ISSN 2664-3995 (Print) & ISSN 2664-6757 (Online)
South Asian Research Journal of Business and Management
Abbreviated Key Title: South Asian Res J Bus Manag

| Volume-6 | Issue-6 | Nov-Dec- 2024 | DOI: https://doi.org/10.36346/sarjbm.2024.v06i06.006

Review Article

The Impact of the Relationship between Company Characteristics and the Audit Committee on the Quality of Financial Reports (A Field Study on a Sample of Iraqi Private Companies)

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Article History
Received: 04.11.2024
Accepted: 09.12.2024
Published: 10.12.2024

Abstract: The current study primarily aimed to determine the impact of the relationship between company characteristics and the audit committee on the quality of financial reports in its various dimensions (formal, temporal, and informational content). The study also sought to identify the influence of company characteristics on the quality of financial reports across these dimensions. The audit Committee role in improving financial report quality was the first area that the survey examined; this includes looking not just where audits. The study employed a descriptive and then analytical approach to achieve the goal of answering its research question. The study population included all senior management personnel at Iraqi private businesses, responsible auditors and members of audit commissions. From a variety of industries five companies were chosen, yielding a sample of 500 possible contacts (average 100 staff / company). A random sample of 219 participants was selected using the formula that Richard Geiger came up with. Questionnaires were sent to the participants, and all the responses accepted. After analyzing the data and testing the hypotheses using SPSS software, several key findings were revealed, the most significant being:

- Company characteristics significantly affect the quality of financial reports. These characteristics provide an accurate and objective depiction of the company's financial position, aiding investors in making informed investment decisions.
- Iraqi companies' unique characteristics notably affect the formal dimension of financial report information, as the company's reputation and business relationships are reflected in the reports' format, influencing investors' valuation of shares.
- The timeliness of financial report information is vital in attracting investors. It reflects the company's growth and continuity in the market, significantly affecting its valuation.
- Company characteristics influence the content of financial reports, including financial data and accompanying disclosures, thereby providing precise information for investors.
- Audit committees play a pivotal role in ensuring the integrity and transparency of financial information, enhancing trust, and reducing errors in financial reports. They also contribute to improving the organizational structure of financial information, facilitating data comparability across different periods and entities.
- The results indicate that audit committees improve the accuracy of the temporal information presented, boosting the reliability of information provided to the public. Additionally, audit committees assure investors that financial data are free from material errors, positively affecting investment decisions.
- The research has shown that the relationship between company characteristics and audit committees enhances the verifiability of financial reports and also builds investor confidence. However, this research finds that if committee independence and effectiveness are not sufficiently so a very close relationship between enterprises (or groups of companies) and audit committees may have undesirable effects on quickness in presenting accountings.

CITATION: Sana Masmoudi & Waleed Hamdan Azzam (2024). The Impact of the Relationship between Company Characteristics and the Audit Committee on the Quality of Financial Reports (A Field Study on a Sample of Iraqi Private Companies). *South Asian Res J Bus Manag*, *6*(6), 402-411.

- The findings underscore that the unique characteristics of a company directly influence the content of its financial reports, highlighting the importance of having influential audit committees to ensure the credibility of the presented information.

Keywords: Company Characteristics, Financial Report Quality, Audit Committees, Financial Information Content.

