Role of Audit Committee and Audit Quality on the Earnings Informativeness in India

By

Dr Krishna Prasanna , Associate Professor, IIT,Madras
Geeta Ramanathan, Doctoral Scholar, IIT,Madras
Bharat Arora, MBA, IIT Madras

Abstract

Recent global financial crisis led to a slew of measures to restore the investor confidence and aid investor protection. Greater emphasis was placed by the regulators to improve accounting informativeness by requiring companies to establish independent audit committees. This paper investigates the relationship between the informativeness of earnings and ownership structure, audit committee characteristics and audit quality across 367 Indian firms over a period of 6 years with a dataset of 2202 firm years. It is found that earnings have statistically significant positive relationship with cumulative abnormal returns across the sample firms. In the post governance era, audit committee independence had a positive relationship with earnings informativeness across the family companies. Audit committee effectiveness gauged through the number of audit committee meetings had a statistically significant positive association with earnings and CAR relationship. Audit by Big 4 firms has been found to improve the disclosure quality and strengthen earnings informativeness. The empirical findings of the research study would shed light on the effectiveness of the audit committees and provide pointers to other measures required to improve the quality of financial reporting and information provided to the investors.

1. Introduction

Recent global financial crisis led to a slew of measures to restore the investor confidence and aid investor protection. Corporate governance reforms have been given utmost importance by policy makers in the backdrop of financial scandals that rocked the world. Financial reporting assumes great importance as it is used by the stakeholders in forming expectations about the firm's future earnings.

Greater emphasis was placed by the regulators to improve accounting informativeness by requiring companies to establish independent audit committees with directors possessing financial expertise. The constitution of the Board, establishment of an independent audit committee comprising of directors with the right credentials, oversight role of the directors assumed paramount importance in the revised scenario.The establishment of independent audit committees was expected to mitigate the information asymmetry between the dominant shareholders and minority shareholders and build trust and confidence between the firm and external stakeholders.

Research studies from the west indicate that the quality of earnings or integrity of financial reporting is greater when an independent director with financial expertise serves on a firm's audit committee (Davidson *et al*., 2004; Krishnan, 2005).

The ownership of listed companies especially in emerging economies is concentrated in the hands of controlling shareholders. In case of firms with concentrated ownership and controlling shareholders, the accounting information and audit reports are not considered very credible. Concentrated ownership is associated with low earnings informativeness as ownership concentration prevents leakage of what they perceive as proprietary information (Fan and Wong, 2002). Since the controlling owners are entrenched by their effective control of the firms, their decisions that deprive the rights of minority shareholders are often uncontestable in the weak legal systems in the region and by ineffective corporate governance mechanisms.

While most of the research in this area is focused on US and other developed countries and some East Asian corporations to a limited extent, to our knowledge not much has been done in the Indian context.

This paper investigates the relationship between the informativeness of earnings and ownership structure, audit committee characteristics and audit quality across 367 Indian firms over a period of 6 years with a dataset of 2202 firm years. Informativeness of accountings earnings has been measured through the relation between earnings and cumulative abnormal stock returns (CAR). The results indicate statistically significant positive relation between earnings and abnormal returns. Unlike the observation by Woidtke and Yeh (2013), in India there appears to be a positive relation between family holding and earnings informativeness. Audit committee independence had a positive impact on earnings informativeness only in family held companies. Audit committee effectiveness measured by number of meetings had a positive impact on earnings informativeness. Audit quality measured through audit fees had a positive impact while consulting fees paid to auditors had a negative impact. Audit quality measured through audit by Big 4 audit firms had statistically significant positive impact on earnings informativeness.

These results would establish that the corporate governance regulations had a positive impact on earnings informativeness in family held companies. Further, Audit quality helps to strengthen earnings informativeness.

This paper contributes to both the literature on corporate governance and the disclosure quality. It also enables the regulators and policy makers to understand and appreciate the dynamics between corporate governance mechanisms, concentrated control and their impact on the earnings informativeness.

