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IMPACT OF AUDIT COMMITTEE EFFECTIVENESS ON QUALITY OF FINANCIAL REPORTING

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ABSTRACT

The primary objective of the financial reporting is to solve the asymmetric problem of the information. In fact, financial reports provide a means for the managers to transfer the information about the performance of their company to the users of the financial statements. If financial reports are not flexible, the managers will have difficulty transferring the information about the company to the users of the financial statements. The audit committee is one of the important committees of the board of directors that plays an important role in the financial reporting process of the company. Regarding the controlling and validating role of the auditors and the existence of different quality levels of the audit institutes, on the one hand, and the existence of different motives and issues regarding the preparation and presentation of the information and financial reports by the administration, on the other hand, the present study investigated the impact of the of the audit committee effectiveness and audit quality on the quality of the financial reporting in the companies listed at Tehran Stock Exchange. The results of the study indicated that there is a significantly positive relationship between the indicators of the audit committee effectiveness and the quality of financial reporting, the indicators of the audit quality and the financial reporting quality, and between the characteristics of the board of directors (independence, independent board of directors, and number of sessions) and the quality of financial reporting.

Keywords: *Audit Quality, Quality of Financial Reporting, Earnings Management, Effectiveness.*

INTRODUCTION

The auditors and the audit quality were somehow questioned because of the financial scandals and crises of the companies during the two last decades. In Iran, some experts claimed the audit failure after the bank fraud detection in 2011 (Hassas Yeganeh, 2012). New laws were stipulated to eliminate these concerns that greatly changed the corporate governance needs and improved the quality of financial reporting. One of these essential changes is the existence of an audit committee in the corporate governance structure of the companies (Etemadi & Shafakhebari, 2011; Mohammadian, 2011). The existence of transparent and reliable financial information is regarded as one of the evaluation elements of the status and performance of a company as well as the decision making about investment in the company. The investors need reliable information for decision making in any economic event (Sultana, 2015). The audit committee is one of the subcommittees of the board of directors and an essential component of the effective structure of the internal control of the company; moreover, it has an important task on the behalf of the stakeholders to monitor the financial reporting process and internal audit as well as the independent audit (Takhtae et al., 2011; Babajani & Khonaka, 2012). Financial reports are one of the most important outputs of the accounting system whose main objective is to provide

necessary information for the evaluation of performance and profitability of the economic institute. As a component of the corporate governance structure, the audit committee is regarded as a tool for reducing the agency costs and monitoring the effectiveness for the improvement of the agency relationships (Soleimani & Moqaddasi, 2014). Sun et al. (2014) believe that the existence of an audit committee promotes the quality level of the corporate governance mechanism and increases the quality of financial reporting. Cohen and Zarowin (2008) indicated that the existence of an audit committee reduces the earnings management compared to before the existence of the audit committee in the American companies. He concluded that the real earnings management has increased after the existence of the audit committee compared to the earnings management by accruals. Herrbach (2001) mentions that it is assumed in the society that the verification of the audit quality by the economic environment is very crucial for the long-term activity of the audit institutes and the future of the audit profession greatly depends on the output quality of the audit process. Furthermore, it is claimed that quality is a basic component of the competition game between audit institutes (Farahmand, 2016; Mirbargkar and Ebrahimi, 2017). Additionally, the process of profit measurement and its result plays an important role in managing the company and the users of the financial statements usually attach great importance to which. Since calculating the profit of an economic institute is influenced by accounting estimates and the administrator of the trade center is in charge of the preparation of the financial statements, the administrator may take action for earnings management due to different reasons (Nazemi, 2010). The audit quality is deduced in audit standards in this way: the issuance of an appropriate audit report with regard following the accepted general accounting principles by the employer. The definition stated by DeAngelo (1981) is one of the definitions that is very reliable. He defined audit quality as “the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach”. Moreover, he has stressed that an auditor who discovers and reports the incorrect cases is a real independent auditor. Therefore, according to his definition, the audit quality is the increased auditing ability in discovering the accounting distortions and the evaluation of the ability and independence of the audit by the market. The accepted auditing standards describe the financial statements as the management presentations. Since the managers are a part of the stakeholders, their presentations may be biased (Hisham et al., 2014). Hence, the independent auditors will play the role of the observers who seek to reduce any bias. The managers have a significant influence in the employment, retention, and change of the auditors. They are able to use this authority to select auditors who issue a comment which is favored by the administration and maximize their interests in this way (Mirkbargkar and Ebrahimi, 2017). This managerial influence results in the erosion of the audit quality and creates factors which may lead to audit failure (Alzeban and Sawan, 2015).

