, besides support for decision making.
Cremer S.A	No reference	No reference	Fiscal council, elected in general meeting of stockholders, with a one-year mandate and possibility of reelection. The mandate expired during the subsequent ordinary general meeting.	Oversee managers, opine on proposal for submission to the general meeting, examine financial statements and denounce errors, frauds or crimes they discover to the administrative organs and general meeting.
Döhler S.A	No reference	No reference	No reference	No reference
Altona S.A	No reference	No reference	No reference	No reference
Marisol S.A	Fiscal council, with representatives from minority and preferential stockholders.	No reference	No reference	No reference
Renar Maçãs S.A	No reference	No reference	No reference	No reference
Souza Cruz S.A	Audit committee, with four external members indicated by the board of administrators.	No reference	No reference	The committee meets three times per year and discusses themes related to all business risks, such as credit, exchange and market risks.
TEKA – Tecelagem Kuehnrich S.A	The fiscal council consists of three members, with one representative from the preferential stockholders.	No reference	No reference	Meets monthly to assess the financial information, legally imposed tasks and contact with the external and internal auditors.
Tractebel Energia S.A	Three members on the fiscal council, one of which is indicated by the minority shareholders.	No reference	Elected by the board of administrators, with a three-year mandate and permission to get reelected.	No reference
WEG S.A	Consists of up to five full members and the same number of deputy members.	No reference	No reference	No reference

Figure 4. Activities of the audit committees in the investigated companies from Santa Catarina

Source: research data.

As verified in Figure 4, some companies do not inform about the composition of their audit committee. Among those that do, however, it is observed that they follow the proposal of the Brazilian corporate governance code, that is, at least three members. Celesc and Marisol simply mention that the committee needs to include counselors, directors and employees, with representatives from minority and preferential stockholders, respectively.

What the qualification is concerned, only BRF – Brasil Foods S.A. indicates that at least one of the fiscal council members should be knowledgeable in accounting, auditing and finance, characterizing that person as a financial expert, as defined in the United States Sarbanes-Oxley Act. This observation may be related to the fact that this company has American Depositary Receipts (ADR) and, therefore, has to comply with that North American law in Brazil.

It should be highlighted that the fiscal council of BRF – Brasil Foods S.A. not only exercises the activities determined in Brazilian financial legislation, Law 6.404/76, but also the functions of the audit committee, as established in the United States Sarbanes-Oxley Act (SOX) and the rules of the Securities and Exchange Commission (SEC). The SEX acknowledges that, due to local legislation for private foreign issuers, some audit committee functions may be subordinate to local laws and other internal entities.

It is observed in the audit committee or fiscal council of the investigated companies that at least one member holds a degree in Accounting, but mostly have a legal background. The companies did not mention in the management report or on their website what qualifications are required to become a member of the audit committee. Five companies, however, do not publish any information about the composition of their audit committee and the required qualifications.

As regards the length of the mandate, only Cremer S.A. and Tractebel Energia S.A. publish the length of the mandate of their audit committee, which is one and three years, respectively. BRF - Brasil Foods S.A informs that the mandate of the board of administrators is two years, permitting reelection, but nothing is mentioned about that length for the audit committee.

With regard to the mandate, CMN Resolution 3.198, issued on May 27th 2004, informs that the maximum should be five years for publicly traded institutions, without a fixed mandate for private ones. The IBGC (2009b) advises that members be independent, not active in any other company area, with a turnover in their activities on the committee. Hence, the companies that informed about the length of the audit committee members' mandate are in compliance with Brazilian and IBGC standards.

The companies that informed about the responsibilities of the audit committee members follow the proposal of the Brazilian corporate governance code. They reported that the committee should cooperate with the board of administrators in its activities, participating in meetings and decision making, as well as in the company's risk analysis. Six companies, however, did not inform about the responsibilities of the audit committee or fiscal council members, neither on the Bovespa website nor on their own site or in the management report.

Among the companies under analysis, BRF - Brasil Foods S.A., Cremer S.A., Tractebel Energia S.A. and WEG S.A. are listed on the New Market and Centrais Elétrica de Santa Catarina S.A. – CELESC on Level 2. The remaining companies do not inform on the Bovespa website what market they are currently listed on.

