*Journal Emerging Technologies in Accounting*
*Vol.1, No.1, Spring 2023*

# The Impact of Audit Committee on the Relationship between Financial Reporting Readability and Specific Volatility of Stock Returns

**Abdolrasoul Rahmanian Koushkaki**
Assistant Professor, Department of Accounting, Payame Noor University, Tehran, Iran.
abr.rahmanian@pnu.ac.ir

**Ali Akbar Alahiari**
Instructor of Accounting Department, Payame Noor University, Tehran, Iran.
alahyari@pnu.ac.ir

**Kamal Bagherzadeh Hooshmandi**
Instructor of Accounting Department, Payame Noor University, Tehran, Iran.
Kamalbh2000@pnu.ac.ir

**Mehdi Mehravar**
Instructor of Accounting Department, Payame Noor University, Tehran, Iran.
Mehdi.mehravar@pnu.ac.ir

**Received date: 2023-09-8** **Acceptance date: 2023-09- 18**

## Abstract

**Objective**: The present study aimed to trace the impact of audit committee on the relationship between financial reporting readability and specific volatility of stock returns.

**Methodology:** In this regard, a sample of 124 companies listed in Tehran Stock Exchange during 2013-2022 was selected by systematic exclusion model, and finally, the research hypothesis was tested using multiple linear regression test based on consolidated data. To measure the specific volatility of stock returns , standard deviation model Fama and French model was used and for evaluation The readability of financial reporting was used by Fugue index and finally a comprehensive model was used to measure the audit committee's quality.

**Results**: The results of hypothesis testing indicated that the readability of financial reporting has a negative and decreasing effect on the specific volatility of stock returns. Also, the interaction of auditing committee and readability of financial reporting has a significant negative effect on the specific volatility of stock returns.

**Innovation:** This research provides useful evidence for managers of companies and capital market factors that can be controlled by better utilization of financial information disclosure mechanisms.

**Keywords:** Audit Committee**,** Readability of Financial Reporting, Special Volatility of Stock Returns.

# 1. Introduction

The basis of decision making by investors and capital market participants is the information published by companies in the form of financial statements, and it is possible to fully benefit from this information when it is timely, complete, accurate and easily understandable to investors (Yin et al, 2022). On the other hand, if this information is distributed, unfairly, unequally, or in scientific terms, asymmetrically, It can lead to different results and affect the capital market and investors and, ultimately, stock returns. Therefore, any lack of transparency in this information can disrupt the decision making of shareholders and analysts in the capital market and lead to disagreements among investors (Peng et al, 2016). Managers of companies knowingly and unconsciously may exacerbate the lack of transparency and complexity of information exported to the market, and in such a case, the shares are bought by higher value investors, so simultaneously in A higher level is valued and this will lead to specific volatility in the stock price (Silva & Serqueira, 2021). Considering the importance and increasing trend of specific volatility of stock returns in recent years, investigating the factors affecting it has been very much considered. In investment activities, especially in the stock market, risk and return are two main weights in investors' decisions, and the question of what risk factors affect stock returns has been themain question of capital market researchers for years (Akhgar & Mirzaei, 2019). One of the factors affecting the specific volatility of stock returns is the lack of transparency of financial information and the complexity of financial statements. Readability of financial reporting refers to the likelihood of a reader succeeding in reading in a text or writing. The readability of financial reporting is also defined as the clarity of the text and success in the comprehensibility of financial information, which helps to understand the numbers and figures contained in the financial statements and is therefore of great importance (Seifzadeh et al, 2021). Yin et al. (2022) in a study titled The Causal Effect of Improving the Readability of Financial Reporting on Stock Price Declines in the Market, suggests that vague financial reports lead to higher stock price crashes. From the perspective of economic theory, if the financial statements provided by companies have a low readability, investors cannot easily evaluate it, and they tend to look for other information and thus rely on it (Bagheri Azghandi et al. 2018). The same factor-can trigger volatility in stock returns. Specific (special) volatility of stock returns is a pervasive macro variable that accounts for more than 80% of the total stock price fluctuations. This phenomenon exists in the capital market and predicts future stock returns. The variability in the total return of securities that is not related to the total market variability is called special volatility (unsystematic) and represents that part of the variability in the total stock return that It does not depend on developments in general economic activities (Izedinia, 2021). Equity specific volatility reflects an unusual return that standard asset pricing models cannot adequately describe. When the quality of financial reporting is lower than acceptable, information asymmetry increases and analysts need to rely more on their private information, which increases dispersion in the projections of beneficiaries and capital.Investors will be. In fact, itcan be stated that forecasts reflect the expectations and opinions of investors in the capital market, and that failure to properly understand corporate informationwill cause specific fluctuations in stock returns (Silva and Serqueira, 2021). So the question comes to mind: Does the readability of financial reporting have any effect on the specific volatility of stock returns?