Regarding the controlling and validating role of the auditors and the existence of different quality levels of the audit institutes, on the one hand, and the existence of different motives and issues regarding the preparation and presentation of the information and financial reports by the administration, on the other hand, the present study seeks to investigate and answer this question “How is the impact of the audit committee effectiveness and the audit quality on the financial reporting quality in the companies listed at Tehran Stock Exchange?”

Theoretical Foundations



Developed countries have witnessed the hastening emergence and completion of the audit committee during recent years. The expansion of the international operation, intensified activities of joint stock companies for acquiring competitive benefits, increased debts due to damages to the environment, the role in and impact of the management estimates on the statistics in the financial statements and reports, lack of a reliable basis for investigating the management claims about the sufficiency of the internal control structure by the independent auditors, the increased use of computer systems, and having difficulty in monitoring the control of these systems have accelerated the creation and use of the audit committee. Small businesses are usually handled by their owners. These owners are sufficiently aware of the events happening in the business area related to the company (Ebrahimi and Mirbargkar, 2017). As the company develops, the owners face difficulty closely controlling the operation. When an organization becomes so large that it is not possible to directly monitor its operation, other forms of monitoring become important. This kind of monitoring is called audit in the available literature. The form and nature of audit depend on the auditor selection type. An audit that is done based on the legal requirements and in order to maintain the interests of the stakeholders of the company is called the extra-organizational audit. However, there are other pressures on the organizations in order to select internal auditors. The tasks of the internal audit are determined by the board of the directors. The internal audit profession has expanded so much that professional communities have been established for which. As the most important professional internal audit community, the association of internal auditors presents professional guidelines to its members and effectively assists them to do the tasks of the internal audit. The association of internal auditors emphasizes that the internal auditors need to be selected by the board of directors. The reason for this issue is to ensure the accuracy of the information presented to the stakeholders by the organization. Following the Treadway Committee (1987), the Blue Ribbon Committee in the USA proposed special advice in order to how to improve the effectiveness of the audit committee. Research on the audit committee has greatly increased in the recent decades. Some of these studies have been done on the existence, activity, and recently the effectiveness of the audit committee. Beasley (1996) conducted a study in the USA and indicated that the existence of an audit committee and the independence of the managers reduce the financial reporting fraud. Another important task of the audit committee is to investigate the financial information and control the management behavior in the current affairs; as a controlling mechanism, it aims at reducing the asymmetric information between the internal and external members of the board of directors. Therefore, from an accounting perspective, the creation of the audit committee improves the quality and accuracy of the financial information and ensures that the authorities' responsiveness is controlled and monitored for further reporting and disclosure (Takhtae et al., 2011). The expertise of the audit committee in the industry means to have a special knowledge in the industry by which the auditor or the audit institute helps a better understanding of the owner operation and audit risks. As mentioned, the expertise of the audit committee is a factor that increases the effectiveness of this committee. The audit committee is now regarded as one of the corporate governance tools reducing the probability of fraud in financial reporting. It monitors the administration and the internal and independent auditors so as to maintain the interests of the stakeholders. The reports of the audit committee should be presented in the annual reports of the companies to ensure the effectiveness of the company; it should be mentioned in these reports that the audit committee has reviewed



