Audit Committee Non-Existing Reasons': Evidence of Iran

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Abstract

The audit committee's responsibility to effectively oversee the integrity of the financial reporting process has become a mandate of the capital markets in the aftermath of the sweeping changes affect corporate governance. However, in Iran it is not mandatory to Iranian corporation to conducting audit committee. The results of current study shows that the major reason for non-existing audit committees is individualism culture among the Iranian audit practitioners, centralization trend of Iranian managers, and lack of legal force respectively.

Audit Committee Non-Existing Reasons': Evidence of Iran

One of the best mechanisms that have been widely used in worldwide corporate organizations to monitor the financial reporting process and corporate governance is the establishment of an audit committee comprising a majority of independent directors. The existence of an audit committee could improve the monitoring of corporate financial reporting and internal control. Now a days' audit committee serves a significant role in corporate governance. Traditionally, the effectiveness of the audit committee has been measured through the dimensions of independence, financial expertise and diligence (Salehi, 2007). A company's audit committee is appointed by the Board of Directors and is responsible for recommending the selection of external auditors to the Board, receiving, reviewing, and forwarding to the Board the annual financial report of the external auditors, and generally dealing with other financial matters that arise. In summary, the primary responsibility of the audit committee is the oversight of the firm's financial reporting process (BRC, 1999, p. 7).

The audit committee is one of the main corporate governance mechanisms upon which are predicated stakeholders hopes in constraining the behavior of corporate managers. Stakeholders generally view the effectiveness of the audit committee as an area that is to a significant extent manageable through regulatory or self-regulatory approaches. However, in Iran, the Iranian legislators did not mandate listed companies to have audit committees overseeing their financial reporting process. It mean the Iranian accounting bodies does not moving with crew around the world. It will cause some problems to Iranian accounting environment.

Audit Committee

Audit committees originated around over 50 years ago (Goddara and Masters, 2000). The audit committee represents a standing committee of the board of directors which is charged with dealing with audit-related concerns. Audit committees per se have existed for many years. The emergence of theoretically more activist audit committees can be traced to the mid-1960s. In part, growth may be attributed to unrelenting and endlessly. Repeated exhortations of leaders of the accounting profession and of auditors, both external and internal, who sought to expand the committees' existence and role. As noted, the efforts were founded in the hope that the committees

would improve the balance of power in auditor-management disputes.

Nevertheless, no organization has mandated specific committee duties, responsibilities, or activities. However, in 1987, the National Commission on Fraudulent Financial Reporting (Treadway Commission) issued a paper on recommended audit committee activities which has become standard for many audit committees (Harrison and Lanier, 1995) The Treadway list represents a good starting point; it requires development through the addition of requirements that arose subsequent to the issuance of the Treadway report. Moreover, numerous committees, as well as individuals, have published normative prescriptions, amounting to virtual job descriptions for audit committees. The urge to authorship was not emulated by the committees themselves, which, by and large, failed to define their responsibilities. Indeed, many corporations did not take the trouble to draft a charter, i.e. a formal statement of the charge, or to acknowledge the existence of the audit committee in the corporate bylaws. In the 229 largest publicly held corporations other than banks, the specific functions assigned to the audit committee by the full board varied widely (Verschoor, 1993). In addition to the committees' responsibilities, the preferred quality of committee members' independence has remained uncertain. Even the prescribed number of independent directors has varied on the basis of a corporation's listing status. As noted by Jensen and Meckling, the primary burden to ensure that companies are managed efficiently and effectively is placed on the internal control system. While pushing for systems improvement, they argue that substantial data support the proposition that the internal control systems of publicly held corporations have generally failed. However, it is believed that systems response capacity would be fostered by enhancing the board's ability to govern: that ability is likely to be strengthened by adjustments in the balance of power between the directors and the chief executive. Moreover, the board should be able to achieve more independent decision making without building an antagonistic and confrontational atmosphere (Firstenberg and Malkiel, 1994). The broader issue is how to organize and manage corporations to adapt to inevitable change in a continuous, evolutionary manner (Firstenberg and Malkiel, 1994). For example, directors should be concerned with the adequacy of the systems through which salient information concerning the conduct of a corporation's business flows to the board; they would also be responsible for following up on information that raises cause for concern (English, 1994, Salehi and Mansoury, 2009).