INTRODUCTION

In Today's markets, companies of all shapes and sizes are continuing efforts to stay in existence as they seek out investors to provide capital. At stake is nothing less than the maximization of operations and maintaining unbroken trust from shareholders. This is achieved only if authentic financial statements presenting the company's current situation and forecasts are prepared according to generally accepted accounting principles, which accurately reflect these realities. Such efforts help investors make informed decisions about investing in these companies. Recently, there has been a growing trend among researchers to study company characteristics as determinants for analyzing and testing cost behaviors within organizations. This interest stems from company characteristics such as size, debt, and inter-company relationships—which vary across countries and sectors to which companies belong (Zisis & Naoum, 2023: 380; Catalig *et al.*, 2022: 137). Additionally, the audit committee is considered one of the key company participants and influential entities. It assists the board of directors in fulfilling its responsibilities by supervising the management of companies. Effective outcomes stemming from audit committees enhance the financial reporting process, thereby reducing information asymmetry between management and stakeholders (Al-Sha'er & Madi, 2023: 64). This, in turn, positively impacts stakeholder confidence in the management, its decisions, and its efficiency in steering the company toward sustainability, growth, and development. Accordingly, audit committees enhance public confidence in the credibility and objectivity of financial reports by improving disclosure practices for published information. The characteristics of the audit committee have been identified as key factors in determining the level of voluntary disclosure (Haji & Ghazali, 2013: 30). These characteristics include the size of the audit committee, independence, expertise, number of meetings, and stock ownership (Hidalgo *et al.*, 2010: 483). The professionalism and competence fostered by audit committees directly influence financial reports and their quality, reflecting the effectiveness of these committees' work. (Younes, 2019: 4) argues that the financial report and its interpretations and clarifications are the primary tools for communicating economic events and company information to stakeholders. High-quality financial reports provide stakeholders with information that helps them accurately evaluate a company's performance and make sound decisions. Since the quality of financial reports and their information is the starting point for assessing accounting performance, they serve as the cornerstone for various accounting performance evaluation metrics. For these metrics to be meaningful and valid for assessing accounting performance, they must be built on high-quality information from analyzing vast amounts of data. Such information is essential for understanding the current operational performance of organizations and using it to predict future performance.

CHAPTER ONE: STUDY METHODOLOGY

First: The Problem of the Study

Increasingly important to financial markets and various sectors that produce corporate reports. These results from their central position in development processes as well as the allocation of savings and investment, particularly in developing countries when you add in increasing international competition and widely differing global backgrounds. Thus, companies must bear their own costs within these markets by producing precision and reliability in decision-making. To reach this goal comparable audit assignments must be organized for the benefit of the corporate headquarters. Therefore, selecting audit committees that align with those interests and internationally recognized standards is imperative. These efforts aim to earn client trust and attract new clients through the transparency offered by the audit system, which guarantees the rights of both the company and its clients. All these determinants are linked to the company's characteristics, which it adopts in its operational systems and financial report disclosures, and focus on the quality of these reports. Based on this, the researcher poses the following problem:

"What is the impact of the relationship between company characteristics and the audit committee on the quality of financial reports?"

The main question branches into the following sub-questions:

1. What is the impact of the relationship between company characteristics and the audit committee on the formal dimension of financial report information?
2. What is the impact of the relationship between company characteristics and the audit committee on the temporal dimension of financial report information?
3. What is the impact of the relationship between company characteristics and the audit committee on the content of financial report information?

Second: Importance of the Study

The importance of this study lies in its scientific subject matter and its practical application. It derives its significance from addressing one of the most critical topics today: the impact of the relationship between company characteristics and audit committees on the quality of financial reports. The importance of the study can be explained in two key aspects:

1. **Theoretical Importance**
   - The theoretical importance of the study arises from the significance of the variables being studied and the development of a theoretical framework addressing three of the most important modern scientific topics, serving as a reference for researchers and those interested in financial and accounting sciences.
   - It also contributes scientifically to the Iraqi academic library through a modern academic study focused on enhancing the quality of financial reports in institutions, considering the influence of financial information on national economies.
2. **Practical Importance**
   - The study highlights the importance of auditing, which is crucial in companies and economic institutions. Today, the auditor examines the internal control systems implemented within the company by auditing financial activities and internal control systems.
   - Additionally, it aims to direct decision-makers attention to financial reports and their truthful information by establishing audit committees that possess complete independence to form unbiased professional opinions about the fairness of financial statements and their representation of the company's financial status.
   - The study emphasizes trust, accuracy, and transparency as essential characteristics that companies must prioritize.

Third: Objectives of the Study

Based on the nature of the problem, the study's primary objective is to determine the impact of the relationship between company characteristics and audit committees on the quality of financial reports. This primary objective is divided into the following sub-objectives:

1. Highlight the fundamental concepts of company characteristics and the possibility of activating their role.
2. Clearly address the importance of auditing, the committees formed, and the independence of these committees in performing their assigned duties.
3. Provide a comprehensive explanation of financial reports and their truthful financial information, ensuring they are prepared according to generally accepted accounting principles to assist beneficiaries in making informed future decisions.
4. Determine the impact of company characteristics on the quality of financial reports across different dimensions (formal, temporal, and informational content).
5. Assess the impact of audit committees on the quality of financial reports across different dimensions (formal, temporal, and informational content).
6. Identify how the relationship between company characteristics and audit committees influences the quality of financial reports across different dimensions (formal, temporal, and informational content).

