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Investigating the Effect of Expertise and Size of the Audit Committee on Voluntary Disclosure of Companies Listed on Tehran Stock Exchange

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Abstract

Voluntary disclosure of corporate information is a mechanism to reduce information asymmetry between managers and people outside the organization, reducing agency costs and improving reports' transparency. The present study investigated the impact between expertise and audit committee size on voluntary disclosure of information between 2013 and 2015 in Tehran Stock Exchange companies. A list of voluntary disclosure cases was prepared for measuring the amount of voluntary disclosure of information in the annual report by studying and reviewing the accounting standards and laws applicable to information reporting and the Botosan checklist. The size and expertise of the audit committee are the audit committee's features. To test the possible association between the amount of voluntary disclosure of information and these characteristics of the audit committee, analysis and correlation were done on 81 companies listed on the Tehran Stock Exchange during three years. Furthermore, after data collection using the Systematic Removal Method, the research hypotheses were tested using a cross-sectional regression model and Eviews Software. The results reveal that only the audit committee's size positively and significantly affects the voluntary disclosure of information. Also, no significant effect was observed between the expertise and voluntary disclosure.

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Introduction

Separation of ownership from management and despite the conflict of interest between owners as broker and managers (as representative), agency problems and information asymmetry arise. One way to reduce this conflict of interest is to disclose voluntary and additional information by the company, which improves the relationship between owners and managers.

It should be mentioned that companies are unwilling to voluntarily disclose all of their information, including the costs associated with collecting, processing, and disclosing information, as well as the benefits of not disclosing information. Collecting and classifying disclosures requires financial resources, effort, and time. Companies usually disclose information to the extent that increased benefits over costs are maintained (Dadashi et al., 2013).

The audit committee is one of the corporate governing bodies that can reduce agency costs. Due to the intensity of the emphasis placed on the management of corporations in the previous millennium, especially those in which the public has invested, the Audit Committee (AC) has found a special status in many nonprofits and has attracted more attention. Their influence and organizations have been in line with this trend (Royaee & Ebrahimi, 2015).

The Audit Committee (AC) is one of the most significant and influential members of corporate governance, assisting the board in carrying out its responsibilities of overseeing the management of large corporations. In this regard, the audit committee has a key role in overseeing the disclosure of management and internal control, so the audit committee's effective results are evident in enhancing the financial reporting process and thus reducing the stakeholders' and management's information asymmetry (Lashkarizadeh, 2021). improves disclosure practices. Voluntary disclosure of companies is a mechanism designed to reduce information asymmetries between the company, managers, stakeholders, and investors outside the organization. It reduces agency costs, leading to improved transparency of corporate reports. Furthermore, it is believed that sufficient and transparent disclosure protects shareholders' right to do business. A close relationship exists among corporate governance and voluntary disclosure, transparency, and accountability of managers and ownership structure. The Audit Committee is intended as a control system to reduce information asymmetry. The Audit Committee is intended to use oversight and improve the corporate disclosure process, including voluntary disclosure. The audit committee's characteristics: specialization in finance and size (Hisham et al., 2014(

The present study aims to evaluate the impact of the expertise and the audit committee's size as the specifications of the audit committee on the voluntary disclosure of Tehran Stock Exchange companies.

Theoretical Framework and Literature Review:

Based on market globalization, companies have inclined to become international, which also has many complexities. In each period, with the change and transformation, there are many investment opportunities that investors use. These opportunities require a lot of information about the activities of companies. Companies also meet these needs and disclose financial, factual, and historical information that meets reporting requirements. They provide information about themselves beyond revealing other dimensions of information beyond numbers and legal and reporting requirements and is called voluntary disclosure. This action reveals the hidden elements of the company’s value in the capital market, and as a result, reduces information asymmetry and the right decision by investors.

Larger (branded) auditing firms have also gained more reputation, which reveals the auditing ability to influence the quality of financial reporting accounting information and overall disclosure. Generally, the audit committee meaningfully reduces information asymmetry, profit management, and agency costs. Furthermore, it is believed that disclosure of sufficient and transparent information is also important to protect the interests of minority shareholders, as voluntary disclosure demonstrates that managers are accountable to stakeholders in their business (Noroush & Ramezani, 2017).