The purpose of an audit committee is to create a set of experts and specialists to oversee management activities on behalf of the owners of companies. An audit committee is a subcommittee under the corporate governance framework in which the board delegates some supervisory responsibilities. The audit committee helps to establish a proper communication between the board, the independent auditors, and the internal auditors of the company. The audit committee can also Supervise the performance of senior managers of the company and monitor the actions and decisions of managers (Zalghi et al. 2019). The audit committee is responsible for evaluating and monitoring internal controls. Therefore, to achieve the financial goals of internal controls, the role of the audit committee and its quality will be essential; therefore, as the quality of this committee is improved, the supervision of the managers' work will also increase, and the company will be deprived of its performance and performance. The quality of financial reporting will be higher (Herostia and Suridinata, 2022). The audit committee considers the selection and approval of the procedures used by the companyand can affect the approach of financial reporting, disclosure, compliance with standards, complexity of financial reports, etc. as the main pillar of corporate governance (Mousavi shiri et al, 2021). According to the stated contents, the overall purpose of the research is to answer the question of whether the audit committee has any impact on the Does it have a relationship between financial reporting's legibility and the specific volatility of stock returns? Considering the lack of definitive findings in relation to the research subject and the creation of research gaps in this regard, the present study was formed. The structure of the research is first to expand the theoretical foundations, hypotheses and empirical bases of the research, and then the methodology and operational definitions of the research variables and finally the findings and conclusions of the research are presented.

## 2. Literature Review and Theoretical Principles

The specific volatility of stock returns reflects the fluctuations of the company's specific returns, which result mainly from the company's activities and are independent of capital market volatility. Specific volatility of stock returns contradicts the efficient market hypothesis and asset pricing models, which are the two main pillars of the financial mainstream. The relationship between the readability of financial reporting and specific (special) volatility of stock returns corresponds to the literature on financial information disclosure, future stock returns, incorrect stock pricing, corporate debt maturity and market shortcomings and poor quality of financial reporting (Silva & Silquera, 2021). Akhgar and Mirzaei (2019) in a study entitled "The relationship between company life cycle and stock return specific volatility due to fundamental uncertainty and information uncertainty in this way stated that company life cycle has a significant effect on the specific volatility of stock returns of companies. Peng et al (2016) in a study titled Accruals Accounting, Heterogeneous Investor Beliefs and Stock Returns stated that the level of heterogeneity in investor beliefsover the value of the company is higher when the company has a greater increase in accounting accruals. Also the future return of shares after declaring profits when items are declared Corporate accounting accrual. Heterogeneity of investor beliefsincreases by a larger degree, increases. The extent and manner of disclosure of corporate information in the form of financial reporting is associated with a greater dispersion of disagreement in analysts' forecasts, as it increases the uncertainty and weight investors have to give to their personal valuations. Chen et al (2012) In a study entitled Unconventional Return Fluctuation and Information Quality under Managerial Perspectives, they have investigated the fluctuation of unconventional returns and concluded that this fluctuation is caused by volatility of optional accruals and the existing correlation between earnings before applying managerial opinions and optional acknowledgments that reflect the quality of information published by companies. Previous studies show that the structure of financial statements can be effective in obtaining, evaluating and measuring its informational content. The low readability of financial statements can make it more difficult for investors to extract the required information content (Dadashi and Norouzi, 2020). Bagheri Azghandi et al (2018) in a study titled "Readability of Financial Statements and Investors' Sensitivity to the Use of Accounting Data", stated that the empirical findings of the research indicate a significant and inverse relationship between the readability of financial statements and the sensitivity of investors to the use of accounting information. Hashemi Dehchi et al (2021) in a study titled "Comparing Financial Statements on the Specific Volatility of Stock Returns" with emphasis on the quality of financial reporting, stated that the ability to compare financial statements has a negative and significant effect on the specific volatility of stock returns. Also, the findings of the research showed that when the quality of financial reporting is poor, the impact of financial statements comparison on the specific volatility of stock returns is stronger. Overall, this research emphasizes the benefits of comparing financial statements. The ability to compare financial statements reduces the risk of uncertainty about cash flows and future performance of the company, and reduces the specific volatility of stock returns. The low readability of financial statements makes investors feel unreliable and therefore less responsive to it. The results of similar studies show that investors invest in a company whose financial statements are more transparent, legible, and accurate (Seifzadeh et al, 2021). Seyfzadeh et al (2021) in a study with characteristicManagers' readability of financial statements showed that there is a negative relationship between managerial bias and accrual-based earnings management and between real earnings management, managers' nearsightedness, narcissism and overconfidence and readability of financial statements. YU (2022) in a study titled "Readabilityof Financial Statements and Accounting Conservatism", stated that accounting conservatism can affect quantitative information of financial statements. This results indicate that accounting conservatism can reduce managerial opportunism in the qualitative disclosure environment. Therefore, investors' judgments on non-accounting information become more sensitive in these circumstances. That is, the impact of other environmental information on their judgment will be significant and will be less than the company's accounting information (Jung et al, 2018). When sources of uncertainty (such as limited disclosures) cause disagreements among investors, it will bring about specific volatility in higher stock prices (Silva & Serqueira, 2021). Fatehi (2016) in a study titled "The Effect of Financial Reporting Quality on Volatility of Unconventional Return on the Stock Exchange of Tehran Stock Exchange Listed Companies in Tehran Stock Exchange" stated that the quality of financial reporting has a significant and inverse effect on the volatility of unconventional stock returns. Therefore, according to the above-mentioned contents, the first hypothesis of the research is presented as follows:

