THE ROLE OF EFFECTIVE AUDIT COMMITTEE IN STRENGTHENING THE FINANCIAL REPORTING: EVIDENCE FROM JORDANIAN LISTED COMPANIES

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Abstract

This study aims to understand the features of an effective audit committee and its role in strengthening financial reporting. A questionnaire based survey was circulated to public listed companies on the Amman Stock Exchange (Banking, insurance, and financial institutions). The study was aimed at internal audit managers and finance managers. Out of 156 questionnaires, we received 110 back which represents a 71% response rate. The study results show that the research respondents have a good level of education and experience. In addition, there is a relationship between internal controls, international standards on auditing, institute of internal audit; Jordan securities commission requirements, external audit, understanding of audit committee functions, and financial reporting. Further more, the internal control, international standard on auditing and institute of internal audit, Jordan securities commission requirements, External audit, understanding of audit committee functions can explain a significant amount of the variability in financial reporting. Finally, the research results also show that age and gender make a difference for our respondents when they evaluate financial reporting. The study like other cross sectional studies is not free of limitations. Managerial implications and new avenues of future research are supplied. Future research also can borrow the research model and apply a longitudinal study to solve the cross sectional study problems.

Keywords: Audit Committee, Effectiveness, Independence, Internal Control, Financial Reporting, Disclosure, Corporate Governance

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1. Introduction

Audit committees play a crucial role in firms' financial reporting processes, and thus have attracted considerable attention from researchers, especially in the wake of recent high profile financial reporting scandals. Research has not, to date, examined how audit committee features in Jordan's efforts to strengthen the firm's financial reporting environment. Audit committees have been in existance for many decades.

The establishment of audit committee aimed to mitigate corporate fraudulent or creative accounting practices through internal control initiated by independent and effectively functioning non-executive members of audit committee. Recently; Jordan has made firm moves to be an attractive investment environment; so that there is an increasing need of a good corporate governance and accountability in the corporate sector in Jordan.

There are three benefits of having an audit committee:

- to improve or maintain the quality of the financial reporting process,
- to aid the actual and perceived independence of the internal and external auditors, and finally;
- to improve the confidence of the financial statement users in the quality of financial reports (Simnet et al., 1993).

The existence of an audit committee should improve the monitoring of corporate financial reporting and internal control. Indeed, users of financial statements often lack information relating to the company except that disclosed in the annual report and other statutory announcements, because most of the documents and records are classified as private and confidential.

Generally, our motives for such research are enforcing and encouraging the establishment of an audit committee. Which may lead to the following:

- to institute good corporate governance,
- to strengthen the role and effectiveness of non-executive directors, to assist directors in

discharging their statutory responsibilities with regard to financial reporting,
- to preserves and enhances the independence of internal auditors,
- to improve communication between the board and internal auditors,
- to assist auditors in the reporting of serious deficiencies in the control environment or management weaknesses,
- to improve communication between the board and external auditor, and
- to preserves and enhances the independence of external auditors (Collier, 1993).

One of the main responsibilities of the audit committee is to oversee the external audit function, including the selection, compensation, work and independence of the external auditor. Effective oversight is expected to strengthen "audit quality".

Additionally one of the primary functions of the audit committee is the oversight of internal control (BRC, 1999; Carcello et al., 2002). Effective oversight is assumed to strengthen internal quality control .

Therefore, there is need for a study to be carried out to examine features and characteristics of an effective audit committee, and its role in strengthening the financial reporting process in Jordanian listed corporations on the Amman Stock Exchange. The objective of this research is to explore and evaluate features of an effective audit committee, and its role in strengthening the financial reporting of companies that are listed on the Amman Stock Exchange. The findings are important for policy makers, stakeholders and company's management to help them formulate practical guidelines to improve the corporate governance practices among listed firms.

Given the new corporate governance environment, it is essential for audit committees to focus on a process to support effective oversight that goes beyond mere compliance with the rules. This requires an oversight framework that facilitates the coordination of the activities and information needed to support the audit committee's understanding and monitoring of the company's financial reporting process.