Since voluntary disclosure of the information is costly and time-consuming, an effective and efficient audit committee is needed to support the voluntary disclosure of information. A committee is effective in that its characteristics are observed following the audit committee’s charter. To have a more efficient audit committee, each committee member should have adequate financial literacy to understand and read the financial statements.

In the United States and the United Kingdom, minimally one audit committee member must have a relevant financial or accounting specialization. This member can be selected from people who have sufficient experience in finance and financing, accounting, auditing of listed companies, or internal auditing.

It is reasoned that significant oversight of the audit committee demands its members to have adequate expertise in auditing and accounting to investigate the issues referred to them independently (Niknaghsh & Bandpey, 2020).

It must be noted that members should not lose the expertise mentioned above over time; therefore, companies should continue to train members and provide professional advice, including the latest changes in accounting and auditing standards and principles, rules and regulations, and the country’s capital market and newly enacted laws for members. Many countries periodically evaluate members’ financial expertise (Jamei & Rostamia, 2016). Effective oversight of the expert members of the audit committee to manage motivates them to disclose accurate and clear information about their performance (Falsafi et al., 2015).

The size of the audit committee may constructively affect it. As audit committees tend to have diverse expertise to conduct new financial reporting procedures, the larger audit committee can be more influential. The audit committee comprises three to five members, most of whom have financial expertise and are independent. It is formed by the election and appointment of the board of directors, and the executive directors of the company are not allowed to be members of the audit committee. Audit committees tend to increase the size of the committee to be more effective. The larger the number of audit committee members, the more diverse the views, experiences, and expertise ensures that management performance monitoring is more effective (Sierra Garcia et al., 2016).

It seems that large audit committees monitor the quality of financial reporting more effectively.

According to Tehran Stock Exchange Organization's definition, the financial expertise of an audit committee is an international academic or professional degree in finance (accounting, auditing, financial management, economics, and other fields of management or financial orientation or economics), along with the ability to analyze financial statements and reports and internal supervisions overning financial reporting, professional skills, and experience of the audit committee's members. Public Oversight Board states that if the audit committee members have financial reporting sections, internal supervision audit, and expertise in accounting, they will accomplish the jobs more effectively (Othman et al., 2014).

Persons, 2009) asserted that in an audit committee with independent members with financial and accounting expertise, it is more probably to discover erroneous financial statements and wrong transactions because they have to act under the ethical charter of the profession to maintain their reputation.Therefore, it is assumed in this research that an audit committee with expertise should be more effective when supervising the company, which can positively affect its voluntary disclosure. A larger audit committee can be more empowered to exercise more serious control over financial reporting procedures by employing a variety of expertise, which leads to greater effectiveness in supervising the company, resulting in voluntary disclosure of information (Madhani, 2019). It stated that the audit committee's size and independence reduce fraud and error and increase voluntary disclosure. However, there is this idea that the larger size of an audit committee leads to unnecessary argumentations and delay in decision-making, and the formation of weaker communications (Jun Lin et al., 2008).

Material and Methods

The current study is applied research. Its design is quasi-experimental using the post-event approach, i.e., this method is used for the research in which the researcher(s) seeks to find the cause and effect of certain relationships that have occurred and ended in the past. Thus, this research design enjoys a high external validity.

1. Research Hypotheses

Based on the research question and using the findings of the related literature, the research hypotheses are as follows:

Sub-hypothesis 1: The audit committee's expertise affects voluntary disclosure.

Sub-hypothesis 2: The audit committee's size affects voluntary disclosure.

2. Research variables

2.1. Distributive variables of research

• *Financial Expertise of Audit Committee Members (ACFEXP)*

The percentage is the number of audit committee members active in accounting, auditing, and finance and know. To all audit committee members

That is, the ratio of financial expertise in the audit committee to the total number of audit members

• *Audit Committee Size (ACSIZE)*

indicates the audit committee members' number

is obtained by the natural logarithm of the stock market value of the company.

2.2. Research Dependent Variable

Voluntary disclosure by companies (Edscore): This study used a non-weighted index to measure the voluntary disclosure amount. In the present research, an index of disclosure cases has been created for each company with the help of a list including 36 voluntary disclosure cases.