Governance questions are currently being addressed by the American Law Institute (ALI), a professional organization of practicing attorneys, judges, law school deans and professors. This effort represents a comprehensive, far-reaching project to define the principles of corporate governance (Verschoor, 1993). The project includes a body of "best practice" recommendations for audit committees.

Development was encouraged by the incidence of litigation involving auditors and directors. Since the middle of 1978 US companies seeking a listing are required to have an audit committee. The Cadbury Code in 1992 which provided the impetus for many companies to establish an audit committee; the Cadbury Code states "The board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties". Further recommendations on the structure and functions of the committee were included in an appendix. Under Stock Exchange regulations listed companies must state whether they comply with the code, giving details of any non-compliance. Companies have a choice about whether they form an audit committee, and whether it conforms to the Cadbury Code. Agency theory (Jensen and Meckling, 1976) provides a rigorous framework for examining the economic rationale for this choice. Audit committees are one of the monitoring devices for which the principals (or their representatives, the board) are prepared to pay to assist the use of financial reports in evaluating managers' performance. Principals have an incentive to choose corporate governance structures, including audit committees, which maximize total surplus.

The Blue Ribbon Committee (BRC) on Improving the Effectiveness of Audit Committees (1999, p.20) considered an audit committee a catalyst for effective financial reporting.

Among other things, the BRC recommended that the audit committee of every listed company should:

(1) Have members who are "independent";

(2) Have members each of whom is "financially literate";

(3) Have a formal charter approved by the Board of Directors; and

(4) disclose in the proxy statement whether the committee has adopted a formal charter and fulfilled its responsibilities under that charter.

The recent financial failures of companies such as Enron and WorldCom and the sheer magnitude of those scandals caused Congress to focus its attention on audit committees that are supposed to act as watch-dogs and supervise the overall corporate financial reporting process followed by the reporting companies. In 2002, Congress passed the Sarbanes-Oxley Act (SOX), which now demands much higher responsibilities for the audit committees of publicly traded companies (Buchalter and Yokomoto, 2003). Among other things, the SOX (2002) amended section 10A of the Securities Exchange Act of 1934 to make the auditor of a reporting company report directly to the audit committee about certain critical matters pertaining to the financial reporting process of that company and significantly enhanced the oversight responsibilities of the audit committee. Section 301 of the SOX (2002) is devoted to audit committees and their responsibilities. Specifically, the SOX (2002) modified and/or added the following responsibilities for audit committees of public corporations:

(1) According to paragraph 2 of section 301, the audit committee of each issuer, i.e. the reporting company shall be directly responsible for the appointment, compensation and oversight of the work of the issuer's auditor, who in turn shall report directly to the audit committee. Also the audit committee shall be directly responsible for the resolution of any disagreements between management and the auditor.

(2) Paragraph 3 of section 301 discusses the independence requirement for the audit committee members clearly stating that each committee member shall be independent as defined in the act.

(3) Paragraph 4 requires the audit committees to establish procedures for the receipt, retention and treatment of and confidential handling of complaints received by the issuer company regarding accounting and auditing related matters.

(4) Paragraph 5 allows the audit committees the authority to engage independent counsel and other advisers as may be necessary in carrying out its duties.

In addition to the above, section 202 of the SOX (2002) requires that all auditing services and most non-auditing services be pre-approved by the audit committee. Also, section 407 of the SOX (2002)

requires the SEC to issue rules asking the reporting companies to disclose if at least one member of their audit committee is a "financial expert" as defined by the US SEC (2003a).

Accordingly, the audit committee must state in its report whether it:

(1) Has reviewed and discussed the audited financial statements with management;

(2) Has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as may be modified or supplemented;

(3) Has received from the auditors disclosures regarding the auditors' independence required by Independence Standards Board Standard No. 1, as may be modified or supplemented, and discussed with the auditors the latter's independence; and

(4) Based on the review and discussions noted above, recommends to the Board of Directors that the audited financial statements be included in the company's Annual Report on Form 10-K for the last fiscal year for filing with the Commission.

Benefits of Audit Committee

Audit committee could enhance auditor independence (Salehi, 2008; 2009a, b, Barzegar and Salehi, 2008, Salehi and Abdedini, 2008). Knapp (1987) discovered that an audit committee is more likely to support the auditor rather than management in audit disputes and the level of support is consistent across members of the committee, regardless of whether the member is in a full-time or part-time position, such as corporate managers, academicians and retired partners of CPA firms.

