

The composition of New Zealand public sector audit committees

Abstract

This study investigates the association between the source of funding of New Zealand public sector entities (PSEs) and the composition of their audit committees. Fifty PSEs in the health, local government and tertiary sectors were examined and the results show that only 28 PSEs (56 percent) disclosed the existence of an audit committee in their annual reports. The size of the audit committees that exist are on average larger than that recommended by best practice guidelines; however most of the PSEs, with the exception of some of the education providers, do comply with guidelines recommended for audit committee independence and financial expertise. The study also finds that PSEs that have higher levels of debt are more likely to have independent audit committees; however PSEs that rely on high levels of government funding are *not* more likely than other PSEs to have an audit committee with a majority of independent members and a financial expert.

Key Words: audit committees; public sector entities

1.0 Introduction

Stakeholders are taking a much closer look at organisations' financial reports and practices, in both the private and public sectors. This is due in part to corporate scandals (such as HIH Insurance in Australia and Enron in the US) and the resultant Sarbanes-Oxley Act (SOX, 2002). More recently the finance and banking crisis, and frauds such as the multi-million dollar public sector fraud at the Otago District Health Board in New Zealand have intensified corporate and public sector governance requirements and expectations. Stakeholders are paying more attention to the structures that are in place to ensure accountability and transparency of information, especially financial information. One of the structures that has become more common in recent times within public and private sector entities is the audit committee, which usually assists in monitoring the integrity and efficiency of an organisation's internal controls, risk management, financial reporting and audit.

In New Zealand there is no specific regulatory or legislative requirement for private or public sector entities (PSEs) to establish audit committees. However a number of best practice guidelines for audit committees have been issued for the corporate sector. These include the New Zealand Securities Commission corporate governance principles and guidelines (NZSC, 2004) and the Institute of Directors' best practice guide for directors which includes a section on audit committees (IOD, 2007). Most recently the Office of the Auditor General (OAG) issued a good practice guide for audit committees in the public sector (OAG, 2008),

New Zealand, in common with all developed countries, has a financially significant public sector and two of the most significant areas are the provision of health services and education. New Zealand's twenty one district health boards (DHBs) are responsible for administering approximately NZ\$12 billion of health related services annually and its education providers also manage just over NZ\$12 billion each year (New Zealand Treasury Department, 2009). There are expectations that public sector entities adopt corporate governance principles consistent with good practice including establishing audit committees

(OAG, 2008). Given these expectations and the considerable size of the public sector, audit committees are likely to have an important role to play in the internal control structures within New Zealand's public sector.

The importance of strong governance and internal controls within public sector entities has been brought to the fore recently with changes made to the governance of institutes of technologies and polytechnics (ITPs). The changes are intended to allow a quicker response to the risks posed by ITPs with educational or financial performance issues (Tolley, 2009). Under the Education (Polytechnics) Amendment Bill (2009), there is a new emphasis on achieving and maintaining good governance practices. Appointments to the ITP councils, which will be reduced in size, will be made on the basis of relevant skills and experience, especially governance experience, and fifty percent of the council members will be appointed by the Minister of Tertiary Education.

The lack of strong governance and good internal controls were partly blamed for the largest fraud in New Zealand public sector history, which occurred at the Otago DHB in 2008 (Peart, 2008). The Otago DHB fraud, which occurred over a six year period, was carried out by the former Chief Information Officer of the DHB and involved NZ\$17 million.

A review of audit committee literature suggests that the effectiveness of an audit committee is often influenced by the independence and financial expertise of its members (Bédard and Gendron, 2009). Most of the research in this area has focused on the operation of audit committees in the corporate sector, using an agency-theory-based approach to develop and test hypotheses. The objectives of public sector entities differ from those of profit-oriented organisations, and therefore in the absence of any principal-agent relationship we use a resource dependency theory framework more suited to the public sector.

