

**EXTERNAL AUDITORS, CORPORATE GOVERNANCE AND MINIMISATION OF FRAUD: AN ECONOMETRIC TEST OF SELECTED INDIAN COMPANIES****Ritika Chaudhary**

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**ABSTRACT**

It was the belief of the Securities and Exchange Board of India ("SEBI") that efforts to improve corporate governance standards in India must continue. Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. The purpose of this study is to investigate the corporate governance role of external audits in a setting where companies traditionally rely more on debt than equity capital. The study has partitioned the Indian audit market into two groups: the first group comprises the top (BIG) Four audit firms with Ernst and young at the top, followed by PriceWaterhouse & Co Deloitte Haskins & Sells, and KPMG, The second group include S.B. Billimoria & Co, S.R. Batliboi & Co, BSR & Co, , Lodha & Co, Lovelock & Lewes, Ambit-RSM ,Chaturvedi and Shah, Rajendra & co. "Six out of the first ten firms making the grade of the study allegiance to one or the other of what the world calls the Big Four," The sole exception is Kolkata-based Lodha & Co. These are classified as the dominant auditors, and the other group consists of all other auditors. 100 companies were selected (Listed either in NSE or BSE or both)\* using stratified structured sampling technique. The paper assumed that an Indian company's demand for audit services from one of the two groups of auditors is determined by its set of stakeholders. A positive relationship was found between Indian companies' demand for dominant audit suppliers and the variables that have been used as proxies for the stakeholder interests of creditors, dispersed shareholders, and foreign suppliers. The study also explored a negative association between Indian companies' dominant audit supplier choices and the stakeholder interests of closely held companies. The results suggested that audits play a corporate governance role and econometrically the possibility of fraud can be minimised by getting their accounts audited by big four audit firms.

**Key Words:** external auditors, corporate governance, minimisation of Fraud, econometric test, Indian companies

## Introduction

Corporate governance is beyond the realm of law. It stems from the culture and mindset of management, and cannot be regulated by legislation alone. Corporate governance deals with conducting the affairs of a company such that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders (SEBI Report 2003). Unlike the U.S. setting, which is characterized by well-developed equity and debt markets, India has a less-developed equity market compared to US suggesting that there is a limited demand for auditing as a monitoring mechanism. The demand for auditing as a monitoring mechanism in India may be limited since debt holders, as the major capital providers, have more direct oversight of management relative to dispersed and/or minority shareholders. Since the laws in Indian typically require both publicly traded and privately held companies to be audited, it may be that the demand for audits is primarily due to statutory reporting requirements. Finally, Indian laws limit audit firm liabilities, suggesting that auditing does not play an insurance role in Indian as it does in other countries, e.g., the United States (Willenborg 1999).

Another distinctive feature of the Indian audit market, which is relevant to the monitoring role of the external audit, is the highly concentrated ownership structure of Indian companies (RBI 2005). The demand for audits as a monitoring mechanism may be limited in companies with concentrated ownership because such owners generally serve to monitor management. At the same time, the Indian financial reporting regime results in financial information that is less useful for equity investors. This implies greater information asymmetries between managers and dispersed shareholders, which can result in a greater demand for external audits as a monitoring mechanism.

Prior audit research often defines audit quality or expertise based on the market share held by the audit supplier, where the dominant audit suppliers are assumed to provide better monitoring and have greater expertise relative to other audit suppliers. Examining the auditor choices of our sample of publicly traded Indian companies, the paper assumed that the big four dominate the audit suppliers in the Indian audit market. After controlling for size, a positive association was found between audits performed by the dominant audit suppliers and the variables that we use to proxy for companies' contracts with credit stakeholders, dispersed equity stakeholders, and foreign stakeholders. In addition, it was also found that companies with high family ownership concentration are less likely to contract with a dominant audit supplier. Collectively, these results suggest that external audits play a corporate governance role as a monitoring mechanism when there is the potential for greater agency costs due to the separation of managers from a company's stakeholders. The results also indicated that banks and insurance companies are more likely to hire a dominant audit supplier, suggesting that these three audit firms have industry expertise in the Indian market.