the financial statements and negotiated about them with the administration and the internal auditors (Al-Baidhani, 2014). The audit committee is responsible for monitoring the audit procedures used in the financial statements of the company. Regarding the nature and size of the company, the financial reports of the company is reviewed by the audit committee monthly, seasonally, or annually. The role of the audit committee in the quality of the financial reporting has been stressed by the references of different professions through active monitoring of the financial reporting process (Song & Windram, 2004). If the audit quality is high, its value, reliability, and acceptability will increase by the users of the financial statements (Samaha et al., 2015). From the perspective of Abernathy (2014), the audit committee makes an important connection between the financial reporting task and of the company and the stakeholders of the company. If this connection is neglected, the corporate governance issues will be emerged. As the competition in the audit profession has increased, the audit institutes have greatly understood that it is necessary to present higher quality services to the market. They seek to offer different services to be more competitive rather than merely taking into consideration the fee. Service quality is one of the dimensions through which the audit institutes seek to distinguish themselves from other service providing institutes. Audit quality is one of the important issues in the area of auditing and capital market (Habib & Bhuiyan, 2016). In accordance with the results of the previous studies, the research hypothesis in this study is the positive impact of the audit committee on the financial reporting quality of the company. It is assumed that the audit committee improves the financial reporting quality of the companies by expertise in the industrial activity of the company.

Empirical Background

Reid et al. (2015) investigated the impact of the recent changes in the auditor's reporting and audit committee on the audit quality in Britain. Their criteria for audit quality included abnormal accruals and attempt to meet the expectations of the analysts regarding the profit of the company. They indicated that although the audit fee has increased after the recent changes, this rate of increase does not have a significant difference with the rate of increase in the past years. Therefore, the recent changes in reporting have not increased the audit fee. Moreover, they did not find any evidence about the negative impacts of the recent changes on late presentation of the audit reports. Finally, they showed that the recent changes have increased the audit quality and non-imposition of additional costs on the companies.

Karjalainen (2012) indicated that audit partner industry specialization in Finland has a positive relationship with the quality of the reported profit. He observed that the level of discretionary accruals in the companies audited by specialist partners is lower compared than the other private companies. Therefore, the results show that the audit partner industry specialization is regarded as a different source of the audit quality.

Barzideh and Madanchiha (2014) investigated the impact of the audit institute specialization in the industry on the late audit report. They collected the financial and non-financial information of 167 companies listed at Tehran Stock Exchange during 2007-2011, used the multivariate regression model, and showed that when the audit organization and the member institutes of the Iranian Association of Certified Public Accountants are the auditors of the companies, the auditor's specialization in the industry does not significantly affect the late audit report. However, if the member institutes of the Iranian Association of Certified Public Accountants are the auditors of the companies, the auditor's specialization in the industry has a significant



inverse effect on the late audit report. In other words, the industry specialization auditors issue the audit report earlier than the non-specialist auditors.

Research Hypotheses

The members of the audit committee who are specialized in the industrial activity of the company are most likely familiar with the technical issues related to the company operation. Therefore, the existence of such individuals will increase the audit committee effectiveness and the quality of the financial reporting of the company. The research hypotheses are as follows:

1. There is a significantly positive relationship between the indicators of the audit committee effectiveness and the quality of the financial reporting.
2. There is a significantly positive relationship between the indicators of the audit quality and the quality of the financial reporting.
3. There is a significantly positive relationship between the characteristics of the board of directors (independence, independent board of directors, and number of sessions) and the quality of the financial reporting.

METHOD

In terms of correlation and methodology, this is a descriptive survey and is in the area of the ex-post facto and positive accounting studies. This study was conducted with real information and is a kind of applied research since it can be used in the process of information use. Data were collected by using Tadbir Pardaz database and direct derivation of which from financial statements. This study was done by panel data and follows an applied objective. The empirical model of the present study is based on the study of Kamol sakulchai (2016). In the present study, the following multivariate regression equation was used to investigate the impact of the audit committee effectiveness and audit quality on the quality of the financial reporting of the companies listed at Tehran Stock Exchange:

$$\begin{aligned}
 EFRQ_{it} = & \beta_0 + \beta_1 AC - SIZE_{it} + \beta_2 AC - MEETING_{it} + \beta_3 AC - EXP_{it} + \beta_4 AUDITSIZE_{it} \\
 & + \beta_5 AUDITREPORT_{it} + \beta_6 SIZE_{it} + \beta_7 BIND_{it} + \beta_8 BMEET_{it} + \beta_9 LEV_{it} + \beta_{10} ROA_{it} \\
 & + \beta_{11} GROWTH_{it} + \beta_{12} OR_{it} + \beta_{13} FIRMSIZE_{it} + \varepsilon_{it}
 \end{aligned}$$

