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Audit committees in public companies listed on the Warsaw Stock Exchange: compliance with hard law in practice

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Abstract

Purpose – The article aims to determine the implementation extent of the regulations around appointment and characteristics of audit committees and regulations concerning disclosure of information about the audit committee in Polish practice.

Design/methodology/approach – The author analyzed the informative content of management reports and corporate governance statements. The survey covered all domestic companies listed on the Warsaw Stock Exchange in the years from 2017 to 2021.

Findings – The new guidelines resulting from hard law had a significant impact on the corporate governance on the Polish capital market. According to the research results, over the analyzed years, the share of companies listed on the Warsaw Stock Exchange, which appointed an audit committee within the supervisory board, clearly increased. Moreover, the research found that in the period under study, not all companies fulfilled the obligation to disclose information about the audit committee resulting from hard law. In particular, this applies to disclosures on how the members of the audit committee acquired competencies in the area of accounting.

Practical implications – The article concerns the operation of the audit committee in public companies listed on the Polish capital market. The study can serve as a reference point for further research on corporate governance. The results of the research may be an indication for those who create legal solutions in the area of corporate governance.

Originality/value – This is the first such comprehensive study on the characteristics of the audit committee and disclosures about the audit committee resulting from the introduction of hard law in this area.

Keywords Corporate governance, Public listed companies, Audit committees, Hard law

Paper type Research paper

Introduction

Over the last dozen or so years, many countries around the world have adapted the economic structures and regulations characteristic of Anglo-Saxon countries (Nordberg, 2011). This largely concerns corporate governance (Jeżak, 2010; Jerzemowska, 2011), including the functioning of the audit committee unit in the enterprises' structure. Many countries have replicated the recommendations for the voluntary appointment of an audit committee that originated in Anglo-Saxon countries (Collier & Zaman, 2005). Allowing the authorities of companies listed on the capital markets of the European Union to decide whether to appoint an audit committee resulted in the limited establishment of this unit (Adamska, Bohdanowicz, & Gad, 2020). In response to the ineffectiveness of voluntary recommendations, authorities imposed a legal obligation on the European Union countries to establish audit committees. As indicated in the literature, the legislative activities of the European Union in this area were a milestone in the convergence of European corporate governance systems (Dobija, 2011).

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The audit committee is a "working group" to help the supervisory board fulfill its obligation to continuously supervise the company's operations, especially in areas such as financial reporting, internal audit and risk management (Oplustil, 2010).

From the perspective of the resource-based theory, we may perceive audit committees as a valuable resource of an enterprise that allows it to achieve a strategic competitive advantage (Hillman & Dalziel, 2003). In turn, from the point of view of agency theory, the disclosure of information on the characteristics of the audit committee is an expression of mitigating agency problems (Jensen & Meckling, 1976). The audit committee serves as a means of reducing information asymmetry and managerial opportunism and increasing the quality of disclosures (Cheung, Jiang, & Tan, 2010).

The article aims to determine the implementation extent of the regulations in the area of appointment and characteristics of audit committees and regulations concerning disclosure of information about the audit committee in Polish practice.

The survey covered all domestic companies listed on the Warsaw Stock Exchange in the years from 2017 to 2021. It is the first such extensive survey covering both the problem of appointing audit committees with their characteristics and the disclosure of information on this subject by companies.

In the article, I use the wording "hard law" in relation to mandatory legal standards, such as, e.g. Act of 11 May 2017 on statutory auditors, audit firms and public supervision. On the other hand, I use "soft law" in relation to recommendations. Good corporate governance practices are an example of soft law. They operate in accordance with the "comply or explain" rule, i.e. the company's management must explain in the report why they do not apply a given rule. Scientists conducting research in the area of corporate governance use a similar classification of regulations (Stewart & McNulty, 2015; Gonzalez, Guzman, Tellez, & Trujillo, 2021).

According to the research presented in this article, the change in the principles of appointing the audit committee resulting from hard law led to the establishment of this unit within the supervisory board in the majority of surveyed companies. The research results indicate that the obligation to disclose information about the audit committee, resulting from hard law, is still a problem for many companies. For example, in 2021, over 9% of the surveyed companies did not disclose information on the number of audit committee meetings.

The article is divided into four main parts. The first part will explain the role of the audit committee in the corporate governance structure and provide an overview of the research into the characteristics of the audit committee. The second and third parts of the article will present guidelines resulting from hard and soft laws regarding the audit committee. The fourth part will contain the results of research on compliance by public companies with hard law with regard to the operation of the audit committee and disclosure of information concerning this entity.

Audit committee in the corporate governance structure

The results of empirical research indicate that the presence of an audit committee among the corporate governance mechanisms is beneficial because it ensures the credibility of financial statements by reducing the frequency of errors and other irregularities (McMullen, 1996; Mardessi, 2022), reduces the likelihood of accounting frauds (Peasnell, Pope, & Young, 2001; James, 2003; Farber, 2005) and ensures the high quality of external financial reporting (Bradbury, 1990; Stewart & Munro, 2007; Mangena & Tauringana, 2008; Hoitash & Hoitash, 2009). As a corporate governance mechanism, the audit committee improves the quality of the information provided to external users (Carcello & Neal, 2000; Abbott, Parker, & Peters, 2004; Karamanou & Vafeas, 2005; Alzeban & Sawan, 2015). Importantly, the audit committee maintains the quality of the control system over financial reporting (Collier, 1993; Xie, Davidson, & DaDalt, 2003; Zhang, Zhou, & Zhou, 2007; Hoitash, Hoitash, & Bedard, 2009; Cohen, Krishnamoorthy, & Wright, 2017).

