Corporate governance and disclosures on the transition to international financial reporting standards

Pamela Kent  
*Bond University, Pamela_Kent@bond.edu.au*

Jenny Stewart

Follow this and additional works at: [http://epublications.bond.edu.au/business_pubs](http://epublications.bond.edu.au/business_pubs)  
Part of the [Business Administration, Management, and Operations Commons](http://epublications.bond.edu.au/business_pubs) and the [Finance and Financial Management Commons](http://epublications.bond.edu.au/business_pubs)

Recommended Citation

Pamela Kent and Jenny Stewart. (2008) "Corporate governance and disclosures on the transition to international financial reporting standards".  
Corporate Governance and Disclosures on the Transition to International Financial Reporting Standards

PAMELA KENT*
JENNY STEWART**

* Professor of Accounting, Bond University
** Professor of Accounting, Griffith University

Contact Author:
Professor Jenny Stewart
Department of Accounting, Finance & Economics,
Griffith Business School,
Griffith University,
PMB 50, GCMC,
Queensland, 9726

Ph: 07 55527711
Fax: 07 55528068
Email: j.stewart@griffith.edu.au

JEL Classification: M40, M41

Key words: International financial reporting standards; corporate governance; disclosure.

Acknowledgements: The authors acknowledge useful comments from two anonymous reviewers, Tracy Artiach, Mike Bradbury, Andrew Carrick, Peter Clarkson, Jan Hollindale, Grace Hsu, Richard Morris, Alan Ramsay, Philip Sinnadurai, Kevin Stevenson, Irene Tutticci, Anne Wyatt, Ian Zimmer and participants at the UTS Summer Conference, University Technology Sydney, February, 2007 and the 30th Annual Congress of the European Accounting Association, Lisbon, Portugal, April, 2007.
Corporate Governance and Disclosures on the Transition to International Financial Reporting Standards

Abstract
For reporting periods ending on or after 30 June 2004, Australian companies were required to disclose the expected impact of applying Australian equivalents of International Financial Reporting Standards (AIFRSs) effective from 1 January 2005. The objective of this paper is to examine the association between the level of disclosure and corporate governance quality. Using a sample of listed companies with 30th June balance dates, we found that the quantity of disclosure was positively related to some aspects of superior corporate governance such as the frequency of board and audit committee meetings and the choice of auditor.

Key words: International financial reporting standards; corporate governance; disclosure;

JEL Classification: M40, M41
1. Introduction

On 1 January 2005, Australia moved to full adoption of International Financial Reporting Standards (IFRSs). As the first part of the transition process, AASB1047 (Disclosing the Impacts of Adopting Australian Equivalents to IFRSs) required reporting entities to disclose, in their annual or interim reports ending on or after 30 June 2004, how they intended to apply IFRSs. Specifically, the standard required disclosure of “(a) an explanation of how the transition to Australian equivalents to IFRSs is being managed; and (b) a narrative explanation of the key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs”, (CPA Australia Members’ Handbook, 2004, p. 6).

The adoption of Australian equivalents to IFRSs (hereafter AIFRSs) has been recognised as the most significant change in the financial reporting history of Australia (Deegan, 2005). As such, the 2004 disclosures under AASB 1047 are of particular interest because they represent the first opportunity for Australian companies to demonstrate the extent of their technical proficiency with respect to these far-reaching changes. Australia provides an example that is potentially applicable to those countries that are preparing to adopt these standards given that Australia is an early adopter of international accounting standards (Collett et al., 2001). Hence, the objectives of this paper are (i) to examine the extent of disclosures under AASB 1047 and (ii) to assess whether corporate governance factors are associated with these disclosures.1

Our study extends the limited but growing body of literature that examines the association between attributes of corporate governance and financial reporting disclosures (Karamanou and Vafeas, 2005; Beekes and Brown, 2006). We test whether better governed firms disclose more about the expected impact of the transition to AIFRSs than less well governed firms. The association between a firm’s governance structure and its disclosure policies is based on the
premise that well governed firms use increased disclosure as a means of mitigating agency problems between managers and shareholders (Goodwin et al., 2007). However, most prior research has focused on unregulated disclosures such as earnings forecasts, and environmental and social disclosures. In contrast, we examine variations in the level of disclosure pertaining to a mandatory requirement. The amount of detail provided by companies can vary considerably even though compliance with the minimum disclosure requirements of Australian accounting standards is mandatory. Our study therefore examines variation in the extent of disclosure within the boundaries of the requirements of AASB 1047. Our research complements other studies that examine the influence of strong board and audit committee governance on the accuracy of financial reporting disclosures made in 2005 financial reports in connection with the transition to AIFRSs (Goodwin et al., 2007; Hamilton and Thomas, 2007).

Given that the 2004 disclosure requirements under AASB 1047 are qualitative in nature, we use two measures to examine the extent of disclosure. These are (i) the number of sentences explaining the transition to AIFRSs and (ii) an index based on the number of specific accounting policy changes expected on implementation of AIFRSs. We recognise that these measures relate to the quantity of disclosure and are not necessarily an indicator of better quality reporting. However, it can be argued that more extensive disclosures are likely to be more informative than brief disclosures and are therefore an indicator of greater transparency. Further, the measures are not based on subjective assessments of quality and hence are unbiased.

After controlling for corporate and financial characteristics that are likely to influence the level of disclosure with respect to AASB 1047, we find that companies with more frequent board and audit committee meetings tend to have more disclosure about the impact of AIFRSs. We also

---

1 The Australian Securities and Investment Commission (ASIC, 2004) reviewed the narrative disclosures made by companies with 30 June 2004 balance dates and found a high level of compliance but considerable variation in the nature and extent of the disclosures. The present study examines possible reasons for that variation.
find that companies with smaller audit committees and, surprisingly, those with a smaller proportion of members with accounting and finance expertise also have a higher level of disclosure. Further, there is a strong positive association between the choice of a large audit firm and the level of disclosure.

The remainder of the paper is structured as follows. Our hypotheses are developed in the next section. The third section explains our research method, including sample selection and measurement of variables. The fourth section reports and discusses the results of the study while in the final section some conclusions are drawn, the limitations of the study are acknowledged and opportunities for further research are noted.

2. Prior research and hypotheses development

The focus of our study is a mandatory disclosure requirement. However, as Lang and Lundholm (1993, p. 246) note in the context of SEC disclosures, mandatory requirements establish a minimum standard of disclosure and “considerable latitude remains in determining what information is actually provided.” This is particularly the case when accounting standards are written using language that allows management discretion regarding the levels of disclosure, as is the case for AASB 1047.

Various theories have been used to explain corporate disclosure. Early theories assumed that managers are concerned only with the market value of the firm (Clarkson et al., 1994; Grossman, 1981; Milgrom, 1981). Rational investors know that companies with favourable private information have an incentive to disclose this information to the market in order to increase firm value. Thus, non-disclosure is interpreted as withholding unfavourable information, resulting in a decline in firm value. This reasoning results in a full disclosure equilibrium where companies
rationally disclose all relevant information in order to maximise firm value (Clarkson et al., 1994). However, in practice, firms do not reach this level of full disclosure, suggesting that the decision to disclose information involves additional factors. A partial disclosure equilibrium recognises that firms face proprietary costs and hence the decision to disclose is a trade-off between financial markets and product markets (Clarkson et al., 1994; Darrough and Stoughton, 1990).

Both political economy and legitimacy theories also provide explanations for variations in the level of corporate disclosure. Political economy theory relies on the concept that society, politics and economics are indivisible and economic events cannot be studied in a comprehensive manner without reference to the political, social and institutional framework in which the event occurs. A study of the political economy allows researchers to contemplate broader issues about the information companies elect to disclose in their annual reports (Gray et al., 1996; Guthrie and Parker, 1990).