The Dependent Variable of the Reporting Quality (Earnings Management)

This is a qualitative variable such that the companies who have an independent audit committee are given number 1 and the companies who lack an audit committee are given number zero. Based on the studies of some researchers, the Modified Jones Model is the most powerful model for describing and predicting the earnings management.

$$TA_{it} = \Delta CA_{it} - \Delta CL_{it} - \Delta CASH_{it} + \Delta STD_{it} - DEP_{it}$$

TA_{it} : total accruals of the company

ΔCA_{it} : change in the current assets of the company

ΔCL_{it} : change in the current debts of the company

$\Delta CASH_{it}$: change in the current cash of the company

ΔSTD_{it} : change in the current matuities of long-term debts of the company

DEP_{it} : amortised cost of the company



After calculating the total accruals, parameters α_1 , α_2 , and α_3 are estimated by the following relation so as to determine the non-discretionary accruals:

$$TA_{it}/TA_{i,t-1} = \alpha_1 \left(\frac{1}{A_{i,t-1}} \right) + \alpha_2 \left[\frac{REV_{it} - REC_{it}}{A_{i,t-1}} \right] - \alpha_3 (PPE_{it}/A_{i,t-1}) + \varepsilon_{it}$$

TA_{it} : total accruals of the company

ΔREV_{it} : change in the sales revenue of the company

ΔREC_{it} : change in the corporate accounts receivable

PPE_{it} : gross property, machinery, and equipment of the company

$A_{i,t-1}$: total book value of the assets of the company

ε_{it} : uncertain effects of random factors

α_1 , α_2 , and α_3 : the estimated parameters of the company

After calculating parameters α_1 , α_2 , and α_3 by the Least Squares Method (OLS), the accruals are calculated and determined according to the following relation:

$$NDA_{it} = \alpha_1 \left(\frac{1}{A_{i,t-1}} \right) + \alpha_2 \left[\frac{REV_{it} - REC_{it}}{A_{i,t-1}} \right] - \alpha_3 (PPE_{it}/A_{i,t-1}) + \varepsilon_{it}$$

NDA_{it} represents the non-discretionary accruals of the company.

At last, the discretionary accruals (DA) are calculated by the following relation after the determination of (NDA):

$$FRQ_{it} = \left(\frac{TA_{it}}{A_{i,t-1}} \right) - NDA_{it}$$

The Independent Variable

The Audit Committee Effectiveness Variables:

$AC - SIZE_{it}$: the audit committee size: the number of the independent members of the audit committee

$AC - MEETING_{it}$: the number of the sessions of the audit committee: the ratio of the number of the sessions of the audit committee to the total sessions

$AC - EXP_{it}$: the audit committee specialization: if the audit committee is specialized in the same industry and in a similar industry or in the sciences of company management including financial sciences, economic sciences, and management, or it is specialized in a related educational major, it is investigated.

The audit quality variables:

$AUDITSIZE_{it}$: the audit company size: the size of the audit company of the virtual variable equals 1 if the audit institute would be the audit organization; otherwise, its size equals zero.

$AUDITREPORT_{it}$: the audit report: if the audit report is acceptable, it is considered as 1 and if it is not, it is considered as zero.

The characteristics of the board of directors:

$SIZE_{it}$: the size of the board of directors: the number of the board of directors in the audit committee

$BIND_{it}$: independent board of directors: the ratio of the obliged members in the audit committee

$BMEET_{it}$: the number of the sessions of the board of directors

Control variables

LEV_{it} : leverage: financial leverage from the ratio of the debts to the assets

ROA_{it} : return on assets: the net income is divided by the total assets

$GROWTH_{it}$: growth: according to Smith and Watts (1992), the managers of the high-growth companies are willing to do earnings management by discretionary accruals which result in the increased income and value of the company.

OR_{it} : quick ratio: the ratio of the current assets to the current debt

$FIRMSIZE_{it}$: firm size, from the logarithm of the sum of the assets of the company

$GROUP_{it}$: the industry variable is an artificial variable and if it is active in a similar industry, it is considered as 1; otherwise, it is considered zero.