In 2021, Deloitte Global surveyed the involvement of audit committees in climate change. As many as 42% of the surveyed members of audit committees stated that they did not have the information, capabilities, or mandate to fulfill their climate-related obligations (Deloitte, 2021).

A study conducted by Deloitte in the United States found that audit committees increasingly deal with issues in the field of environmental, social and governance (ESG) reporting during their meetings (Deloitte, 2022). Moreover, the literature indicates that audit committees have a positive impact on the high level of disclosures in the area of corporate social responsibility (CSR) (Khan, Muttakin, & Siddiqui, 2013; Dwekat, Segui-Mas, Tormo-Carbo, & Carmona, 2020).

According to the research conducted by Dobija in the years 2012 and 2013 among statutory auditors examining the financial statements of companies listed on the Warsaw Stock Exchange and among auditors with experience in financial auditing in companies listed on the New York Stock Exchange, American auditors, unlike Polish statutory auditors, treat audit committees as the main actors of an effective corporate governance system (Dobija, 2014). In the literature on the subject, authors note the audit committee operates mostly as part of informal processes. For example, this applies to informal meetings of the audit committee with the statutory auditor (Turley & Zaman, 2007).

The results of the research conducted based on data from the 2008–2015 period show that in companies listed on the Warsaw Stock Exchange, unlike in Anglo-Saxon countries, the presence of independent supervisory board members and the presence of supervisory board members who are experts in finance and accounting reduces the likelihood of appointing an audit committee. On the other hand, companies with foreign investors in the ownership structure are more likely to appoint an audit committee than companies that do not have this type of ownership (Puławska, Dobija, Piotrowska, & Kravchenko, 2021). Noteworthy, in the period covered by the study by Puławska *et al.* (2021), appointing the audit committee was to some extent voluntary.

The characteristics of audit committees are very often included in research on corporate governance, including in particular research on corporate disclosures (Carcello & Neal, 2000; Bedard, Chtourou, & Courteau, 2004; Abbott *et al.*, 2004; Bronson, Carcello, & Raghunandan, 2006; Yekini, Adelopo, Andrikopoulos, & Yekini, 2015).

The studies conducted among public companies listed in the United States in the years from 2000 to 2014 found that the average size of audit committees was 3.75. In these committees, the average share of accounting experts in the total number of members was 0.47 and the average share of independent members in the total number of audit committee members was 0.50 (Felix, Pevzner, & Zhao, 2021). In Germany, in the 2007–2013 period, the average number of audit committee members was 4.32. The committees met on average 4.43 times a year. On the other hand, the share of independent members in the total number of members of the audit committee was 0.65 on average. Interestingly, the share of accounting specialists in the total number of audit committee members was on average 0.62 (Weber, 2020). A study conducted among German companies found that in the 2012–2016 period, the average number of audit committee members was 4.36. These committees met on average 4.68 times a year (Baumann & Ratzinger-Sakel, 2020). As part of the study conducted among companies listed on the capital markets of eight European countries (Germany, Belgium, Spain, France, the Netherlands, Italy, Portugal and the United Kingdom), researchers found that in the 2005–2014 period, the average size of the audit committee was 4.21. The audit committees met on average 6.04 times a year (Herranz, Lopez-Iturriaga, & Reguera-Alvarado, 2020).

The above-mentioned research results indicate that in public companies listed on capital markets from different parts of the world, there are significant differences in terms of the size of audit committees, the share of independent members, or the share of accounting specialists in the total number of audit committee members.

Studies conducted in Italy found that the share of independent members in the total number of audit committee members is positively correlated with the meetings frequency of the audit committee (Greco, 2011). The research conducted in France found that the individual competencies of the audit committee members resulting, among other factors, from their education level, are related to the number of audit committee meetings (Maraghni & Nekhili, 2014). At the same time, research conducted in China showed that the number of audit committee meetings was not correlated with the share of audit committee members who are accounting experts (Yin, Gao, Li, & Lv, 2012).

Hard and soft law regarding the operation of the audit committee

At the beginning of the twenty-first century, audit committees were established in public companies listed on the Warsaw Stock Exchange based on the guidelines of soft law, i.e. codes of good practice.

Soft law only encouraged companies to establish an audit committee. Companies began to widely establish this committee within the supervisory board only after the introduction of statutory guidelines (hard law) in this regard. The obligation to establish an audit committee resulted from Directive 2006/43/EC of the European Parliament and of the Council, the provisions of which were transferred, among other acts, to the Polish Act of May 7, 2009, on statutory auditors and their self-government, entities authorized to audit financial statements and on public supervision. Pursuant to this act, in 2009, it became obligatory to establish an audit committee in public interest entities. The obligation to establish audit committees applied to those companies whose supervisory boards consisted of more than five members. Adamska, Bohdanowicz, and Gad (2017) note that consequently, the legislator created a wide room for maneuvering for companies that could adapt to the regulations by determining the number of members of the supervisory board. As the research results show, in 2011, the supervisory board with a minimum number of five members was present in over 60% of public companies listed on the Warsaw Stock Exchange, which means that they were not obliged to establish an audit committee (Adamska *et al.*, 2017).

Because of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, as amended by provisions of Directive 2014/56/EU of the European Parliament and the Council, it is not the size of the supervisory board but the size of the company that determines the obligation to establish an audit committee. The Act obliged public companies that exceeded two of the three values, i.e. total assets over PLN 17mn, net revenues from the sale of goods and products over PLN 34mn and employment over 50 people, to establish an audit committee by October 21, 2017. The audit committee should consist of at least three members. Additionally, at least one member of the audit committee should have knowledge and skills in accounting or auditing. Most of the members of the audit committee, including its chairman, should be independent from the given public interest entity. The results of Deloitte's survey conducted in Poland in 2016 among public interest entities indicate that most of these entities did not meet the condition of independence of supervisory board members (Deloitte, 2016).