The remainder of the paper is organized as follows. Section 2 discusses the regulatory framework. Section 3 details the literature review and develops the hypothesis tested in the paper. Section 4 describes the sample and variables. Section 5 reports the empirical results and Section 6 presents the concluding remarks.

2. Regulatory Framework

India's commitment to improve the standards of Corporate Governance in the country to align itself with international standards has taken shape with the Companies Act 2013 that received President's assent in August 2013. The new act intends to create conducive environment for corporate governance and boost the investor confidence. Some important provisions stipulated by the Act with regard to Audit, Auditors and Audit Committee are provided below:

- It was made mandatory to rotate auditors once in every five years in case of the appointment of an individual as an auditor and once in every 10 years in case of the appointment of an audit firm.
- Other services rendered by the auditor require approval by the board of directors or the audit committee. Further auditors are also restricted from providing certain specific services.
- The audit committee should comprise of majority of independent directors.

- Chairman of the audit committee need not be an independent director.
- Majority of the members of the audit committee members are expected to be financially literate, i.e. should have the ability to read and understand the financial statements.

- Unlisted public companies are required to appoint at least two Independent Directors.
- Internal audit has been made mandatory for prescribed classes of companies
- Following committees of the Board have been made mandatory for listed and prescribed classes of companies:
  – Audit committee
  – Stakeholder relationship committee
  – Nomination and Remuneration committee
  – Corporate Social Responsibility committee

SEBI has also issued a circular dated 17th April 2014 to review the provisions of the listing agreement with the objective to align with the provisions of the Companies Act 2013 and to make corporate governance framework more effective.

3. Literature review and hypothesis development

3.1 Ownership structure and quality of earnings

It is a well established fact that the ownership of listed firms in East Asian countries, especially in India is concentrated in the hands of the founder and his family members. Fan and Wong (2002) presented two potential effects of concentrated ownership in East Asia on earnings informativeness; the entrenchment effect and information effect. Concentrated ownership and control prevents information flow, thus creating information asymmetry and is therefore associated with low earnings informativeness (Woidtke and Yeh,2013). However, these studies did not include Indian companies and considered financial data from annual reports of 1997 (Fan and Wong, 2000) and (Woidtke and Yeh, 2013).

The awareness and regulatory requirement of financial disclosures increased and improved significantly across the countries since 2000 and to cite precisely, in the post SOX era. In

India, Clause 49 required the listed firms to provide additional disclosures since 2001. These additional disclosures, regulations and reforms would ideally be expected to improve earnings informativeness.

It is proposed to test and validate earlier empirical finding in the literature that

Hypothesis1

High ownership concentration is associated with low earnings informativeness

3.2 Audit committee characteristics and earnings informativeness

The primary role of an audit committee is to play an oversight role and improve & enhance the financial reporting of a firm. Independent audit committee members with the requisite financial expertise are expected to positively influence the financial reporting and signal good corporate governance practices. They are expected to bring a certain transparency and enhance the quality of the disclosures. Prior research provides evidence that having accounting financial experts on the audit committee is associated with higher financial reporting quality (Dhaliwal, Naiker, &Navissi, 2010; Krishnan &Visvanathan, 2008).

Fan and Wong (2002) documented a negative relationship between audit committee independence and abnormal accruals. Chen and Zhou (2007) found that more independent audit committees were quicker to dismiss Arthur Andersen as the auditor after Andersen's credibility was threatened by the Enron scandal. Agrawal and Chadha (2005) found that the probability of restatement of financial statements was significantly lower when the audit committee had an independent financial expert. Dhaliwal *et al.*, (2006) found that firms with accounting financial experts are less likely to engage in earnings management.

There is a general belief that independent directors are better monitors of the firm than inside directors as they are able to discharge their responsibilities objectively, without any bias and coercion. However, another view that runs contrary to this belief is that inside directors understand the dynamics of the firm and the industry in which the firm operates much better. They possess firm and industry specific knowledge and are hence better equipped to steer the company ahead.