The study also delved into the fact whether the dominant audit suppliers have reputations for quality and expertise beyond that of the other audit firms by re-estimating our auditor choice model using a subsample of companies employing a dominant audit firm or otherwise. The banks and insurance companies are more likely to hire a dominant audit firm, suggesting that

the dominant audit suppliers have local market expertise. It was also found find a positive association between our credit stakeholder variables and dominant auditor choices, suggesting that credit stakeholders have a greater demand for the audit market leaders than for other auditors. However, no significant association between the variables that we use to proxy for a company's demand for monitoring for the benefit of dispersed shareholders and dominant audit suppliers was found, indicating that Indian companies with dispersed ownership do not make a distinction between the other than big four audit firms.

The research contributes to the international literature and the corporate governance literature on several fronts. First, there is little empirical research that examines the demand for audits as a corporate governance mechanism in countries where companies have less reliance on equity capital. The study examined the 2008 Indian audit market due to Indian companies' dependence on debt capital, variation in ownership structures, external reporting relationships, and audit requirements. It has been described that alternative corporate governance mechanisms present in publicly traded Indian companies, which increases our understanding of the role of corporate governance mechanisms in facilitating the formation of capital. The findings indicate that Indian companies demand audits as a corporate governance mechanism conditional upon the stakeholders with whom the company contracts.

Second, prior research in the Indian audit market provides relatively weak evidence that ownership concentration is a determinant of companies' auditor choice (RBI report various issues). A relatively strong evidence that companies with high ownership concentrations are less likely to contract with a dominant audit supplier, suggesting that for some companies there are not sufficient benefits associated with hiring a dominant audit supplier, given the agency costs associated with the information risks between owners and managers. Although SEBI in its report in 2003 has pointed out that Companies that do not employ meaningful governance procedures will have to pay a significant risk premium when competing for scarce capital in today's public markets.

### Corporate Governance Mechanisms

The debt market plays an important role in Indian companies' corporate governance. Indian financial institutions along with banks are unrestricted in providing a wide range of services from commercial to investment banking. The vast array of banking services provided by Indian financial institutions implies that banks serve to monitor Indian companies. In addition, there are other ways that banks contribute to companies' corporate governance beyond the traditional creditor role. Indian banks can hold equity as well as debt claims in the same company. Indian banks also influence the corporate governance of Indian companies by offering custodial services for their clients who own stock. Typically, banks custodial services include holding the shares, collecting the dividends, and voting the shares at shareholder meetings.

Turning to the equity market as a corporate governance mechanism there are, in general, several features of equity markets that can serve to protect shareholders' interests. First, in an efficient equity market, shares trade freely and share prices reflect all information, allowing

investors to take price protection. Second, the market for corporate control serves a corporate governance role in that successful hostile takeovers can serve to penalize incumbent management by job displacement or reduction of managerial influence. However, neither of these two equity market mechanisms appears to be a strong component of corporate governance in India.

For example, Indian companies exhibit greater intercompany holdings and more concentrated ownership than companies domiciled in equity-oriented countries, which results in less liquidity in the Indian equity market relative to, for example, the U.S. equity market (LaPorta et al. 2008). In addition, the managerial labour market is not well established in India because of the lack of incentive-compensation plans, and presence of management entrenchment in Indian companies. In summary, in India, the equity market plays a relatively limited corporate governance role. Nonetheless, in the Indian setting, there are other corporate governance mechanisms not typically found in equity-oriented countries that might diminish the demand for audits as a corporate governance mechanism.