Legitimacy theory is derived from political economy theory (Gray et al., 1996) and relies on the idea that the legitimacy of a company to operate in society depends on an implicit social contract between the company and society. Managers continually attempt to ensure that their company complies with its social contract by operating within society’s expectations. This suggests that managers have incentives to disclose information that indicates that the company is not in breach of the norms and expectations of society (Deegan and Blomquist, 2006).

Further explanation for disclosure of information in annual reports is provided by agency theory. Karamanou and Vafeas (2005, p.454) suggest that managers have incentives to withhold information in order to hinder the market’s ability to effectively monitor their performance, thereby creating a “disclosure agency problem”. Recent research has examined whether this
problem is mitigated by a strong corporate governance structure (Beekes and Brown, 2006; Clarkson et al., 2006; Karamanou and Vafeas, 2005; Core, 2001). We extend this research by examining whether governance strength offers an explanation for the extent of disclosure relating to the transition to AIFRSs. Hence, notwithstanding the alternative theories of corporate disclosure mentioned above, our focus is on the association between disclosure decisions and corporate governance.

Theory suggests that a strong governance structure should lead to more transparent disclosures and regulators clearly believe this to be the case (Chen and Jaggi, 2000; Beekes and Brown, 2006). A key role of corporate governance is to ensure compliance with mandated financial reporting requirements and to ensure financial statements present fairly the financial affairs of the company (Davidson et al., 2005; Dechow et al., 1995). However, the results of prior studies have been mixed and an alternative view is that disclosure is an element of corporate governance that can substitute for other governance mechanisms (Eng and Mak, 2003). While we acknowledge this alternative view, our hypothesis development is based on the strong support found by Beekes and Brown (2006, p. 423) “for the proposition that better-governed Australian firms do make more informative disclosures”. Given that more extensive disclosures are likely to be more informative, we expect a positive relation between the level of disclosures about the transition to AIFRSs and recognised measures of corporate governance. The governance factors we examine are the characteristics of the board of directors, the existence and effectiveness of an audit committee and the choice of auditor.

2.1. The board of directors

Researchers have recognised the board of directors as the most important control mechanism in a company’s internal governance structure (Fama and Jensen, 1983a and 1983b). An effective
board should monitor financial discretion and ensure the accounting choices made by management are valid (NYSE, 2002).

The ability of the board of directors to act as an effective monitoring mechanism is dependent upon its independence from management (Beasley, 1996; Dechow et al., 1996). From an agency perspective, independent directors are expected to provide shareholders greater protection in monitoring management (Baysinger and Butler, 1985). This superior monitoring ability can be attributed to the incentive to maintain their reputation in the external labour market (Fama and Jensen, 1983a and 1983b).

Australian and international corporate governance guidelines support the literature by recognising the importance of the monitoring role of non-executive directors (Standards Australia International, 2003; Australian Securities Exchange (ASX) Corporate Governance Council, 2007; New York Stock Exchange (NYSE), 2002; Organization for Economic Co-operation and Development (OECD), 1999; Australian Investment Managers’ Association (AIMA), 1997 and 1995; Bosch Committee, 1995). These guides suggest that best practice regarding board composition is at least a majority of non-executive or independent directors. In support, Beasley (1996) finds that the existence of independent directors on the board reduces the likelihood of financial statement fraud. Other researchers report that companies with a greater proportion of non-executive directors on the board are less likely to be subject to SEC enforcement actions for violating United States (US) GAAP (Dechow et al., 1996).

Studies in both the US and Hong Kong have found a significant positive relation between the level of disclosure and the proportion of independent directors on the board in a variety of contexts including interim reporting, segment disclosures and management forecasts (Leftwich et al., 1981; Chen and Jaggi, 2000; Leung and Horwitz, 2004; Ajinkya et al., 2005). In contrast,
Eng and Mak (2003) reported a negative relation between aggregate voluntary disclosure and the percentage of outside directors on the board of Singapore companies. Forker (1992), in an early United Kingdom (UK) study of share option disclosures, found no significant relation between disclosure and the proportion of non-executive directors on the board.

Another board characteristic associated with strong corporate governance is the separation of the roles of board chair and chief executive officer (CEO). Corporate governance guidelines assume that a board’s ability to perform a monitoring role is weakened when the CEO is also the chairperson of the board (Standards Australia International, 2003; ASX, 2007; Cadbury Committee, 1992). The appointment of the CEO to the position of chair is likely to lead to a concentration of power (Beasley, 1996) and potential conflicts of interest, reducing the level of monitoring. Forker (1992) found that separation of the roles of board chair and CEO was positively associated with the level of disclosure. However, Coulton et al. (2001) found no association between the separation of these two roles and the level of disclosure of CEO compensation.

Board size is also potentially related to directors’ ability to monitor and control managers (Jensen, 1993; Lipton and Lorsch, 1992), although the direction of influence is unclear. Some studies find a positive relation between the number of directors and both firm performance (Chiang, 2005; Haniffa and Hudaib, 2006) and board monitoring (Williams et al., 2005; Anderson et al., 2004). It is argued that larger boards possess more specialised skills and are better equipped to monitor management (Williams et al., 2005). In contrast, other studies indicate that smaller boards are more efficient in discharging their responsibilities. For example, researchers have found that larger boards have a negative impact on strategic plans, internal controls and financial reporting quality (Jensen, 1993; Lipton and Lorsch, 1992; Beasley, 1996).
Hence, we expect an association between board size and the level of AIFRSs disclosure but we do not predict a direction.

Boards of directors need to be active to meet their corporate governance commitments, particularly in ensuring high quality, transparent reporting in annual reports. Boards that meet frequently are more likely to perform their duties diligently and effectively (Yatim et al., 2006; Lipton and Lorsch, 1992; Conger et al., 1998; Vafeas, 1999). Diligent boards are likely to enhance the level of oversight of the financial reporting process both directly and indirectly through the choice of external auditor and composition of the audit committee.

In summary, board characteristics associated with improved corporate governance include the proportion of independent directors, separation of the chairperson and CEO, board size and meeting frequency. This leads to our first hypothesis:

H1: Board characteristics indicative of superior corporate governance practices are associated with a greater extent of disclosure about the transition to AIFRSs.

2.2. The audit committee

The board of directors generally delegates financial reporting responsibilities to the audit committee and hence the committee is the mechanism most likely to provide shareholders with the greatest protection in maintaining the quality of a company’s financial statements and ensuring the entity complies with mandatory disclosures (Davidson et al., 2005).

While the ASX Corporate Governance Council recommends that all listed companies should have an audit committee, listing rules mandate that only those companies in the S & P All Ordinaries Index (the Top 500 companies by market capitalisation) must have a committee. More than half of the companies in our sample fall outside the top 500 companies and therefore
are not required to have an audit committee. For these companies, the existence of an audit committee is likely to indicate a commitment to sound corporate governance and high quality financial reporting. However, neither Forker (1992) nor Coulton et al. (2001) found a significant relation between disclosure and the presence of an audit committee.

Prior research indicates that the effectiveness of an audit committee is related to the extent to which the committee is independent, whether members have accounting and financial expertise, the frequency of its meetings, and its size. Another characteristic that is important is the number of meetings held with the external auditor (Blue Ribbon Committee (BRC), 1999) but this information is not publicly available and hence difficult to observe.

It is maintained that audit committees function less effectively when members are also executives of the company (Lynn, 1996; BRC, 1999). Further, researchers and regulators contend that audit committees should consist exclusively of non-executive or independent directors (e.g., BRC, 1999; Abbott et al., 2004; Carcello and Neal, 2000; Dechow et al., 1996; McMullen and Raghunandan, 1996; Menon and Williams, 1994; ASX, 2007). Research demonstrates an association between audit committee independence and a higher degree of active oversight and a lower incidence of financial statement fraud (Jiambalvo, 1996; McMullen and Raghunandan, 1996; Wright, 1996).