The 2017 Act on statutory auditors, audit firms and public oversight indicates that failure to comply with corporate governance standards may result in sanctions that may be imposed on a public company, members of management boards, supervisory boards, or audit committees. This act also indicates a catalog of possible sanctions.

Mandatory disclosures regarding the characteristics of the audit committee resulting from hard law

In 2018, with the implementation of Regulation (EU) no 596/2014 of the European Parliament and the Council, the authorities expanded the catalog of non-financial information that issuers of securities must disclose in their annual reports. The guidelines in this regard are included in the Polish Regulation of the Minister of Finance of March 29, 2018, on current and periodic information published by issuers of securities and the conditions for recognizing as equivalent information required by the provisions of law of a non-member state. Pursuant to the guidelines of this regulation, the statement on the application of corporate governance, which is part of the management board report, must be supplemented with information containing – in relation to the audit committee or the supervisory board, respectively – an indication of, among other elements.

(1) Persons who meet the statutory criteria of independence;

(2) Persons with knowledge and skills in the field of accounting or auditing of financial statements, with an indication of how they had acquired their qualifications;

(3) The number of meetings of the audit committee or the meetings of the supervisory board devoted to exercising the duties of the audit committee.

The above guidelines seem to be very important, because in practice so far, public companies have presented this information to a limited extent or not at all.

Audit committee in the practice of public companies: research results

The organization of the research

The research group consisted of domestic public companies listed on the Warsaw Stock Exchange between 2017 and 2021.

The study aimed to determine to what extent the examined companies applied the provisions of hard law regarding the operation of audit committees and the disclosure of information about them.

The empirical study identified three main areas.

(1) Appointment of audit committees and their size,

(2) Disclosure of information on the characteristics of audit committees,

(3) Characteristics of audit committees.

I formulated the following research questions.

RQ1. How did the share of companies that established the audit committee change in the total number of companies in the analyzed period and how did the number of audit committee members change?

RQ2. How did the reporting practice regarding disclosure of information about the characteristics of the audit committee change during the period under review?

RQ3. How did the share of independent members of the audit committee in the total number of members of this committee change in the period under review?

RQ4. How did the share of members of the audit committee who are accounting specialists in the total number of members of this committee change in the period under review?

RQ5. How did the activity of audit committees, expressed in the number of meetings of this committee, change in the period under review?

The study determined whether there were statistically significant differences between companies from different sectors concerning.

(1) The number of audit committee members,

(2) Disclosures about the share of independent members in the total number of audit committee members,

(3) Disclosures about the share of accounting specialists in the total number of audit committee members,

(4) Disclosures about the number of meetings of audit committees,

(5) The share of independent members in the total number of audit committee members,

(6) The share of accounting specialists in the total number of audit committee members and

(7) The frequency of meetings of audit committees.

As part of the research, I analyzed the informative content of management reports and corporate governance statements. I used descriptive statistics as part of the study. Because the variables I examined did not have a normal distribution, I calculated the correlations using Spearman's rho correlation coefficient and I performed the significance tests using the non-parametric Kruskal–Wallis test.

I encoded disclosures in the binary system (i.e. presence of disclosures – 1; no disclosures – 0). I identified independent members of the audit committee and members with knowledge and skills in accounting or auditing (referred to as accounting specialists in this article) based on clear declarations in company reports.

Moreover, I took into account sectoral differences. The sectors identified in the article reflect the sectoral division used on the Warsaw Stock Exchange. I collected the data manually. The figures presented in the article reflect the state at the end of the financial year adopted by the surveyed companies. I used SPSS software for the calculations.

The appointment of audit committees and their size

Because of the new Act on statutory auditors, audit firms and public oversight adopted in 2017, the audit committee became mandatory for almost all public companies. In 2017, 41.41% of the surveyed companies appointed the audit committee, 4.08% in 2018, 0.81% in 2019 and 1.14% in 2021. In 2020, no audit committee was established (cf. Table 1).

Over the analyzed years, the share of companies with an audit committee increased significantly. In 2017, it was 88.13% of the surveyed companies, while in 2021 as much as 97.44% of the surveyed companies. Accordingly, the entire supervisory board performed the function of the audit committee in 11.87% of the surveyed companies in 2017, while in 2021 in 2.56% of the surveyed companies (cf. Table 2). The research results indicate that due to the new hard law, the audit committee has become almost universal among public companies listed on the Warsaw Stock Exchange. In 2008, only 25.65% of companies had an audit committee, while in 2011 this percentage was 41.71% (Adamska *et al.*, 2020).

The average size of audit committees over the analyzed years slightly decreased. The standard deviation of the size of audit committees also decreased. In the entire period under review, the median number of members of the audit committee was three. The maximum number of audit committee members in 2017 was nine, while in the years 2018 and 2021 it was

2017		2018		2019		2020		2021	
No.	S	No.	S	No.	S	No.	S	No.	S
164	41.41%	16	4.08%	3	0.81%	0	0.00%	4	1.14%

Note(s): Symbols: No. – Number of companies; S – Share
Source(s): Own elaboration

Table 1. Companies that established an audit committee in a given year

seven (cf. Table 3). The relatively high maximum size of audit committees results from the fact that in the absence of a separate audit committee, all members of the supervisory board performed the functions of this unit.

In the period under review, in the majority of companies, the audit committee consisted of three members (over 76% of companies). Additionally, the share of companies with a three-person audit committee increased in the analyzed period. On the other hand, the share of companies with an audit committee of more than three members decreased (cf. Table 4).