Following the empirical observations in the other East Asian countries it is proposed that Hypothesis 2

Independent directors on the audit committee would have a positive association with earnings informativeness.

3.3 Audit quality and earnings informativeness

The global financial crisis, corporate frauds and scandals resulted in the audit profession getting severely criticised. There was a widespread call on the auditors to improve their quality of audit and thereby restore investor confidence in them.

In most of the research studies, audit quality has been conceptualized and measured from auditor independence, audit size, auditor competence, etc. Audit quality as a concept is unobservable and its effectiveness can only be judged by the Audit report (Eilifsen&Willekens, 2007; Manson &Zaman, 2001).

Krishnan *et al.*, (2009) found that audit fees were negatively related to accounting financial expertise in the audit committee. According to them, auditors perceive that independent financial experts on audit committee monitor the management and thereby consider it less risky to audit such firms and charge lower audit fees. Contrary observation was made by Abbott *et al.*, (2003) that audit committee independence was positively associated with audit fees. They interpreted that the audit committees demanded a higher audit quality and therefore, audit fees were higher.

There has also been an ongoing debate on whether the audit quality of a Big 4 audit firm is better than a non Big 4 audit firm. There is a general perception that the size of an audit firm is an important determinant of audit quality. The larger the audit firm, the stronger it is in withstanding pressure to issue clean audit reports. Prior research (e.g., Carey and Simnett, 2006; Reynolds and Francis, 2001) has utilized the auditor's propensity to issue a going concern audit report for distressed clients as a measure of audit quality. Consistent with the past theory (DeAngelo, 1981;Palmrose, 1988; Simunic and Stein, 1987) there is still a perception that large audit firms are more effective at constraining the client's ability to manipulate earnings.With their high audit fees, the Big 4 are more likely to be impacted by a subsequent discovery of loopholes in their audit. Their reputational loss is likely to cause more damage as was proved in the case of Arthur Andersen.

Similarly, providing non-audit services in addition to audit services is expected to put pressure on the auditor, who may compromise his position and role. Provision of only audit services is expected to give the auditor the power to conduct his audit in a non-biased and uncompromised manner. Although audit firms are also profit making entities, the increasing focus on consultancy services undermines the audit quality.

Provision of non-audit services compromises auditor independence. Krishnamurthy *et al*. (2006) documented that the abnormal returns for Andersen's clients around Andersen's indictment were significantly more negative, when the market perceived the auditor's independence to be compromised.

Hypothesis 3

Size of the audit firm and the audit fees is positively associated with earnings informativeness.

4. Sample and Variables

Sample consists of all non-financial listed companies included in S&P CNX 500 index of the National Stock Exchange (NSE). The data on audit committee characteristics have been hand collected from the corporate governance reports sourced from CMIE Prowess database. Wherever data was missing, the annual reports have been scanned to obtain the required data. Audit fees and other financial data have been taken from CMIE Prowess database. After omitting the firms for which data was missing or not available, our sample size was restricted to 367 firms over 6 years which amounts to 2202 firm years.

4.1 Earnings Informativeness

Earnings informativeness is referred to the quality of financial reporting which aids the analysts in arriving at the rightful prediction and also helps the investors in making an informed decision about a company. The quality of audit reports is expected to be of a certain standard with the relevant disclosures and information. Earnings informativeness is measured from the relation between the cumulative abnormal stock returns and earnings of the firm. Significant positive association between firm's earnings and CAR indicates earnings informativeness.

4.1.i. Cumulative Abnormal Returns

The daily expected stock return is computed from the market model. The difference between the expected return and the actual return of each month is referred to as the abnormal return. Compounded Abnormal return is computed for the 12 month period and cumulated. This cumulative abnormal return (CAR) has been considered as the variable depending upon earnings of the firm (Fan and Wong, 2000, Woidtke and Yeh,2013).

4.1.ii. Earnings

Profit after tax of the firm scaled by market capitalisation has been considered as the proxy for earnings.