Resource dependency theory arose in the 1960s and 1970s, through the works of Thompson (1967); Levine and White (1973) and Pfeffer and Salancik (1973) (cited in Wyttenbach-Lyndsey, 2005). The underlying assumption upon which resource dependency theory is based is that an organisation's survival depends on its ability to acquire and

maintain resources. The theory assumes that organisations are not self-sufficient and are dependent on resources, including financial, from external sources. Pfeffer and Salancik (2003) suggest dependent organisations seek to alter their organisational goals and structures, such as boards and committees, in order to acquire necessary resources.

Research based on resource dependency theory has shown that there is a relationship between external financial resource dependence and the composition and structure of boards of directors (Pfeffer and Salancik, 2003). In particular, differences in the type and source of financial resources lead to differences in audit committee composition in the non-profit sector (Vermeer, Raghunandan, and Forgione, 2006).

In this paper we hypothesise that the composition of the public sector entities' audit committees will be associated with the different sources of funding. We expect that public sector entities that receive a higher percentage of central government funding are more likely to voluntarily establish audit committees that consist solely of independent members and include a financial expert than those public sector entities that receive a higher proportion of private funding. Public sector entities, like their private sector counterparts are often funded in part by external lenders and have a responsibility to debtholders to monitor compliance with debt covenant provisions. The demand for this type of monitoring would most likely increase as the level of debt increases. We therefore hypothesise that public sector entities that rely on higher levels of debt are more likely to have an audit committee with a majority of independent members and a financial expert.

This study examines the audit committees of a sample of 50 PSEs comprising DHBs, local government councils, ITPs and universities. We find that only 28 PSEs (56 percent) disclose the existence of an audit committee in their annual reports. This result is surprising given the emphasis by regulators on improving standards of corporate governance and the recent release of a number of good practice guides for audit committees. The audit committees, apart from those in the ITP sector, have a majority of members that are independent and have at least one financial expert; except the financial experts on the

universities' audit committees were not independent. The audit committees in the ITP sector comprised the lowest percentage of independent members, due in part to the inclusion of government appointed representatives on the ITP boards.

The study also finds that PSEs that have higher levels of debt are more likely to have independent audit committees; however PSEs that rely on high levels of government funding are *not* more likely than other PSEs to have an audit committee with a majority of independent members and a financial expert.

The rest of the paper is organised as follows. Section 2 describes the types of public sector entities in New Zealand and their different sources of funding. In Section 3 we review the literature on audit committee membership, with a particular focus on the public sector and audit committees in New Zealand. In Section 4, we state the objectives of the study and in Section 5 we develop the hypotheses. Section 6 describes the research design, and the results are presented in Section 7 and summarised and discussed in Section 8.

2.0 Public sector entities in New Zealand

There are a number of different types of public sector entities in New Zealand, including:

- district health boards (DHBs), which are responsible for providing, or funding the provision of, health and disability services in their districts (New Zealand Ministry of Health, 2009);
- universities, and institutes of technology and polytechnics (ITPs), which are responsible for providing tertiary education to support their local communities (New Zealand Ministry of Education, 2009); and
- local government councils, which are responsible for managing the environmental, resource and transport planning issues for the region (Local Councils New Zealand, 2009).

The amount of central government funding each public sector entity receives depends on the function of the entity. For example, DHBs are entirely government funded, due to New Zealand Public Health and Disability Act 2000 which requires that public healthcare be provided free of charge to all New Zealand residents. The amount of funding provided by the government to DHBs is calculated according to the population size for which each DHB is responsible.

Universities and ITPs are not as dependent on government funding as DHBs but still rely on funding from central government to provide their educational services to the public at affordable prices. Tertiary institutions in New Zealand (excluding private education providers) receive significant funding from central government; for example, this funding represented 48 percent of the total income received by all tertiary institutions in 2004. On average in 2004, the university sector received 39 percent of its total income from government funding, while the ITP sector received around 60 percent of its revenue from central government funding (Russell, 2007).