**H1:** Is there a significant inverse and significant relationship between the readability of financial reporting and specific volatility (special) of stock returns.

The audit committee is one of the effective regulatory mechanisms for improving the quality of disclosure in an internal control system that helps to reduce agency costs. The characteristics of the audit committee such as the independence, size, financial expertise of committee members, the number of meetings and financial experience of the committee members are important to the effectiveness of the audit committee (Bruynseels et al. 2014). Yazdifar and Mohammadi Sedaran (2022) in a study entitled The Role and Importance of Audit Committees, Remuneration and The introduction in the board of directors of the companies stated that the results indicated that forming board committees has many advantages including responsibility, expert knowledge, accountability, adjusting the power of the CEO, reducing the complexity of business activities, reducing coordination and communication problems, and making more efficient decisions. An effective audit committee will reduce the abuse of managers, in addition to increasing the quality of the internal control system with the effectiveness of the audit committee (Hoitashe et al, 2009).

The audit committee is one of the main pillars of the corporate governance system and is also one of the most important specialized committees of the board of directors, which strengthens the health and quality of financial reporting, improves the quality of internal controls, improves auditors' performance and assists the boardThe manager is accountable in carrying out the responsibility (Jami and Rostamian, 2016). Herustia and Suryadniata (2022) in a study titled The Impact of Corporate Governance and Audit Committee on Aggressive Business Strategy stated that the effectiveness of corporate governance is positively correlated with aggressive business strategies. Also, the effectiveness of audit committees is negatively associated with aggressive strategies. In a study titled "Readability of Annual Financial Reports, Information Efficiency and Stock Liquidity," Aldosari and Meleji (2023) stated that improving the readability of annual reports, in addition to analyzing the factors affecting it and voluntary disclosure requirements, is essential in order to help users of financial statements to understand the topic of information and facilitate decision making. The existence of a strong audit committee will create quality financial reporting and thus reduce disagreements in the market and influence the specific volatility of stock returns. Naslmousavi et al (2021) in a study titled "The Impact of Audit Quality on the Relationship between Audit Committee Characteristics and Financial Reporting Quality", stated that there is a positive and significant relationship between the characteristics of audit committee and the quality of financial reporting. Also, the results of the research indicate that audit quality has a positive and significant effect on the relationship between the characteristics of audit committee and the quality of financial reporting. For this reason, the second hypothesis of the present study is presented as follows:

**H2:** is that the audit committee influences the relationship between the readability of financial reporting and the specific (special) volatility of stock returns.