Fourth: Study Hypotheses

To achieve the study objectives and answer the questions raised in the problem, the following hypotheses were formulated:

1. **Hypothesis 1**: Company characteristics significantly affect the quality of financial reports.
2. **Hypothesis 2**: The audit committee significantly affects the quality of financial reports.
3. **Hypothesis 3**: The relationship between company characteristics and the audit committee significantly affects the quality of financial reports.

Fifth: Study Model

The following figure illustrates the relationship between the study variables, which can be expressed as follows:

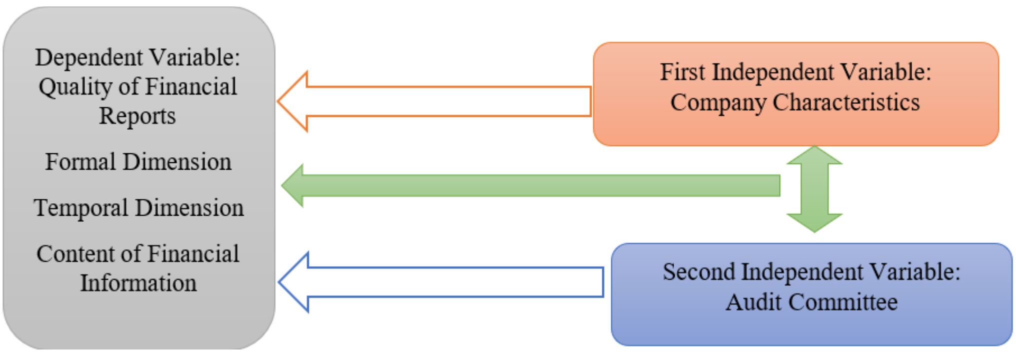

Figure 1: Study Model

CHAPTER TWO: THEORETICAL FRAMEWORK OF THE STUDY

First: Company Characteristics

1. Definition of Company Characteristics

Company characteristics are demographic and managerial variables that form part of the company's internal environment. These include factors such as company size, company age, financial leverage, liquidity, sales growth, asset growth, turnover, ownership structure, board characteristics, dividend distribution, profitability, access to capital markets, and growth opportunities, among other attributes (Ali & Haider, 2023: 160). Additionally, company characteristics can be expressed as the specific traits of a company, such as profitability, financial leverage, company age, type of industrial sector, size, and ownership structure. Companies must focus on these characteristics and achieve optimal results to keep pace with modern technological advancements (Al-Ahmad & Asaad, 2016: 251).

2. Key Company Characteristics

a. **Company Age:** Company age refers to the period from the company's establishment to the present. It can also be defined as the duration from the date of contract formation between the contracting parties or the company's listing on the stock exchange until its current date (Ibrahim, 2014).
b. **Company Size:** Company size is one of the critical factors that can significantly influence market value. Smaller companies often face the challenge of information asymmetry, making investments in such companies riskier than larger firms. As a result, investors in smaller companies typically demand higher returns on their investments (Baqila & Akour, 2018: 244).
c. **Profitability:** Profitability is a fundamental and essential indicator of a company's ability to generate profits. It serves as a primary financial metric for assessing company performance. Profitability is measured using various indicators, including Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS) (Nasr, 2015: 190).

Second: Audit Committee

1. Definition of Audit Committees

Audit committees are a subset of the board of directors tasked with overseeing and monitoring financial reports. These committees are composed of non-executive members and are led by a chairperson chosen from among their ranks. Preferably, at least two audit committee members should hold academic qualifications or practical experience in financial management, and the number of independent members should be at least two. The committee performs its responsibilities and powers as mandated by banking laws and other relevant legislation (Mabati *et al.*, 2020). Additionally, audit committees are described as groups comprising at least three members of the board of directors, primarily independent members, whose objective is to support the board's supervisory role, particularly in areas related to internal control, risk management, financial reporting, and auditing activities in general (Chen & Komal, 2018).

They are also characterized as subcommittees of the board of directors without decision-making authority. Their outputs consist of reports and recommendations to the board of directors. The committee's role is often described using broad terms such as monitoring, reviewing, or studying. Despite conducting oversight activities, the committee's function remains advisory, as it is not authorized to address its reports directly to the general assembly of shareholders (Spira, 2003: 182).