In addition, audit committees could play a role in selecting auditors, determining their remuneration and in the dismissal/retention of auditors (Salehi, and Nanjegowda 2006, Salehi et al. 2009). Goldman and Barlev (1974) pointed out that audit committees could observe the financial reporting process and provide recommendations in the selection of auditors, negotiation of fees and termination of external auditors, which would ultimately diminish management's power over the auditor. An audit committee is anticipated to ensure that a business organisation has sufficient internal controls, proper accounting policies, and independent external auditors that will prevent the incidence of fraud and promote high quality and timely financial statements.

Furthermore, the formation of an audit committee would improve the credibility and reliability of financial statements through providing an assurance of the objectivity of financial

statements to shareholders (Auerbach, 1973, Salehi, and Azary, 2008).

Audit Committee and Earning Management

Several researchers have examined the effectiveness of audit committees in limiting earnings management (Abbott et al., 2004; Xie et al., 2003). While various definitions exist for "earnings management" (Healy and Wahlen, 1999), earnings management is inherently unobservable. Thus, these studies, with the exception of Abbott et al. (2004), use various measures of discretionary (abnormal) accruals as proxies for earnings management. Discretionary accruals involve assumptions and estimates of the non-discretionary portion of the total accruals. Therefore, the reliability of estimated discretionary accruals as a measure of earnings management decreases as the magnitude of estimation errors increases (Dechow and Dichev, 2002). Guay et al. (1996) contend that accruals derived from alternative models involve considerable imprecision. Bernard and Skinner (1996) present similar argument that abnormal accruals derived using the Jones-type models reflect measurement errors partly because of the misclassification of normal as abnormal accruals. All these studies use data for fiscal periods prior to fiscal year 2000 when the SEC regulations incorporating BRC's recommendations became effective. Therefore, the empirical question on whether the BRC recommendations and the related regulatory changes have helped improve audit committee effectiveness in limiting the likelihood of earnings management remains to be answered.

The issues related to earnings restatement are of particular interests because of the consequences and increasing occurrences of earnings restatement as discussed later in the prior research section. Also, this study is the first to include several variables related to audit quality that have been shown to have a strong effect on the quality of reported earnings (Frankel et al., 2002; Li and Lin, 2006).

Further, while there are increasing concerns that compensating audit committee members with stock and stock options may impair their independence (Millstein, 2002), the empirical evidence is very limited.

Audit Committee, Audit Quality and Corporate Governance

It is well recognized that the audit committee should play a key role in verifying and safeguarding the integrity of the firm's financial statements and its internal control systems (Klein,

2003;; Abbott *et al*., 2000; PricewaterhouseCoopers, 1999). Incorporated in this role is the responsibility to ensure the independence and competence of the external auditors. The SOX legislates that the audit committee is directly responsible for the appointment of the auditor and that the committee must oversee the work done by the auditor in relation to the company's external financial reporting. According to the Smith Report (2003) the audit committee should review the engagement letter at the commencement of the audit and consider the scope of the audit and the adequacy of the work being planned. At the conclusion of the audit, the committee should review the findings of the audit, the management representation letter, and the auditor's letter to management and management's response to the auditor's recommendations. It is recommended that the committee should meet at least annually with the external auditors, without the presence of management, to discuss matters arising from the audit. Further, the audit partner is expected to be invited regularly to attend other committee meetings held during the year (Smith Report, 2003). There has been surprisingly little research examining auditors' perceptions of the impact of audit committees on the external audit. Cohen *et al*. (2002) conducted structured interviews with auditors and found that they considered the audit committee to play a less important role in the audit process than either senior management or the board as a whole. Interviewees indicated that they typically met with the audit committee two to three times per year but these meetings tended to involve the auditor reporting to the committee, with the committee playing a passive role rather than acting proactively. However, discussions with the audit committee or the board were reported to have an important impact on audit risk assessments and audit planning. Cohen & Hanno (2000) conducted a study on the effect of corporate governance and management control philosophy on auditors' pre-planning and planning judgements. While not focusing specifically on audit committees, their manipulation of corporate governance included the presence of a strong audit committee versus a weak committee. They found that corporate governance structure affects both pre-planning and planning judgements, including the level of substantive testing undertaken. A more recent experimental study by Sharma *et al*. (2007) manipulated corporate governance strength as strong, moderate and weak to test the impact on risk, audit planning and testing. The manipulations related to both board and audit committee characteristics, the latter including audit committee composition, meeting frequency and interaction