The paper is organised into eight sections. The first section provides an introduction. The Jordanian Business Environment and corporate governance structure are explained in the second section. The third Section provides research objectives. The fourth section provides a literature review on audit committees. The fifth section presents the research model and hypothesis development. While the sixth section offers the data collection and research methodology, the seventh section discusses data analysis and research findings. And finally; the last section concludes the research.

2. The Jordanian Business Environment and Corporate Governance Structure

Jordan is a free market oriented economy, with outward-oriented economic policies and a private sector led approach. Jordan experienced an ongoing privatization of major state-owned enterprises and implemented significant advances in structural and legal reform. Below are select highlights for the data included in the profile.

1. Index of Economic Freedom score improved this year reflecting a substantial increase in business freedom, moderate increases in trade freedom and government size, and a slight decline in freedom from corruption.
2. According to the World Economic Forum's Global Competitiveness Report for 2007-08, the three most problematic factors for doing business are tax regulations, inefficient government bureaucracy, and tax rates.

- Income category: Lower middle income
- Population: 5,906,042
- GNI per capita (US$): 3306.07 (World Bank, IFC, 2009).
- Jordan ranks in the top six of the seventeen countries examined with regard to doing business in the Middle East region (Doing Business Report, World Bank, 2009).
- Jordan enjoys competitive labour laws: ranks 2nd in areas of employing workers, hiring and firing and flexibility in hours (Doing Business Report, World Bank, 2009).
- Jordan does an exemplary job at moving goods quickly across borders.
- Jordan is committed to the protection of investors' rights irrespective of national origin.
- Jordan has one of the most impartial and efficient legal systems in the region, comparable to international standards.

The Annual Doing Business Report conducted by the World Bank's International Finance Corporation (IFC) provides a comparative insight into Jordan's relative rankings along a number of measures for typical business operations. The results show that Jordan ranks in the top six of the seventeen countries examined with regard to doing business in the Middle East region. Jordan ranks in the top tier among countries ranked for employing workers in the areas of hiring and firing and flexibility in hours. The country has very competitive laws in this regard. The Kingdom is ranked first relative to its peers for enforcing contracts in a timely matter and second for legal rights involved in obtaining credit. The legal protections encourage investors to continue investing capital in Jordan. (Jordan Investment Board, 2009).

3. Research Objectives

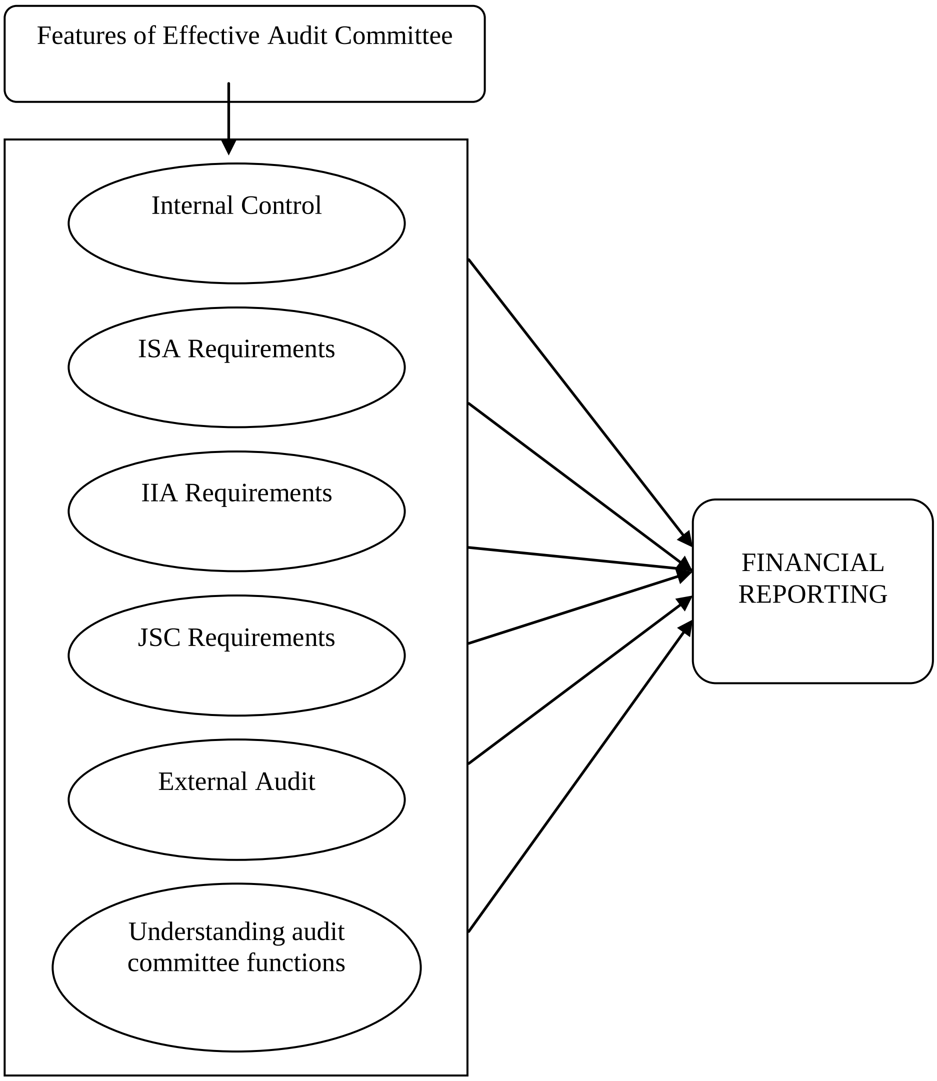
The objectives of this research are to explore and evaluate the features of an effective audit committee, and its role in strengthening the financial reporting of Listed Companies in Amman Stock Exchange. Based on these objectives, the research problem can be formalised as follows: “What are the Features of an effective audit committee and its role in strengthening the financial reporting of Listed Companies in Amman Stock Exchange? The following questions can be derived from the research problem.