2. Importance of Audit Committees

The significance of audit committees, as highlighted in numerous studies, can be summarized in the following points (Qudeih, 2013: 39):

a. Assisting the board of directors in fulfilling its legal responsibilities for managing the company and protecting shareholders' interests by minimizing material risks in published and unpublished financial reports and statements. This includes reducing fraud and ensuring compliance with laws, regulations, and ethical and environmental responsibilities.
b. Supervising the work of internal auditors, thereby improving internal control methods and enhancing the internal audit function's efficiency and effectiveness by increasing its independence level.
c. Ensuring that the internal audit function is supported with the necessary competencies and is recognized appropriately within the company.
d. Increasing the objectivity and independence of external auditors by organizing independent meetings and discussions separate from senior management.
e. Enabling non-executive board members to provide an independent opinion and play a positive role in decision-making.

3. Objectives of Audit Committees

Based on the importance of audit committees outlined earlier, several objectives can be identified as central to their functions (Al-Shaer & Zaman, 2018):

1. Gaining the trust of financial statement users in the disclosed reports.
2. Ensuring published financial data and disclosures' accuracy, reliability, and correctness.
3. Verifying compliance of operations with applicable laws and regulations.
4. Ensuring the company has effective and efficient risk management systems.

Third: Concept of Financial Report Quality

1. Definition of Financial Report Quality

Quality is one of the most prominent concepts in the modern business world, where organizations compete to adopt various quality mechanisms and approaches to gain customer trust. This concept has traditionally been associated with industrial institutions, as they were pioneers in applying quality practices since the Industrial Revolution. The idea of quality evolved through stages, starting with inspection, moving to quality assurance, and eventually reaching total quality management. As the concept developed, it expanded to include its application in service organizations, such as insurance companies, financial institutions, public administration units, and local government entities (Al-Shukri & Jasim, 2006). Financial report quality is defined as the attributes that financial information must possess to benefit its users and assist them in making sound decisions (Sahrawi & Bebala, 2020, p. 164). (Abu Bakr, 2021) describes it as the essential features and characteristics that accounting information must have to provide value to its users. Identifying these characteristics is a critical link between goal setting and other components of the accounting conceptual framework.

2. Types of Financial Reports in Terms of Quality

From a quality perspective, financial reports can take several forms (Abdel Fattah, 2013):

- **a. Quality of Wording**: This involves presenting the data in the report so that the chosen words are clear, understandable, and accurately reflect the required information. This requires clarity.
- **b. Quality of Content**: The report should include accurate and error-free data that reflects correct and precise values. This requires three characteristics: comprehensiveness, completeness, and accuracy.
- **c. Quality of Presentation**: The report should be available on time and presented in a way that requires minimal further clarification or interpretation when used. This requires four characteristics: consistency or stability, neutrality, timeliness, and transparency.

3. Indicators for Measuring Financial Report Quality

Many researchers have identified indicators for evaluating and measuring financial reports' quality and credibility, reflecting the reliability and type of data. These indicators include (Sami, 2009):

- a. Lawsuits filed by shareholders against the board of directors.
- b. Lawsuits filed by the capital market authority due to the board's violation of disclosure and presentation standards.
- c. The rate of change in external auditors resulting from disagreements over the accounting policies adopted by the organization.
- d. The nature of the external auditor's observations on the organization’s annual and periodic financial reports.

CHAPTER THREE: PRACTICAL FRAMEWORK AND HYPOTHESIS TESTING

First: Study Population and Sample

The study population consists of private companies operating in the Iraqi environment. The research sample included employees of these companies, as commercial and financial transactions in the private sector depend on the reliability of the financial reports' content for making future decisions. This aligns with the primary objective of the study: to examine the role of the relationship between company characteristics and the audit committee and the impact of this relationship on the quality of financial reports. A random sampling method was employed, resulting in a sample of 219 employees from the selected companies. These participants represented various administrative levels, including branch managers, auditors, and accountants. 219 questionnaires were distributed to the sample members. Out of these, 190 questionnaires were returned, representing a response rate of 87%. However, eight questionnaires were excluded due to unsuitability for analysis, leaving 182 valid questionnaires, which account for 83% of the distributed questionnaires.