## Research Methodology

### The Model

Logistic regression (sometimes called the logistic model or logit model) is used with the following equation

$$z = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \dots + \beta_k x_k,$$

### THE DEMAND FOR AUDITING BY CORPORATE STAKEHOLDERS

#### Stakeholders and Auditor Choice

The relation between an Indian company's auditor choice and stakeholders as follows:

(1)  $AUDITORCHOICE = [\alpha_{.0}] + [\beta_{.1}] DA-RATIO + [\beta_{.2}] BANKBLOCK + [\beta_{.3}] MULTI-EXCHG + [\beta_{.4}] FRGN-EXCHG + [\beta_{.5}] FAMILY-BLKHOLDER + [\beta_{.6}] BANK-INSURANCE + [\beta_{.7}] FRGN-SUPPLIERS + [\beta_{.8}] ROE + [\beta_{.9}] SIZE + [\epsilon]$  [epsilon ie the error term]

Where AUDITORCHOICE takes a value of 1 if a company hires the so called big Four and, and 0 otherwise. Table 1 summarizes the stakeholders that we hypothesize are associated with Indian companies' demand for heterogeneous audit services.

### Credit stakeholder

Company's debt-to-asset ratio (DA-RATIO) has been taken as our proxy for credit stakeholder claims. As a company's level of debt increases, the company faces greater financing risk, which can result in a demand for high-quality audit services to assess management's performance, which is communicated to the board via the long-form audit report. Thus, there would be a positive relation between credit stakeholder claims and

companies hiring a dominant audit supplier. However, as stated earlier, Indian financial institutions play an important role in Indian companies' corporate governance, and debt is a major source of capital for Indian companies. It could be that credit stakeholders themselves monitor companies and, as a result, there is less demand for audits to serve as a corporate governance mechanism. Given the relation between credit stakeholders and high-quality audits is unclear, no prediction has been made on the relation between DA-RATIO and AUDITORCHOICE. BANKBLOCK has been used to capture both credit stakeholder and equity stakeholder claims in Indian companies. BANKBLOCK is equal to 1 if a company has a bank block holder (where a block holder is defined as an entity that owns at least 5 percent of a company's common stock outstanding), or 0 otherwise. The monitoring provided by bank block holders may substitute for the monitoring provided by audit firms and lead to an inverse relationship between BANKBLOCK and AUDITORCHOICE. On the other hand, Indian banks tend to become block holders only when their customers are at risk of default or bankruptcy. Thus, when banks are block holders, there may be a greater demand for monitoring via the external audit, i.e., a positive association between BANKBLOCK and AUDITORCHOICE. Given the competing effects of bank block holders on monitoring, no prediction has been made on the relation between BANKBLOCK and AUDITORCHOICE.

### Dispersed Shareholders

One objective of external financial reporting is to reduce the information asymmetries between the owners and managers of the company (Healy and Patepu 2001). The objectives of the Indian accounting regime, however, are to preserve equity, protect creditors, and facilitate the computation of taxable income. These objectives are met by specific accounting treatments. For example, Indian law allows companies to change depreciation method in order to minimize their tax liabilities. The Indian accounting regime also allows companies to have discretion in their inventory valuation. In general, these, as well as other, discretionary accounting measurement methods suggest that the Indian financial reporting environment is less transparent than the reporting environment of equity-oriented countries (Ball et al. 2000).

These characteristics of the Indian reporting environment suggest that the long-form audit report can fulfil an important corporate governance role for stakeholders. A higher quality long-form report represents better monitoring by the audit firm by containing enhanced information about management's activities. It is reasonable to expect that some audit firms prepare higher quality long-form reports than others and that the lack of transparency in Indian companies' financial reporting suggests that Indian companies must incur some costs to signal the credibility of their financial statements. That is, Indian companies that depend on capital from dispersed shareholders can contract with a dominant audit supplier to signal better monitoring of management as well as the credibility of the financial statements.

The model has two variables that proxy for dispersed shareholders. The first is MULTI-EXCHG, which is equal to 1 if a company's equity shares are traded at NSE and BSE both or 0 otherwise. The second is FRGN-EXCHG, which is equal to the company's number of foreign exchange listings. MULTI-EXCHG and FRGN-EXCHG proxy for the owner-manager conflict because it is assumed that companies trading on multiple Indian equity

exchanges or foreign exchanges have more dispersed equity ownership relative to companies that trade on only NSE or BSE. As equity ownership is more dispersed, there is a greater demand for credible financial information and a greater demand for monitoring. To the extent the choice of a dominant audit supplier signals greater credibility of external financial information and better monitoring of management via the long-form audit report, a positive relation between MULTI-EXCHG and FRGN-EXCHG and AUDITORCHOICE is expected.