The population of the statistical sample

The population of this study included all companies listed at Tehran Stock Exchange from 2012 to 2016. The companies which had the following conditions were selected as the sample of this study:

1. The stock of the company is exchanged in Tehran Stock Exchange from 2012 to 2016 (five years) and the company has a continuous activity.
2. The company should not have changed its activity or fiscal year in the said years.
3. The fiscal year of all companies should be the end of Esfand.
4. The company should not be one of the banks or financial institutes (investment companies, financial intermediation, holding companies, and leasing). (These companies were excluded due to the specific nature of their activity and the fact that the returns of the investment companies are applied in other companies of the group, as well.)
5. The data related to that company should be accessible.



Table 1: Systematic Sampling

No. of the total companies listed at Tehran Stock Exchange at the end of 2016	489
No. of the companies that were not active in Tehran Stock Exchange during 2012-2016	125
No. of the companies listed at Tehran Stock Exchange after 2012	45
No. of the companies that were among holding companies, investment companies, financial intermediations, banks, and leasing.	66
No. of the companies that have changed their fiscal year during the research or their fiscal year ends to the end of Esfand	55
No. of the companies that do not have a six-month interruption of exchange during the research	72
No. of the sample companies	89

RESEARCH FINDINGS

The classical linear regression model is based on several simple assumptions and the researcher can use the linear regression providing that the following conditions are present. In this section, these classical assumptions are reviewed before running the regression. They include investigating the normality of the dependent variable, collinearity test, reliability, and test of homogeneity of variances.

The Jarque-Bera Test for the variable of the financial reporting quality shows the non-normality of this dependent variable which results in the non-normality of the research residuals of this

variable. Therefore, according to the classical assumptions, the normality of the dependent variable is important. The dependent variable was normalized by Johnson test via Minitab 17 software so as to meet this assumption. According to figure 1, the variable of the financial reporting quality (EFRQ) was converted to normality values using Johnson transformation. As such, one of the main assumptions has been implemented by this transformation and there would be no problem in the implementation of the regression of the research model.