## 3. Research Methodology, Model and Variables, Population and Sample

The present study is applied and from methodological perspective, correlation is causal (post-evental). The statistical population of this study is all the companies listed in Tehran Stock Exchange and the period under study period from 2013 to 2022. Companies listed in Tehran Stock Exchange that meet the following criteria have been selected as a sample. In order to be comparable, the end of the financial year of the companies Skip to content In the 10-year period of the review, the financial period has not changed. Information about the variables selected in this study is available. They are not banks, insurance or investment firms. Finally, 128 companies were selected as the final sample of the research. Data analysis is done using combined data method and panel data approach and using Eviews12 software and standard error tool in testing hypotheses.

## Operational Definitions of Research Variables

### Dependent Variable: Special Volatility of Stock Return

Following the research of Silva and Serqueira (2021), Akhgar and Mirzaei (2019) and Zamani et al. (2021), the specific volatility of the company's stock returns as "the remaining standard deviation from the Fama and French three-factor model" of monthly returns in one year is as follows.

$$Rit - rf = \propto i + \beta i(Rmt - rf) + \gamma iSMBt + \varphi iHMLt + uit$$

Where:

Rf –Ri: The difference between return on equity and risk-free return (rate of interest on deposits)

Rm-RF: Spend Market Risk

Where Rm is the market return and is calculated as:

$$\mathrm{R_{mt}} = \frac{\mathrm{TEDPIX_t} - \mathrm{TEDPIX_{t-1}}}{\mathrm{TEDPIX_{t-1}}}$$

Where TEDPIX $_t$ is the total index of the stock exchange.

SMB: Size factor

HML: Value factor

In the first step, the variables of size and value should be sorted from small to large:

Size: The size of the company, which is the logarithm of the stock market value.

Value: The ratio of book value to the market value of a company.

Companies are then divided into two groups of small S and Big B, based on the value factor, and 30% of its high value, as high-value companies (H). The middle 40% are defined as mid-value companies ( M) and the bottom 30% are defined as low-value (L ) companies .

In the second stage, the variables of the research are calculated as follows:

A-Operating Size:SMB

$$SMB = \left(\frac{\frac{S}{L}+\frac{S}{M}+\frac{S}{H}}{3}\right) - \left(\frac{\frac{B}{L}+\frac{B}{M}+\frac{B}{H}}{3}\right)$$

B. Value factor: (HML)

$$HML = \left(\frac{\frac{S}{H}+\frac{B}{H}}{2}\right) - \left(\frac{\frac{S}{L}+\frac{B}{L}}{2}\right)$$

In which:

S/L is a company that is small in size and has a low ratio of book value to market value.

S/M is a company that is small in size and has an average ratio of book value to market value.

S/H is a company that is small in size and has a high ratio of book value to market value.

B/L is a company that is large in size and has a low ratio of book value to market value.

B/M: Companies that are large in size and whose ratio of book value to market value is average.

B/H is a company that is large in size and has a high ratio of book value to market value.

## Independent Variable: Readability of Financial Reporting

The independent variable of the research is the readability of financial reporting, which is used in accordance with Safari Geraiely et al (2017) to measure it. The level of readability of financial reporting through the Fogg index is a function of two variables of sentence length in terms of the number of words and the complexity of words (defined as the number of three or more syllable words) measured by the relation (1):

Relational (1) (3/Total Fugue Index in the 100-word sample at the beginning, middle and end of the report) = readability of financial reporting

For 100-word sampling and calculating the Fogg index in each of these samples, the following is done:

1) Randomly select a 100-word sample from the beginning, middle and end of the report.
2) Count the number of sentences in each sample.
3) Specify the average length of sentences by the number of words by dividing the number of words by the total number of sentences of each 100-word sample.
4) Count the number of words three or more syllables as an indicator of complex words in each of the one-hundred-word texts.
5) After the average number of words in each sentence and the percentage of complex words have been obtained, the Fogg index for each of the 100 word samples of the first, middle and end of the report is calculated through the following relationship (Safari Grilli et al., 2017).