### Closely Held Shareholders

FAMILY-BLKHOLDER is specified as the percentage of shares held by family or individual block holders (where a block holder is a shareholder owning at least 5 percent of the company shares), where FAMILY-BLKHOLDER proxies for closely held shareholders' interests. We expect a negative relation between FAMILY-BLKHOLDER and AUDITORCHOICE because, as stated earlier, as ownership concentration increases, the demand for auditing as a monitoring mechanism is attenuated.

### Regulators

It is recognize that industry regulators demand monitoring and expert services from audit firms. BANK-INSURANCE is equal to 1 if a company operates in the financial services or insurance industry, or 0 otherwise. If dominant suppliers have greater expertise related to auditing financial services and insurance institutions, or if regulators demand high-quality audits, then a positive relation between BANK-INSURANCE and AUDITORCHOICE is predicted. Alternatively, if regulators themselves monitor bank and insurance companies and there is no difference in expertise across audit suppliers, then no association between BANK-INSURANCE and AUDITORCHOICE is expected.

### Foreign Stakeholders

FRGN-SEGMENTS is a categorical variable equal to 1 if the company reports to foreign operating segments and 0 otherwise. For example, a dominant audit firm may provide expertise in contracting with foreign suppliers or in advising the company on how to comply with foreign tax requirements. In addition, it is also expected that companies with overseas operations to be more likely to hire a dominant audit firm because the dominant audit firm is large enough to have offices outside India that facilitate the audit process (e.g., observe inventory and perform cut-off analyses in foreign branches).

### Other Factors Associated with Companies' Demand for Audit Services

The present model of Indian companies' auditor choice also controls for two factors (SIZE and ROE)

SIZE is the natural log of total sales and controls for the scale demands of auditing large companies, which are more likely met by dominant auditors. ROE is the company's return-on-equity, defined as net income divided by stockholders' equity. ROE proxies for audit risk due to a company's profitability and operating environment.

## Sample and Descriptive Statistics

The construction of the sample begins with the intersection of all Indian companies listed on the Bombay Stock Exchange and NSE. These selection criteria using stratified structured sampling identified 100 Indian companies.

Panel A of Table 2 exhibits the distribution of the sample companies' auditor choices.

Panel B of Table 2 reports the distribution of sample firms by industry membership, where non foreign clients are companies that choose audit firms other than big four. A likelihood ratio [chi square] test does not reject the hypothesis of no difference in the distribution of industry representation across foreign and Indian audit clients. If companies are classified as either financial institutions or nonfinancial institutions, however, then a likelihood ratio [chi square] test rejects the hypothesis ( $p$ -value = .09) of no difference in the distribution of financial versus nonfinancial audit clients across foreign and Indian auditors.

To gain a better understanding of ownership structure, sample companies' also examined the ownership concentration. Panel A of Table 3 tabulates the number of block holders. The tabulation indicates that the number of block holders ranges from zero to eight. The majority of our sample companies have no more than three block holders. A likelihood ratio [chi square] test does not reject the hypothesis of no difference in the distribution of block holders across Indian and foreign audits.

Panel B of Table 3 reports the percentage of shares held by family, corporate, or bank block holders. The majority of our sample companies' ownership structure falls into the category of family block holders holding at least a 25 percent interest. Overall, a likelihood ratio [chi square] test rejects the hypothesis (at the .05 level) that the distribution of family block holders across Indian and foreign audit clients is similar. It was also found find that the distribution of corporate block holders is significantly different (at the .10 level) Indian and foreign clients. It was also found that there are only 11 companies in the sample for which bank block holders have significant influence by owning 25-50 percent of the companies' outstanding common stock. The ownership data presented in Table 3 support the claim that the ownership structure of publicly traded Indian companies is characterized by concentrated share ownership. In addition, the data indicate that companies with less ownership concentration more often choose Big four auditors.