Local government councils only receive a small proportion of their income from central government; their main source of revenue comes from rates which are collected from the population, including property and local council rates (Local Councils New Zealand, 2009). Government funding is often in the form of grants which allows for motorways and roads to be built and maintained (New Zealand Transport Agency, 2009).

3.0 Literature review

3.1 *Best practice guidelines for audit committees*

Audit committee best practice guidelines have been established by a number of organisations both internationally and within New Zealand. Outside of New Zealand, notable best practice recommendations have been issued by the Blue Ribbon Committee (BRC) (1999), the Cadbury Committee (1992) and all the Big-4 accounting firms, such as PricewaterhouseCoopers (2003).

Within New Zealand the Institute of Directors (IOD) issued a best practice statement pertaining to audit committees in 1996; this was updated in 2007 when the IOD issued a best practice guide for directors which includes a section on audit committees. Following the collapse of Enron the New Zealand stock exchange (NZX Limited) required listed companies to establish audit committees (rule 3.6), following the lead of the US and Australian markets (NZX, 2003). In 2004 the New Zealand Securities Commission (NZSC) issued a number of corporate governance principles and guidelines to be applied by entities with significant economic impact such as publicly listed entities, which include some recommendations for audit committees. The guidelines recommend that audit committees have a charter which sets out their role and responsibilities and that the committee reports back to the board on these. It also recommends that the audit committee include a majority of independent directors, a financial expert and a chairperson who is not the board chair (NZSC, 2004).

In the New Zealand public sector, there are no specific regulatory or legislative requirements for establishing audit committees. There are pieces of public sector legislation (such as the Public Finance Act 1989, Crown Entities Act 2004, and Local Government Act 2002) which require public entities to maintain a “system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting” (Crown Entities Act 2004, s21). However, the legislation stops short of defining ‘internal control’.

Most recently the New Zealand Office of the Auditor-General (OAG) issued a good practice guide for audit committees in the public sector (2008), which is of particular interest in this study. The “Audit Committees Public Sector Good Practice Guide” (2008) outlines the recommended composition of audit committees which includes the use of independent members. Where possible audit committees should exclude employees and government appointed board members. The Guide also recommends the inclusion of a financial expert on audit committees such as a chartered accountant or similar, with experience in public sector financial reporting, and suggests that the audit committee should have between three and five members (OAG, 2008). For PSEs that decide not to form audit committees the

Auditor-General expects the governing body or the chief executive to put into place appropriate systems and processes to ensure that they can carry out their accountability and governance responsibilities (OAG, 2008).

3.2 Audit committee composition

There have been numerous studies on the composition of corporate sector audit committees. In a review of 103 studies Bédard and Gendron (2009) found that research has often (but not always) indicated that audit committee independence is positively associated with the effectiveness of the committee. Similarly the competence of audit committee members, including their financial and governance expertise, is usually associated with the effectiveness of the committee. However, this research is dominated by studies of listed companies in the United States. There is scarce evidence, however, about the composition or operation of the audit committees of non-profit entities¹.

A study of non-profit audit committees in the US in 2006 by Vermeer *et al.* (2006) found that 64 percent of the respondents that had formed audit committees had members who were completely independent and 56 percent had at least one member with financial expertise. Surprisingly, the findings from the study suggest that hospitals and universities are less likely than other non-profit entities to have audit committees consisting solely of independent directors. In further analysis it was found that organisations that were larger, that received government funding grants, and that used a Big-4 auditor were more likely to have audit committees consisting solely of independent directors. Expertise found on non-profit audit committees was found to increase with the amount of government funding they receive. “Eighty-eight percent of non-profits have at least one financial expert on the audit committee, and organizations that receive government grants and have an internal audit

¹ Non-profit entities are equivalent to public benefit entities in New Zealand, which include public sector entities, clubs and charities, “whose primary objective is to provide goods and services for community or social benefit” (NZICA, 2009, p.55).

function are more likely to have a financial expert on the committee” (Vermeer *et al.*, 2006, p.75).