Relation (2) (Average length of sentence in terms of number of words + percentage of complex words) = 0.4 Fogg Index

The high and low values of the Fugue index show lower readability and more financial reporting, respectively. In order to obtain a direct measure of the Fugue index with the readability of financial reporting, the values of this index are multiplied by negative number 1 (-1).

## Modifier variable: Audit Committee (Committee)

In order to comprehensively measure the audit committee following the research of Herosita and Suridinata (2022), Bazrafshan (2016) and Abedini et al (2019), a comprehensive index that shows the quality of the audit committee is used. To measure the quality of the audit committee, the average of the following three indices is used to measure the quality of the audit committee. With the total scores earned each year, the company has achieved the final rank of the audit committee quality of each company. And then the number of (3) indices will be divided and the average will be calculated. Higher ratings in this index indicate higher audit committee quality.

Independence of the audit committee: The ratio of non-commissioned members to the total members of the audit committee. If the proportion of non-commissioned members of the audit committee exceeds the median age of the companies in the sample, the number 1 or 0 is awarded (Herosita and Suridinata, 2022).

Financial Expertise of Audit Committee Members: The ratio of the number of members with expertise in the fields of accounting, financial management and economics to the total members of the audit committee . If the proportion of the members with the financial expertise of the audit committee exceeds the mid-year-corporate in the sample, the number 1 or 0 will be awarded (Herosita & Suridinata, 2022).

Audit committee formation history: For this purpose, from the time of the formation of the audit committee in the company up to the year of consideration, and the history of the formation of the audit committee is calculated and if the audit committee is more than the middle years of the companies in the sample, the number is 1 and otherwise 0 is awarded (Herosita and Suridinata, 2022).

## Control variables of research

**SIZE:** Natural logarithm of total assets.

**Boardind:** The ratio of non-executive members of the board to the total members.

**LOSS:** The qualitative variable of the two values that if the net profit of the company is negative, code (1) or (0).

**BTMratio:** To calculate this variable, the division of the capital's market value by the book value of capital is used at the end of the financial year.

**INST:** Investors such as banks, insurance and investment firms, and individuals and companies holding more than 5% of the company's shares are referred to as institutional shareholders who have been used as institutional investors.

**Cash:** The ratio of operating cash to total assets.

**AGE:** Natural logarithm of the year of company establishment of the desired year.

**LEV:** Total liabilities divided by total assets.

## Research satisfaction model

$$\begin{aligned} \mathrm{IVOL_{it}} = {} & \beta_0 + \beta_1 \mathrm{Read_{it}} + \beta_2 \mathrm{Committee_{it}} \\ & + \beta_3(\mathrm{Read} \times \mathrm{Committee}) \\ & + \beta_4 \mathrm{SIZE_{it}} + \beta_5 \ \mathrm{Board\ Ind_{it}} \\ & + \beta_6 \mathrm{LOSS_{it}} + \beta_7 \mathrm{BTMratio_{it}} \\ & + \beta_8 \ \mathrm{Inst_{it}} + \beta_9 \ \mathrm{Cash_{it}} \\ & + \beta_{10} \ \mathrm{Age_{it}} + \beta_{11} \ \mathrm{LEV_{it}} + \varepsilon_{it} \end{aligned}$$

# 4. Findings

## Descriptive statistics of research variables

The findingsof the research include descriptive statistics and inferential statistics which are first presented in table 1 of descriptive statistics.

Table 1 shows the descriptive statistics of the research variables. As we can see, the average financial leverage of the company is (0.55), which showsthat most of the data is around this point. The highest standard deviation was for institutional investors (30.7) and the lowest was related to the specific volatility of stock return (0.046). The maximum and minimum also showed the highest and lowest values in the data.

The results in Table 2 show that the significance level of White's test in the research model is more than 5% and there is no difference in variance in disturbing sentences. Also, the significance level of Brush Godfrey test in the research model is less than 5% and indicates the existence of serial autocorrelation in the model, which in the final estimation of the model using standard error tool in Eviews software and command (GLS) has been raised.

According to the results obtained in Table 3, it is observed that the significance level of F-Limer and Hausman test with a significance of less than 5% is confirmation of the pattern ofpanel data with fixed effects of width from source (Banimahd et al, 2016).