Between 2018 and 2020, a three-person audit committee dominated companies from all sectors. In 2017 and 2021, companies from the fuels and energy sector mostly had an audit committee of more than three members. Noteworthy, between 2018 and 2020, in the fuels and energy sector, the share of companies with an audit committee of more than three members in the total number of companies was higher than in companies from other sectors (cf. Table 5).

The results of the non-parametric Kruskal–Wallis test showed that during the entire period under study, there were statistically significant differences between the compared sectors ($p < 0.05$), i.e. companies from at least one sector differed from the others. Thus, we rejected the null hypothesis that there are no differences between the sectors regarding the size of the audit committee (cf. Table 5).

Table 2. Functioning of the audit committee within supervisory boards

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
Companies that established an audit committee	349	88.13%	364	92.86%	345	92.99%	338	94.41%	342	97.44%
Companies where the full supervisory board performed the function of the audit committee	47	11.87%	28	7.14%	26	7.01%	20	5.59%	9	2.56%

Note(s): Symbols: No. – Number of companies; S – Share
Source(s): Own elaboration

Table 3. Descriptive statistics on the size of audit committees

	2017	2018	2019	2020	2021
Arithmetic average	3.45	3.35	3.36	3.37	3.33
Median	3.00	3.00	3.00	3.00	3.00
Standard deviation	0.88	0.78	0.81	0.80	0.75
Minimum	3	2	2	2	2
Maximum	9	7	7	7	7

Source(s): Own elaboration

Table 4. The size of audit committees

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
Audit committees with less than three people	0	0.00%	4	1.02%	4	1.08%	4	1.12%	3	0.85%
Audit committees of three people	301	76.01%	307	78.32%	293	78.98%	276	77.09%	277	78.92%
Audit committees with more than three people	95	23.99%	81	20.66%	74	19.95%	78	21.79%	71	20.23%

Note(s): Symbols: No. – Number of companies; S – Share
Source(s): Own elaboration

Sectors	100	200	300	400	500	600	700	800
2017								
An audit committee of less than three people	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
An audit committee of three people	66.67%	46.67%	60.00%	87.62%	87.76%	77.27%	80.95%	74.29%
An audit committee of more than three people	33.33%	*53.33%*	40.00%	12.38%	12.24%	22.73%	19.05%	25.71%
K-W				$p = 0.000$				
2018								
An audit committee of less than three people	3.49%	0.00%	0.00%	0.00%	0.00%	0.00%	4.76%	0.00%
An audit committee of three people	63.95%	62.50%	77.50%	89.42%	89.58%	77.27%	80.95%	72.73%
An audit committee of more than three people	32.56%	37.50%	22.50%	10.58%	10.42%	22.73%	14.29%	27.27%
K-W				$p = 0.007$				
2019								
An audit committee of less than three people	3.7%	0.00%	0.00%	0.00%	0.00%	0.00%	4.76%	0.00%
An audit committee of three people	67.90%	62.50%	77.14%	90.00%	88.89%	78.57%	76.19%	70.00%
An audit committee of more than three people	28.40%	37.50%	22.86%	10.00%	11.11%	21.43%	19.05%	30.00%
K-W				$p = 0.023$				
2020								
An audit committee of less than three people	3.85%	0.00%	3.33%	0.00%	0.00%	0.00%	0.00%	0.00%
An audit committee of three people	64.10%	53.33%	66.67%	89.47%	86.36%	76.74%	79.17%	79.31%
An audit committee of more than three people	32.05%	46.67%	30.00%	10.53%	13.64%	23.26%	20.83%	20.69%
K-W				$p = 0.021$				
2021								
An audit committee of less than three people	1.39%	0.00%	3.57%	0.00%	2.44%	0.00%	0.00%	0.00%
An audit committee of three people	70.83%	43.75%	64.29%	91.40%	80.49%	82.98%	84.00%	79.31%
An audit committee of more than three people	27.78%	*56.25%*	32.14%	8.60%	17.07%	17.02%	16.00%	20.69%
K-W				$p = 0.001$				

Note(s): I employ the following designations of sectors: 100 – Finance; 200 – Fuels and energy; 300 – Chemicals and raw materials; 400 – Industrial and construction-assembly production; 500 – Consumer goods; 600 – Trade and services; 700 – Health care; 800 – Technologies Symbols: K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

Table 5. The size of audit committees in companies from various sectors

Disclosure of information regarding the characteristics of audit committees by companies

In 2017, most of the audited companies (65.08%) did not disclose information about independent members of the audit committee. Individual companies indicated that "members of the audit committee meet the criteria referred to in the Act on statutory auditors." At the same time, these companies did not indicate how many independent members there were and who were independent.

The research found that in 2018, over 85% of the surveyed companies disclosed information about independent members of the audit committee. In 2019, this share was almost 92%, in 2020 – over 92% and in 2021 – over 93% (cf. Table 6). This means that in 2018, almost 15% of companies, in 2019 – over 8% of companies, in 2020 almost – 7.5% of companies and in 2021 – almost 7% of companies did not meet the requirements regarding disclosure of information about independent audit committee members resulting from hard law.

There were no statistically significant differences between the sectors in the disclosure of information on independent members of the audit committee during the period under review ($p > 0.05$). Therefore, we should adopt the null hypothesis that there were no differences between the sectors in the area of disclosing information about independent members of the audit committee.

In 2017, the largest share of companies (77.50%) that did not disclose information about independent members of the audit committee was in the chemicals and raw materials sector. In 2018, the largest share of companies (19.05%) that did not disclose information about independent members of the audit committee was recorded in the healthcare sector, in 2019 – in the finance sector (14.81%), in 2020 and 2021 – in the trade and services sector (11.63% and 12.77% respectively) (cf. Table 7).

