AUDIT COMMITTEE :
A CASE FOR ITS ESTABLISHMENT
IN MALAYSIA

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PREFACE

This paper is prepared in the light of current trends in many industrialised countries for public listed companies to form audit committees as a feature of corporate accountability.

The paper is designed to provide :

* the historical background and the development of audit committees ;
* the rationale for its formation, its duties and benefits.

I believe that audit committees would enhance the credibility of financial reporting and would help to improve the relationship between auditors and management, thus elevating the perceived integrity of published financial statements. I also believe that non-executive directors have an important monitoring role to perform and although it is different in perspective from that of executive directors, can assist in ensuring that companies are effectively controlled as well as profitably managed.

INTRODUCTION

An audit committee is defined as a committee of the Board of Directors normally comprising three to five directors with no operating responsibility in financial management. Its primary tasks are to review the financial statements, the effectiveness of the company's accounting and internal control systems, the findings of the auditors, and to make recommendations on the appointment and remuneration of the external auditors (1).

Generally, the committee meets regularly with the external auditors or on request of either the audit committee or the auditors. The committee may also meet with management and the internal auditors when items on meeting agendas request their attendance.

Audit committees have become a feature of corporate accountability in the industrialised countries especially in the United States, Canada and the United Kingdom, and have recently emerged in Australia. They were first established in 1940 in the United States following investigations into fraudulent