Second: Questionnaire Reliability

Reliability refers to the degree of stability and consistency of the tool in measuring the proposed variables. Cronbach's Alpha was used to determine the reliability of the questionnaire.

Table 1: Reliability of Dimensions

Dimensions	Number of Items	Cronbach's Alpha
Company Characteristics	10	0.980
Audit Committee	10	0.976
Quality of Financial Reports	15	0.987

Source: Prepared by the researcher based on SPSS v.23 outputs

It is evident from the table above that the reliability coefficient for the dimensions is greater than (0.60). This means that the degree of agreement between the questionnaire items is high, and when distributed to a sample with similar characteristics, approximately similar results will be obtained.

Third: Description and Diagnosis of Study Variables

1. **Description and Diagnosis of Items Related to Company Characteristics**

Table 2: Description and Diagnosis of Company Characteristics Items

No.	Items	Mean	Std. Dev.	Error	Significance
1	Members of company management possess the necessary skills to understand financial statements and reports.	3.84	1.40	0.09	0.00
2	The board of directors manages the company efficiently and effectively.	3.83	1.39	0.09	0.00
3	Management renews and allocates responsibilities and tasks to serve company objectives and strategic plans.	3.90	1.16	0.07	0.00
4	Oversight by the board of directors focuses on preparing financial reports and statements.	3.54	0.96	0.06	0.00
5	Companies rely on a set of criteria to guide their decision-making.	3.66	1.23	0.08	0.00
6	The board of directors consists of at least seven members.	3.73	1.11	0.07	0.00
7	The company seeks to allocate responsibilities across various administrative levels.	3.55	1.31	0.08	0.00
8	Most board members are independent members.	3.55	1.28	0.08	0.00
9	Board members have experience and skills enabling them to perform their duties effectively.	3.84	1.22	0.08	0.00
10	The board of directors operates under governance frameworks aligned with the nature of the company's work.	3.81	1.34	0.09	0.00

Source: Prepared by the researcher based on SPSS v.25 outputs.

The responses regarding the "Company Characteristics" dimension indicate a high to very high evaluation based on the Likert scale.

2. Description and Diagnosis of Items Related to the Audit Committee

Table 3: Description and Diagnosis of Audit Committee Items

No.	Items	Mean	Std. Dev.	Error	Significance
1	The audit committee has the authority and oversight to monitor unit compliance effectively.	3.30	1.07	0.07	0.00
2	The audit committee works to enhance integrity and transparency in financial information disclosed by company units.	3.76	1.49	0.10	0.00
3	The audit committee members have sufficient knowledge and expertise to perform their roles effectively.	3.60	1.26	0.08	0.00
4	Most audit committee members are independent.	4.04	1.39	0.09	0.00
5	The audit committee resolves conflicts between management and internal/external auditors.	3.44	1.23	0.08	0.00
6	The audit committee coordinates the work of internal and external auditors for financial unit audits.	3.75	1.14	0.07	0.00
7	The audit committee works to address financial fraud and mitigate corruption.	3.63	1.30	0.08	0.00
8	The audit committee holds meetings every three months at a minimum.	3.84	1.34	0.09	0.00
9	The audit committee ensures company compliance with international accounting standards.	3.78	0.98	0.06	0.00
10	The audit committee is a full liaison between external auditors and the board of directors.	3.70	1.10	0.07	0.00

Source: Prepared by the researcher based on SPSS v.25 outputs.

The responses regarding the "Audit Committee" dimension indicate a high to very high evaluation based on the Likert scale.