with the external auditors. The study found that the client's corporate governance structure influences auditors' assessments of both control risk and audit risk, planned audit hours and the level of substantive testing. Again, however, audit committee characteristics were varied along with other governance mechanisms so that the separate impact of the audit committee could not be determined. An important area where audit committees can play a positive role in the audit process is the resolution of disputes between the auditor and management (Turley & Zaman, 2004). Beattie *et al*. (2000) found that audit committees appear to reduce the confrontational intensity of interactions between the auditor and management by increasing the level of discussion and reducing the need for negotiation. Other studies have examined factors that influence the audit committee's decision to support the auditor rather than management in a dispute (DeZoort *et al*., 2003; DeZoort & Salterio, 2001). These studies find that the expertise and experience of committee members, the nature of the dispute, the persistence of the auditor and the client's financial condition may all affect audit committee support for the auditor. However, some studies indicate that auditors are sometimes sceptical of the role that audit committees play in resolving disputes with management. For example, Cohen *et al*. (2002) report that auditors believe that audit committees is ineffective and lack sufficient power to withstand pressure from management. both Gibbins *et al*. (2001) and Gibbins *et al*. (2005) found that audit committees only occasionally play an important role in the auditor–client negotiation process while Beattie *et al*. (2004) report that in-depth interviews with auditors indicate that support from the audit committee is not always forthcoming.

The Impact of Audit Committees on Audit Services and Audit Fees

A number of studies have found an association between audit fees and the existence of an audit committee (Goodwin-Stewart & Kent, 2006; Coulton et al., 2001). A plausible explanation for this finding is that the presence of an audit committee leads to an increase in the demand for audit services (Sharma, 2003). This is because an important role of audit committees is to ensure that audit hours are not reduced to a level that compromises the quality of the audit (Cadbury Committee, 1992). The Smith Report (2003), for example, recommends that, if the audit committee is not satisfied with the scope of the audit, then additional work should be requested. Further, the audit committee should satisfy itself that the audit fee is appropriate and that an effective audit can be performed for the fee

charged. If audit committee members fail to carry out their responsibilities adequately, they may suffer from a loss of reputation and/or face the possibility of litigation in the event of audit failure (Abbott et al., 2003). As a result, committee members have strong incentives to demand a high quality audit. However, audit fees are driven not only by the client's demand for audit services but also by the audit firm's supply of those services. The incumbent auditor, while no doubt welcoming any increase in audit fees, should have negotiated the initial fees based on the performance of a quality audit. Hence we would not expect the auditor to believe that an increase in the level of testing is necessary. Furthermore, the audit committee's involvement in the strengthening of internal controls could lead to a reduction in the auditor's assessment of control risk (Sharma et al., 2007), and hence the need for less substantive testing (Cohen & Hanno, 2000). A reduction in testing suggests lower audit fees, but this could be more than offset by an increase in hours associated with partner involvement with the audit committee, such as regular communication, responding to queries from the committee and attendance at audit committee meetings. While this may lead to an improvement in the quality of the audit, the reasons are different from those suggested in earlier studies that link quality to the level of substantive testing required by the audit committee.

Audit Committee and Audit Independence

One main benefit of having an audit committee is that they could enhance auditor independence (Beattie et al., 1999; Collier, 1992; Fearnley and Beattie, 2004; Jackson-Heard, 1987). Knapp (1987) discovered that an audit committee is more likely to support the auditor instead of management in audit disputes and the level of support is consistent across members of the audit committee, regardless of whether the member is in a full time or part time position, such as corporate managers, academicians and retired partners of CPA firms. Pearson (1980) and Dockweiler et al. (1986) found a similar result, in that auditors' reliance on management is reduced due to the direct communication with the audit committee. Beattie et al. (1999) reported that audit partners, finance directors and financial journalists believed that audit committee that consist of non-executive directors that also independent could strongly encourage auditor independence.

Also, audit committees could play a role in selecting auditors, determining their remuneration and dismissal/retention of auditors. Braiotta (1999) and Goldmanand Barlev (1974) maintained that

audit committees could monitor the financial reporting process and provide recommendations in the selection of auditors, negotiation of fees and termination of external auditors, which would ultimately diminish management's power over the auditor. Thus, the audit committee is anticipated to ensure that the firm has sufficient internal controls, proper accounting policies, and independent external auditors that will prevent the incidence of fraud and promote high quality and timely financial statements.