4.2.i Ownership Structure

Most of the literature on ownership considered voting rights as proxy for family ownership and cash flow rights as proxy for outside ownership. In India, the one vote per share is the principal law prescribed. Though the provision for differential rights with the state‘s approval exists, no Indian firm has such shareholders (Balasubramanian ,2011).

This paper uses % of ownership held by founding family members together with group companies as proxy for family holding. Outside ownership includes total ownership of retail investors, domestic institutions and foreign institutional investors. Total family holdings together with outside ownership will not be equal to 100% as % of shares owned government, NRIs and shares held in trust are excluded.

4.2. ii. Audit committee characteristics

Policy makers and regulators have focused on the constitution of independent audit committees as one of the key requirements of improving investor confidence.The Audit Committee needs to effectively monitor the reporting process of a firm, review audit findings and significant adjustments, ensure compliance and thus enhance reporting quality. Financial disclosure which is described as the quality of reported earnings is considered to be the barometer of a country's corporate governance structure.

Clause 49 requires all audit committees to have at least two-third of its members as independent directors. In order to be on par with international best practices, several far reaching changes in regulations were brought about by SEBI in Clause 49 of the listing agreement that outlines the functions of audit committee (Sarkar, 2013).

The percentage of Audit Committee Independence is considered as independent variable and it is the ratio of independent directors to the total number of directors that are appointed to the audit committee. Audit committees comprising of 100% Independent directors are recommended as desirable governance practice. 100% independence is measured through an indicator variable that equals one when the audit committee comprises entirely of independent directors, and equals zero, otherwise.The total number of independent directors in the audit committee is also considered as the additional proxy for independence. In order to factor the audit committee quality, meetings held and the percentage attendance of independent directors in these meetings has been included.

4.2.iii. Audit Quality

The quality of audit can be construed from different parameters, viz; Audit fees, frequency of rotation of auditors, Peer review, Audit firm size (Big 4 or otherwise), ability to issue qualified audit reports, etc that were used in the reviewed literature.

This study included amount of audit fees paid and other fees paid to auditors for consulting activities to assess audit quality. Audit firm size is coded as a binary variable and is given value of 1 if audit firm happens to be Big4, else 0. Big 4 audit firms are represented by Ernst & Young, KPMG, Deloitte &Touche and Pricewater Coopers.

4.3. Control Variables

In addition, firm specific control variables are included following the literature. Firm size is measured by the total assets base. Leverage is computed as ratio of total debt to total assets. Tobin's q is included to control for the effects of growth on the earnings–return relation. It is computed as the ratio of book value of assets to market value of assets.

Following Woidtke and Yeh, 2013,the entire analytical model is built on the interaction effects with earnings.The fixed effects panel data regression model used for testing the earnings informativeness is specified as:

$$\begin{aligned} CAR_{it} = \; & \alpha_0 + \alpha_1 \,(Earnings_{it}) + \alpha_2 \,(Earnings_{it} * Family\ holdings_{it}) \\ & + \alpha_3 \,(Earnings_{it} * Outside\ ownership_{it}) \\ & + \alpha_4 \,(Earnings_{it} * Audit\ Committee\ Characteristics_{it}) \\ & + \alpha_5 (Earnings_{it} * Audit\ Quality_{it}) + \gamma \,(Firm\ Level\ Control\ Variables_{it}) \\ & + u_{it} \end{aligned}$$

5. Empirical Results

5.1 Descriptive statistics

Table 1 summarizes descriptive statistics of all the variables used for the study. The panel data averages, standard deviation, minimum and maximum values are presented in the table. Annual average CAR is about 8% with high standard deviation indicating high volatility. The period of study is from 2006-2012 where equity markets faced two major crisis, global financial crisis and sovereign debt crisis of European markets. The average earnings are around 10% with the standard deviation of around 30%.

Family holdings on an average are 45%, whereas all outside owners were holding on an average 35% of firms' capital. On an average 95% of audit committee members were found to be independent and more than the prescribed 4 meetings were convened. On an average 83% of independent directors in the committee attended committee meetings.