Table 4 presents the descriptive statistics for the variables we use to proxy for various stakeholder interests. The first column reports the mean (median) of the variables for the full sample. Five percent of the sample operates in the financial services or insurance industry. The majority of our sample companies do not trade their shares on a foreign stock exchange (median = 0); however, there are sample companies that list on more than one foreign equity exchange as the mean of FRGN-EXCHG is 0.24. Forty-six percent of our sample companies conduct business with foreign suppliers. On average, FAMILY-BLKHOLDER is equal to 21 percent of our sample companies' equity shares.

Columns two and three of Table 4 partition the sample of auditor choice. Big four clients have a significantly higher DA-RATIO and more often operate in the financial services or insurance industry. These companies more often list on multiple Indian exchanges i.e. NSE and BSE both as well as trade their equity shares on a foreign exchange. It was found that SIZE should be included in our regression model as a control variable.

### Interpretation of Data

Table 5 reports the results of estimating the logit regression model of Indian companies' demand for external audits. The OTBF (Other Than big Four) column reports the results of comparing the stakeholder interests of companies that contract with OTBF relative to companies that contract with big four auditors. After controlling for SIZE and ROE, the results were consistent with the predictions. Six out of the seven variables that we use to proxy for alternative stakeholder interests are, in varying degrees, significant explanatory factors associated with Indian companies' auditor choices. The positive coefficient on DA-RATIO indicates that companies that are more dependent on debt--and thus have greater claims by credit stakeholders--are more likely to hire a dominant audit supplier. Turning to the variables that proxy for dispersed shareholders, it was found that a positive relation exists between MULTI-EXCHG and FRGN-EXCHG and auditor choice, indicating that companies that are more dependent on equity capital are more likely to hire a dominant audit firm. The negative coefficient on FAMILY-BLKHOLDER indicates that companies with a higher proportion of closely held shares are less likely to hire OTBF auditors.

The positive coefficient on BANK-INSURANCE suggests that financial and insurance institutions meet the monitoring and expertise demands of regulators by contracting with the dominant audit firms. The positive coefficient on FRGN-SUPPLIERS indicates that companies contracting with foreign suppliers are more likely to hire big four auditor. Overall, the results of estimating the auditor choice model indicate that companies choosing big four auditors use the reputation and expertise of the dominant audit supplier to facilitate contracting with a broader set of stakeholders than companies choosing OTBF auditors.

### Sensitivity Tests

It is not clear whether the variation in audit market concentration, in terms of dominant audit suppliers within a country, or dominant international audit suppliers is associated with heterogeneous demand for audit services. Two sensitivity tests were conducted to investigate this issue. Considering the substantial differences in market share between the OTBF auditors and the big four audit suppliers, it was investigated whether OTBF have local market expertise beyond that of the other big four auditors by re-estimating the model of companies' auditor choices using a subsample of companies employing a OTBF and big four.

It was found that the significance on DA-RATIO is greater than in the OTBF and big four analyses, suggesting that OTBF are more preferred in the Indian audit market by credit stakeholders than the big four. In contrast, the coefficients on MULTI-EXCHG, FRGN-EXCHG, and FRGN-SUPPLIERS are no longer significant in the comparison of the OTBF

audit firms, suggesting that Indian companies contracting with dispersed shareholders or foreign suppliers do not distinguish between a country-specific versus global reputation. It was also found that significant negative coefficient exist on FAMILY-BLKHOLDER, although the level of significance is lower than what it was in the OTBF analysis. Finally, we still find companies operating in the financial services or insurance industries to be more likely to hire a big four auditor, suggesting that the dominant audit firms have reputations for industry. The final analysis reported in Table 5 compares the stakeholder relations of OTBF audit clients versus domestic audit firm clients,. No statistically significant association was found between either variable and auditor choice when using the subsample of companies that contract with either the dominant audit suppliers or smaller audit suppliers in the Indian market. It was also found that the goodness-of-fit measures of our auditor choice model, a concordant percent of 83.8 and a Pseudo [R.sup.2] of 27.2 percent, are better when the audit clients were excluded of other international firms from the analysis.