3. Description and Diagnosis of Items Related to the Quality of Financial Reports

Table 4: Description and Diagnosis of Financial Report Quality Items

No.	Items	Mean	Std. Dev.	Error	Significance
1	The preparation of financial reports aligns with the comprehension level of its users.	3.74	1.19	0.08	0.00
2	Data presentation in the reports is well-structured, using clear and precise terminology.	3.92	1.25	0.08	0.00
3	Information is provided in a way that matches management's needs.	3.90	1.23	0.08	0.00
4	Data is consistent and presented coherently.	3.91	1.13	0.07	0.00
5	Suitable methods are used to deliver the required information.	3.57	0.99	0.06	0.00
6	Efforts are made to ensure the availability of information on time.	3.69	1.25	0.08	0.00
7	There is the ability to utilize information in decision-making.	3.74	1.13	0.07	0.00
8	Information is updated and relevant in financial reports.	3.66	1.28	0.08	0.00
9	Time intervals for updating data in the reports are appropriate.	3.68	1.18	0.08	0.00
10	Information aids in evaluating past and present events effectively.	3.90	1.17	0.07	0.00
11	Information is objective and verifiable.	3.87	1.31	0.08	0.00
12	Data is free from personal bias.	3.87	1.22	0.08	0.00
13	Information is clear, concise, and accessible.	3.91	1.13	0.07	0.00
14	The reports avoid including misleading or incorrect information.	3.43	1.09	0.07	0.00
15	Reports provide information optimized for the available economic resources.	3.74	1.15	0.07	0.00

Source: Prepared by the researcher based on SPSS v.25 outputs.

Source: The researcher prepared the table based on SPSS v.25 outputs.

The table above shows that the responses for the "Company Characteristics" dimension indicate a high evaluation based on the Likert scale.

Fourth: Hypotheses Testing

1. First Hypothesis: Company characteristics significantly affect the quality of financial reports.

Table 5: Testing the First Hypothesis

<table>
<tr><th>Pearson Correlation</th><th>Determination</th><th>Adjusted Determination</th><th colspan="3">Error Standard</th></tr>
<tr><td>.994</td><td>.988</td><td>.988</td><td colspan="3">.119</td></tr>
<tr><td rowspan="2">Regression</td><td>Sum of Squares</td><td>Df</td><td>Mean Square</td><td>F</td><td>Sig.</td></tr>
<tr><td>258.006</td><td>1</td><td>258.006</td><td>18243.023</td><td>.000</td></tr>
<tr><td>Residual</td><td>3.069</td><td>217</td><td>.014</td><td></td><td></td></tr>
<tr><td>Total</td><td>261.075</td><td>218</td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Company Characteristics</td><td>B</td><td>Error</td><td>Beta</td><td>T</td><td>Sig.</td></tr>
<tr><td>.943</td><td>.007</td><td>.994</td><td>135.067</td><td>.000</td></tr>
<tr><td>(Constant)</td><td>.258</td><td>.027</td><td></td><td>9.468</td><td>.000</td></tr>
</table>

Source: Prepared by the researcher based on SPSS v.25 outputs.

- **The following is observed:**
  1. **Correlation value = 0.994:** This indicates a very strong relationship.
  2. **Adjusted determination coefficient (R^2) = 0.988:** This means that company characteristics explain 98.8% of the variance in the quality of financial reports.
  3. **Significance (Sig) = 0.00 < 0.05:** This confirms a significant effect of company characteristics on the quality of financial reports.
  4. **We observe:**

$$y_x = 0.258 + 0.943\,x$$

2. Second Hypothesis: The audit committee significantly affects the quality of financial reports.

Table 6: Testing the Second Hypothesis of the Study

Pearson	**Determination**	**Adjusted Determination**	**Error Standard**		
.978	.956	.955	.231		
Regression	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Significance**
	249.481	1	249.481	4669.569	.000
Residual	11.594	217	.053		
Total	261.075	218			
Audit Committee	**B**	**Error**	**Beta**	**T**	**Significance**
	.950	.014	.978	68.334	.000
(Constant)	.270	.054		5.041	.000

Source: Prepared by the researcher based on SPSS v.25 outputs.

We observe the following:

- The correlation value = 0.978, indicating a very strong relationship.
- The adjusted determination value = 0.955, meaning that the audit committee explains 95.5% of the variance in (financial report quality).
- (Sig) 0.00 < 0.05, indicating a significant effect of the audit committee on the quality of financial reports.

3. **The third hypothesis:** The relationship between company characteristics and the audit committee significantly affects the quality of financial reports.

Table 7: Testing the Third Study Hypothesis

Pearson	**Determination**	**Adjusted Determination**	**Error**		
.994[a]	.988	.988	.11906		
Predictors: (Constant), Company Characteristics, Audit Committee					
Regression	**Sum of Squares**	**df**	**Mean Square**	**F-value**	**Significance (p-value)**
Residual	258.013	2	129.006	9100.159	.000[b]
Total	3.062	216	.014		
Regression	261.075	218			

Source: Prepared by the researcher based on the SPSS v.25 output.