In 2017, over 74% of the companies surveyed did not disclose information about the members of the audit committee who were specialists in the field of accounting. In turn, in 2018, almost 84% of the surveyed companies disclosed this information, and between 2019 and 2021 – around 90% of the surveyed companies. The research results indicate that not all

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
Companies disclosing information about independent audit committee members	139	34.92%	333	85.17%	341	91.91%	335	92.54%	329	93.20%
No disclosures of independent members of the audit committee	259	65.08%	58	14.83%	30	8.09%	27	7.46%	24	6.80%
K-W	p = 0.166		p = 0.926		p = 0.288		p = 0.374		p = 0.406	

Note(s): Symbols: No. – Number of companies; S – Share; K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

Table 6.
Disclosures about independent members of the audit committee

Sectors	2017 No.	2017 S	2018 No.	2018 S	2019 No.	2019 S	2020 No.	2020 S	2021 No.	2021 S
100 – Finance	49	56.32%	12	13.95%	12	14.81%	9	11.54%	6	8.33%
200 – Fuels and energy	9	60.00%	1	6.25%	0	0.00%	0	0.00%	0	0.00%
300 – Chemicals and raw materials	*31*	77.50%	6	15.00%	1	2.86%	1	3.33%	1	3.57%
400 – Industrial and construction-assembly production	77	73.33%	15	14.42%	6	6.00%	7	7.37%	6	6.45%
Consumer goods	29	59.18%	9	18.75%	4	8.89%	4	9.09%	4	9.76%
600 – Trade and services	26	59.09%	5	11.36%	3	7.14%	5	11.63%	6	12.77%
700 – Healthcare	15	71.43%	4	19.05%	1	4.76%	1	4.17%	1	4.00%
800 – Technologies	22	62.86%	6	18.18%	3	10.00%	0	0.00%	0	0.00%

Note(s): Symbols: No. – Number of companies; S – Share
Source(s): Own elaboration

Table 7.
No disclosures on the appointment of independent committee members in companies from different sectors

companies met the requirements resulting from hard law regarding the disclosure of information about the characteristics of the audit committee. In 2018, it was over 16% of the surveyed companies, and in 2021 over 9% of the surveyed companies (cf. Table 8).

The results of the Kruskal–Wallis test indicate that in the analyzed period, there were no statistically significant differences between the compared sectors in the presentation of information on audit committee members who were accounting specialists ($p > 0.05$). Thus, there is no reason to reject the null hypothesis, according to which companies representing various sectors do not differ in terms of presenting information on accounting specialists who sit on audit committees.

The analysis of sectoral data shows that in 2017, over 93% of companies from the fuel and energy sector did not disclose information about the members of the audit committee who were accounting specialists. Thus, in 2017 the share of companies that did not disclose information about the members of the audit committee who were accounting specialists was the largest in the fuel and energy sector. Moreover, in 2018, the largest share of companies that did not disclose information about the members of the audit committee who were accounting specialists was recorded in the fuels and energy sector. This share was 25%. The research found that in 2019, the largest share of companies that did not disclose information about members of the audit committee who were accounting specialists was in the finance sector and amounted to almost 20%. Meanwhile, in 2020–2021, the largest share of companies that did not disclose information about accounting specialists on audit committees was in the trade and services sector and amounted to 13.95% and 17.02%, respectively (cf. Table 9).

Importantly, not all companies that clearly identified accounting specialists among audit committee members in their annual reports disclosed information on how those members had acquired these competencies. The results of the survey show that in 2018, almost 31% of the companies surveyed did not disclose information on how the members of the audit committee had acquired competencies in the area of accounting or auditing financial statements. The situation was similar between 2019 and 2021. Thus, about 30% of companies did not meet the hard law requirements.

The research found that in 2017, almost 90% of the surveyed companies did not disclose information on the number of meetings of the audit committee in their annual reports. Results differed for 2018 when over 80% of the surveyed companies disclosed information on this subject. In 2019, almost 88% of the surveyed companies disclosed this information. Next, in 2021, over 90% of the surveyed companies disclosed this information. Undoubtedly, the companies' reporting practice has changed as a result of the guidelines on disclosing

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
Companies that disclose information about audit committee members who are accounting specialists	102	25.63%	328	83.89%	334	89.78%	330	91.16%	322	90.96%
Companies that do not disclose information about the members of the audit committee who are specialists in accounting	296	74.37%	63	16.11%	38	10.22%	32	8.84%	32	9.04%
K-W	p = 0.195		p = 0.990		p = 0.288		p = 0.533		p = 0.270	

Note(s): Symbols: No. – Number of companies; S – Share; K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

Table 8. Disclosures about audit committee members who are accounting specialists

the characteristics of the audit committee resulting from hard law. In 2018, almost 20% of the surveyed companies did not comply with the provisions of the hard law. In the following year, these companies accounted for over 12%. In 2021, over 9% of the surveyed companies did not comply with the guidelines of hard law (cf. Table 10).

The results of the Kruskal–Wallis test indicate that in 2017, there were statistically significant differences between the sectors regarding the presentation of information on audit committee meetings ($p < 0.05$). Thus, we should reject the null hypothesis that there were no differences between sectors regarding disclosure of information on audit committee meetings for the year 2017. However, between 2018 and 2021, there were no statistically significant differences in this area ($p > 0.05$), thus, there is no reason to reject the null hypothesis.