Audit Committee and Financial Reporting Quality

Prior research concerning corporate governance and financial reporting quality has tended to focus on board characteristics rather than audit committee characteristics. For example, Beasley (1996) finds that firms committing financial statement fraud have a significantly lower percentage of outside board directors (independent and gray combined) than comparable firms not committing financial statement fraud. Vafeas (2000) shows that the informativeness of earnings, as proxied by the earnings-return relationship, is unrelated to the proportion of outside board members, and inversely related to board size. However, he does not investigate whether audit committee characteristics affect the informativeness of earnings.

Pincus, et al. (1989) show that before audit committees were required, larger firms, firms with a Big Eight auditor, firms with lower managerial equity ownership and firms with a greater proportion of outside directors were more likely to form audit committees. Wild (1996) shows that the informativeness of a firm's earnings reports increases after the formation of an audit committee. McMullen (1996) and Dechow et al. (1996) both find evidence that firms committing financial fraud are less likely to have audit committees at the time of the fraud than are other firms. While these studies suggest that the existence of an audit committee impacts financial reporting quality, they do not investigate whether audit committee characteristics impact financial reporting quality.

Some researches explore whether or not audit committee characteristics affects different aspects of the financial reporting process. Collectively, the evidence documented in these studies suggests that independent audit committees and audit committees with some level of accounting/financial expertise are more likely to take steps (such as hiring industry specialist auditors or monitoring the firm's internal audit process) that help to ensure credible financial statements. For

example, Vicknair, et al. (1993) show that many NYSE firms have "gray" directors on their audit committees and suggest that this could affect the financial reporting process. Abbott and Parker (2000) find that active and independent audit committees are more likely to hire an industry specialist external auditor. Raghunandan et al. (2001) show that audit committees comprised solely of independent directors and having at least one member with an accounting or finance background are more likely to have longer meetings with the chief internal auditor, meet privately with the chief internal auditor, review the internal auditing program and results, and review management's interaction with internal auditing. DeZoort and Salterio (2001) use actual audit committee members in an experimental study. They document that independent audit committee members having relatively high audit knowledge are more likely to support the auditor in auditor-management disputes over accounting policy. Carcello and Neal (2000) find a significant, negative relationship between the percentage of affiliated (gray and inside) directors on the audit committee and the likelihood of financially distressed firms receiving a going-concern audit report. Beasley et al. (2000) investigate fraudulent financial reporting in the technology, health care and financial services industries. They find that in all three industries, firms committing fraud have less independent audit committees and boards than do other firms. This suggests that audit committee independence and expertise are both important factors in ensuring financial reporting quality.

Research Problem and Objectives of the Study

Due to globalization of business and financial markets, there has been a strong demand for quality information from firms across countries so that investors can conduct comparative evaluation of risk and return of firms from different countries. Consequently, regulators in several countries outside the USA also started paying increased attention to corporate governance to improve the quality of reported information. The committees appointed by the majority of the countries around the world and have adopted and mandated audit committees in corporate sectors. Because it gives strength to company and will definitely improves corporate financial reporting. In a lot of countries the audit committee is very formal as well as full of power (Salehi, 2008); however, such a committee is not conducted in Iran, it means so far, the Iranian corporate sector had lost the benefits of audit committee, Therefore, main research question in this study is:

Why audit committee is not conduct in Iran?

Since the main objective of this study is identifying reason(s) and barrier(s) of conducting audit committee in Iran the primary and secondary useful data for this study were collected from various reports, textbooks, journals as well as questionnaire.

Research Methodology

In this research at firs step the important factor that affects on holding audit committee were detected by studying technical contexts. Then the validity of detected title assessed by Delphi group including Iranian Association of Certified Public Accountants (IACPA) member, financial managers and general managers and financial experts. Using gained viewpoints the elementary group requested to determine the relation and importance of detected index in Iran Environment that affects on auditing committee nonbeing. Then in second step we procured questionnaire by their viewpoint hence we can say, those factors that conducts research hypotheses is completely compatible to Iran environment. Then we documented questionnaire and distributed among our population sample. The questionnaire designed to the bases of Likert spectrum and all participants were requested to determine degree of agreement or disagreement to each question for assessing degree of disagreement and agreement by Likert spectrum we used the range of integer number from *-2* to 2 which -2 represents highly disagreement and 2 represents highly agreement to the hypotheses while zero represents none of them (They graded corneal staining using a -2 to 2 scale where -2 =highly agreeing, -1= agreeing , 0 = none, 1 =disagreeing and 2 = highly this agreeing).