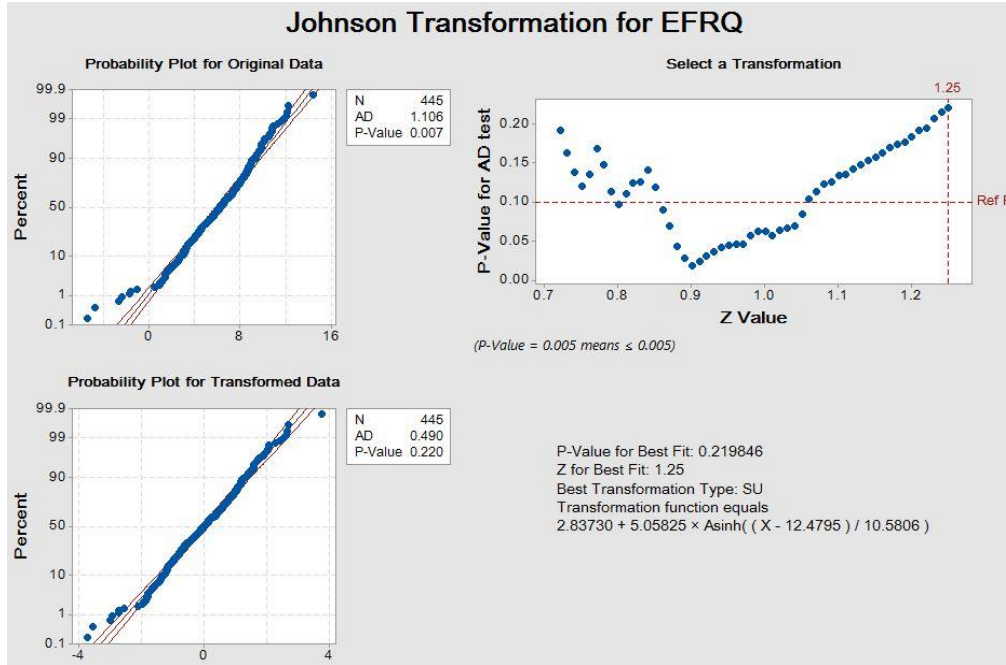


Figure 1. The results of the Johnson normality output of the stock returns

It is necessary to test the collinearity of the independent variables before the model estimation. The Variance Inflation Factor (VIF) was used to investigate the collinearity or non-collinearity among independent variables of the study. Since the value of this index was lower than 2.5 for all variables of the research, the existence of a common multilinear relationship between variables was rejected. Moreover, to ensure the results of the study and the real nature of the available relationships in the regression as well as the significance of the variables, the reliability was tested and the unit root of the research variables was calculated by Levin, Lin, and Chu test (2002) in the models. The null hypothesis of the test indicated the existence of a unit root; if the probability of the following table is lower than 0.05, the null hypothesis is rejected with 95 percent confidence. Therefore, the alternative hypothesis, i.e. the absence of a unit root is accepted. The results of the unit root test for the variables of the final models are explained in Table 2.

Table 2. The results of the reliability test

Variable	Levin, Lin, and Chu test		Result
	Statistic	Probability	
AC-SIZE	-7.05595	0.000	reliable
AC-MEETING	-10.9068	0.000	reliable
AC-EXP	-20.4779	0.000	reliable
AUDITSIZE	-12.3589	0.000	reliable

AUDITREPORT	-20.0572	0.000	reliable
SIZE	-17.3234	0.000	reliable
BIND	-11.8876	0.000	reliable
BMEET	-8.0076	0.000	reliable
LEV	-13.7601	0.000	reliable
ROA	-13.6654	0.000	reliable
GROWTH	-21.1239	0.000	reliable
OR	-9.9981	0.000	reliable
FIRMSIZE	-22.6648	0.000	reliable

The homogeneity of variances is one of the most important assumptions of the linear regression model such that the disruptive components e_{it} which are manifested in the regression function of the population should have homogeneous variances. If this assumption is not met, the heterogeneity of variance happens. Therefore, the existence or absence of the heterogeneity of variances between disruptive components is investigated. The null hypothesis indicates the absence of the heterogeneity of variances and the alternative hypothesis indicates the existence of the heterogeneity of variances. If the probability of the following table is lower than 0.05, the null hypothesis is rejected with 95 percent confidence. Therefore, the alternative hypothesis, i.e. the existence of the heterogeneity of variances is accepted. In this study, the heterogeneity test of the variances was implemented and its results are presented in Table 3.

Table 3. The output of the heterogeneity test of the variances

Test methods	df	Test value	Sig.
Bartlet	13	1845.3380	0.000
Levene	(13.6660)	49.1570	0.000
Brown-Forsythe	(13.6660)	25.1430	0.000



As it is shown, the probability value (significance level) is 0.0 (lower than 0.05) in all methods. As such, the null hypothesis indicating the absence of heterogeneity of variances is rejected and the alternative hypothesis indicating the heterogeneity of variances is accepted. The generalized least squares (GLS) is used to eliminate the heterogeneity of variances.

When the panel data approach (year-company) is used, the Limer-F test (Chow test) is first used to determine which one of the Pool and Panel approaches is appropriate for the implementation of the model. The pool approach is used when the Limer-F test specifies that there is no individual difference between sections and periods. In this state, the data are considered as the cross-sectional data and the model is estimated by ordinary least squares (OLS) method. It is obvious that the investigation of the assumptions of the ordinary least squares (OLS) method will be obligatory in this state. This method will be appropriate if the Limer-F value is not significant (the probability of the test is more than the significance level 0.05); otherwise, the panel approach is used. The result of the Limer-F test of the models (Chow) is shown in table 4. The test statistic was more than the critical point (confidence level of 95 percent); in other words, the probability value (the significance level) was lower than 0.05. Therefore, the hypothesis indicating the use of the pool model is rejected. As such, the panel data method should be used for the model estimation.