Bovespa (2010, p. 3) characterizes the New Market as “mainly focused on listing companies that will go public”. Both Level 2 and the New Market are committed to disclosing their financial statements in accordance with the United States Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS) (Bovespa, 2010). And the board of administrators of both should include at least five members with a unified mandate of two years at most.

It appears that the companies listed on some corporate governance level on the Bovespa website publish most of the information about the activities of their fiscal council. Souza Cruz S.A. stands out, which is not listed on any Bovespa corporate governance level but publishes information about its audit committee, which may derive from the fact that it is a multinational and has had an active audit committee for several years. It is also observed that Buettner S.A. and Eletro Aço Altona S.A. do not publish any information, and do not even inform if they have implanted an audit committee or fiscal council.

5. Conclusions

The study was aimed at comparing the characteristics proposed for the audit committees in the Corporate Governance Code in Brazil and other countries. Therefore, a research was undertaken in 17 countries that have their corporate governance code published on a website and mention the responsibilities of the audit committee. In addition, to analyze the implementation of what the IBGC proposes for the audit committee in Brazil, companies from the State of Santa Catarina were investigated which are traded on Bovespa.

In the analysis of the content of the corporate governance code in Brazil and other countries, it was verified that all share the same objective, which is to avoid a conflict of interests, add value to the companies, enhance the transparency of the financial statements and thus expand the number of investors and the investment volume. Most codes already determine on the adoption of the international accounting standards, in accordance with the standardization of the accounting procedures needed for companies that are publicly traded in different countries.

What the characteristics of the audit committee is concerned, focusing on its composition, qualification of its members, mandate and responsibilities, it was verified that there are few differences between what is proposed in the Brazilian corporate governance code and in the other countries under investigation. Among the responsibilities of the audit committee, “analyzing the financial statements” is highlighted, addressed in more than two thirds of the codes under analysis. This responsibility justifies the requirement that one member should be knowledgeable about accounting or finance.

At the other end is the codes’ omission about the length of the audit committees’ mandate in the companies. The lack of a formal length may represent some degree of flexibility for the companies. On the other hand, this can induce them not to aim for the renewal of the committee members, which may negatively affect the exemption needed for the performance of their functions, due to the bonds created over time. Setting parameters for the length of the audit committee’s mandate is also interesting for the sake of comparison of its characteristics across different companies.

In general, in the analysis of the similarities and differences in the characteristics proposed for the audit committee in those countries, it was verified that these are aligned with the proposal of the corporate governance code in Brazil. One factor that may have motivated this standardization among the codes was the launch of the OECD Principles of Corporate Governance, by the Organisation for Economic Co-Operation and Development (OECD, 2004), which represented a landmark in corporate governance and motivated different countries to issue their corporate governance code.

As regards the characteristics of the audit committee in companies from Santa Catarina whose stocks are traded on Bovespa, it was verified that the companies have recently adopted the fiscal council instead of the audit committee. Only one out of 12 companies analyzed has both the audit committee and the fiscal council. This may be due to the fact that the Securities and Exchange Commission (SEC, 2000) allowed the Brazilian companies traded on American stock exchanges to choose between adopting one or the other.

The Brazilian corporate governance code informs, however, that the audit committee should not be replaced by the fiscal council; what may happen is that they have both, but this will depend on the shareholders’ understanding as to whether to create it or not. It was also observed that these companies report little about their audit committee members’ qualification, composition and length of their mandate. They merely present responsibilities that are internally required for company members, or even the name and educational background of the fiscal council or audit committee members.

It is concluded that, despite the similarities in the characteristics of the audit committees identified in the different countries’ corporate governance codes, additional research is needed to create a pattern the regulatory entities can propose for implementation in the companies. This proposal is supported by the investigation of publicly traded companies with a fiscal council instead of an audit committee, although the IBGC (2009b) recommends the adoption of the audit committee for all companies, and not only for publicly traded ones.

In view of the research limitations, the analysis of the audit committee's characteristics should be expanded to other countries' corporate governance codes. In addition, the study should be replicated in companies from other Brazilian states and even from other countries, with a view to identifying similarities and differences in the results. Another suggestion is to study private companies, with a view to verifying whether they have an audit committee. It would also be interesting to check the companies' motivations for replacing the audit committee by the fiscal council, as found in this research in a small sample of companies.

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