Very little research has been carried out on the composition or operation of audit committees that have been formed by public sector entities in New Zealand. Porter and Gendall (1998) examined audit committees in both the public and the private sectors in the early 1990s, and found that 70 percent of audit committees in the public sector and 60 percent in the private sector had CEOs as a member of the audit committee. Respondents in this study reported that an understanding of the audit committee purpose and ability to exercise sound judgment were the most important attributes of audit committee membership, ahead of independence and financial expertise. A more recent study by Goodwin (2003) of public and private sector audit committees in Australia and New Zealand found that public sector audit committees tend to be less independent and have fewer members with accounting expertise than those in the private sector in both countries.

The New Zealand Institute of Internal Auditors (NZIIA) and Big-4 firm KPMG conducted a survey of audit committee practices across ministries and government departments in 2005. The study found that audit committees were a relatively new phenomenon in the New Zealand public sector, with 18 departments of the 24 respondents (75 percent) having voluntarily established audit committees (42 departments in total). New Zealand public sector chief executives had much more control over their audit committees than their counterparts overseas with audit committees chaired by the chief executive in 55 percent of the cases. The committees lacked independence with only two audit committees (11 percent) having a majority of members drawn from outside the organisation. The public sector audit committees were found to be typically bigger than their overseas counterparts, with a membership of six to eight, usually including the senior management team. This contrasted with public sector audit committees overseas where three to five audit committee members was normal, with senior management being observers (NZIIA and KPMG, 2005). This finding was similar to Goodwin’s 2003 study in which she found that public sector audit

committees tend to be larger than those in the private sector in both Australia and New Zealand.

More recently, a case study of the operations of an audit committee of a DHB in New Zealand by Magrane and Malthus (2009) found that the audit committee, which the DHB had voluntarily established, comprised four non-executive board members plus an 'ex officio' chair, who was appointed by the Minister of Health. The chair of the audit committee of this DHB was the only member with financial expertise, while the other members, who had been democratically voted onto the board of the DHB, had backgrounds primarily in the health sector.

4.0 Research objective

The purpose of the current study is to investigate the existence and composition of audit committees for three different types of public sector entities in New Zealand, namely DHBs, local councils, and universities and ITPs. Our first goal is to investigate if the audit committees of the selected public sector entities have the attributes for an effective audit committee, as recommended by the OAG best practice guide for audit committees (2008). We then use the resource dependency framework to test whether there is any association between the source of funding received by the PSEs and the composition of audit committee. Finally we test whether PSEs that have higher levels of debt are more likely to have independent audit committees.

5.0 Hypotheses

Applying resource dependency theory to audit committees suggests that differences in the nature and types of funding will lead to difference in the demand for monitoring and for that reason differences in the composition of audit committees (Vermeer *et al.*, 2006). The following hypotheses have therefore been developed:

Government funding

Public sector entities with greater reliance on government funding/grants, such as DHBs, would be expected to be under greater scrutiny by government as they would have to be accountable to the respective Minister to justify the use of the resources provided. The demand for financial monitoring would therefore be higher and the audit committee would more likely be structured in a way to be an effective monitoring mechanism. It is hypothesised that:

H1 Public sector entities that rely on higher levels of government funding are more likely to have an audit committee with a majority of independent members and a financial expert.

Debt

Agency theory suggests that with the use of debt there are potential conflicts between shareholders and debtholders (Jensen and Meckling, 1976). While shareholder and debtholder conflicts are not relevant to the public sector there can still exist conflicts between external funders, for example rate payers, and creditors. In addition the borrower may have certain covenants to meet and therefore public sector entities have a responsibility to debtholders to monitor compliance with debt covenant provisions. The demand for this type of monitoring, including the formation of an effective audit committee, would most likely increase as the level of debt increases. It is hypothesised that:

H2 Public sector entities that rely on higher levels of debt are more likely to have an audit committee with a majority of independent members and a financial expert.