Table 4. The output of the Limer-F test of the research model

Redundant Fixed Effects Tests			
$EFRQ_{it} = \beta_0 + \beta_1 AC - SIZE_{it} + \beta_2 AC - MEETING_{it} + \beta_3 AC - EXP_{it} + \beta_4 AUDITSIZE_{it} + \beta_5 AUDITREPORT_{it} + \beta_6 SIZE_{it} + \beta_7 BIND_{it} + \beta_8 BMEET_{it} + \beta_9 LEV_{it} + \beta_{10} ROA_{it} + \beta_{11} GROWTH_{it} + \beta_{12} OR_{it} + \beta_{13} FIRMSIZE_{it} + \varepsilon_{it}$			
Test effect	Statistic	df	Sig.
Cross-Section F	1.7611	(88.342)	0.000

As it is clear, the results of the Limer-F test are based on the selection of the pool or panel model. Now, the fixed effects model needs to be tested against the random effects model. The Hausman test is used to do this. The random time effects model should be first estimated to do Hausman test. The result of the Hausman test of the models is presented in table 5. According to the output results of the Hausman test, it is observed that the research model is estimated by the random effects method (EGLS).

Table 5. The output of Hausman test of the model

Correlated Random Effects – Hausman Test			
$EFRQ_{it} = \beta_0 + \beta_1 AC - SIZE_{it} + \beta_2 AC - MEETING_{it} + \beta_3 AC - EXP_{it} + \beta_4 AUDITSIZE_{it} + \beta_5 AUDITREPORT_{it} + \beta_6 SIZE_{it} + \beta_7 BIND_{it} + \beta_8 BMEET_{it} + \beta_9 LEV_{it} + \beta_{10} ROA_{it} + \beta_{11} GROWTH_{it} + \beta_{12} OR_{it} + \beta_{13} FIRMSIZE_{it} + \varepsilon_{it}$			
Test effect	Statistic	df	Sig.
Cross-Section Random	3.4222	13	0.9981

The results of the research model estimation for the research hypothesis are shown in table 6 by using the random effects model, considering the heterogeneity of variances, and elimination of which by using the generalized least squares (GLS) technique.

Table 6. The results of the research hypothesis model test

Dependent variable: the financial reporting quality 89 companies for a 5-year period from 2012 to 2016 Sum of the observations: 445				
Variable	Variable coefficient	SD	t-statistic	Sig.
<i>AC-SIZE</i>	0.183255	0.089854	2.039469	0.0005
<i>AC-MEETING</i>	0.253538	0.118251	2.144060	0.0002
<i>AC-EXP</i>	0.285731	0.102807	2.779278	0.0002
<i>AUDITSIZE</i>	0.312841	0.086941	3.598288	0.0000
<i>AUDITREPORT</i>	0.308610	0.088816	3.474683	0.0000
<i>SIZE</i>	0.219285	0.081229	2.699557	0.0006
<i>BIND</i>	0.418391	0.068753	6.085366	0.0000
<i>BMEET</i>	0.162626	0.081281	2.000764	0.0088
<i>LEV</i>	0.038498	0.036881	1.043825	0.2972
<i>OR</i>	-0.117721	0.059362	-1.983074	0.0484
<i>FIRMSIZE</i>	0.230237	0.085251	2.700694	0.0009
<i>GROWTH</i>	-8.85E-08	4.41E-08	-2.004791	0.0456
<i>ROA</i>	0.297901	0.092532	3.219424	0.0004
<i>C</i>	0.196046	0.090242	2.172433	0.0002
0.619585	Adjusted R2		1.698917	F value
1.657530	Durbin-Watson statistic		0.000000	The probability of F value

As it is shown, according to the results of the estimation of the first model and the significance level of the F value, it is clear that the model is confirmed by 99 percent confidence.

Furthermore, the Durbin-Watson statistic value is in the range of 1.5 to 2.5 and the value of 1.65 that shows the lack of autocorrelation between errors. Moreover, the adjusted coefficient of determination of the variables used in the model shows that these variables totally explain 61.9 percent of the variance of the dependent variable of the financial reporting quality in the population.

Regarding the first hypothesis, according to the significance level lower than 0.05, there is a significantly positive relationship between the indices of the audit committee effectiveness (including AC-SIZE, AC-MEETING, and AC-EXP) and the financial reporting quality. Regarding the second hypothesis, according to the significance level lower than 0.05, there is a significantly positive relationship between the indices of the audit quality (AUDITREPORT and AUDITSIZEP) and the financial reporting quality. Regarding the third hypothesis, according to the significance level lower than 0.05, there is a significantly positive relationship between the characteristics of the board of directors (SIZE, BIND, and BMEET) and the financial reporting quality. Additionally, regarding the significance level lower than 0.05, there is not a significant association between the control variables of the financial leverage and the financial reporting quality. However, the variables of growth and quick ratio have a significantly negative relationship with the financial reporting quality. Finally, the variables of the firm size and the returns of the assets have a significantly positive relationship with the dependent variable.