The study found that in 2017, the largest share of companies that did not disclose information about the meetings of the audit committee was in the healthcare sector (over 95% of companies from this sector did not disclose this information). In 2018, the largest share of companies that did not disclose information about the meetings of the audit committee occurred in the trade and services sector. This share was almost 32%. In 2019, the largest share of companies that did not disclose information about the meetings of the audit committee was in the industrial and construction-assembly production sector (this share was 32%). In 2020, the largest share of companies that did not disclose information on the number of audit committee meetings occurred in the trade and services sector (18.60%), while in 2021

Table 9. No disclosures of audit committee members who are accounting specialists in companies from different sectors

Sectors	2017 No.	2017 S	2018 No.	2018 S	2019 No.	2019 S	2020 No.	2020 S	2021 No.	2021 S
100 – Finance	60	68.97%	14	16.28%	16	19.75%	7	8.97%	6	8.33%
200 – Fuels and energy	14	93.33%	4	25.00%	2	12.50%	2	13.33%	2	12.50%
300 – Chemicals and raw materials	35	87.50%	6	15.00%	1	2.86%	2	6.67%	2	7.14%
400 – Industrial and construction-assembly production	83	79.05%	16	15.38%	9	9.00%	11	11.58%	11	11.83%
500 – Consumer goods	33	67.35%	7	14.58%	3	6.67%	3	6.82%	2	4.88%
600 – Trade and services	31	70.45%	7	15.91%	4	9.52%	6	13.95%	*8*	17.02%
700 – Healthcare	16	76.19%	3	14.29%	0	0.00%	0	0.00%	0	0.00%
800 – Technologies	24	68.57%	6	18.18%	3	10.00%	1	3.45%	1	3.45%

Note(s): Symbols: No. – Number of companies; S – Share
Source(s): Own elaboration

Table 10. Disclosures on the number of audit committee meetings

	2017 No.	2017 S	2018 No.	2018 S	2019 No.	2019 S	2020 No.	2020 S	2021 No.	2021 S
Companies disclosing information on the number of audit committee meetings	44	11.11%	314	80.10%	324	87.57%	320	89.39%	318	90.60%
No disclosure of the number of audit committee meetings	354	89.39%	77	19.64%	47	12.70%	38	10.61%	33	9.40%
K-W	$p = 0.012$		p = 0.371		p = 0.298		p = 0.521		p = 0.388	

Note(s): Symbols: No. – Number of companies; S – Share; K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

the largest share of companies that did not disclose the above information was in the industrial and construction-assembly production sector (12.50%) (cf. Table 11).

Characteristics of audit committees

In all analyzed years, the median of the share of independent members of the audit committee in their total number was 66.67%. The lowest, average share of independent members of the audit committee in the total number of members occurred in 2017. Over the years 2018 and 2019, this share slightly decreased. Starting from 2020, the average share of independent members in the total number of audit committee members has been increasing (cf. Table 12).

In the analyzed period, in the vast majority of the examined companies (over 84% of companies), the share of independent members of the audit committee in the total number of members was over 50%. Thus, these companies met the condition resulting from the hard law. In the case of a three-person committee, this means that two out of three members of the audit committee met the independence criteria. However, these results only apply to companies that disclosed information about independent audit committee members. Importantly, in the examined period, the share of companies in which independent members of the audit committee constituted less than 50% of the total number of members decreased (cf. Table 13).

The results of the non-parametric Kruskal–Wallis test indicate that there were no statistically significant differences between the compared sectors ($p > 0.05$). Therefore, we should assume the null hypothesis that there are no differences between the sectors in the share of independent members in the total number of members of the audit committee (cf. Table 13).

Between 2017 and 2019, the median of the share of audit committee members who are accounting specialists in the total number of members of this committee was 33.33%. In 2020,

Sectors	2017 No.	2017 S	2018 No.	2018 S	2019 No.	2019 S	2020 No.	2020 S	2021 No.	2021 S
100 – Finance	76	87.36%	16	18.60%	12	14.81%	9	11.54%	8	11.11%
200 – Fuels and energy	10	66.67%	1	6.25%	0	0.00%	0	0.00%	0	0.00%
300 – Chemicals and raw materials	38	95.00%	8	20.00%	3	8.57%	3	10.00%	4	5.56%
400 – Industrial and construction-assembly production	97	92.38%	17	16.35%	32	32.00%	9	9.47%	9	12.50%
500 – Consumer goods	44	89.80%	10	20.83%	5	11.11%	5	11.36%	3	4.17%
600 – Trade and services	42	95.45%	14	31.82%	10	23.81%	8	18.60%	7	9.72%
700 – Healthcare	20	95.24%	3	14.29%	2	9.52%	3	12.50%	2	2.78%
800 – Technologies	27	77.14%	8	24.24%	3	10.00%	1	3.45%	0	0.00%

Note(s): Symbols: No. – Number of companies; S – Share
Source(s): Own elaboration

Table 11. No disclosures on the number of audit committee meetings in companies from different sectors

	2017	2018	2019	2020	2021
Arithmetic average	66.41%	73.78%	72.64%	73.50	74.37%
Median	66.67%	66.67%	66.67%	66.67%	66.67%
Standard deviation	20.03%	16.89%	16.82%	15.62%	15.91%
Minimum	0.00%	0.00%	0.00%	33.33%	33.33%
Maximum	100.00%	100.00%	100.00%	100.00%	100%

Source(s): Own elaboration

Table 12. Descriptive statistics for independent members of audit committees

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
The share of independent membership of 50% and less in the total number of members of the audit committee	21	15.11%	17	5.11%	16	4.69%	12	3.58%	11	3.34%
The share of independent members of more than 50% in the total number of members of the audit committee	118	84.89%	317	95.20%	326	95.60%	323	96.42%	318	96.66%
K-W	p = 0.148		p = 0.908		p = 0.764		p = 0.793		p = 0.341	

Note(s): Symbols: No. – Number of companies; S – Share; K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

Table 13. Independent members on audit committees

this median was 40%, and in 2021 – 50%. The average share of members who are specialists in accounting in the total number of members increased in the analyzed period from 49.66% to 54.54%. This may evidence the increasing professionalization of audit committees. Noteworthy, the presented results apply only to companies that disclosed information about the characteristics of the audit committee (cf. Table 14).