### Additional Analyses

#### Other Stakeholders--Foreign Shareholders

The results of the primary tests indicate that an Indian company with dispersed shareholders and foreign suppliers are more likely to contract the OTBF auditor. Column one of Table 6 reports the results of re-estimating the logit regression excluding the 29 companies whose shares are traded on a foreign exchange. The results, in general, are consistent with the analysis reported in Table 5; an Indian company having more dispersed ownership, and whose stocks are traded on multiple Indian exchanges is more likely to contract with a Big four auditor. Thus, it does not appear that Indian companies listed on foreign exchanges drive our earlier results.

#### Other Stakeholders--Tax Authorities

DVDND-GRWTH has been used as a proxy for the tension between tax authorities' claims to companies' profits and companies' optimal dividend strategy, which leads to a demand for audit services in conjunction with tax reporting. DVDND-GRWTH is equal to a company's growth in dividends per share. Indian managers employing conservative accounting practices in all likelihood are minimizing their companies' taxes, and ultimately optimizing their companies' dividend payments. To the extent that dominant auditors signal credible financial reporting to tax authorities while at the same time facilitating the minimization of dividend payouts,

Column two of Table 6 reports the results of estimating the logit regression model that includes DVDND-GRWTH. It was found that OTBF clients have lower dividend growth rates than big four clients, consistent with dominant audit suppliers facilitating the management of the dividend payout requirements of the Indian tax law, and thereby providing expertise in tax reporting. The significance and signs of the other coefficients are similar to those in our primary analyses.

## Conclusions and Recommendations

Audits are one of many institutional features that are instrumental in companies' corporate governance, and which support transparent financial reporting. Market regulators acknowledge that audits are an important element of efficient equity markets, because audits can enhance the credibility of financial information, which ultimately influences the allocation of resources. In this paper an effort has been made to examine the demand for audits by Indian companies because the Indian setting is characterized by greater dependence on debt versus equity capital and by various substitute governance features. As such, the corporate governance role of external audits in India is unclear.

It was hypothesized that, despite a number of governance features that might mitigate the role of audits, Indian companies demand monitoring and expert services from their audit supplier conditional on their relations with alternative stakeholders. Five classes of stakeholders were predicted that can affect Indian companies' auditor choices, including creditors, dispersed shareholders, closely held shareholders, regulators, and foreign suppliers.

It was found that big four audit companies stand out as the dominant audit suppliers in the Indian audit market, performing 42 percent of our sample companies' audits and auditing 72 percent of our sample companies' sales. After controlling for company size, the paper concluded that companies are more likely to hire dominant auditors when companies contract with credit stakeholders, dispersed shareholders, and foreign suppliers. The results also indicated that companies whose stocks are closely held by family block holders are less likely to hire a dominant audit firm, suggesting that for such companies the monitoring benefits associated with hiring an auditor with a reputation for monitoring or expertise do not outweigh the costs. The results of the study also suggested that audits play corporate governance role when companies have stakeholders that demand reliable financial information.

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Appendix

TABLE 1

Summary of Predictions

Stakeholders	Variable Name	Variable Definition	Predicted Sign
Creditor stakeholders	DA-RATIO	Debt-to-asset ratio	+/-
	BANKBLOCK	Equal to 1 if company has a bank block holder, 0 otherwise	+/-
Dispersed Shareholders	MULTI-EXCHG	Equal to 1 if company trades equity shares on more than one Indian Stock exchange, 0 otherwise	+
	FRGN-EXCHG	The number of a company's Exchange listings outside India	+
Closely held Shareholders	FAMILY-BLKHOLDER	Percentage of shares held by family block holders	-
Regulators	BANK-INSURANCE	Equal to 1 if company operates in the financial services or insurance industry, 0 otherwise	+/-
Foreign Supplier's	FRGN-SUPPLIERS	Equal to 1 if company reports overseas operating segments, 0 otherwise	+
Control Variables	ROE	Return on equity	
	SIZE	Natural log of total sales	