1. Does Effective Internal Control strengthen the Financial Reporting?
2. Does the Effective application of International Standards on Auditing and compliance with Institute of Internal Audit Requirements strengthen the Financial Reporting?
3. Does Compliance with Jordan Securities Commission Requirements strengthen the Financial Reporting?
4. Does an Effective External Audit strengthen Financial Reporting?
5. Does an Effective understanding of Audit Committee Functions by its members strengthen Financial Reporting?
6. Are there any differences in the financial reporting that can be attributed to demographic variables (Age, Gender, and Level of education, Professional certificates, and Years of experience)?

4. Literature Review

This section provides some relevant literature review on audit committees. The Merriam-Webster Online Dictionary defines effective as follows: “means producing a decided, decisive, or desired effect.” In general, for regulators, the desired effects or goals of the audit committee consist of providing quality financial reporting and strengthening investor confidence in the quality of financial reporting and financial markets (BRC, 1999). In the USA an increasing number of earnings restatements by publicly traded companies, coupled with allegations of financial statement fraud and lack of responsible corporate governance of high profile companies (e.g. Enron, Global Crossing, World com in the USA, Parmalat in Italy and MacMed, Masterbond and Leisurenet in South Africa) have sharpened the ever increasing attention on corporate governance in general and audit committees in particular. The fall of these companies raised concerns regarding the lack of vigilant oversight by their boards of directors and audit committees in the financial reporting process and auditing functions (Rezaee et al, 2003). Audit Committees can improve the quality of information directly by overseeing the financial reporting process and indirectly through their oversight of internal control and external auditing. Investors’ perceptions complicate the process as, for example, audit committees can improve public confidence in the quality of financial reporting by adopting practices that are considered by the market as best practices – no matter their substantive impact on information quality. According to (Sabia and Goodfellow ,2005), an audit committee cannot be effective if it does not have the right people as members; that means that audit committee members should be independent and competent. Members’ independence is generally defined as the absence of any relationship with the company that may interfere with the exercise of their independence from management and the company (BRC, 1999). Contemporary best practices and regulation recommend that audit committee members should possess certain personal characteristics. Interest regarding members’ competencies was especially aroused as a result of the BRC (1999) report. US stock exchanges’ rules and SOX have institutionalized competencies by requiring every AC member to be financially literate and companies to disclose whether at least one of their AC members is an “audit committee financial expert (SEC 2003c); Both the NYSE and NASDAQ have listing requirements demanding each audit committee to have at least one member with experience in accounting or finance. Generally, audit committee should provide an early warning signal to protect the company from unexpected financial collapse and to safeguard from any deliberate attempts by management to conceal problems from auditor (Majid, 1993).Two main facets of member qualifications are examined in this section: independence and competencies. One of the most important variables in the composition of an audit committee is the question of independence (Joshi and Wakil, 2004). The effectiveness of the audit committee depends on the background of the members which should consist of both financial and non-financial people. Six process dimensions determine the role of formal and informal processes in affecting audit committee effectiveness: agenda, meetings, questioning, relationships, power and leadership. (Bedard et al., 2008). The existence of a majority of non-executive directors on the audit committee board might indicate the level of protection against fraud, misstatement or negative behaviour of managers. (Beasley ,1996) pointed out that firm with a significantly lower percentage of independent; outside directors commit a higher degree of financial statement fraud than matched firms with a higher percentage of independent directors. This finding indicates that independent non-executive directors would pursue good corporate governance and behave in a way consistent with stakeholder interest. Worldwide committees on corporate governance and/or audit committee (e.g. the US's Blue Ribbon Committee) recommended that audit committees should have relevant experience and qualifications and that this would further enhance the committee's effectiveness. In the context of financial literacy, research findings in the US reveal that the majority of audit committee members did not have a related background in accounting or auditing (Lee and Stone, 1997); thus, many US companies did not rely on their audit committees (Menon and William, 1994). (Defond, et al., 2005) examine the market reaction to the appointment of financial experts on audit committees. However, few papers study the compensation and incentives of audit committee members. Members of audit committees should ideally be individuals with integrity, a sense of accountability, and a good track record. They should possess certain core competencies such as financial literacy, experience with organisations, leadership, and strategic thinking. (Srinivasan,2005), investigates whether audit committee members are held accountable for financial reporting failure by looking at director turnover and the loss of board positions in other companies when their companies experience accounting restatements, and suggested that audit committee members suffer reputation penalties as a result of financial reporting failure. The members of an audit committee should be selected preferably from all walks of life such as minority shareholders, lawyers, educators, bankers, analysts and representatives from institutional investors. (Mohamad and Sori, 2001). For regulators, the desired effect or goal of the Audit Committee is to strengthen the quality of financial information and to maintain/strengthen investor confidence in the quality of financial reporting and financial markets, the Audit Committee can improve the quality of information directly, by overseeing the financial reporting process, and indirectly through the oversight of internal control and external auditing. In the end, improved information quality as well as strengthened controls may result in investors being more confident about the quality of financial reporting and the functioning of financial markets. Investors' perceptions may also be affected by the adoption of practices that are considered as best practices for Audit Committees. (Bedard et al., 2009). Several studies have examined how "financial expertise" relates to the identification of financial accounting reporting issues and the assessment of financial reporting quality (McDaniel et al., 2002). In the surrounding of financial scandals (2002), it is increasingly understood that internal auditing is a key component of internal control over financial reporting; (Sarens and De Beelde, 2006). Sections 404 and 302 of SOX have added internal control to the agenda of audit committees. One of the main mandatory responsibilities of the AC established by new regulations relates to external auditing oversight. The primary function of the audit committees is to assist the board in fulfilling its oversight responsibilities by reviewing the financial information that will be provided to the shareholders and other stakeholders, the systems of internal controls, which management and the board of directors have established, and all audit processes (Bean 1999). Audit committees in developing countries may have difficulties in performing this role since they suffer from a shortage of accounting skills. Several studies have been undertaken on the audit committees' oversight responsibilities. In general, the findings indicated wide variations in both perceived and stated responsibilities. (Coopers and Lybrand, 1995) and (DeZoort, et al., 2002) found that audit committee responsibilities revolved mainly in the areas of financial reporting, auditing and overall corporate governance. (Kalblers and Fogarty, 1993) found that the responsibilities of audit committee included oversight of financial reporting, external auditor and internal controls. (Guy and Burke, 2001) argued that every company that has an audit committee should develop a tailor made charter for the committee that describes the committee's composition, and specifies access to appropriate resources. A prerequisite for the effective performance of the audit committee requires its status to be formally established, such as by a resolution of the board or embodied in the by-laws of the company (Braiotta 1999). The effectiveness of the audit committee depends on the background of the members which should consist of both financial and non-financial people. The audit committee's effectiveness and independence is greatly enhanced if the audit committee appoints the external auditors. (Saad et al, 2006). (Tackett ,2004) stated that although the audit committee represents the interests of stockholders, current procedures make it difficult for an individual stockholder to become a candidate for the board of directors without the blessings of corporate management. In regard to financial literacy; (Rezaee, et al., 2003) defined financial literacy as the ability to read and understand fundamental financial statements. (Herdman, 2002) questioned whether the capital markets requirement about financial literacy of audit committee members went far enough. In contrast, (Jonathan and Carey ,2001) questioned whether in a world of ever more complicated accounting standards, which even fully trained accountants can struggle to understand, if this is a completely realistic and necessary requirement for audit committee members. Some studies have been carried out in the area of experience and expertise. Experimental evidence from (DeZoort and Salterio, 2001) indicates that greater audit knowledge is associated with higher