Between 2017 and 2019, in most of the analyzed companies (over 50% of companies), the share of audit committee members who are accounting specialists in the total number of members was more than 0% but less than 34%. This means that in the case of a three-person audit committee, most companies appointed one member who was an accounting specialist. The share of accounting specialists in the total number of members of the audit committee that was less than one-third occurred in 49.39% of companies in 2020 and in 46.89% of companies in 2021.

Between 2017 and 2021, the share of accounting specialists in the total number of members of the audit committee increased in the companies surveyed. Over the analyzed years, the share of companies with two or more members who were accounting specialists in audit committees increased (cf. Table 15). These results concern companies that in their reports indicated members of the audit committee who are specialists in the field of accounting.

The results of the non-parametric Kruskal–Wallis test conducted with the use of data from 2017, 2019, 2020 and 2021 indicate that there were statistically significant differences between the compared sectors ($p < 0.05$). Thus, we can reject the null hypothesis that there are no differences between the sectors in this area. At the same time, the results of the Kruskal–Wallis test conducted using data from 2018 indicate that there are no statistically significant differences between the compared sectors ($p > 0.05$). Therefore, for the data from 2018, we should adopt the null hypothesis stating that there are no differences between the sectors regarding the share of accounting specialists in the total number of members of the audit committee (cf. Table 15).

	2017	2018	2019	2020	2021
Arithmetic average	49.66%	53.57%	53.85%	53.61%	54.54%
Median	33.33%	33.33%	33.33%	40.00%	50.00%
Standard deviation	24.61%	26.18%	26.74%	26.11%	25.86%
Minimum	20.00%	16.67%	14.29%	14.29%	0.00%
Maximum	100.00%	100.00%	100.00%	100.00%	100.00%

Source(s): Own elaboration

Table 14. Descriptive statistics for members who are specialists in accounting

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
The share of accounting specialists of more than 0% but less than 34% in the total number of members of the audit committee	60	58.82%	166	50.61%	169	50.60%	163	49.39%	151	46.89%
The share of accounting specialists between 35% and 66% in the total number of members of the audit committee	28	27.45%	99	30.18%	96	28.74%	101	30.61%	107	33.23
The share of accounting specialists between 67% and 100% in the total number of members of the audit committee	14	13.73%	63	19.21%	69	20.66%	66	20.00%	64	19.88%
K-W	$p = 0.023$		p = 0.319		$p = 0.041$		$p = 0.001$		$p = 0.015$	

Note(s): Symbols: No. – Number of companies; S – Share; K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

Table 15. Audit committee members who are accounting specialists

The research results show that the activity of audit committees, reflected in the number of meetings, increased in the period under analysis. In 2017, the audit committees met on average 4.52 times a year, while in 2021, it was 5.20 times a year. The maximum number of meetings also increased in the analyzed period (cf. Table 16).

In all the years included in the analysis, in most of the surveyed companies (over 52% of companies), the audit committee met between two and five times. Over the analyzed years, the share of companies in which the audit committee met only once decreased significantly (cf. Table 17). In 2020 and 2021, the audit committee did not meet even once in one company. Noteworthy, the presented research results concern only companies that disclosed in their annual report information on the frequency of meetings of audit committees.

The results of the non-parametric Kruskal–Wallis test indicate that between 2017 and 2019, there were no statistically significant differences between the compared sectors ($p > 0.05$). Therefore, concerning the years 2017–2019, we should adopt the null hypothesis that there are no differences between the sectors in terms of the frequency of meetings of audit committees. At the same time, the results of the non-parametric Kruskal–Wallis test indicate that in 2020 and 2021, there were statistically significant differences between sectors regarding the number of meetings of audit committees ($p < 0.05$). Thus, concerning the years 2020 and 2021, we should reject the null hypothesis that there are no differences between companies representing different sectors in terms of the number of meetings of audit committees (cf. Table 17).

Moreover, the study found that between 2018 and 2021, there was a weak, positive, statistically significant correlation between the size of the audit committee and the number of

	2017	2018	2019	2020	2021
Arithmetic average	4.52	4.72	5.14	5.05	5.20
Median	4.00	4.00	4.00	4.00	4.00
Standard deviation	3.05	2.49	2.89	3.06	3.04
Minimum	1	1	1	0	0
Maximum	14	17	19	19	21

Source(s): Own elaboration

Table 16. Descriptive statistics on the frequency of audit committee meetings

meetings of this committee (cf. Table 18). The larger the audit committee, the more meetings of this unit took place during the year. The greater number of audit committee members could have been related to a greater number of doubts, questions and suggestions that translated into a greater number of meetings.

The research found that between 2018 and 2020, there was a weak, positive, statistically significant correlation between the share of audit committee members who are accounting specialists in the total number of members and the number of audit committee meetings (cf. Table 18). The greater share of audit committee members who are accounting specialists in the total number of members was accompanied by a greater number of audit committee meetings. These results may indicate that the greater share of audit committee members who are accounting specialists in the total number of members translates into greater involvement of the audit committee in the implementation of the supervisory process.

Conclusions

The audit committee, which was the subject of my detailed analysis, is one of the key units in the corporate governance structure. Its main task is to monitor the financial reporting and audit process. Audit committees are supposed to minimize the risk of financial scandals that we dealt with at the beginning of the twenty-first century.