To calculate the voluntary disclosure score, the proposed index of Hammami and Hossein in 2009 was used with the necessary adjustments according to the existing conditions, which are disclosed by companies (this index is presented in (Table 1). The value of the indicators is the same so that for each, the value of 1 in case of disclosure and the value of zero for non-disclosure are considered, and voluntary disclosure points are obtained by dividing the total points obtained by the total points be received. The method of calculation is as follows.

$$\text{Dscore} = \frac{\sum_{j=1}^{m} d_j}{n}$$

D: Voluntary disclosure of companies

dj: Score for voluntary disclosure of indicators such that value 1 if the information is disclosed and value zero if not disclosed.

n: The total number of non-mandatory disclosure information in the bath index is 36.

Table 1. Description of Items

Row	Description of items	Row	Description of items
1	The company’s history	19	Express the goals of the company
2	Board members names	20	Actions taken to achieve goals
3	Executive and non-executive members of the board of directors	21	The time frame for achieving goals
4	Top managers names	22	Products and services main description
5	Major shareholders names	23	Main markets (major customers)
6	Company employees number	24	The traditional balance of debtors
7	Describe changes in sales revenue	25	Information about various kinds of products
8	Describe changes in the cost of inventory sold as a percentage of sales	26	Information on events affecting next year’s results
9	Describe gross profit changes	27	Information on future development projects
10	Describe changes in public and administrative costs	28	Recent years’ sales trends
11	Describe financial costs changes	29	Recent years’ operating profit trends
12	Describe interest income changes	30	The trend of capital expenditures in recent years
13	Discuss market share sales and trends changes	31	Profitability ratios
14	Company strategies and their impact	32	Activity ratios
15	Market share	33	Liquidity ratios
16	Projected profits	34	Units sold for main products
17	Sales forecasts	35	The selling price of each unit of the main products
18	Cash flow forecast	36	Value-added form

3. Method of Collecting Information

In this research, data related to the research are based on real data from the stock exchange market. it were extracted from official sites such as Tehran Stock Exchange, the Codal site, Environment Organization, and Natural Resources site, and were analyzed.

4. Statistical population, sampling method, and sample size

The present study's statistical population includes all Tehran Stock Exchange companies. Companies that meet the following criteria are considered in this study (Table:2)

By applying the proposed conditions, the sampling has been done using the Systematic Removal Method. Finally, 81 companies were selected and tested.)Total number of listed companies active in the stock exchange until 2015(. Then, Excel was used to summarize the data, and finally, EViews was used to test the hypotheses.

Table 2. The Process of Selecting the Statistical Sample of the Research

The number of Tehran Stock Exchange companies that have been active until the end of 2015:	317
Limitations:	
The number of companies other than investment companies, banks, holding companies, etc.	(47)
The number of companies that have entered the stock market since the beginning of 2013.	(37)
Number of companies The number of companies whose fiscal year did not lead to March 20	(58)
(Esfand 29) or the change of fiscal year	(87)
Companies without an audit committee during 2013-2015.	(7)
The number of companies whose required information was not available in the period.	
Sample size	81

5. Statistical models and research hypotheses

$$Edscore_{it} = \beta_0 + \beta_1 ACFEXP_{it} + \beta_2 ACSIZE_{it} + \varepsilon_{it}$$

$Edscore_{it}$: Voluntary disclosure level score of the company i in period t

$ACFEXP_{it}$: Measures the expertise in auditing financial affairs and accounting of the audit committee and shows the number of expert members of the committee. $ACSIZE_{it}$: Is the size of the audit committee, measured by the committee's members number and i, ε represent the model error of cross-sectional units (companies).

In the current study, for hypotheses testing, the logistic cross-sectional of the audit committee and regression model has been utilized to evaluate the association between the characteristics voluntary disclosure of companies.

Results

First, we examine the research findings descriptively; then, we evaluate the research hypotheses with the help of appropriate tests. In this research, descriptive statistics are used to collect, summarize, classify and describe numerical facts.

Central and dispersion indices for research variables are used for descriptive analysis of variables before testing hypotheses. This is done to offer an overview of the statistical community and more knowledge.

Table 3 provides descriptive statistics associated with research variables. The number of observations is equal to 243 years/company.

In the voluntary disclosure section, an average of 60% indicates that 60% of the information to be disclosed is disclosed voluntarily.

The specialty section's average is 88%, which indicates that 88% of the committee members had financial specialization. In addition, Ferrosilicon Iran, Abu Reihan Pharmaceutical, and Mehvar Khodro manufacturing companies have financial expertise.