We observe the following:

- Correlation value = 0.994, indicating a very strong relationship.
- Adjusted determination value = 0.988, meaning the relationship between company characteristics and the audit committee explains 98.8% of the variance in the quality of financial reports.
- (Sig) = 0.00 < 0.05, indicating a significant impact of the relationship between company characteristics and the audit committee on the quality of financial reports.
- The researcher found that this relationship between the audit committee, company characteristics, and financial reports has a clear and significant impact. The audit committee is considered a vital component in ensuring the accuracy and correctness of the company’s financial reports and verifying their compliance with accounting standards and applicable financial laws. Members of the committee review and evaluate the financial and accounting data and the company’s internal audits to ensure transparency and integrity in financial operations.

FIFTH: CONCLUSIONS

1. **Company characteristics significantly affect the quality of financial reports:** The results of research, which this writer has done show that company characteristics and features that are its own can, distinguish its regular financial reports. These characteristics are ways of thinking that the company takes adopt, and thus provide a true objective display on the company's financial situation. In this way, investors can grasp the company’s profitability, growth and competitiveness in the market. Financial reports provide critical signals to investors such as earnings per share, cash flow, company indebtedness. This allows investors make more informed judgments. In turn; they can increase not just the amount but also quality of financial data.
2. **The audit committee's significant impact on the quality of financial reports:** Audit committees, according to researchers, have a major role to play in ensuring the honesty and openness of company financial reports. On account of audit committees' behavior and decisions continue to have an enormous impact on the quality of information received by stakeholders. The function of an audit committee is to guarantee the trustworthiness of financial data. This in turn lets rest on the record of more accurate financial reporting. In this light, it is both a necessary and vital task for all audit committees to be effective and impartially unbiased.
3. **The relationship between company characteristics and the audit committee significantly affects the quality of financial reports:** It was found by the researcher the relationship between the company’s characteristics, financial

reports and the audit committee must be reliable and accurate so that investors and stakeholders can understand how well the company does financially. Audit committees also constitute a linchpin in authenticating that these characteristics together with financial statements are audited and reviewed according to established accounting principles and statutory requirements. Through this relationship, more confidence is built within the investment and stakeholder communities about a company's performance and stability.

SIXTH: RECOMMENDATIONS

1. Recommendations related to company characteristics:

- **Define responsibilities and organizational structure:** Clearly define private companies' responsibilities and organizational structure.
- **Independence and uniqueness:** Encourage private companies in Iraq to maintain complete independence and distinctive characteristics compared to other companies in similar contexts.
- **Rely on internal resources:** Motivate private companies to expand operations through internal resources and self-financing as a defining characteristic.
- **Autonomy in dealings:** Maintain independence with governmental and private entities.
- **Control over assets and resources:** Establish independence in managing assets and resources and defining financial responsibilities based on company type.
- **Flexibility in role distribution:** Promote flexibility in distributing roles and responsibilities among partners.

2. Recommendations related to the audit committee:

- **Adhere to recommendations:** Private companies in Iraq should adhere to the recommendations of internal and external auditors regarding accounts.
- **Review audit plans:** Companies should review the audit plan and results with external auditors.
- **Grant independence:** Provide independence to external auditors and review the adequacy of internal control systems.
- **Evaluate control activities:** Regularly evaluate the adequacy of control activities, such as authorizations, verifications, reconciliations, and separation of duties.
- **Monitor internal controls:** Audit committees should oversee the continuous monitoring of internal controls and the effectiveness of the internal audit function.
- **Foster commitment culture:** Evaluate the company's culture of commitment and competence, which serves as the foundation for a sound internal control system.

3. Recommendations related to financial reports:

- **Improve reporting processes:** Continuously improve financial reporting processes.
- **Conduct regular investigations:** Regularly assess issued financial reports to determine the need for corrective actions.
- **Provide sufficient information:** Offer comprehensive information to investors on how financial resources are utilized and the efficiency of their investment.
- **Enable cash flow tracking:** This will give clients visibility into the cash flow cycle, enabling them to understand the profitability or losses generated.
- **Analyze returns and assets:** Allow investors and clients to analyze returns and assets through company reports, offering projections for future growth potential.
- **Enhance insights:** Adhere to credibility and transparency to ensure that reports provide valuable insights and guidance to management.

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