According to the results obtained in Table 4, it is observed that the significant level of variables in the stability test was less than 5% and indicates the stability of the variables.

**Table 1) Descriptive statistics of quantitative research variables**

| Variable | Mean | Max. | Min. | S. dev. |
|---|---|---|---|---|
| IVOL | 0.19 | 0.41 | 0.011 | 0.067 |
| Committee | 0.29 | 1.00 | 0.0000 | 0.27 |
| Read | -17.9 | -13.06 | -23.3 | 1.46 |
| CASH | 0.12 | 0.84 | -0.34 | 0.15 |
| INST | 0.58 | 0.98 | 0.0000 | 30.7 |
| LEV | 0.55 | 0.99 | 0.10 | 0.20 |
| SIZE | 14.72 | 21.32 | 11.30 | 1.54 |
| Board ind | 0.65 | 1.00 | 0.20 | 0.17 |
| BTMratio | 4.30 | 15.8 | 1.00 | 3.81 |
| AGE | 3.63 | 4.24 | 2.48 | 0.36 |
| LOSS | 0.093 | 1.00 | 0.0000 | 0.29 |

**Table 2) heterogeneity of variance and serial autocorrelation test**

| Test Model | Test Statistics | Sig. | Test Results |
|---|---|---|---|
| White Test | 91.19 | 0.11 | The lack of variance of Residuals |
| Breusch-Pagan test | 18.75 | 0.0000 | The existence of serial autocorrelation |

**Table 3) F-Limmer and Hausman Test Results**

| Test Model | Test Statistics | Sig. | Test Results |
|---|---|---|---|
| Test (F-Limmer) | 4.46 | 0.0000 | Use of Panel Data |
| Test (Hausman) | 260.081 | 0.0000 | Using the of fixed effects |

**Table 4) Stability Test of Quantitative Variables of Research**

| Variable | Maximum | Results | Variable |
|---|---|---|---|
| IVOL | -11.5120 | 0.0000 | Stationary |
| Committee | -6.81237 | 0.0000 | Stationary |
| Read | -15.4873 | 0.0000 | Stationary |
| CASH | -12.9787 | 0.0000 | Stationary |
| INST | -5.17537 | 0.0000 | Stationary |
| LEV | -13.0799 | 0.0000 | Stationary |
| SIZE | -6.05509 | 0.0000 | Stationary |
| Board ind | -4.35426 | 0.0000 | Stationary |
| BTMratio | -14.8184 | 0.0000 | Stationary |
| AGE | -86.4421 | 0.0000 | Stationary |

**Table 5) Test Results of Research Hypotheses**

| Variable | Coef | S. D | t statistic | Sig. | VIF |
|---|---|---|---|---|---|
| Read | -18.8 | 7.73 | -2.43 | 0.0150 | 1.00 |
| Committee | -17.49 | 5.52 | -3.16 | 0.001 | 1.21 |
| Committee×Read | -4.80 | 1.53 | -3.12 | 0.001 | 1.05 |
| SIZE | -0.38 | 0.50 | -0.77 | 0.43 | 1.22 |
| Board ind | -0.16 | 0.75 | -0.21 | 0.82 | 1.06 |
| LOSS | -0.65 | 0.35 | -1.85 | 0.064 | 1.14 |
| BTMratio | 12.8 | 3.66 | 3.49 | 0.0005 | 1.14 |
| Inst | -0.033 | 0.011 | -2.97 | 0.003 | 1.28 |
| CASH | -0.33 | 0.68 | -0.49 | 0.61 | 1.12 |
| AGE | -0.026 | 0.047 | -0.56 | 0.57 | 1.08 |
| LEV | 3.48 | 0.78 | 4.44 | 0.0000 | 1.40 |
| C | 0.18 | 0.19 | 0.97 | 0.33 | - |
| Adjusted R 2 | | 0.48 | | | |
| Durbin-Watson | | 1.97 | | | |
| F statistic | | 9.9324 | | | |
| Sig. | | 0.0000 | | | |