The Cronbach's Alpha coefficient was used to assess reliability of questionnaire there was 0.936 for final questionnaire.

To the bases of the important factors we conducted three hypotheses including:

H_1: lack awareness of financial reports' users from audit committee advantages has caused this committee not to hold in Iran.

H_2: lack awareness of professional accounting and auditing associations from audit committee advantages has caused this committee not to hold in Iran.

H_3: lack awareness of legislators from audit committee advantages has caused this committee not to hold in Iran.

H_4: Individualism culture of Iranian accounting profession has caused audit committee not to hold in Iran.

H_5: centralization of Iranian managers has caused audit committee not to hold in Iran.

H_6: lack of legal force has caused audit committee not to hold in Iran.

Results of the Study

Results in total, 150 respondents were completed the questionnaire. Among these 150 participants, 101 were had degrees in accounting filed (67.30 per cent), the rest 15 (23.70 per cent) were had management backgrounds.

The majority of participants had sufficient auditing knowledge. 100 of participants were had accountants degrees (66.70 per cent), in which 20 were auditors (13.20 per cent), rest 15 financial managers (10.0 per cent), 10 were financial experts (6.60 per cent) and 5 were stockholders. Demographic characteristics of participants are summarized in Table 1.

The Binomial Test was first conducted to assess how many per cent of participants accept the effects of lack of awareness of financial reports' users from audit committee advantages in not to holding this committee in Iran. For this purpose we divided participants into the two groups including agreeing and disagreeing with hypothesis. The results revealed that only 40 participants (30.00 per cent) were agreeing to this hypothesis then this hypothesis significantly rejected. Mean degree of agreement for this hypothesis was -1.044 (Sd= 0.907, 95 per cent of confidence interval from -1.240 to -0.731).

Regarding to the second hypothesis 21 of participants (14 per cent) were agree to effects of lack of awareness of accounting and auditing professional from audit committee on not to holding in Iran. Therefore this hypothesis significantly rejected (H_2) and mean degree of agreement for this hypothesis was -1.332 (SD= 1.043, 95 per cent of confidence interval from -1.473 to -1.191).

About the third hypothesis, minority of participants confirmed the effects of lack of awareness of legislators from audit committee advantages not to holding of audit committee in Iran (19 per cent). Thus this hypothesis were significantly rejected and mean degree of agreement was -1.185 (sd= 0.965, 95 per cent of confidence interval from -1.021 to -1.355).

about the fourth hypothesis, almost 71 per cent(106 respondents) of participants confirmed the effects of Iranian Individualism culture to not holding audit committee in Iran; therefore this hypothesis were significantly confirmed ($p<0.05$) and mean degree of agreement was 1.184 (Sd= 1.133, 95 per cent of confidence interval from 0.996 to 1.416).

Regarding to the fifth hypothesis, almost 62 per cents (93 respondents) of participants confirmed the effects of centralization of Iranian managers on not holding of audit committee in Iran; then this hypothesis was significantly confirmed ($p<0.05$) and mean degree of agreement was 0.484 (Sd=1.231, 95 per cent of confidence interval from 0.276 to 0.671).

finally about the sixth hypothesis, the majority of participants (92 per cent) confirmed the effects of lack of legal force on not holding of audit committee in Iran; then this hypothesis were significantly confirmed too.($p<0.05$) and mean degree of agreement was 1.486 (Sd= 0.841, 95 per cent of confidence interval from 1.337 to 1.621). The results of testing hypotheses by binomial test are showed in Table 2.

The participants were requested to determine degree of agreement or disagreement to the question by Likert spectrum. Table 3 represents mean degree of agreement or disagreement according to their idea and other statistics. As shown in Table 3, the three latter of six defined factors effects on not holding of auditing committee in Iran confirmed by participants.

The effects of these three factors was compared and prioritized in their effects by non parametric two way ANOVA (Friedman) test. The results showed that lack of legal force for holding auditing committee is the most important factor and centralization of Iranian managers is weakness factor. The result is demonstrated in figure 1.