Firms engage auditors not only for statutory audit but also for consultation on taxation and other matters. Average annual audit fees paid is around 5 million for the firm whereas the consultation fees paid is around 2 million. On an average the sample firms had leverage ratio of 24% and tobin's q ratio of 1.75 times.

[Insert Table 1 here]

5.2 Ownership structure and earnings

The interaction effects of earnings, which is measured as profit after tax (PAT) divided by the market capitalization, and the ownership structure on CAR has been examined. Table 2 reports the earnings relation with CAR along with the impact of its interaction on firm's ownership structure. It is found that the relation between earnings and CAR is positive and statistically significant at 99% confidence level. Ownership interaction was not found to be statistically significant. However, direction of the ownership interaction is contrary to the literature and the hypothesis 1. Family holdings have a positive impact on the relation between earnings and CAR while outside ownership has negative impact. It can be inferred that family firms in post regulation era report all the required information to the investors and the expected negative relation between earnings and CAR does not persist now. The recent literature also documents (Miller *et.al*., 2007) that the family firms were found to be superior performers in the markets.

[Insert Table 2 here]

5.3 Audit committee characteristics and earnings informativeness

Audit committee independence is gauged through 3 proxies, percentage of independent directors in the committee, 100% independence coded as binary variable and the number of independent directors. Hypothesis 2 expects positive impact of independence. The results are reported in Table 3. Results indicate negative relationship between 100% independence as well as % of independence. One reason could be 80% of total sample firms had more than 80% of independent directors and hence this data lacks dispersion. A similar issue is encountered in the analysis of 100% independence. Very few firms were coded as 0 with most of the firms coded as 1. Number of Independent directors had the expected positive association on earnings informativeness. One more interaction is tested whether the independence has any interaction with family holdings since it is reported in the governance literature that more independent directors are required to monitor controlling shareholders. It is found that independence is positively associated with earnings informativeness in family owned companies. Similar observation is found about independent director attendance in the audit committee meetings. It has positive association with earnings in family held companies. Across widely held companies, independence was found to be negative. It could be inferred that these firms would make the required disclosures whether supported or not by independent audit committee members. It also suggests that the mere existence of an independent audit committee does not automatically improve the earnings informativeness. Costs of having an audit committee might outweigh the potential benefits. These costs may include search costs, increased director fees, costs associated with expanding the board. It is often reported in industry circles that compliance with recent regulations about independence is relatively more costly for smaller companies.

Overall these relationships are not found statistically significant, and hence hypothesis 2 could not be accepted. It is not totally rejected too, since independence is found to be positive and essential among family firms.

[Insert Table 3 here]

5.4 Audit quality and earnings informativeness

The audit quality is measured through the audit fees, other fees paid for consultation and audit firm size coded as a binary variable and their impact on earnings informativeness has been reported in Table 4. Following the literature, higher audit fees paid is supposed to motivate and result in superior audit quality and in turn is expected to have positive association with earnings informativeness. As expected in hypothesis 3, audit fees have a positive impact on the relation between earnings and CAR while other fees paid for consultation had negative impact. The audit by Big 4 firms had a statistically significant relationship on earnings informativeness providing a strong positive evidence to accept hypothesis 3. Overall, audit quality is found to improve the quality of disclosures and has a positive impact on the relationship between earnings and CAR.

[Insert Table 4 here]

Table 5 reports fixed effects panel regression estimates with robust standard errors corrected for heteroskedasticity and includes all the variables considered for the study vis-a-vis ownership structure, audit committee characteristics and audit quality. The earnings relationship with CAR remains statistically significant in these models at 99% confidence level. However, individual variables were not found statistically significant to generalise their association with earning informativeness.

6. Concluding remarks

Post Satyam debacle, there has been renewed focus by policy makers such as SEBI on establishing independent audit committees. There is a perception that independent audit committees ensure reliable financial reporting and information quality provided to the capital markets will be superior. The research paper examines this expectation empirically through the relationship between earnings and market returns (CAR) in the post governance regulation era (sample period 2006-2012).