Audit Committee members' degree of support for the auditor in a dispute with client management.



5. Research Model and Hypothesis Development

From the research model (figure 1); the following hypotheses can be derived:

Hº1: Effective Internal Control doesn't strengthen the Financial Reporting.

Hº2: Effective application of International Standards on auditing requirements and compliance with Institute of Internal Audit Requirements doesn't strengthen the Financial Reporting.

Hº3: Compliance with Jordan Securities Commission Requirements doesn't strengthen the Financial Reporting.

Hº4: Effective External Audit doesn't strengthen the Financial Reporting.

Hº5: Effective understanding Audit Committee Functions by its members doesn't strengthen the Financial Reporting.

Hº6: There are no differences in the financial reporting can be attributed to demographic variables (Age, Gender, and Level of education, Professional certificates, and Years of experience).

6. Data collection and research methodology

Based on the aim of the study and review of the literature, the study attempted to answer the following research question: "What are the Features of an effective audit committee and its role in strengthening the financial reporting of Listed Companies in Amman Stock Exchange? A postal questionnaire survey was deemed the most appropriate research tool to answer the above question. It is an effective tool to seek opinions, attitudes and descriptions about audit committee effectiveness issues. A listing of Share -Traded Jordanian Companies was available from the

Amman Stock Exchange as of 30 September 2010. A total of 156 companies' Shares were traded on that day. It was decided to distribute the questionnaire to all those companies, with confidence level of 95% and internal level of (10). The response rate of the questionnaire survey was (71%), where only (110) out of (156) questionnaires were returned.

7. Data analysis and research findings

The research sample consisted of 81 males (73.6%) while the rest (29) were females (26.4%) (See Table: 1). Also less than (14%) of respondent have 1-5 years of experience while the majority of respondents (86.3%) have between (10) and more than (15) years of experience. Amongst the respondents there were four discrete categories of age groups, the range of age groups was 25 to more than 40 years, with the majority aged between 31 to 35 years old(34 respondents). An equal number of respondents (22) were aged between 25 to 30 and more than 40 years, which indicates that our respondents can provide objective and deep data that enriches the research results. Of the research sample, 66 respondents hold bachelor's degree, and (40 respondents) hold a master's degree. Therefore; more likely the research sample has sufficient level of education to respond to research questionnaire. Nearly, more than (55.5%) of the respondents had (10 years of experience and above), which indicates that the respondents have a good level of experience to answer the research questionnaires without any difficulties. Overall; the demographic features of the research respondents shows the target sample is relevant to answer the research questions.

Table 1. Demographic characteristics of research respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
AGE	25-30	22	20.0	20.0	20.0
	31-35	34	30.9	30.9	50.9
	36-40	32	29.1	29.1	80.0
	More than 40	22	20.0	20.0	100.0
	Total	110	100.0	100.0	
		Frequency	Percent	Valid Percent	Cumulative Percent
EDUCATION	College certificate	4	3.6	3.6	3.6
	Bachelor Degree	66	60.0	60.0	63.6
	Master Degree	40	36.4	36.4	100.0
	Total	110	100.0	100.0	
		Frequency	Percent	Valid Percent	Cumulative Percent
EXPERIENCE	1-5 YEARS	15	13.6	13.6	13.6
	6-10 YEARS	34	30.9	30.9	44.5
	11-15 YEARS	27	24.5	24.5	69.1
	More than 15	34	30.9	30.9	100.0
	Total	110	100.0	100.0	
		Frequency	Percent	Valid Percent	Cumulative Percent
GENDER	Male	81	73.6	73.6	73.6
	Female	29	26.4	26.4	100.0
	Total	110	100.0	100.0	