The competence of an audit committee is perceived to be higher when members of audit committees have accounting and financial expertise. It is recommended that all committee members should be financially literate and at least one should have accounting or financial expertise (BRC, 1999; ASX, 2007; DeZoort and Salterio, 2001). External auditors appear to rely more on information supplied by audit committees with members possessing financial expertise. Knapp (1987) and Cohen et al. (2002), for example, found that auditors are more likely to refer a
complex accounting issue to an audit committee that is perceived as being knowledgeable about technical financial reporting matters.

The audit committee is expected to review the financial reporting process and facilitate the flow of information among the board of directors, management, and internal and external auditors (McMullen and Raghunandan, 1996). Audit committees must be diligent and active in discharging their responsibilities to ensure transparent, high quality reporting and increase external auditors’ confidence in their role (Abbott et al., 2004; the BRC, 1999; Kalbers and Fogarty, 1993). A frequently used indication of diligence is the number of audit committee meetings held each year. Prior research finds that an audit committee that meets frequently can reduce the incidence of financial reporting problems (Farber, 2005; Collier, 1993; Hughes, 1999). Studies have found that the frequency of audit committee meetings is negatively associated with earnings management, as measured by discretionary current accruals (Xie et al., 2001), and the likelihood of enforcement action by the SEC (McMullen and Raghunandan, 1996). Disclosure of application of AIFRSs is another form of reporting quality and it is expected that a more diligent audit committee would require a greater level of disclosure.

Size of the audit committee is another characteristic considered to be relevant to the effective discharge of its duties (Cadbury Committee, 1992; CIMA, 2000). A minimum of three audit committee directors has been proposed by a number of corporate governance reports (ASX, 2007; NYSE, 2002; BRC, 1999). It is argued that a larger committee has greater organisational status and authority (Kalbers and Fogarty, 1993; Braiotta, 2000) and a wider knowledge base (Karamanou and Vafeas, 2005). However, an audit committee can become too large to effectively carry out its duties, suffering from process losses and diffusion of responsibility (Karamanou and Vafeas, 2005). Hence, audit committees need enough members to create a critical mass but become ineffective if they are too large. Karamanou and Vafeas (2005), for
example, found that firms with smaller audit committees were more likely to make earnings forecasts than those with larger committees.

Characteristics of audit committees with respect to their existence, the independence and expertise of members, their diligence and size are expected to improve the quality of financial reporting for mandated disclosures. This leads to our second hypothesis:

H2: Audit committee characteristics indicative of superior corporate governance practices are associated with a greater extent of disclosure about the transition to AIFRSs.

2.3. The choice of external auditor

External auditors have a major role in ensuring that their clients comply with accounting standards and other regulations. Some audit committee and board members are likely to be unaware of all reporting requirements given the increasing complexity of accounting regulation in recent years. Hence, the external auditor is in a position to ensure that companies have knowledge of new reporting requirements. Larger audit firms typically have more resources and expertise to ensure they are familiar with new accounting requirements. It is also assumed that these firms have a greater incentive to protect their reputation because of their larger client base (Francis et al., 1999; Francis and Krishnan, 1999; Kim et al. 2003; Krishnan, 2003). As a result they are expected to be more conservative and require a greater level of disclosure. Clarkson et al. (2003) found strong support for an association between the level of disclosure and the use of a Big Six audit firm. We therefore test the following hypothesis:

H3: Companies appointing larger audit firms have a greater extent of disclosure about the transition to AIFRSs than those appointing smaller audit firms.

These are defined in subsection 3.3.
2.4. Control variables

Other variables are likely to explain disclosures associated with the change to AIFRSs and these variables are measured. It is expected that the level of disclosure will be heavily influenced by the extent to which entities expect the adoption of AIFRSs to change their reporting requirements. Those entities anticipating greater changes would need to disclose more information about how they planned to comply with AIFRSs. While many of the AIFRSs are similar to the former Australian standards, there are three areas that deviate substantially. These relate to intangible assets, income taxes and financial instruments.

AASB 138, Intangible Assets has resulted in many Australian companies being required to remove internally generated brand names, mastheads and other identifiable intangibles from their balance sheets. Companies with internally generated intangibles and more intangibles in general are therefore expected to disclose more information about the impact of AIFRSs.

Another accounting standard resulting in significant changes is the tax effect accounting standard (AASB 112, Income Taxes). The former standard stated that companies could carry forward losses if they were “virtually certain” that they would make profits in the future. The new accounting standard states that companies can carry forward losses if it is “probable that future taxable profit will be available” (Reilly and Teoh, 2006, 450). We therefore expect loss making companies to make greater disclosures because AIFRSs allow more companies to carry forward tax losses to future periods.

The third area where major changes are expected relates to financial instruments. There are two standards in this area: AASB 132 which is concerned with presentation and disclosure and AASB 139 which relates to recognition and measurement. Together, these standards are expected to result in more financial instruments being recognised in the balance sheet.
(Blumberg, 2006). We attempt to capture companies most affected by these changes in two ways. First, the use of financial instruments is likely to be industry specific, with financial institutions and companies involved in the extractive industries making greater use of these instruments (Hassan et al., 2006). Hence, we include control variables for these industry sectors in our model. Second, entities with overseas operations are more likely to use hedging instruments and we therefore include the number of geographical locations as a control variable.  

Ernst & Young studied the top 100 listed companies in Australia to determine the predicted profit change from applying AIFRSs in individual industry sectors in Australia. They found that consumer staples is the sector most likely to report a change in profit, with a predicted increase in reported profit of 13% across the sector. The reason for this increase in profit was mostly because companies in this sector were required to reverse goodwill amortisation and because of income tax provisions (Ernst & Young, 2005) with the adoption of AIFRSs. Hence, we also include a control variable for the consumer staples industry sector.

The final control variable is company size as this is typically related to increased disclosures (Lang and Lundholm, 1993). Company size is related to political costs, agency costs and capital market incentives (Watts and Zimmerman, 1986) which encourage large companies to disclose more information than smaller companies (Krishnan and Zhang, 2005).

3. Sample selection and measurement of variables

3.1. Sample selection

The sample consists of all Australian public companies (1000) listed on the ASX and included in Aspect Datanalysis with a 30th June balance date in 2004. Four companies did not provide any

3 Companies with overseas operations are also likely to welcome the change to AIFRSs because of cost savings resulting from the need to comply with only one set of accounting standards when preparing financial statements (Ravlic, 2002).
information in their annual report relating to the transition to AIFRSs and we removed these from our sample. We also eliminated those companies without a full set of figures to test the models, giving a final sample of 965 companies.

3.2. Measurement of the dependent variables

We use two dependent variables to measure extent of disclosure about the transition to AIFRSs. The first measure used is the number of sentences explaining how the transition to AIFRSs is being managed, together with the key differences in accounting policies that are expected to arise from the adoption of AIFRSs (CPA Australia Members’ Handbook, 2004, p. 6). Preferred units of measurement in written communications are words, sentences and portions of pages (Gray et al., 1995). All measures have limitations for comparative purposes between companies. Words have no meaning on their own (Bozzolan et al., 2003) while page, column and font sizes vary between companies (Hackston and Milne, 1996). Sentence lengths are also subject to variations but they are widely used in qualitative studies as they are readily identifiable units designed to convey meaning (Abeysekera and Guthrie, 2005). We collected data on both the number of sentences and the number of pages. However, some companies provided only one sentence of disclosure so it was difficult to determine the portion of the page devoted to the disclosure. Hence, we chose the number of sentences as a reasonably objective measure of the amount of space allocated to AIFRSs disclosures.

Our second measure is an index of the number of changes to accounting policies discussed in the note to the accounts pertaining to the transition to AIFRSs. We used content analysis to identify references to specific accounting policies and/or standards that companies indicated would change following implementation of AIFRS. In addition, we noted whether companies quantified the expected effects of complying with AIFRSs. We briefly report descriptive statistics relating to the number of standards and quantification of the effects of AIFRSs transition. However, for
the regression analysis, we focus on the number of references to accounting policies regardless of whether a specific standard is also mentioned.