It is found that earnings have statistically significant relationship with cumulative abnormal returns across the sample firms. In the post governance era, audit committee independence had a positive relationship with earnings informativeness across the family companies. Audit committee effectiveness gauged through the number of audit committee meetings had a statistically significant positive association with CAR and earnings relationship. Audit by Big 4 firms has been found to improve the disclosure quality and strengthen earnings informativeness.

The empirical findings of the research study would shed light on the effectiveness of the audit committees and provide pointers to other measures required to improve the quality of financial reporting and information provided to the investors.

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Appendices

Table 1 Full sample descriptive statistics

Number of firms 367; Number of firm years 2202

Variables		Mean	Std. Dev.	Min	Max
A. Abnormal Stock Returns and Earnings					
CAR%	overall	0.0888	0.7568	-2.9557	6.4896
	between		0.2479	-0.4672	0.9430
	within		0.7151	-2.7407	5.6355
Earnings	overall	0.1003	0.3038	-3.0882	9.7970
	between		0.2260	-0.9388	3.4999
	within		0.2119	-2.7533	6.3975
B.Ownership Structure					
%familyholdings	overall	45.2861	21.2668	0.0000	90.0000
	between		20.6766	0.0000	90.0000
	within		5.0721	2.2661	84.8527
%outsideownership	overall	35.4945	14.8985	0.9400	83.6400
	between		14.1195	3.0283	76.9150
	within		4.8016	8.2045	76.0212
C.Audit Committee characteristics					
100% Independence	overall	0.8039	0.3971	0.0000	1.0000
	between		0.3608	0.0000	1.0000
	within		0.1669	0.0000	1.0000
Percentage Independence	overall	0.9448	0.1222	0.3000	1.0000
	between		0.1097	0.1950	1.0000

	within		0.0542	0.3865	1.0000
No of independent directors	overall	3.6531	0.9967	2.0000	6.0000
	between		0.8361	2.6667	8.3333
	within		0.5439	1.6800	6.9864
No. of meetings	overall	4.8688	1.4717	1.0000	15.0000
	between		1.2569	2.0000	14.1667
	within		0.7668	0.2979	9.7021
% of attendance in meetings	overall	83.6543	13.6512	20.0000	100.0000
	between		9.1430	53.3167	100.0000
	within		10.1558	36.2377	100.0000
D. Audit Quality					
Audit Fees (millions)	overall	5.5995	8.7467	0.1000	92.3000
	between		8.3680	0.1000	83.3833
	within		2.4869	17.3838	44.8828
Other Fees (millions)	overall	2.3632	4.8711	0.0000	90.0000
	between		4.4759	0.0000	66.5167
	within		1.9064	28.3534	25.8466
Big 4 Audit firm	overall	0.4171	0.4932	0.0000	1.0000
	between		0.4806	0.0000	1.0000
	within		0.1130	0.0000	1.0000
E. Control Variables					
Leverage	overall	0.2446	0.1924	0.0000	0.9675
	between		0.1758	0.0000	0.7049
	within		0.0786	-0.1433	1.0073
Tobin's q	overall	1.7579	1.6149	0.0000	16.0046
	between		1.2973	0.2100	8.2759
	within		0.9600	-6.2574	11.2648
Total Assets (millions)	overall	66736	185531.80	12.30	2952250.00
	between		177371.70	787.77	2241880.00
	within		54942.01	998634.60	777106.20

Table 2 Ownership and Earnings informativeness

Independent Variables	CAR-Dependent Variable			
Intercept	0.0577	0.0648	0.1537	0.1548
	(7.81)***	(6.18)***	(1.80)*	(1.81)*
Earnings	0.1924	0.5679	0.5276	0.3913
	(2.61)***	(1.69)*	(1.81)*	(0.98)
Earnings*Outside Ownership		-0.0123	-0.0121	-0.01
		(-1.3)	(-1.43)	(-1.08)
Earnings*Family Holdings				0.0016
				(0.49)
Leverage			0.4425	0.4376
			(1.90)*	(1.87)*
Tobin's q			-0.1048	-0.1049
			(3.83)***	(3.83)***
Total Assets			-3.86e -08	-4.01e -08
			(-0.19)	(-0.19)
R^2	0.0003	0.0006	0.0103	0.0104
Number of firms	367	367	367	367
Number of firm Years	2202	2202	2202	2202
F-Statistic	6.83***	1.97	5.35***	4.38***