Table 3. Research Variables Descriptive Statistics

Variable	Change symbol	Count	Mean	Medi an	Max.	Min.
Voluntary disclosure	DIS	243	0.60746	0.61	0.9	0.12
Specialty	ACFEXP	243	0.886145	1	1	0.3333
Committee size	ACSIZE	243	3.074074	3	5	3

In the committee size section, most companies typically have three to five members.It must be noted that the outputs of Eviews7 software, including research variables descriptive statistics, are provided in the appendix, all of which are derived from (Table 3).

Table 4. Investigation of Lack of Autocorrelation between Variables

Variable	VIF autocorrelation
Specialty	1.063850
Committee size	1.103731

Since $vif + [1, +\infty)$. For variables not to have autocorrelation, vif must be less than 10; otherwise, the variables are correlated. Based on the results of (Table 4) vif, all variables are less than 10. As a result, there is no autocorrelation.

2. Testing Research Hypotheses

Hypothesis 1: The expertise has an effect on the voluntary disclosure of information.

Hypothesis 2: The audit committee's size has an effect on the voluntary disclosure of information.

To fit the models, the Limer f-diagnostic test is used to choose between the methods of fixed and common effects, and if required, the Hausmann diagnostic test is used to choose between the methods of fixed and random effects. According to the findings indicated in (Table 5) and (Table 6), the significance level of the Limer f statistic is equal to 0.000, which has made the need for the Hausman test necessary. The significance level of the Hausman test is 0.0108 and approves the fixed effects method.

According to the findings (Table 5) and (Table 6), the significance value probability of F equals 0.0000, which is below 0.05, so the null hypothesis is rejected at the confidence level of 0.95. That is, there is a significant model at the 95% confidence level.

The adjusted determination coefficient equals 0.62, i.e., about 62% of the changes of the dependent variable are expressed by independent variables, and the rest is determined by or error.Durbin–Watson statistic is 2.5. Values close to 2 show the lack of autocorrelation of the residuals;

that is another regression assumption. As a result, there is no correlation between the residues.
Hypothesis 1: Considering the variable's level of significance is equal to 0.9443 and is above the acceptable error level of 0.05; it can be mentioned that at the 95% level of confidence, expertise does not affect voluntary disclosure of information.

Table 5. Statistical Test of Research Hypothesis

Type of test	Test statistics	df	Sig. level	Test result
F Limer	4.963241	80.158	0.000	Mixed data
Hausman	13.104183	4	0.0108	Fixed effects

Table 6: Test of Committee Characteristics Hypotheses and Information Disclosure

Variable	Coefficients	T	Error level
Intercept	-0.0312075	-1.364434	0.1744
Specialty	0.004220	-0.070001	0.9443
Committee size	0.097686	2.373541	0.0188
Adjusted determination coefficient	0.621445	F	5.729438
Durbin Watson	2.5	Level of significance or probability of F statistic	0.00000

Hypothesis 2: But, considering the significance level of the variable size of the audit committee equals 0.0188, that is below the acceptable error level of 0.05; as a result, at the 95 levels of confidence, the committee size and has a significant and positive impact on voluntary information disclosure.

Conclusions

The voluntary disclosure by the companies is one of the important information sources for the investors, creditors, and other stakeholders, which reduces the information gap between them and the managers. The current study investigated the impacts of the audit committee's size and expertise on the companies' disclosure. The results indicated no positive and significant association between the managers' voluntary disclosure and the financial expertise of the audit committee members. In other words, even if there are financial experts in the audit committee, it cannot be a reason for the managers' voluntary disclosure. This finding is in line with those of. However, this finding contradicts the argumentation, who believed this feature impacts the committee's effectiveness. The most important reason behind this discrepancy is the numerous changes of the audit committee members in most selected companies in the research sample. However, not more than a few years have passed since the formation of their audit committee.

Also, the current study's findings showed a significant and positive relationship between the audit committee size and voluntary disclosure, which is in line with the findings of. However, it is contrary to the findings of, who believed that larger committees lead to unnecessary arguments, delay in decision-making, and weaker communications. One of the most important reasons behind this controversy is that the more the number of members of the audit committee, the more diverse the views, experiences, and skills, which ensures that oversight of management performance is more effective and leads to more voluntary disclosure of information by managers so that managers can show their good faith in this way.

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