3.3. Measurement of independent variables

Support is provided in the literature for both composite and separate measures of corporate governance. A number of Australian studies have used a composite measure of corporate governance to examine the relation between governance and disclosure. Coulton et al. (2001) found no relation between CEO compensation disclosures and an index of governance attributes. Clarkson et al. (2003) found weak support for an association between the voluntary disclosure of Year 2000 impacts and a corporate governance factor comprised of board, audit committee and board chair independence. O’Sullivan et al. (2006) found evidence of an association between a composite governance measure and the disclosure of prospective information in company annual reports in 2000 but not in 2002. Beekes and Brown (2006) examined the association between the disclosure of price-sensitive information under the ASX continuous disclosure requirements and corporate governance based on governance quality ratings published in the Horwath 2002 Corporate Governance Report (Psaros and Seamer, 2002). They found strong support for an association between better governance and more informative disclosures. Further, Clarkson et al. (2006) found that a corporate governance factor comprised of board, audit committee and remuneration committee independence and CEO duality was related to CEO remuneration disclosures for 2000 to 2003.

The present study focuses on separate governance attributes that are likely to influence financial disclosures because this allows us to identify the individual governance measures that are effective. It also enables us to identify any substitution effects between the various governance attributes.
Board independence is measured as the proportion of independent non-executive directors\(^4\) to total directors, and a dummy variable taking a value of one if the roles of the chairperson and CEO are separated and zero otherwise. Board size is the number of directors on the board while board diligence is measured as the number of board meetings per year.

The existence of an audit committee is identified by a dummy variable with a value of one if the company has an audit committee operating during the year and zero otherwise. Indicators of audit committee effectiveness are independence and expertise of committee members, number of meetings and size of the audit committee. Independence is the proportion of committee members that are described as non-executive and independent.\(^5\) Expertise is measured as the proportion of members with accounting and financial expertise. This was identified by reading the financial reports and identifying formal qualifications in accounting and finance of members (for example, B.Com., FCA, CPA). Diligence is measured by the number of committee meetings held during the year. Finally, audit committee size is measured as the number of directors assigned to the audit committee. To test the external audit hypothesis, we classify audit firms into large and small. Large firms comprise the Big Four plus the two largest mid-tier audit firms (accounting for approximately 60 of the external auditors for our sample companies)\(^6\). We assign a value of one when the company uses a large audit firm and zero otherwise.

---

\(^{4}\) Most companies specify whether directors are independent and/or non-executive. Where no mention of independence is made, we have assumed that the non-executive director is not independent. To overcome possible misspecification of this variable, we perform sensitivity analysis including those directors described as both independent and non-executive. Results are reported in the next section.

\(^{5}\) See footnote 4.

\(^{6}\) Traditionally, larger firms have been defined as the Big Eight/Six/Five and now the Big Four firms. However, there are some mid-tier international firms that audit large numbers of listed companies in Australia. We include in our definition of large firms, the two largest mid-tier firms (BDO, PKF) measured by both revenue earned and number of audits of listed companies. Because our classification is somewhat arbitrary (the third mid-tier firm audited 22 listed companies), we test alternative cut-off points and report the results in our additional analysis.
3.4. Measurement of control variables

The amount of intangible assets on the balance sheet is measured as total intangibles divided by total assets. Tax losses are measured as a dichotomous variable, given a value of one if the company reported a net loss before tax and a value of zero if the company reported a net profit before tax. Companies’ involvement in overseas operations is measured by the number of geographical segments.

Each industry sector is measured as a dichotomous variable, given a value of one if the company belongs to the specific industry sector, and a value of zero if the company is not classified as a member of the relevant industry.

Alternative measures of size have been adopted in previous studies. More frequently used measures are sales revenue (Moses, 1987), log of sales (Geiger et al., 2005), net income (Wong, 1988), total assets (Hagerman and Zmijewski, 1979), and log of total assets (Reynolds et al., 2004). This study uses log of total assets at balance date as a measure of size.

We use four models to test our hypotheses. In Models 1 and 2, the dependent variable is the number of sentences of disclosure about the transition to AIFRSs, while in Models 3 and 4, the dependent variable is an index of the number of accounting policies expected to change on implementation of AIFRSs. Models 1 and 3 include an independent variable for the presence of an audit committee while Models 2 and 4 include separate variables for audit committee characteristics of independence, expertise, diligence and size. The models are expressed as follows:

Model 1
Sentences = \( b_0 + b_1\text{Boardindepend} + b_2\text{Dual} + b_3\text{Boardmeet} + b_4\text{Boardsize} + b_5\text{AC} + b_6\text{Auditor} + b_7\text{Intang} + b_8\text{Taxlosses} + b_9\text{Geoseg} + b_{10}\text{Extractive} + b_{11}\text{Financial} + b_{12}\text{Consumerstap} + b_{13}\text{Size} + e \).
Model 2
Sentences = b_0 + b_1 Boardindepend + b_2 Dual + b_3 Boardmeet + b_4 Boardsize + b_5 ACindepend + b_6 ACexpertise + b_7 ACmeet + b_8 ACsize + b_9 Auditor + b_10 Intang + b_11 Taxlosses + b_12 Geoseg + b_13 Extractive + b_14 Financial + b_15 Consumerstap + b_16 Size + e

Model 3
Policies = b_0 + b_1 Boardindepend + b_2 Dual + b_3 Boardmeet + b_4 Boardsize + b_5 AC + b_6 Auditor + b_7 Intang + b_8 Taxlosses + b_9 Geoseg + b_10 Extractive + b_11 Financial + b_12 Consumerstap + b_13 Size + e.

Model 4
Policies = b_0 + b_1 Boardindepend + b_2 Dual + b_3 Boardmeet + b_4 Boardsize + b_5 ACindepend + b_6 ACexpertise + b_7 ACmeet + b_8 ACsize + b_9 Auditor + b_10 Intang + b_11 Taxlosses + b_12 Geoseg + b_13 Extractive + b_14 Financial + b_15 Consumerstap + b_16 Size + e

Where:
Sentences = number of sentences of disclosure with respect to the transition to AIFRSs.
Policies = number of accounting policies expected to change on transition to AIFRSs.
Boardindepend = proportion of independent directors on the board.
Dual = 1 if the CEO is also the chair, and 0 otherwise.
Boardmeet = number of board meetings each year.
Boardsize = number of directors on the board.
AC = 1 if the company has an audit committee, and 0 otherwise.
ACindepend = proportion of non executive independent members on the audit committee.
ACexpertise = proportion of audit committee members with accounting and finance qualifications.
ACmeet = number of audit committee meetings each year.
ACsize = number of members on the audit committee.
Auditor = 1 if a large audit firm (i.e. Big Four plus the first and second mid tier firms) is used, and 0 otherwise.
Intang = intangible assets divided by total assets.
Taxlosses = 1 if the company has a loss before tax, and 0 otherwise.
Geoseg = number of geographical segments.
Extractive = 1 if the company is in the extractive industries, and 0 otherwise.
Financial = 1 if the company is either a bank or an insurance company, and 0 otherwise.
Consumerstap = 1 if the company is in the consumer staples industry, and 0 otherwise.
Size = log of total book value of assets at balance date.
4. Results

4.1. Descriptive statistics and correlations

Table 1 provides details of the nature of the disclosures made about AIFRSs in accordance with AASB 1047. Panel A shows that the number of sentences of disclosure ranges from one to 97, with a mean of 23.13. The mean number of policies discussed is 4.39, with a range of zero to 16. Specific standards were referred to less frequently, with a mean of 2.46 standards being mentioned. Additional analysis indicates that more than 30% of companies made no reference to specific standards while less than 5% made no reference to any changes in accounting policies. Panel B reports that less than 2% of companies in our sample quantified the effects of the transition to AIFRSs by stating the expected dollar value of the impending changes.