6.0 Research design

6.1 Model and variables

A regression model is used to test the relation between the nature of funding of the public sector entities and the composition of their audit committees. The model is specified as follows:

$$AC_i = \beta_0 + \beta_1 GOVT_i + \beta_2 LEV_i + \beta_3 LSIZE_i + \beta_4 BSIZE_i + \beta_5 BRDIND_i + e$$

The dependent variable AC_i is a proxy for audit committee attributes. The first attribute is audit independence (ACIND) which is the percentage of independent audit committee members. For classification purposes an independent audit committee member is defined as a member not employed by the PSE and not appointed by the government. The second attribute measured was financial expertise (ACEXP). The variable is the percentage of financial experts on the audit committee. We classify audit committee members qualified as Chartered Accountants (CA) to be financial experts². Annual report disclosures are used to identify independent and financially expert audit committee members.

The independent variables include the amount of government funding (GOVT) defined as the government revenue as a proportion of total revenue. Funding from creditors (LEV) is defined as the proportion of total liabilities to total assets

The model includes variables controlling for factors from prior research that are associated with the composition of audit committees in the private sector in New Zealand and are relevant to the public sector (Rainsbury, Bradbury and Cahan, 2008). Firm size (LSIZE) is the natural logarithm of total assets. Board size (BDSIZE) is the number of individuals serving on the board of directors and board independence (BDIND) is the percentage of independent directors.

² Data on independent financial experts was not available at this time.

6.2 Population and data

The population comprises DHBs, local government councils, and universities and ITPs in New Zealand, from which a random sample of 50 PSEs was selected. A stratified sampling approach was applied. Table 1 summaries the three groups of PSEs in the population and the sample selected for the study.

Insert Table 1

7.0 Results and analysis

7.1 Audit committees: descriptive data

Table 2 shows that all the DHBs and the universities in the sample have established audit committees; however, only 14 of the 32 councils (44 percent) and three of the seven ITPs (43 percent) have audit committee, as disclosed in their annual reports. Fourteen of the 32 councils (44 percent) have no formal audit committee, although some stated that audit committees could be established if required. Five councils mentioned the existence of a finance committee which included some of the responsibilities of an audit committee; however no details regarding size or membership were disclosed. Eight PSEs made no disclosures about audit committee details, of these four were councils and four were ITPs, and it is assumed that these PSEs have not formed an audit committee.

Overall, therefore only 56 percent of the PSEs sampled have established an audit committee, which is relatively low when compared to the proportion of government departments in New Zealand who have voluntarily established audit committees. Of those government departments who responded to a questionnaire from KPMG and NZIIA in 2005, 75 percent had voluntarily established audit committees, and this percentage may have increased since the date of the study.

Insert Table 2

Board size and composition

The size of the PSE boards ranged from 7 to 20 board members; the university boards were the largest with an average size of 18 members and the DHBs had the smallest boards with an average of 11 board members.

Board independence for each of the PSEs was also assessed. In this study an independent board member is defined as a member not employed by the PSE and not appointed by the government. Based on this definition, councils were 100 percent independent with all councillors publicly elected. DHBs, ITPs and universities all had four government appointed directors as required by legislation which reduced the level of board independence. Universities had on average 78 percent of independent board members, followed by the ITPs with 73 percent and DHBs with the lowest average board independence of 64 percent. Table 3 summarises the average size of the board for each type of PSE, and the proportion of independent board members.

Insert Table 3

Audit committee size and independence

Table 4 shows that the number of audit committee members ranged from three to nine members, with an average overall size of 5.63. This is higher than the three to five audit committee members recommended by the OAG guide. The smaller recommended size is intended to ensure that all members on the committee have a voice and are able to participate fully in proceedings of the audit committee (OAG, 2008). DHB audit committees were the largest with an average of 5.88 members.

Independent audit committee members are important to ensure that they can carry out their governance role without undue influence from management; and the OAG good practice guide recommends that most of an audit committee's members be independent of the management team (OAG, 2008). On average, 75.81 percent of audit committee

members were independent from management, suggesting that the good practice guidelines were generally being met.

