

# The Relationship between Audit Committee Characteristics and the Quality of Earnings in Companies Listed on the Tehran Stock Exchange

saba Mahmoud shayan

Student in Department of Accounting, Management,  
Economics and Accounting, Tabriz B.A.  
Branch Islamic Azad University, Tabriz, Iran

**Abstract—** The main purpose of the present study is to examine the relationship between the characteristics of the audit committee and the quality of earnings in companies listed on the Tehran Stock Exchange (TSE). Research hypotheses were tested based on a statistical sample consisting of 86 companies during a 5-year period from 2010 to 2014 using multivariable regression models and panel data with fixed effects approach. The results demonstrated that the characteristics of the audit committee including: the size of the audit committee, the independence of the audit committee, the financial experience of the members of the audit committee and the number of meetings of the audit committee didn't have a significant impact on the quality of earnings.

**Keywords:** earnings quality, audit committee, audit committee size, audit committee independence, financial experience of audit committee members, number of audit committee meetings

## I. INTRODUCTION

The impact of corporate governance mechanisms on earnings management is one of the topics receiving much attention by researchers in recent years. Corporate governance is usually defined as a set of mechanisms designed to mitigate agency problems between shareholders and managers due to the separation of ownership and control (Armestrang et al., 2010). Indeed, corporate governance has made significant changes in business environments, especially in the accounting and auditing professions. Therefore, interest in the role of audit committees has been increased as a tool of corporate governance in the past few years, as it aims to control the board of directors and increase the role of audit after several failures of local and international companies (Hamdan et al., 2011). As a result,

the audit committee should play a role appropriately to fulfill its duties. Over the past years, there has been a considerable increase in the role of the audit committee in presenting financial reports in organizations (Martnez et al., 2007). The audit committee is an important factor in the financial reporting process, which increases the credibility of the audited financial statements. On the other hand, companies and shareholders rely on the judgment of the members of the audit committee for exact control on some areas such as risk, preventing the loss of company resources, the precision of financial reporting and compliance with legal and regulatory requirements. Each member of the audit committee needs a clear and correct understanding of his duties to perform his duties according to the charter of the committee and other legal requirements. For example, the charter of the audit committee verified by the Securities and Exchange Organization has several clauses about the independence and expertise of the committee members (Jamei et al., 2015: 2).

With the recent financial scandal in Iran, the Securities and Exchange Organization approved internal control guidelines in May 2012 in order to protect the rights of investors, prevent violations, and organize and develop a transparent and fair securities market, which has been mandatory for issuers listed on TSE and Iran's OTC since then. Based on the guidelines of internal controls, the board of directors is obliged to ensure the establishment and use of suitable and effective internal controls in order to attain the company's goals. The internal controls system should entail policies, procedures, duties, activities and other aspects contributing the reasonable assurance of the protection of assets, the efficiency and effectiveness of the company's