The results of Table 5 show that the readability of financial reporting with negative coefficient (-18.8) and a significance level below 5% (0.015) has a negative effect on the specific volatility of stock returns, so the first hypothesis of the research is not rejected at the error level of 5%. The interaction of financial reporting readability and auditing committee with negative coefficient (-4.80) and a significance level below 5% (0.001) has a negative effect on the specific volatility of stock returns; Therefore, the second hypothesis of the research is not rejected at the level of error of 5%. Also, the growth of the company, institutional investors and financial leverage at the fault level of 5% and the loss of the company at the error level of 10% affect the dependent variable. The coefficient of model determination is equal to 0.48%, which indicates that the independent and control variables in the model have been able to explain 0.48% of the variation of dependent variable which is-significant in the mixeddata.Also the amount of camera Watson It is equal to 1.97 and since it is between 1.50 and 2.50, it shows that there is no strong correlation between disturbing sentences and this case has been resolved. Colinear statistic is less than 5, which shows that there is no strong correlation between the variables of the research. Test statistics (F) with a significance level below 5% indicate that the research model has a good fit.

## 5. Conclusion and suggestions:

When managers hide information in order to achieve the most benefits and sometimes hide the crisis in the company, this can reduce the transparency of information and sometimes use the complexity of information in financial terms to hide information. This factorcan cause volatility in the price and stock return of companiesdue to investors' reaction tothis-information. When in the capital market, investors' expectations are different due to the information provided to them about the companies' stocks, this same factor can cause volatility in the stock market, because when the expectations of investors are disparate with each other, a group of people think of short-term and even daily volatility , and this contradiction in supply and demand causes extreme volatility. In the return will be earned. In fact, it can be stated that by stabilizing the information available to investors about the shares of companies, it can be helped to stabilize the stock returns.

The readability of financial reports that have been addressed in recent years in financial societies is one of the important issues in investment decisions of individuals in the market and analysts, that if the text of the statements presented to the market is less complex, investors will have a better analysis of these faces, which has sometimes been suggested that managers prefer complexity in these casesto keep the facts secret. By improving the readability of financial reports, it can be said that the lack of transparency of information as necessary and necessary for this matter has been reduced, and also by providing financial statementswith less complexity, managers are forced to disclose all the facts in the company, and this by increasing the information available to investors, it can reduce the specific volatility of stock returns. By examining the second hypothesis, it was found that the variable interaction of the audit committee and the readability of financial statements has a negative effect on the specific volatility of stock returns. The purpose of the audit committee is to create a set of experts and specialists to oversee management activities on behalf of corporate owners. An audit committee is a subcommittee under the corporate governance framework in which the board delegates some regulatory responsibilities to it. He does. The audit committee helps to establish proper communication between the board, the independent auditors, and the internal auditors of the company. The committee can also monitor the performance of the senior managers of the company and monitor the actions and decisions of the managers. Since a strong and high quality audit committee can have an impact on the quality of the board of directors and their supervision, so managers and members of the audit committee will have a great impact on the performance and manner of financial reporting and providing information to the stakeholders and by increasing the quality of the information received to the market, they will be able to Reduce the fluctuations caused by this information. It is suggested that the Exchange Organization consider special privileges for the readability and complexity of financial statements and introduce companies whose reports are more readable with special privileges and professional authorities have special efforts to strengthen the strategies to improve the readability of financial statements. Managers can improve the readability of financial reportsThey can reduce the fluctuations in returns and prices. In comparison the results are somehow in line with the results of Silva and Serqueira (2021) and Peng (2016). It is suggested that in order to clarify all aspects of the researcher, interested in studying the subject in different industries and compare the results with the results of the present study.

## References


Akhgar, M; Mirzaei, B, (2017), investigating the relationship between the company's life cycle and the specific volatility of stock returns, with an emphasis on fundamental uncertainty and information uncertainty. Journal of financial accounting, 11(42), pp. 129-100(In persian).

Aldoseri,M. M, Melegy, M. M. A. (2023)Readability of Annual Financial Reports, Information Efficiency, andStock Liquidity: Practical Guides From the Saudi Business Environment. Information Sciences Letters An International Journal. Inf. Sci. Lett. 12, No. 2, 813-821 (2023)

Bagheri Azghandi, A; Hesarzadeh, R; Abbaszadeh, M.R. (2017) Readability of financial statements and investors' sensitivity to the use of accounting information. Perspective of financial management, 8 (3), pp. 87-103(In persian).