Local council audit committee members were all independent from management; however the number of independent members on the DHB audit committees was just over the recommended minimum of 50 percent. The members of the ITP audit committees were the least independent, with an average of only 25 percent, due to the inclusion of staff and government-appointed officials on the boards. This may reflect the increased financial scrutiny of this sector by the government (Tolley, 2009).

DHBs and ITPs were the only PSEs which included government appointed ministers on their audit committees. DHB audit committees had the highest average of government appointed members on their audit committees, with an average of 50 percent of committee members representing the government. ITPs and universities were the only PSEs that included employees as audit committee members.

Insert Table 4

Expertise of audit committee members

The OAG guide recommends that PSE audit committee members possess a combination of expertise, including experience in financial reporting, governance, and an understanding of internal and external audit. For the purpose of this study a financial expert was considered to be a Chartered Accountant or a qualified accountant with a history of preparing financial reports for PSEs. The results from Table 5 show that overall there was an average of one financial expert on the audit committees, and with the exception of the universities in the sample the financial experts were all independent from the PSE management.

Insert Table 5

The backgrounds of audit committee members varied depending on the type of PSE. DHBs had a high proportion of medical experts on their audit committees; universities had a number of members from educational backgrounds, while local councils had members with a range of business and management skills on their audit committees. The ITPs sampled did not publish the backgrounds of their audit committee members. Although not a requirement, the OAG good practice guide suggests that the inclusion of a lawyer on PSE audit committees is advantageous (OAG, 2008). The majority of the audit committees of the local councils (64 percent) had at least one lawyer on their committees; however most of the other audit committees in the sample did not include a lawyer.

7.2 Regression results

Table 6 reports the regression results for audit independence. We do not include the control variable for firm size as there is a high correlation between firm size and board size ($r=0.58$). The model is significant and has high explanatory power (adjusted R square is 78.8 percent). Focusing on the two funding variables; GOVT is not significant while LEV is weakly significant ($p=0.07$). This evidence provides weak support for hypothesis 2, which is consistent with evidence for private sector entities (Rainsbury *et al.*, 2008).

However, the results show no support for hypothesis 1 as there is no significant association between the level of government funding and the composition of audit committees. This result for GOVT is no doubt due to the high proportion of local councils in the sample (63 percent of the sample) which do not rely on government funding. This finding is inconsistent with the results of prior research such as Vermeer *et al.* (2006) which found that non-profit organisations that receive government grants are *more* likely to have audit committees with solely independent directors and have a financial expert on the audit committee. However, it should be noted that Vermeer *et al.*'s study was carried out in the US and included charities i.e. it was not restricted to public sector entities only, which may account for the different findings.

Surprisingly board size is negatively and significantly related to audit committee independence suggesting that large boards are less likely to create audit committees with a majority of independent members. This result is inconsistent with similar studies of audit committees in the for-profit sector (Rainsbury *et al.*, 2008). Consistent with prior research board independence is positively related to having independent audit committees.

The regression was repeated for audit committee financial expertise. The results (not documented) show audit committee expertise only associated with the size of the entity.

Insert Table 6

8.0 Summary and conclusions

Audit committees are a vital monitoring mechanism for public sector entities. They help to ensure that transparency and accountability are achieved and they help to ensure that entities act in the best interest of their stakeholders. This study explores the composition of audit committees and tests if their composition is associated with how the entities are funded.

Only 28 of the sample of 50 PSEs (56 percent) published details regarding the existence and composition of their audit committees in their annual reports, which compares adversely to the 75 percent of government departments in 2005 (KPMG and NZIIA, 2005). This is a surprisingly low percentage considering the emphasis placed on good governance practices since the early 2000s.