The empirical study found that the new guidelines resulting from hard law had a significant impact on the corporate governance on the Polish capital market. When authorities left the decision to establish an audit committee to the companies, they did not form them in the majority of public companies listed on the Warsaw Stock Exchange. On the

Table 17. The frequency of meetings of audit committees in individual years

	2017		2018		2019		2020		2021	
	No.	S	No.	S	No.	S	No.	S	No.	S
No meetings	0	0.00%	0	0.00%	0	0.00%	1	0.31%	1	0.31%
One meeting	7	15.91%	16	5.10%	12	3.69%	13	4.02%	9	2.80%
Two to five meetings	23	52.27%	200	63.69%	197	60.62%	203	62.85%	198	61.68%
Six to nine meetings	12	27.27%	83	26.43%	87	26.77%	75	23.22%	86	26.79%
Ten to 14 meetings	2	4.55%	13	4.14%	26	8.00%	26	8.05%	22	6.85%
Over 15 meetings	0	0.00%	2	0.64%	3	0.92%	5	1.55%	5	1.56%
K-W	$p = 0.394$		$p = 0.158$		$p = 0.059$		$p = 0.001$		$p = 0.005$	

Note(s): Symbols: No. – Number of companies; S – Share; K-W – Kruskal–Wallis test concerning differences between companies representing different sectors
Source(s): Own elaboration

Table 18. Characteristics of the audit committee and the number of meetings of the audit committee – rho Spearman correlation

	2017 M_AC	2018 M_AC	2019 M_AC	2020 M_AC	2021 M_AC
S_AC	0.114	0.168**	0.165**	0.118*	0.233**
A_AC	0.186	0.168**	0.162**	0.130*	0.075
I_AC	0.019	0.077	0.055	0.074	0.049

Note(s): *$p < 0.05$
**$p < 0.01$
Symbols: M_AC – Number of audit committee meetings; S_AC – The size of the audit committee; A_AC – The share of members of the audit committee who are specialists in the field of accounting; I_AC – The share of independent members of the audit committee
Source(s): Own elaboration

other hand, in the case of supervisory boards with more than five members, the obligation to establish an audit committee resulted in the fact that the companies controlled the size of the board in such a way as not to create this committee. It was not until 2017 that the new regulations, which made the obligation to establish an audit committee dependent on the size of the company, made this unit almost universal in the Polish capital market.

The research results indicate that over the analyzed years, there was a clear increase in the share of companies listed on the Warsaw Stock Exchange that appointed an audit committee within the supervisory board. In 2021, over 97% of domestic companies listed on the Warsaw Stock Exchange had a separate audit committee. This is a significant increase compared to 2008 when only 25.65% of companies established an audit committee (Adamska *et al.*, 2020). This shows that hard law is highly effective. At the same time, the research results presented in the literature do not confirm that the appointment of an audit committee under the pressure of regulations translates into greater transparency of public companies (Gad, 2019).

In most of the surveyed companies (over 76% of companies), the audit committee was composed of three people. Moreover, the survey results confirm that there were statistically significant differences between the sectors in terms of the size of audit committees. In German public companies in the years from 2012 to 2016, the average number of members of the audit committee was higher and amounted to four members (Weber, 2020).

Because of the hard law, it was almost common on the Polish capital market to ensure an appropriate proportion of independent members and members who are accounting specialists in audit committees. The obligations imposed by hard law on audit committees related to the monitoring of financial reporting and the financial audit process translated into the greater activity of this unit, expressed in the number of meetings. Importantly, the number of meetings of the audit committee was significantly and positively correlated with its size (2018–2021) and the share of members with knowledge and skills in accounting or auditing in the total number of members of the audit committee (2018–2020). Concerning the competencies of the members of the audit committee, research conducted in France obtained similar results. As part of these studies, researchers determined that the competencies of the members of the audit committee were related to the activity of this entity (Maraghni & Nekhili, 2014). Importantly, according to the assumptions of the resource-based theory, the high-quality qualifications of audit committee members may affect the committee's ability to provide the company with critical resources in the form of information (Hillman, Withers, & Brian, 2009).

Most of the surveyed companies (as of 2018, it was over 80% of companies) followed the rules of hard law regarding disclosure of information on meetings of audit committees, independent members on this committee and members with knowledge in the field of accounting. Importantly, in 2021, over 9% of the surveyed companies did not disclose information on the number of meetings of their audit committee and did not indicate accounting specialists sitting on the committee. Furthermore, about 30% of the companies surveyed did not disclose in 2021 information on how the members of the audit committee have acquired accounting competencies. The research results confirmed that the level of companies' transparency is to a large extent related to the corporate governance model deeply rooted in a given country. The mechanisms of control over corporations play a key role in this respect (Jaggi & Low, 2000). In the insider model, occurring, among others, in Poland and Germany, there is a characteristic problem of the domination of "insiders." Due to the frequently identified connections between managers and owners, a reduction in the agency problem takes place. In this way, to some extent, the conflict of interest between the principal and the agent is absent, which translates into lower transparency of the company. In the insider model, supervision is exercised directly by shareholders, supervisory boards and lenders. The large role of dominant shareholders and banks in the insider model means that these institutions have access to the company's internal information or to publicly available information earlier than others (Solomon, 2007; Aluchna, 2006).

Noteworthy, this was the first such comprehensive study on the characteristics of the audit committee and disclosures about the audit committee resulting from the introduction of hard law in this area. The study can serve as a reference point for further research on corporate governance. The results of the research may be an indication for those who create legal solutions in the area of corporate governance.

The fact that the study was conducted on a single capital market characterized by the insider corporate governance model is its limitation.

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