TABLE 2

Indian Audit Market

Panel A. Audit Firms

Big Four: Ernst and young, PriceWaterhouse & Co, Deloitte Haskins & Sells, KPMG, OTBF: Ambit-RSM S.B. Billimoria & Co, S.R. Batliboi & Co, BSR & Co, , Lodha & Co, Lovelock & Lewes, Chturvedi and Shah, Rajendra & co.

Panel B: Audit Market Industry Distribution

AuditorChoice	SIC Code								Total
	1	2	3	4	5	6	7-10		
Big Four	% 20.69	5-17	7.76	9.48	15.52	40.52	0.86		
OTBF	7.05	25.64	42.3	6.41	10.26	3.21	5.13		

A Likelihood ratio [chi square] test does not reject the hypothesis of no difference in the distribution of sample companies across industries. Other audit firms are Indian audit firms not associated with any of the larger audit firms. SIC codes represent the following industries: SIC 1 = Metal and mining; SIC 2 = Food, textile, and chemicals; SIC 3 = Rubber, metal, and machine products; SIC 4 = Transportation and utilities; SIC 5 = Wholesale and retail trade; SIC 6 = Financial and insurance services; and SIC 7-8 = Hotel, health, engineering, and other services.

TABLE 3

Indian Companies' Ownership Structure

Panel A. Number of Blockholders

Auditor Choice	0-1	2-3	4-5	6-8	Total
Big Four	2	52	20	26	100

A Likelihood ratio [chi square] test does not reject the hypothesis of no difference in the distribution of blockholders across Big Four and OTBF audit clients.

Panel B: Percentage of Shares Held by Types of Blockholders

0 [less than or equal to]	25% [less than or equal to] 25	25% [less than or equal to] 50	75% [less than or equal to] 75
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TABLE 3 CONTINUED

Family Blockholders **				
Big Four				
%	77.59	9.48	8.62	
OTBF				
%	60.9	11.54	15.38	
Corporate Blockholders *				
Big Four	31.03	18.10	23.28	
OTBF	44.87	10.90	17.95	

\*\*, \* Likelihood ratio [chi square] tests rejects the hypotheses of no difference in the proportion of companies' shares held by individuals and corporations across Big Four and OTBF audit clients (significant at the .05 and .10 levels, respectively).

TABLE 4

Descriptive Statistics				
Mean (Median) of variables by companies' auditor choices				
	All			
	Companies	Big Four	OTBF	
Variable	(n = 100)			
DA-RATIO	0.68	0.64	0.68	##
	0.69	0.67	0.72	++
BANKBLOCK	0.15	0.13	0.18	
	0.00	0.00	0.00	
MULTI-EXCHG	0.44	0.31	0.62	***
	0.00	0.00	1.00	^^^
FRGN-EXCHG	0.24	0.07	0.47	***
	0.00	0.00	0.00	^^^
FAMILY-BLKHOLDER	21.15	26.44	14.05	***
	0.00	0.00	0.00	^^^
BANK-INSURANCE	0.05	0.03	0.07	#
	0.00	0.00	0.00	+
FRGN-SUPPLIERS	0.46	0.35	0.60	***
	0.00	0.00	1.00	^^^
ROE	12.53	10.51	15.26	**
	12.55	10.90	14.20	^^
SIZE	13.80	13.43	14.31	###
	13.64	13.20	14.25	+++

\*\*\*, \*\* The difference in means of the Big Four subsample relative to the OTBF subsample is significant at the .01 and .05 levels, respectively, using one-tailed t-test.  
 ###, ##, # The difference in means of the Big Four subsample relative to the NBF subsample are significant at the .01, .05, and .10 levels, respectively, using two-tailed t-test.  
 ^^, ^^ A Wilcoxon rank sum test rejects the hypothesis of no difference in the distributions (one-tailed p-value < .01 and < .05, respectively).  
 +, ++, +++ A Wilcoxon rank sum test rejects the hypothesis of no difference in the distributions (two-tailed p-value < .01, .05, and .10, respectively).