Insert Table 1 about here

Table 2 reports the descriptive statistics for the independent variables in our models. The proportion of independent directors on the board ranges from 0% to 100%, with a mean of 49%. Only 11% of companies do not separate the roles of CEO and board chair. The number of board meetings per year averages ten, with a minimum number of one meeting per year and a maximum of 51. Further analysis indicates that 35 companies (3.6%) held more than 20 meetings per year while 15 companies (1.5%) held only one meeting per year. Board size ranges from a minimum of three directors to a maximum of 15 directors, with a mean of five.

Insert Table 2 about here

Some 81% of our sample companies have an audit committee. The number of directors on the committee ranged from two to seven with a mean of 2.86. The mean proportion of independent directors on the committee was 87%. Further analysis of this variable indicated that 71% of audit committees were comprised solely of independent directors while 86% were comprised of a majority of independent members. On average, 51% of audit committee members had

---

7 The mean proportion of independent and non-executive directors amounts to 67%, ranging from 0% to 100%.
8 The descriptive statistics relating to audit committee variables are based only on those companies with an audit committee.
accounting and finance expertise, with additional analysis revealing that 43% of companies had a majority of audit committee members with such expertise. However, a total of 119 companies (17%) had no members with accounting and finance qualifications. The frequency of audit committee meetings ranged from zero to 16 per year, with a mean of three per year. Additional analysis indicated that almost 50% of audit committees meet two or less times per year and a further 41% meet between three and five times per year. Approximately 3% of companies with an audit committee disclosed that the committee had not in fact held formal meetings during the current financial year.

With regard to our control variables, Table 2 shows that 44% of companies in our sample reported a net loss before tax, while the mean ratio of intangible assets to total assets ranged from 0% to 96%, with a mean of 7%. The mean number of geographical segments was 1.76, ranging from one segment to ten segments. Approximately 18% of our sample companies were in the extractive industries, 5% were in the consumer staples industry and 2% were financial institutions.

Table 3 provides correlations for the variables in Models 2 and 4. The highest correlations relate to size which is positively correlated with board size (r = .628), choice of a large audit firm (r = .304), audit committee size (r = .381) and the frequency of audit committee meetings (r = .393). Firm size is also negatively correlated with tax losses (r = -.516). All other correlation coefficients are less than .400. For parsimonious reasons, we do not report the correlation matrix for the variables in Models 1 and 3. Audit committee is positively correlated with size (r = .425) and board size (r = .327) and negatively correlated with tax losses (r = -.364). All other
correlations do not differ materially from those reported for Models 2 and 4. Overall, the correlations indicate that multicollinearity is unlikely to threaten the reliability of the results.\(^9\)

\textit{Insert Table 3 about here}

\textbf{(ii) Regression Results}

The results of our regression analyses are shown in Tables 4 and 5. Table 4 reports the results for Models 1 and 2, with the number of sentences of disclosure about AIFRSs as the dependent variable. Model 1 includes audit committee as a dummy variable while Model 2 replaces this variable with separate variables for audit committee characteristics.\(^{10}\) Model 2 reports a smaller sample because companies without audit committees are excluded and some companies did not disclose details of audit committee member characteristics.

\textit{Insert Table 4 about here}

Both models are significant, with an adjusted R\(^2\) of .220 (p < .001) for Model 1 and .234 (p < .001) for Model 2. Support exists for Hypothesis 1, with the number of board meetings per year being significant in explaining the number of sentences of disclosure. This variable is significant at p \leq .001 in both models, suggesting that a diligent board is more likely to make increased disclosures. Board size is significant in Model 2 (p = .022). The positive relation suggests that larger boards are associated with a greater level of disclosure. The board variables relating to independence are not significant.

The existence of an audit committee is not significant in Model 1. However, Model 2 provides support for Hypothesis 2 in that the number of audit committee meetings is positively associated with the level of AIFRSs disclosure (p = .007) while the size of the audit committee is negatively

\(^9\) Of note, the highest correlations for the corporate governance variables are between board and audit committee size (r = .382), between the proportion of independent directors on the board and the audit committee (r = .331) and between board size and the frequency of audit committee meetings (r = .336). All other correlations are less than .300. This suggests that collinearity between the governance variables is low and unlikely to be a threat to the reliability of our analysis.

\(^{10}\) Tests were undertaken to ensure that the error terms are normally distributed and analysis was undertaken to check for outliers for all variables in the models. No individual variables lead to undue influence on the results, so it
associated with disclosure level \((p = .044)\). Contrary to our expectations, audit committee expertise is also negatively associated with disclosure level \((p = .044)\). There is no significant association between disclosure level and audit committee independence. There is strong support for Hypothesis 3, with both models indicating that choice of a large audit firm is significant in explaining the number of sentences of disclosure \((p < .001)\).

Table 5 reports the results for Models 3 and 4, with the dependent variable being an index of the number of policies reported to be affected by the transition to AIFRSs. Both models are significant, with adjusted \(R^2\) of .147 for Model 3 and .149 for Model 4. The results for Model 3 indicate that number of board meetings and the presence of an audit committee are both positively related to the number of policies discussed \((p = .001\) and \(p = .033\) respectively). The results for Model 4 are broadly similar to those of Model 2, with the number of policies being positively related to the number of board and audit committee meetings \((p = .006\) and \(p = .002\) respectively) and board size \((p = .045)\). Hence, these results add further support to Hypotheses 1 and 2. Again, however, audit committee expertise and audit committee size are negatively related to number of policies. In both models, the number of policies disclosed is positively related to the choice of a large audit firm \((p \leq .002)\), providing further strong support for Hypothesis 3.

Our results relating to choice of auditor are consistent with Clarkson et al. (2003) who found a strong association between the use of a large audit firm and a greater level of disclosure with respect to the Year 2000 problem. These authors argue that their finding is consistent with a more conservative approach taken by large audit firms with regard to disclosure. Our results could similarly reflect a more conservative approach but they could also be an indication of a greater level of expertise and a greater commitment to AIFRSs by the large accounting firms. Furthermore, many companies were likely to be adjusting to the expected changes from...
transition to AIFRSs and hence were forced to rely on their auditor for advice relating to the required disclosures.

A possible reason for our non-significant results with respect to board and audit committee independence is the lack of variation in practice among the companies in our sample. As evidenced by our descriptive statistics, most companies now comply with recommended corporate governance practice in striving to have more independent boards and audit committees. However, our results suggest that more active boards and audit committees do encourage a greater level of disclosure. While our negative results for audit committee expertise is unexpected, a possible reason for this finding is that audit committees lacking in accounting expertise tend to rely more heavily on the advice of their external auditor. Similarly, audit committees with fewer members are also likely to place greater reliance on their auditor. This suggests a substitution effect between the external auditor and characteristics of the audit committee as corporate governance mechanisms.

With the exception of tax losses, our control variables are significantly related to the level of AIFRSs disclosure across all four models. Larger companies, companies with a greater proportion of intangible assets and companies with more geographical segments are more likely to make a greater level of AIFRSs disclosure. Our three industry variables are also significant in explaining quantity of disclosures. Overall, these findings are consistent with companies more affected by the change to AIFRSs having more to disclose about the impact of the changes.

Overall, these results suggest that board and audit committee diligence are associated with an increased level of disclosure. The results also suggest that larger audit firms are more likely to encourage a greater level of disclosure, possibly due to their increased awareness of the impact alternative measures of variables and these are reported in the next subsection.
of AIFRSs. There could also be substitution effects between expertise and size of the audit committee and the external auditor with respect to financial statement disclosures. These findings have implications for regulators and others concerned with ensuring that sound corporate governance structures are in place.