* 90% significance level, ** 95% significance level,*** 99% significance level

Table 3 Audit committee characteristics and Earnings Informativeness

Independent Variables	CAR-Dependent Variable							
Intercept	0.1401	0.1458	0.1303	0.136	0.1338	0.1503	0.1504	0.1406
	(1.65)	(1.71)*	(1.55)	(1.60)	(1.58)	(1.76)*	(1.76)*	(1.65)*
Earnings	3.4543	3.4842	3.9715	3.7368	3.602	0.1877	0.1988	0.1917
	(2.82)***	(2.86)***	(3.39)***	(3.22)***	(3.03)***	(2.22)**	(2.08)**	(2.35)**
Earnings*Outside Ownership	-0.0006	0.0015	-0.0191	-0.0086	-0.0092			
	(-0.07)	(0.17)	(-2.22)**	(-0.80)	(-0.85)			
Earnings* Family Holdings	0.0038	0.0032	0.0018	0.0008	0.0028			
	(1.25)	(0.97)	(0.6)	(0.2)	(0.90)			
Earnings* %Independence	-3.4976	-3.5252	-3.444	-3.3897	-3.3778			
	(-2.91)***	(-2.95)***	(-2.86)***	(-2.85)**	(-2.80)***			
Earnings* Audit Fee	0.0076				-0.0017	0.0021	0.0163	0.0093
	(0.44)				(-0.09)	(0.14)	(.77)	(.46)
Earnings* Other Fee		-0.0122		-0.0456			-0.0377	-0.0686
		(-0.41)		(-1.17)			(-1.10)	(-1.87)
Earnings* Big 4 Audit firm			0.5932	0.546	0.4365			0.4635
			(3.17)***	(2.13)**	(2.04)**			(2.10)**
Leverage	0.3477	0.3421	0.4055	0.3269	0.34	0.3598	0.3504	0.324
	(1.43)	(1.42)	(1.72)*	(1.35)	(1.40)	(1.48)	(1.44)	(1.32)
Tobin's q	-0.0973	-0.0993	-0.0987	-0.096	-0.0949	-0.0994	-0.0992	-0.0964
	(-3.56)***	(-3.61)***	(-3.63)***	(-3.49)***	(-3.48)***	(-3.63)***	(-3.62)***	(-3.53)***
Total Assets	-1.74e -09	5.17e -09	-3.15e -08	3.13e -08	4.93e -10	6.20 e -10	2.41e -08	-6.9e -05
	(-0.01)	(0.02)	(-0.15)	(0.14)	(0.00)	(0.00)	(.11)	(.23)
Change in Audit Fee								-0.0001
								(-.01)
R^2	0.0137	0.0139	0.0156	0.0157	0.0146	0.0103	0.0109	0.0125
Number of firms	367	367	367	367	367	367	367	367
Number of Firm Years	2202	2202	2202	2202	2202	2202	2202	2202
F-Statistic	4.97***	4.95***	7.68***	5.86***	5.66***	5.78***	4.56***	4.59***