CONCLUSION

The audit committee is one of the important committees of the board of directors that plays an important role in the financial reporting process of the company. It is obvious that the higher the specialization and skills of the audit committee members, the higher the financial reporting quality of the company would be. Because the creation and use of the audit committee in developed countries has been effective in the prevention behaviors that are against law and morality, the improvement of the process of financial reporting, and the presentation of the transparent and reliable financial reports, it is expected that the existence of an audit committee in the economic institutes in Iran also affects the investors' trust to invest in the economic institutes. According to the models of the multiple regression analysis, the hypotheses of this study showed that there is a significantly positive relationship between the indicators of the audit committee effectiveness and the quality of the financial reporting regarding the first hypothesis. It can be said for the explanation of these relationships that the quality of the financial reporting may be able to affect the characteristics of the audit committee. For example, the companies with a higher reporting quality may use the characteristics of the audit committee to convey to the market members that they have a higher reporting quality. The companies that have a lower disclosure quality have attracted the specialized members in their audit committee. These results are in line with the studies of Carcllo (2008), Habib and Bhuiyan (2016), Samaha et al. (2015), and Abernathy and Visvanathan (2008). Regarding the second hypothesis, there is a significantly positive relationship between the indicators of the audit quality and the quality of the financial reporting. These results are in line with the studies of Reid et al. (2015) and Lin et al. (2008). They investigated the impact of the recent changes in the auditor's reporting and the audit committee on the audit quality in Britain. Their criteria for audit quality included abnormal



accruals and attempt to meet the expectations of the analysts regarding the profit of the company. They indicated that although the audit fee has increased after the recent changes, this rate of increase does not have a significant difference with the rate of increase in the past years. Therefore, the recent changes in reporting have not increased the audit fee. Moreover, they did not find any evidence about the negative impacts of the recent changes on late presentation of the audit reports. Finally, they showed that the recent changes have increased the audit quality and non-imposition of additional costs on the companies. Regarding the third hypothesis, there is a significantly positive relationship between the characteristics of the board of directors (independence, independent board of directors, and number of sessions) and the quality of the financial reporting. This means that the presence of the members of the board of directors in the audit committee improves the disclosure quality in the companies. Moreover, during the research period, type of the auditors' comment had the highest positively direct correlation with the variables of effectiveness and independence of the board of directors while it had the lowest positively direct correlation with the variable of the size of the board of directors. The relatively strong positive and direct correlation between variables of effectiveness and independence of the board of directors indicates that the companies with a higher number of non-obliged members held a larger number of sessions during the research period. The major discussion of the present study is to investigate the effective presence of the audit committee in the company as an important mechanism of the governance system of the company such that the effective activity of this committee may enhance the health of the financial reporting and promote the auditors' independence.

Due to the importance of the audit committee and unfamiliarity of the companies with it and its effective role, it is necessary to create and use it in the Iranian economic institutes. The major discussion of the present study is to investigate the effective presence of the audit committee in the company such that the effective activity of this committee may enhance the health of the financial reporting and promote the auditors' independence. It is expected that the results of this study are useful for identifying the effective audit committee in the information disclosure by the companies so as to investigate the available laws and regulations, revise them, or stipulate new laws and regulations for the efficiency of the capital market. Furthermore, the investors are suggested not to merely take the existence of the audit committee into consideration as a criterion for desirable disclosure of information. They should take into consideration all of the characteristics of the committee. Moreover, due to the exclusion of the investment companies, banks, and the insurance companies because of their different structure, it is proposed that the issue under investigation in these companies would be studied specifically. It is needed to especially investigate the effect of the existence of the audit committee on the attraction of foreign investors for investing in the Iranian economic institutes. The most important limitation of the present study was lack of a comprehensive information system for providing the financial information of the companies; another limitation was non-disclosure of the complete information regarding the tasks of the audit committee and the cost of the audit fee that could affect the disclosure of the companies.

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