4.3. Additional analysis

We perform several additional tests to confirm the robustness of our results. As noted earlier, some companies fail to distinguish between independent and non-executive directors. We obtain similar results when we use both those directors described as independent and those described as non-executive. We also include a variable for independent board chair in addition to CEO/chair duality and instead of CEO/chair duality. In both cases, this variable is not significant and it does not qualitatively alter our reported results. We also test two alternative cut-offs between large and small audit firms. First, we use a big four and non-big four audit firm dichotomy and second, we include the third ranking mid-tier firm as a large firm. In both cases the auditor variable was significant, but the models were slightly weaker than those reported. We reperform our regression models using dummy variables for board and audit committee independence and audit committee expertise. In addition, we test for the possible effect of outliers by omitting extreme values and also winsorising extreme values for such variables as board meetings and audit committee meetings. In all cases our reported results are robust to these changes in our models.

We retest our models using the number of overseas subsidiaries instead of geographical segments. This variable is positively associated with the level of disclosure and does not materially change our reported results. We also transform the geographical segment variable using the square root function, again with qualitatively similar results. In addition, we test for the influence of cross listings on overseas exchanges. However, this factor is not significant, possibly because only 10 percent of companies have overseas cross listings, leading to a lack of
variation between companies. Additionally, we control for other factors such as leverage and profitability. These variables are not significant and have no material impact on our reported results. Further, we test for the possibility of multicollinearity between company size and the other variables in our model by excluding the log of assets from our models. Again, the results are qualitatively similar to those reported.

Finally, we tested our models using alternative dependent variables. First, we calculated the mean number of sentences and policies disclosed on an industry basis and then deducted the industry mean from the number of sentences or policies disclosed for each company. Second, we tested the models after transforming our dependent variables into log values. The regression results for all models using the industry-adjusted dependent variables and the log values are qualitatively similar to those reported, but with lower explanatory power.

5. Conclusion

The level of disclosure relating to the transition to AIFRSs was associated with superior corporate governance variables relating to the frequency of board and audit committee meetings and choice of auditor. Disclosure quantity was also positively related to board size, supporting those studies that have found larger boards to provide superior monitoring. Unexpectedly, disclosure level was associated with smaller audit committees and those with fewer accounting and finance experts. This latter result may be due to a greater reliance on the external auditor by audit committees lacking their own expertise, suggesting a substitution effect between these different governance mechanisms. The level of disclosure was not related to other measures of governance quality such as board and audit committee independence, possibly due to lack of variation in these variables. Our study demonstrates a strong association between a greater level of disclosure about the impact of AIFRSs and the use of a large audit firm. While this is
consistent with large firm conservatism as suggested by Clarkson et al. (2003), it could also indicate a greater commitment to AIFRSs and a higher level of expertise in the implementation of AIFRSs by larger audit firms compared to smaller audit firms. Our study adds to the growing body of research evidence that suggests a link between superior governance structures and a greater level of financial reporting disclosures.

There are several limitations of the study. The number of sentences of narrative does not measure the quality of disclosures. Reference to specific accounting policies may also not be a good measure of disclosure quality. It does however suggest a greater awareness of the likely impact of the transition to AIFRSs. Clearly there are other factors that might explain both the quantity and quality of disclosure relating to the transition to AIFRSs and we have not captured these in our models. Further, our sample size was reduced by confining the study to companies with a 30th June balance date.

Overcoming these limitations provides an opportunity for future research. In addition, by examining the first response of companies to the transition to AIFRSs, our study provides a base for further research analysing the quality of the expected financial impact of AIFRSs for reporting periods ending 30th June 2005.
References


Australian Investment Managers’ Association (AIMA), 1997, *Corporate governance statements by major ASX listed companies* (AIMA, Sydney).


Blumberg, R., 2006, Lessons learned from AIFRS, *In the Black* 76, 56-57.


Cadbury Committee (Committee on the Financial Aspects of Corporate Governance (Sir Adrian Cadbury, chair), 1992, Report (Gee and Company Ltd, London).


Clarkson, P.M., J.L. Kao, and G.D. Richardson, 1994, The voluntary inclusion of forecasts in the MD&A section of annual reports, Contemporary Accounting Research 11, 423-450.

Clarkson, P.M., J.L. Kao, and G.D. Richardson, 1999, Evidence that management discussion and analysis (MD&A) is a part of a firm’s overall disclosure package, Contemporary Accounting Research 16, 111-134.


Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (Cth), 2004 (Commonwealth of Australia, Canberra).


Ernst & Young, 2005, Assurance & Advisory Business Services, *The impact of AIFRS on Australian companies. A study of the financial statement disclosures by Australia’s top 100 listed companies* (Ernst & Young Australia, Australia).


Goodwin-Stewart J. and P. Kent, 2006, Relation between external audit fees, audit committee characteristics and internal audit, Accounting & Finance 46, 387-404.


Guthrie, J. and L. Parker, 1990, Corporate social disclosure practice: a comparative international analysis, Advances in Public Interest Accounting 3, 159-175.


Hassan, M.S., M. Percy, and J. Goodwin-Stewart, 2006, Information quality of derivative disclosures by Australian firms in the extractive industries, Corporate Ownership and Control 4, 257-270.

Hughes, R., 1999, The rise and rise of the audit committee, Accountancy 123 (February), 59.


Table 1  
Narrative disclosures on IFRS

Panel A

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sentences</td>
<td>1</td>
<td>97</td>
<td>23.13</td>
<td>13.16</td>
<td>20</td>
</tr>
<tr>
<td>Policies</td>
<td>0</td>
<td>16</td>
<td>4.39</td>
<td>2.26</td>
<td>4</td>
</tr>
<tr>
<td>Standards</td>
<td>0</td>
<td>7</td>
<td>2.46</td>
<td>2.11</td>
<td>3</td>
</tr>
</tbody>
</table>

Panel B

<table>
<thead>
<tr>
<th>Variable</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantification of effects</td>
<td>1.60</td>
<td>98.40</td>
</tr>
</tbody>
</table>

Where:

Sentences = number of sentences of disclosure with respect to the transition to AIFRSs.
Policies = number of accounting policies expected to change on transition to AIFRSs.
Standards = number of specific standards identified.
Quantification of effects = disclosure of the dollar value of the expected change.
Table 2
Descriptive statistics of independent variables

Panel A

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boardindepend</td>
<td>0.00</td>
<td>1.00</td>
<td>0.49</td>
<td>0.24</td>
<td>0.50</td>
</tr>
<tr>
<td>Boardmeet</td>
<td>1.00</td>
<td>51.00</td>
<td>10.56</td>
<td>4.95</td>
<td>11.00</td>
</tr>
<tr>
<td>Boardsize</td>
<td>3.00</td>
<td>15.00</td>
<td>4.97</td>
<td>1.75</td>
<td>5.00</td>
</tr>
<tr>
<td>ACindepend*</td>
<td>0.00</td>
<td>1.00</td>
<td>0.87</td>
<td>0.23</td>
<td>1.00</td>
</tr>
<tr>
<td>ACexpertise*</td>
<td>0.00</td>
<td>1.00</td>
<td>0.51</td>
<td>0.32</td>
<td>0.50</td>
</tr>
<tr>
<td>ACmeet*</td>
<td>0.00</td>
<td>16.00</td>
<td>3.05</td>
<td>1.93</td>
<td>3.00</td>
</tr>
<tr>
<td>ACsize*</td>
<td>2.00</td>
<td>7.00</td>
<td>2.86</td>
<td>0.81</td>
<td>3.00</td>
</tr>
<tr>
<td>Intang</td>
<td>0.00</td>
<td>0.96</td>
<td>0.07</td>
<td>0.16</td>
<td>0.00</td>
</tr>
<tr>
<td>Geoseg</td>
<td>1.00</td>
<td>10.00</td>
<td>1.76</td>
<td>1.29</td>
<td>1.00</td>
</tr>
<tr>
<td>Size</td>
<td>9.18</td>
<td>26.45</td>
<td>17.38</td>
<td>2.24</td>
<td>17.22</td>
</tr>
</tbody>
</table>

Panel B

<table>
<thead>
<tr>
<th>Variable</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dual</td>
<td>11</td>
<td>89</td>
</tr>
<tr>
<td>AC</td>
<td>81</td>
<td>19</td>
</tr>
<tr>
<td>Auditor</td>
<td>67</td>
<td>33</td>
</tr>
<tr>
<td>Taxlosses</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>Extractive</td>
<td>18</td>
<td>82</td>
</tr>
<tr>
<td>Financial</td>
<td>2</td>
<td>98</td>
</tr>
<tr>
<td>Consumerstap</td>
<td>5</td>
<td>95</td>
</tr>
</tbody>
</table>

* These statistics relate only to those companies that have an audit committee.