TABLE 5

Association Tests between Companies' Audit Choices and Companies' Stakeholders		
(1) AUDITORCHOICE = [[alpha].sub.0] + [[beta].sub.1] DA-RATIO + [[beta].sub.2] BANKBLOCK + [[beta].sub.3] MULTI-EXCHG + [[beta].sub.4] FRGN-EXCHG + [[beta].sub.5] FAMILY-BLKHOLDER + [[beta].sub.6] BANK-INSURANCE + [[beta].sub.7] FRGN-SEGMENTS + [[beta].sub.8] ROE + [[beta].sub.9] SIZE + [epsilon] ie error term)		
	Predicted	Big Four
	Sign	versus
		OTBF
Intercept		-2.28
DA-RATIO	+/-	1.62
BANKBLOCK	+/-	-0.06
MULTI-EXCHG	+	0.98 ***
FRGN-EXCHG	+	0.36 BANK-INSURANCE
FRGN-SUPPLIERS	+	0.51 **
ROE		0.01
SIZE		0.01
Observations		272
Concordant		
Percent		74.8
Pseudo		
[R.sup.2]		14.5%

\*\*\*, \*\*, \* Significant at the .01, .05, .10 levels, respectively.

TABLE 6

## Additional Analyses

(1) AUDITORCHOICE =  $[[\alpha].sub.0] + [[\beta].sub.1] DA-RATIO + [[\beta].sub.2] BANKBLOCK + [[\beta].sub.3] MULTI-EXCHG + [[\beta].sub.4] FRGN-EXCHG + [[\beta].sub.5] FAMILY-BLKHOLDER + [[\beta].sub.6] BANK-INSURANCE + [[\beta].sub.7] FRGN-SEGMENTS + [[\beta].sub.8] ROE + [[\beta].sub.9] SIZE + [\epsilon]$

	Predicted Sign	No Foreign Listings	Tax Authorities	Audit Market Concentration
Intercept		-1.86	-2.44	1.44
DA-RATIO	+/-	1.43	1.54 **	1.11
BANKBLOCK	+/-	-0.17	-0.08	0.09
MULTI-EXCHG	+	0.97 ***	0.98 ***	1.56 ***
FRGN-EXCHG	+	--	0.37 *	0.95 *
FAMILY-BLKHOLDER	-	-0.01 **	-0.01 **	-0.00
FRGN-SEGMENTS	+	0.55 **	0.57 **	1.01 ***
BANK-INSURANCE	+/-	1.46 **	1.63 **	0.43
DVDND-GROWTH	-		-0.01 *	
ROE		0.01 *	0.01 **	0.01
SIZE		-0.01	0.03	-0.21 **
Pseudo				

[R.sup.2] 10.7% 15.2% 18.5%

\*\*\*, \*\*, \* Significant at the .01, .05, .10 levels, respectively, with the appropriate one- or two-tailed test.

Variables are defined as follows:

- DA-RATIO = debt-to-asset ratio;
- BANKBLOCK = equal to 1 if company has a bank blockholder, 0 otherwise;
- MULTI-EXCHG = equal to 1 if company trades equity shares on BSE and NSE 0 otherwise;
- FRGN-EXCHG = equal to the number of exchanges overseas that a company's shares trade on;
- FAMILY-BLKHOLDER = percentage of shares held by family blockholders;
- BANK-INSURANCE = equal to 1 if company operates in the financial services or insurance industry, 0 otherwise;
- FRGN-SUPPLIERS = equal to 1 if company reports Overseas segments, 0 otherwise;
- ROE = return on equity; and
- SIZE = natural log of total sales.