Bruynseels, L., and E. Cardinaels, (2014), “The Audit Committee: Management Watchdog or Personal Friend of the CEO?”, The Accounting Review 89 (1), PP. 113–45.

Chen, C. Huang, A.G. Jha, R. (2012). Idiosyncratic return volatility, economic activity, and managerial discretion. Journal of Financial and Quantitative Analysis 47, 873-899.

Dadashi, I; Norouzi, M. (2019) Investigating the mediating effect of financial reporting readability on the relationship between profit management and cost of capital. Knowledge of accounting, 6 (40), pp. 135-157(In persian).

Fatehi, S, (2016), investigating the effect of financial reporting quality on the volatility of abnormal returns of companies listed on the Tehran Stock Exchange, Management and Accounting Studies Quarterly, 2(1). Pp1-17.(In persian).

Hashemi Dehchi, M; Yazidinya, N; Amiri, H. (2021) The impact of the comparability of financial statements on the special fluctuations of stock returns with an emphasis on the quality of financial reporting. Journal of asset management and financial timing. 9(3), pp. 1-18(In persian).

Herusetya, A. and Suryadinata, M. (2022), "Business strategy typologies: do the board of commissioners and audit committee concern about prospector-type strategies?", Asian Journal of Accounting Research, Vol. ahead-of-print No. ahead-of-print. https://doi.org/10.1108/AJAR-10-2021-0188.

Hoitash, U., R. Hoitash, and J. C. Bedard, (2009), “Corporate Governance and Internal Control over Financial Reporting: A Comparison of Regulatory Regimes”, The Accounting Review 84 (3), PP. 839–67.

Izedinia, N; Hashemi Dehchi, M; Amiri, H, (2021), The effect of comparability of financial statements on the specific volatility of stock returns with an emphasis on the quality of financial reporting. Asset Management and Financing, 8 (34), pp. 18-5(In persian).

Jami, R and Rostamian, A. (2015) The effect of financial expertise of audit committee members on the characteristics of expected profit. Financial accounting and audit research, year 8, (29), pp. 1-17(In persian).

Nesl Mousavi, S.H; Enayat Pourshiadeh, S.H; Azinfar, A.(2021) The impact of audit quality on the relationship between audit committee characteristics and financial reporting quality. Financial and Investment Developments Quarterly, 2 (5), pp. 23-44(In persian).

Peng, E.Y. Yan, A. Yan, M.(2016). Accounting Accruals, Heterogeneous Investor beliefs, and StockReturns,JournalofFinancialStability(2016),http://dx.doi.org/10.1016/j.jfs.2016.04.011.

Seifzadeh, M., Salehi, M., Abedini, B. and Ranjbar, M.H. (2021), "The relationship between management characteristics and financial statement readability", EuroMed Journal of Business, Vol. 16 No. 1, pp. 108-126. https://doi.org/10.1108/EMJB-12-2019-0146.

Silva, D. & Cerqueira, A. (2021). Divergence of Opinion and Idiosyncratic Volatility. Revista Brasileira de Gestão de Negócios, 23, 654-676.

Xu, H. Lin, Z. Wang, X. (2015). Relationship-based transaction, internal control and earnings management: empirical evidence from accrual and real earnings management. J. Account. Econ. 3(5), 57-77.

Yazdifar, H; Mohammadi Seh Duran, S. (2022) The role and importance of audit, reward and introduction committees in companies' boards of directors. Accounting and Auditing Studies, No. 41, pp. 47-64(In persian).

Yin, S, T Chevapatrakul, K Yao (2022)The causal effect of improved readability of financial reporting on stock price crash risk: Evidence from the Plain Writing Act of 2010. Economics Letters.https://doi.org/10.1016/j.econlet.2022.110614.Volume 216, July 2022, 110614.

Yong, O. and Albada, A.Z. (2018), “Under-pricing and listing board in explaining heterogeneity ofopinion regarding values of Malaysian IPOs”, Jurnal Pengurusan, Vol. 52, pp. 63-72.

Yu, Zhimin.(2022)Financial Report Readability and Accounting Conservatism. Marilyn Davies College of Business, University Houston Downtown, Houston, TX 77002, USARisk

Financial Manag. 2022, 15(10), 454; https://doi.org/10.3390/jrfm15100454.