Where:
Boardindepend = proportion of non-executive, independent directors on the board.
Boardmeet = number of board meetings each year.
Boardsize = the number of directors on the board.
ACindepend = proportion of non-executive independent members on the audit committee.
ACexpertise = proportion of audit committee members with accounting and finance qualifications.
ACmeet = number of audit committee meetings each year.
ACsize = number of members on the audit committee.
Geoseg = number of geographical segments.
Intang = intangible assets divided by total assets.
Size = log of total book value of assets at balance date.
Dual = 1 if the CEO is also the chair, and 0 otherwise.
AC = 1 if have an audit committee, and 0 otherwise.
Auditor = 1 if a large audit firm (i.e. Big Four plus the first and second mid tier firms), and 0 otherwise.
Taxlosses = 1 if the company has a net loss before tax, and 0 otherwise.
Extractive = 1 if the company is in the extractive industries, and 0 otherwise.
Financial = 1 if the company is a financial institution, and 0 otherwise.
Consumerstap = 1 if the company is in the consumer staples industry, and 0 otherwise.
Table 3
Correlation Matrix for Variables in regressions

<table>
<thead>
<tr>
<th></th>
<th>Board indep</th>
<th>Dual</th>
<th>Boardmeet</th>
<th>Board size</th>
<th>ACindep</th>
<th>ACexpertise</th>
<th>ACmeet</th>
<th>ACsize</th>
<th>Auditor</th>
<th>Intang</th>
<th>Taxlosses</th>
<th>Geoseg</th>
<th>Extractive</th>
<th>Financial</th>
<th>Consumerstap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board indep</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dual</td>
<td>-0.099**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boardmeet</td>
<td>-0.012</td>
<td>-0.056</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>0.092**</td>
<td>-0.112**</td>
<td>0.043</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACindep</td>
<td>0.331**</td>
<td></td>
<td>-0.126**</td>
<td>0.043</td>
<td>0.276**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACexpertise</td>
<td>-0.033</td>
<td></td>
<td>-0.033</td>
<td>0.011</td>
<td>-0.023</td>
<td>0.071</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACmeet</td>
<td>0.145**</td>
<td></td>
<td>-0.001</td>
<td>0.148**</td>
<td>0.336**</td>
<td>-0.165**</td>
<td>0.045</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACsize</td>
<td>0.155**</td>
<td></td>
<td>-0.109**</td>
<td>0.104**</td>
<td>0.382**</td>
<td>-0.021</td>
<td>-0.162**</td>
<td>0.185**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor</td>
<td>0.082*</td>
<td></td>
<td>-0.168**</td>
<td>-0.065</td>
<td>0.296**</td>
<td>-0.141**</td>
<td>-0.008</td>
<td>0.180**</td>
<td>0.128**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intang</td>
<td>-0.042</td>
<td></td>
<td>0.050</td>
<td>0.051</td>
<td>0.056</td>
<td>0.039</td>
<td>-0.001</td>
<td>-0.044</td>
<td>0.001</td>
<td>0.041</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxlosses</td>
<td>-0.004</td>
<td></td>
<td>0.090*</td>
<td>-0.033</td>
<td>-0.321**</td>
<td>-0.123**</td>
<td>-0.112**</td>
<td>-0.192**</td>
<td>-0.274**</td>
<td>-0.133**</td>
<td>0.096*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geoseg</td>
<td>0.081*</td>
<td></td>
<td>-0.007</td>
<td>0.031</td>
<td>0.196**</td>
<td>-0.090*</td>
<td>-0.029</td>
<td>0.163**</td>
<td>0.087*</td>
<td>0.107**</td>
<td>0.042</td>
<td>-0.030</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extractive</td>
<td>0.021</td>
<td></td>
<td>-0.005</td>
<td>-0.065</td>
<td>-0.035</td>
<td>-0.006</td>
<td>-0.053</td>
<td>-0.082*</td>
<td>-0.021</td>
<td>0.019</td>
<td>-0.159**</td>
<td>0.999*</td>
<td>0.011</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>0.057</td>
<td></td>
<td>-0.047</td>
<td>0.049</td>
<td>0.124**</td>
<td>-0.025</td>
<td>-0.013</td>
<td>0.114**</td>
<td>0.096*</td>
<td>0.022</td>
<td>-0.064</td>
<td>-0.077*</td>
<td>-0.050</td>
<td>-0.063</td>
<td>1</td>
</tr>
<tr>
<td>Consumerstap</td>
<td>-0.001</td>
<td></td>
<td>-0.026</td>
<td>0.073</td>
<td>0.088*</td>
<td>0.012</td>
<td>-0.002</td>
<td>0.075</td>
<td>-0.001</td>
<td>-0.013</td>
<td>-0.019</td>
<td>-0.003</td>
<td>0.053</td>
<td>0.097*</td>
<td>-0.036</td>
</tr>
<tr>
<td>Size</td>
<td>0.150**</td>
<td></td>
<td>-0.154**</td>
<td>-0.101**</td>
<td>0.628**</td>
<td>0.244**</td>
<td>0.000</td>
<td>0.393**</td>
<td>0.381**</td>
<td>0.304**</td>
<td>0.021</td>
<td>-0.516**</td>
<td>0.205**</td>
<td>0.015</td>
<td>0.218**</td>
</tr>
</tbody>
</table>

** significant at 0.01 level (2 tailed), * significant at 0.05 level (2 tailed)

Where:

Board indep = proportion of independent directors on the board; Dual = 1 if the CEO is also the chair, and 0 otherwise; Boardmeet = number of board meetings each year; Board size = number of directors on the board; ACindep = proportion of non-executive independent members on the audit committee; ACexpertise = proportion of audit committee members with accounting and finance qualifications; ACmeet = number of audit committee meetings each year; ACsize = number of members on the audit committee; Auditor = 1 if a large audit firm (i.e. Big Four plus the first and second mid tier firms), and 0 otherwise. 
Intang = intangible assets divided by total assets; Taxlosses = 1 if the company has a loss before tax, and 0 otherwise; Geoseg = number of geographical location; Extractive = 1 if the company is in the extractive industries, and 0 otherwise; Financial = 1 if the company is either a bank or an insurance company, and 0 otherwise; Consumerstap = 1 if the company is in the consumer staples industry, and 0 otherwise; Size = log of total book value of assets at balance date.
Table 4
Regression Results
(Dependent variable: number of sentences of disclosure)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Predicted Direction</th>
<th>Coefficient</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>-12.366</td>
<td>-3.033</td>
<td>-10.895</td>
</tr>
<tr>
<td>Boardindepend</td>
<td>+</td>
<td>-0.018</td>
<td>-0.011</td>
<td>.991</td>
</tr>
<tr>
<td>Dual</td>
<td>-</td>
<td>1.268</td>
<td>1.042</td>
<td>.298</td>
</tr>
<tr>
<td>Boardmeet</td>
<td>+</td>
<td>0.287</td>
<td>3.632</td>
<td>.000</td>
</tr>
<tr>
<td>Boardsize</td>
<td>?</td>
<td>0.372</td>
<td>1.298</td>
<td>.195</td>
</tr>
<tr>
<td>AC</td>
<td>+</td>
<td>0.102</td>
<td>0.092</td>
<td>.464</td>
</tr>
<tr>
<td>Acindepend</td>
<td>+</td>
<td>-1.799</td>
<td>-0.749</td>
<td>.454</td>
</tr>
<tr>
<td>Acexpertise</td>
<td>+</td>
<td>-3.203</td>
<td>-2.015</td>
<td>.044</td>
</tr>
<tr>
<td>Acmeet</td>
<td>+</td>
<td>0.691</td>
<td>2.495</td>
<td>.007</td>
</tr>
<tr>
<td>Acsize</td>
<td>?</td>
<td>-1.433</td>
<td>-2.016</td>
<td>.044</td>
</tr>
<tr>
<td>Auditor</td>
<td>+</td>
<td>6.973</td>
<td>8.007</td>
<td>.000</td>
</tr>
<tr>
<td>Intang</td>
<td>+</td>
<td>0.036</td>
<td>1.523</td>
<td>.064</td>
</tr>
<tr>
<td>Taxlosses</td>
<td>+</td>
<td>0.406</td>
<td>0.432</td>
<td>.333</td>
</tr>
<tr>
<td>Geoseg</td>
<td>+</td>
<td>0.943</td>
<td>3.111</td>
<td>.001</td>
</tr>
<tr>
<td>Extractive</td>
<td>+</td>
<td>3.515</td>
<td>3.374</td>
<td>.000</td>
</tr>
<tr>
<td>Financial</td>
<td>+</td>
<td>8.542</td>
<td>2.976</td>
<td>.002</td>
</tr>
<tr>
<td>Consumerstap</td>
<td>+</td>
<td>3.933</td>
<td>2.124</td>
<td>.017</td>
</tr>
<tr>
<td>Size</td>
<td>+</td>
<td>1.300</td>
<td>4.803</td>
<td>.000</td>
</tr>
</tbody>
</table>