As is seen in upon figure while management concentration has the least effect on holding of audit committee the lack of legal force is the most important factors that must take attention.

Conclusion

An audit committee is as a delegate body of the Board of directors charged with safeguarding and advancing the interests of shareholders (see Wolnizer, 1995; Klein, 1998; García et al., 2003). The audit committee is thus viewed as a monitoring mechanism intended to reduce information asymmetries between insider and outsider (management and non-management) board members

(Eichenseher and Shields, 1985; Pincus *et al*., 1989), since its key functions are to review financial information and control management's conduct of affairs. The benefits of creating an AC have been demonstrated by, among others, Kunitake (1983), DeFond and Jiambalvo (1991) and Archambeault and DeZoort (2001). In terms of accounting, the creation of ACs would thus improve the quality and accuracy of financial information (DeFond and Jiambalvo, 1991; McMullen, 1996), ensuring that the officers responsible for reporting and disclosure are more closely monitored and controlled. The results of this study revealed that the majority of participants are aware of potential benefits of audit committee in Iran with reference to hypotheses No. 1, 2 and 3. The authors have come to this point that the participants of this study strongly believe that holding audit committee leads improvement in audit practice in Iran. However, according to the results of hypothesis No.4 showed that the individualism culture is one of the most influential reasons for not holding audit committee in Iran. Also, centralization attitudes of Iranian managers are another reason for not holding audit committee. Last but not the least the critical reason found in which in this study of not holding audit committee in Iran is the lack of legal force for holding audit committee in Iran. The authors believe that these three crucial reasons are the main barrier of conducting audit committee in Iran, which they should be solved in Iranian environment as early as possible. To solving those barriers, the Iranian managers views' toward the audit committee should changed which Iranian accounting legislators can inform various benefits of audit committee from the various ways, further the Iranian accounting regulators should intact the rules for mandatory audit committee in Iranian corporations.

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Tables

Table 1. Frequency table of participants

Case	Label	Frequency	Percent
Educational filed	Accounting	101	67.30
	Other	49	22.70
	Total	150	1.00
Job Position	Accountant	100	66.70
	Auditor	20	13.30
	Financial Manager	15	10.00
	Financial expert	10	6.70
	Stockholder	5	3.30
	Total	95	1.00

Table 2. Audit Committee effects on in dependent variables

Hypothesis	Category	Frequency	Observed prop.	Test prop.	Asymp.sig.	Result
H_1(lack of awareness in financial reports users)	Agreeing	40	0.30	0.5	0.000	Rejected
	Disagreeing	110	0.70			
	Total	150	1			
H_2(lack of awareness in professional associations)	Agreeing	21	0.14	0.5	0.000	Rejected
	Disagreeing	129	0.86			
	Total	150	1			
H_3(lack of awareness in lawgiver associations)	Agreeing	29	0.19	0.5	0.000	Rejected
	Disagreeing	121	0.81			
	Total	150 [a]	1			
H_4 (Individualism culture)	Agreeing	106	0.71	0.5	0.000	Confirmed
	Disagreeing	44	0.29			
	Total	150				
H_5 (centralization of Iranian managers)	Agreeing	93	0.62	0.5	0.004	Confirmed
	Disagreeing	57	0.88			
	Total	150	1			
H_6 (Lack of legal force)	Agreeing	138	0.92	0.5	0.000	Confirmed
	Disagreeing	12	0.08			
	Total	150	1			

a. because of binomial test characteristic we divided respondent into two group including agreeing and disagreeing and eliminate those of respondent that haven't idea.

Table3. Mean degree of participants' agreement or disagreement to the effects of independents factor on not holding audit committee and other statistics.

Independent variable	Mean degree	Standard deviation	95 percent of confidence interval
lack of awareness in financial reports users	-1.044	0.907	-1.240 -0.731
lack of awareness in professional associations	-1.332	1. 043	-1.473 -1.191
lack of awareness in lawgiver associations	-1.185	0.956	-1.021 -1.355
Individualism culture	1.184	1.133	0.996 1.416
centralization of Iranian managers	0.484	1.231	0.276 0.671
Lack of legal force	1.486	0.841	1.337 1.621

Figures

Figure 1.Friedman mean rank of effective factors on holding audit committee.