To test hypothesis the research hypothesis number, correlation analysis was used to examine the strength of the relationships between independent variables: internal control, international standard on auditing and institute of internal auditors' requirements, Jordan securities commission requirements about the audit committee, External audit, understanding of audit committee functions, and financial reporting. The correlation analysis allows testing the strength of relationships between several independent variables and one dependent variable, which is the case in this study. The results of correlation analysis (see Table 2) shows that the relationships between internal control, international standard on auditing and institute of internal auditors' requirements, Jordan securities commission requirements about the audit committee, external audit, understanding of audit committee functions and financial reporting are significant on .01 level of significant (P-Value=.000 < .01). Thus, further analysis becomes possible to examine the amount of variance in the dependent variables that can be explained by independent variables.

Table 2. Pearson correlation coefficients between the research variables

Variables		JSC	EA	AACF	INCO	ISA &IIA	FR
JSC	Pearson Correlation	1	.416(**)	.461(**)	.612(**)	.739(**)	.666(**)
	Sig. (2-tailed)	.	.000	.000	.000	.000	.000
	N	110	110	110	110	110	110
EA	Pearson Correlation	.416(**)	1	.316(**)	.410(**)	.493(**)	.567(**)
	Sig. (2-tailed)	.000	.	.001	.000	.000	.000
	N	110	110	110	110	110	110
AACF	Pearson Correlation	.461(**)	.316(**)	1	.284(**)	.476(**)	.501(**)
	Sig. (2-tailed)	.000	.001	.	.003	.000	.000
	N	110	110	110	110	110	110
INCO	Pearson Correlation	.612(**)	.410(**)	.284(**)	1	.638(**)	.606(**)
	Sig. (2-tailed)	.000	.000	.003	.	.000	.000
	N	110	110	110	110	110	110
ISA & IIA	Pearson Correlation	.739(**)	.493(**)	.476(**)	.638(**)	1	.658(**)
	Sig. (2-tailed)	.000	.000	.000	.000	.	.000
	N	110	110	110	110	110	110
FR	Pearson Correlation	.666(**)	.567(**)	.501(**)	.606(**)	.658(**)	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.
	N	110	110	110	110	110	110

** Correlation is significant at the 0.01 level (2-tailed).

Regression

In order to test if the independent variables are able to explain the variance in the dependent variable, a multiple regression test was carried out to test the relationship between internal control, international standard on auditing and institute of internal auditors requirements, Jordan securities commission requirements about the audit committee, external audit, and understanding of audit committee functions are able to explain nearly 79% (R=0.785 P< 0.000) of the variance in financial reporting. This indicates that there is a significant positive relationship between internal control, international standard on auditing and institute of internal auditors' requirements, Jordan securities commission requirements about the audit committee, external audit, understanding of audit committee functions, and financial reporting. Thus, we reject the null hypotheses that assumed there are no significant relationship between internal control, international standards on auditing and institution of internal auditors' requirements, Jordan securities commission requirements about the audit committee, external audit, and understanding of audit committee functions. The coefficients factors and T value at 0.05 level of significant support this suggestion (2.672, 009), (3.603, 0.000), (2.620, .010), (2.627, 0.010).

Table 3. Regression analysis of research variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785(a)	.616	.598	3.97196

a Predictors: (Constant), ISA & IIA, AACF, EA, INCO, JSC

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2632.604	5	526.521	33.374	.000(a)
	Residual	1640.750	104	15.776		
	Total	4273.355	109			

a Predictors: (Constant), ISAIIA, AACF, EA, INCO, JSC
b Dependent Variable: FR

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9.216	5.342		-1.725	.087
	JSC	.447	.167	.256	2.672	.009
	EA	.200	.056	.256	3.603	.000
	AACF	.340	.130	.186	2.620	.010
	INCO	.260	.099	.218	2.627	.010
	ISAIIA	.115	.102	.115	1.131	.261

a Dependent Variable: FR

Table 4. ANOVA analysis to test the impact of demographic characteristics on financial reporting