The average size of the PSE audit committees in the study was larger than that recommended in the OAG best practice guide; and is similar to the findings of the KPMG and NZIIA study in 2005. This is due in part to the inclusion of the management team and/or government appointed representatives on some of the audit committees. The relatively large size of the audit committees may limit their effectiveness if all members are unable to have a voice on the committee; however research such as Magrane and Malthus (2009) suggests that the most important attribute of an audit committee is the financial expertise of its members.

The OAG best practice guide recommends that the audit committee possess a combination of expertise, including experience in financial reporting, governance, and an understanding of internal and external audit. All of the 32 PSEs with audit committees, except for one local council, have at least one member with financial expertise; hence it would appear that this recommendation is generally being followed.

Of concern was the lack of independence of audit committee members. The DHBs and the ITPs had the lowest percentage of independent members, as a result of the high number of government appointed representatives as distinct from elected members on the audit committees.

Finally, the study finds that public sector entities that have higher levels of debt are more likely to have independent audit committees; however PSEs that rely on high levels of government funding i.e. DHBs, are *not* more likely than other PSEs to have an audit committee with a majority of independent members and a financial expert.

This study is limited to the examination of the audit committees of 50 PSEs, representing only 37 percent of the total number of DHBs, local councils, and universities and ITPs in New Zealand. It is the intention of the authors to extend this study to include audit committees in other public sector entities, such as government departments, so that a comprehensive study of the existence and composition of audit committees in the public sector of New Zealand can be undertaken and conclusions based on the complete population can be drawn.

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Tables

Table 1 Population and Sample

	Population		Sample	
	#	%	#	%
Local Government Councils (Councils)	85	63	32	64
District Health Boards (DHBs)	21	16	8	16
Institutes of Technology and Polytechnics (ITPs)	20	15	7	14
Universities (Unis)	8	6	3	6
	134	100	50	100

Table 2 Audit Committee Existence

	Councils		DHBs		ITPs		Unis		Total	
	#	%	#	%	#	%	#	%	#	%
Audit committee established	14	44	8	100	3	43	3	100	28	56
Audit committee not established	14	44	0	0	0	0	0	0	14	28
No data available	4	12	0	0	4	57	0	0	8	16
	32	100	8	100	7	100	3	100	50	100

Table 3 Board Size and Independence

	Means by PBE				Overall			
	Councils	DHBs	ITPs	Unis	Mean	Std Dev	Max	Min
Board size	12.63	11	14.86	18	13	2.89	20	7
Number of Government appointed directors members	0	4	4	4	1.44	1.94	4	0
Number of independent directors	12.63	7	10.86	14	11.56	3.19	20	7
Percentage of independent directors	100%	64%	73%	78%	89%			

Table 4 Audit Committee Size and Independence

	Means by PBE				Overall			
	Councils	DHBs	ITPs	Unis	Mean	Std Dev	Max	Min
Audit committee size	5.71	5.88	4.5	5.33	5.63	1.31	9	3
Number of PBE employees	0	0	2.5	2	0.41	0.93	3	0
Number of government appointed directors	0	3	0.5	0	0.93	1.44	4	0
Number of independent directors	5.71	3	1.5	3.33	4.33	1.96	9	0
Percentage of independent directors	100%	50.88%	25%	63.33%	75.81%	28.80	100%	25%

Table 5 Audit Committee Financial Expertise

	Means by PBE				Overall		
	Councils	DHBs	ITPs	Unis	Mean	Max	Min
Audit committee size	5.71	5.88	4.5	5.33	5.63	9	3
Number of financial experts	0.86	1.25	1.00	1.00	1.00	2	0
Percentage of independent financial experts	100%	50.88%	25%	63.33%	75.81%	100%	25%

Table 6 Regression Results

	Audit Committee Independence	
	Coefficient	p-value
Constant	0.599	0.135
GOVT	-0.186	0.644
LEV	0.596	0.052
DHB	-0.224	0.379
LSIZE	0.041	0.250
BDSIZE	-0.113	0.008
BDIND	0.097	0.042
Fstatistic	16.964	0.000
Adjusted R Square	0.787	