* one-tail test where direction predicted, otherwise two-tail.

Model 1: Number = 965; Adjusted $R^2 = 0.220; F = 21.941; p = .000.$

Model 2: Number = 660; Adjusted $R^2 = 0.234; F = 13.592; p = .000.$

Where:
Boardindepend = proportion of independent directors on the board.
Dual = 1 if the CEO is also the chair, and 0 otherwise.
Boardmeet = number of board meetings each year.
Boardsize = number of directors on the board.
Ac = 1 if have an audit committee, and 0 otherwise.
Acindepend = proportion of non executive independent members on the audit committee.
Acexpertise = proportion of audit committee members with accounting and finance qualifications.
Acmeet = number of audit committee meetings each year.
Acsize = number of members on the audit committee.
Auditor = 1 if a large audit firm (i.e. Big Four plus the first and second mid tier firms), and 0 otherwise.
Intang = intangible assets divided by total assets.
Taxlosses = 1 if the company has a loss before tax, and 0 otherwise.
Geoseg = number of geographical location.
Extractive = 1 if the company is in the extractive industries, and 0 otherwise.
Financial = 1 if the company is either a bank or an insurance company, and 0 otherwise.
Consumerstap = 1 if the company is in the consumer staples industry, and 0 otherwise.
Size = log of total book value of assets at balance date.
### Table 5
Regression Results
(Dependent variable: index of disclosure of changes to expected accounting policies)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Predicted Direction</th>
<th>Coefficient</th>
<th>Model 3 T Statistic</th>
<th>p*</th>
<th>Coefficient</th>
<th>Model 4 T Statistic</th>
<th>p*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>0.120</td>
<td>0.164</td>
<td>.869</td>
<td>1.278</td>
<td>1.251</td>
<td>.211</td>
</tr>
<tr>
<td>Boardindepend</td>
<td>+</td>
<td>-0.128</td>
<td>-0.435</td>
<td>.663</td>
<td>-0.299</td>
<td>-0.715</td>
<td>.475</td>
</tr>
<tr>
<td>Dual</td>
<td>-</td>
<td>0.276</td>
<td>1.266</td>
<td>.206</td>
<td>0.156</td>
<td>0.507</td>
<td>.613</td>
</tr>
<tr>
<td>Boardmeet</td>
<td>+</td>
<td>0.042</td>
<td>2.955</td>
<td>.001</td>
<td>0.047</td>
<td>2.507</td>
<td>.006</td>
</tr>
<tr>
<td>Boardsize</td>
<td>?</td>
<td>0.058</td>
<td>1.126</td>
<td>.260</td>
<td>0.137</td>
<td>2.012</td>
<td>.045</td>
</tr>
<tr>
<td>AC</td>
<td>+</td>
<td>0.367</td>
<td>1.840</td>
<td>.033</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acindepend</td>
<td>+</td>
<td></td>
<td>-0.388</td>
<td>.093</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acexpertise</td>
<td>+</td>
<td></td>
<td>-0.640</td>
<td>2.317</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acmeet</td>
<td>+</td>
<td></td>
<td>0.146</td>
<td>3.029</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acsize</td>
<td>?</td>
<td></td>
<td>-0.217</td>
<td>-1.756</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor</td>
<td>+</td>
<td>0.742</td>
<td>4.758</td>
<td>.000</td>
<td>0.607</td>
<td>2.944</td>
<td>.002</td>
</tr>
<tr>
<td>Intang</td>
<td>+</td>
<td>0.011</td>
<td>2.572</td>
<td>.005</td>
<td>0.012</td>
<td>2.254</td>
<td>.013</td>
</tr>
<tr>
<td>Taxlosses</td>
<td>+</td>
<td>-0.133</td>
<td>-0.790</td>
<td>.430</td>
<td>-0.219</td>
<td>-1.033</td>
<td>.302</td>
</tr>
<tr>
<td>Geoseg</td>
<td>+</td>
<td>0.157</td>
<td>2.898</td>
<td>.002</td>
<td>0.144</td>
<td>2.304</td>
<td>.011</td>
</tr>
<tr>
<td>Extractive</td>
<td>+</td>
<td>0.975</td>
<td>5.224</td>
<td>.000</td>
<td>0.882</td>
<td>3.534</td>
<td>.000</td>
</tr>
<tr>
<td>Financial</td>
<td>+</td>
<td>1.619</td>
<td>3.148</td>
<td>.001</td>
<td>1.338</td>
<td>2.275</td>
<td>.012</td>
</tr>
<tr>
<td>Consumerstap</td>
<td>+</td>
<td>0.742</td>
<td>2.237</td>
<td>.013</td>
<td>0.620</td>
<td>1.619</td>
<td>.053</td>
</tr>
<tr>
<td>Size</td>
<td>+</td>
<td>0.129</td>
<td>2.658</td>
<td>.004</td>
<td>0.121</td>
<td>1.965</td>
<td>.025</td>
</tr>
</tbody>
</table>

* one-tail test where direction predicted, otherwise two-tail.

Model 1: Number = 965; Adjusted R² = 0.147; F = 13.749; p = .000.

Model 2: Number = 660; Adjusted R² = 0.149; F = 8.195; p = .000.

Where:
- Boardindepend = proportion of independent directors on the board.
- Dual = 1 if the CEO is also the chair, and 0 otherwise.
- Boardmeet = number of board meetings each year.
- Boardsize = number of directors on the board.
- Ac = 1 if have an audit committee, and 0 otherwise.
- Acindepend = proportion of non executive independent members on the audit committee.
- Acexpertise = proportion of audit committee members with accounting and finance qualifications.
- Acmeet = number of audit committee meetings each year.
- Acsize = number of members on the audit committee.
- Auditor = 1 if a large audit firm (i.e. Big Four plus the first and second mid tier firms), and 0 otherwise.
- Intang = intangible assets divided by total assets.
- Taxlosses = 1 if the company has a loss before tax, and 0 otherwise.
- Geoseg = number of geographical location.
- Extractive = 1 if the company is in the extractive industries, and 0 otherwise.
- Financial = 1 if the company is either a bank or an insurance company, and 0 otherwise.
- Consumerstap = 1 if the company is in the consumer staples industry, and 0 otherwise.
- Size = log of total book value of assets at balance date.