ANOVA Age Impacts on Financial Reporting					
FR	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	307.220	3	102.407	2.737	.047
Within Groups	3966.135	106	37.416		
Total	4273.355	109			
ANOVA GENDER IMPACTS ON Financial Reporting					
FR	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	165.481	1	165.481	4.351	.039
Within Groups	4107.874	108	38.036		
Total	4273.355	109			

The One-Way ANOVA test was carried out to analyze if there are any differences in the financial reporting can be attributed to demographic variables (Age, Gender, and Level of Education, Professional Certificates, and Years of Experience). The results in table (4) show that the financial reporting differs by the existence of age and gender respectively ((F= 2.737, with P –value= .047) and (F= 4.351, with P- value= .039, P < .05). Thus, we reject the null hypothesis that stated there are no differences in the financial reporting can be attributed to age and gender. From the above data analysis a decision can be made toward accepting or rejecting the research hypothesis.

Table 5. Summary of the research hypotheses and Decisions

Hypothesis	Decision
Hº1: Effective Internal Control doesn't strengthen the Financial Reporting.	Rejected
Hº2: Effective application of International Standards on Auditing and compliance with Institute of Internal Audit Requirements doesn't strengthen the Financial Reporting.	Rejected
Hº3: Compliance with Jordan Securities Commission Requirements doesn't strengthen the Financial Reporting.	Rejected
Hº4: Effective External Audit doesn't strengthen the Financial Reporting.	Rejected
Hº5: Effective understanding Audit Committee Functions by its members doesn't strengthen the Financial Reporting.	Rejected
Hº6: There are no differences in the financial reporting can be attributed to demographic variables (Age, Gender, and Level of education, Professional certificates, and Years of experience).	Accepted except Age and Gender

8. Conclusions and Recommendations

The research results show that our respondents have good level of education and experience. The research results also shows that there is a relationship between internal control, international standards on auditing and institute of internal auditors, Jordan securities commission requirements, external audit, understanding of audit committee functions, and financial reporting. These results are in line with prior studies (Sori, et al. 2009), (Siti Saad, et al. 2009), ((Bedard. J. and Gendron. Y, 2009).In addition, the research result shows that the internal control, international standard on auditing and institute of internal auditors, Jordan securities commission requirements, external audit, understanding of audit committee functions can explain a significant amount of variance in financial reporting. In other words, if internal control, international standard on auditing and institute of internal auditors, Jordan securities commission requirements, external audit, understanding of audit committee functions change in one unit of variance, the financial reporting changes in 79% unit of variance. Therefore, internal control, international standard on auditing and institute of internal auditors, Jordan securities commission requirements, external audit, understanding of audit committee functions are good predictors of financial reporting. Furthermore, the research results also show that age and gender make a difference for our respondents when they evaluate financial reporting. This result is inline with (Siti Saad, et al, 2009). This study like other cross sectional studies is not free of limitations. The limitations should be seen as new opportunities for future research rather than deficiencies. Future research can apply the same research model in other context to proof the validity of the research model a cross context. Future research also can borrow the research model and apply longitudinal study to heal the cross sectional study problems. Based on the research results and limitations, practical recommendations can be provide as follows: 1- managers should take this research output as a guide to improve their financial reporting by establishing effective codes of conducts of international financial reporting standards and international accounting standards (IFRS and IAS). 2 - Managers can enhance and strengthen the internal control systems through effective and efficient segregation of duties, more institution of good corporate governance principles by separating between ownership and executive management. 3 - The board of director should contain at least of three highly qualified members to oversee the executives, to preserves and enhances the independence of internal auditors, to improve communication between the board and internal auditors, and to assist auditors in the reporting of serious deficiencies in the control environment or management weaknesses, 4 – The audit committee should be qualified, committed, independent and accountable; this represents the most reliable guardians of the public interest. 5 – The Board of directors and audit committee should together ensure external audit independence, through separation of executive management from hiring or firing the external auditor, and let a professional public body do so, this should also be the practice for the setting of audit fees, 6 - Furthermore; effective and efficient understanding of audit committee functions plays a crucial role in improving the financial reporting quality.

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