* 90% significance level, ** 95% significance level,*** 99% significance level

Table 4 Audit Quality and Earnings Informativeness

Independent Variables	CAR-Dependent Variable							
Intercept	0.1401	0.1458	0.1303	0.136	0.1338	0.1503	0.1504	0.1406
	(1.65)	(1.71)*	(1.55)	(1.60)	(1.58)	(1.76)*	(1.76)*	(1.65)*
Earnings	3.4543	3.4842	3.9715	3.7368	3.602	0.1877	0.1988	0.1917
	(2.82)***	(2.86)***	(3.39)***	(3.22)***	(3.03)***	(2.22)**	(2.08)**	(2.35)**
Earnings*Outside Ownership	-0.0006	0.0015	-0.0191	-0.0086	-0.0092			
	(-0.07)	(0.17)	(-2.22)**	(-0.80)	(-0.85)			
Earnings*Family Holdings	0.0038	0.0032	0.0018	0.0008	0.0028			
	(1.25)	(0.97)	(0.6)	(0.2)	(0.90)			
Earnings*%Independence	-3.4976	-3.5252	-3.444	-3.3897	-3.3778			
	(-2.91)***	(-2.95)***	(-2.86)***	(-2.85)**	(-2.80)***			
Earnings*Audit Fee	0.0076				0.0017	0.0021	0.0163	0.0093
	(0.44)				(0.09)	(0.14)	(.77)	(.46)
Earnings*Other Fee		-0.0122		-0.0456			-0.0377	-0.0686
		(-0.41)		(-1.17)			(-1.10)	(-1.87)
Earnings* Big 4 Audit firm			0.5932	0.546	0.4365			0.4635
			(3.17)***	(2.13)**	(2.04)**			(2.10)**
Leverage	0.3477	0.3421	0.4055	0.3269	0.34	0.3598	0.3504	0.324
	(1.43)	(1.42)	(1.72)*	(1.35)	(1.40)	(1.48)	(1.44)	(1.32)
Tobin's q	-0.0973	-0.0993	-0.0987	-0.096	-0.0949	-0.0994	-0.0992	-0.0964
	(-3.56)***	(-3.61)***	(-3.63)***	(-3.49)***	(-3.48)***	(-3.63)***	(-3.62)***	(-3.53)***
Total Assets	-1.74e -09	5.17e -09	-3.15e -08	3.13e -08	4.93e -10	6.20 e -10	2.41e -08	-6.9e -05
	(-0.01)	(0.02)	(-0.15)	(0.14)	(0.00)	(0.00)	(.11)	(.23)
Change in Audit Fee								-0.0001
								(-.01)
R^2	0.0137	0.0139	0.0156	0.0157	0.0146	0.0103	0.0109	0.0125
Number of firms	367	367	367	367	367	367	367	367
Number of firm years	2202	2202	2202	2202	2202	2202	2202	2202
F-Statistic	4.97***	4.95***	7.68***	5.86***	5.66***	5.78***	4.56***	4.59***

* 90% significance level, ** 95% significance level,*** 99% significance level

Table 5 Ownership Structure, Audit and Audit Committee Quality and Earnings Informativeness

Independent Variables	**Dependent Variable-CAR**	
Intercept	0.135	0.1294
	(1.58)	(1.52)
Earnings	4.6682	4.5568
	(3.42)***	(3.36)***
Earnings*Outside Ownership	-0.0093	-0.014
	(-0.96)*	(-1.24)
Earnings*Family Holdings	0.0031	0.0016
	(0.86)	(0.37)
Earnings*%Independence	-3.0687	-3.0141
	(-2.44)**	(-2.40)**
Earnings*Audit Fee	0.0099	0.0088
	(0.42)	(0.4)
Earnings*Other Fee	-0.0482	-0.0646
	(-1.09)	(-1.32)
Earnings*No. of Meetings	0.14522	0.0184
	(0.33)	'(.42)
Earnings*%AttendanceMeetings	-0.0146	-0.0122
	(-2.96)**	(-2.19)**
Earnings * Big 4 Audit firm		0.3397
		(1.19)
Leverage	0.3	0.2953
	(1.20)	(1.21)
Tobin's q	-0.09324	-0.09154
	(-3.44)***	(-3.37)***
Total Assets	6.44E-08	7.34E-08
	(0.3)	(.34)
R^2	0.0159	0.0168
Number of firms	367	367
Number of firm years	2202	2202
F-Statistic	4.75***	4.68***

* 90% significance level, ** 95% significance level,*** 99% significance level