Journal of
Empirical Research In Accounting

Alzahra University, Faculty of Social Sciences and Economics
Empirical Research in Accounting, Spring 2023, V. 13, No. 47, pp.31-34

Risk Disclosure: The Effect of Audit Committee Characteristics[1]

Setareh Fasihi[2], Rezvan Barshad[3]

Received: 2022/10/31
Accepted: 2023/03/19

Research Paper

INTRODUCTION

Companies operate in an uncertain world that has to manage existing and future risks affecting their activities to maintain company value. The existence of transparent and quality information is one of the main needs of investors and the audit committee is a corporate governance mechanism that increases the quality and transparency of companies' financial information. Research in risk disclosure in Iranian companies is limited and this field needs more research. The following researches can be mentioned in risk disclosure among Iranian companies. Namazi and Ebrahimi Meymand (2015) examined how to disclose risk in the annual report of companies and the factors affecting it. The results showed that companies tend to provide retrospective information compared to prospective, qualitative compared to quantitative and disclose risk sources compared to risk management. Also, in examining the factors affecting the rate of risk disclosure, the results showed a positive and significant relationship between firm size and financial leverage with the rate of risk disclosure and a significant negative relationship between the level of market risk of the company and risk disclosure. Baradarn Hassanzadeh and Mahromi (2017) in a study entitled the effect of risk disclosure on stock price forecast by profit and value of companies concluded that there is no significant relationship between the level of risk disclosure of companies and the information content of earnings changes. Also, no significant

1. DOI: 10.22051/JERA.2022.37494.2924
2. Faculty member, Department of Accounting, Faculty of Management, Economics and Accounting, Payame Noor University, Tehran, Iran. (Corresponding Author). (sfasihi2020@yahoo.com).
3. M.Sc. Student, Department of Accounting, Kherad University, Bushehr, Iran. (r.barshad 99@gmail.com).

relationship was observed between risk disclosure and company value. The researchers said that the irrelevance of the disclosed information and the inability and lack of awareness of investors in interpreting the disclosed information could be one of the most important reasons for this conclusion. Fasihi,Hossseini and Mashayekh (2017) investigated the relationship between risk disclosure and investment efficiency of companies listed on the Tehran Stock Exchange. The researchers concluded that companies with higher risk disclosure also increased their investment efficiency. Besides, Fasihi and Hosseini (2020) examined the effect of companies' risk disclosure on the value of companies listed on the Tehran Stock Exchange. The researchers found that companies' value also increased as risk disclosure increased. Furthermore, research conducted in other countries on the relationship between the audit committee and risk disclosure indicates that some characteristics of the audit committee strengthen the risk disclosure (Al-Shira et al., 2021; Abdullah et al., 2017, Zang and et al., 2013). In Iran, based on our best knowledge, so far no research has been done to examine the relationship between the characteristics of the audit committee and corporate risk disclosure. Therefore, the purpose of this study is to investigate the relationship between the characteristics of the audit committee and corporate risk disclosure.

MATERIALS AND METHODS

The risk disclosure index has been calculated using the manual content analysis method. Also for the characteristics of the audit committee, the variables of the degree of independence of the members of the audit committee, the degree of financial expertise of the members of the audit committee and the size of the audit committee have been used. The research sample includes 68 companies for the period 1392 to 1398. Company information has been analyzed in a panel method and by multiple regressions. The information was extracted from the financial statements information and MD&A. To prepare the information, an Excel spreadsheet was used and to analyze the information and analyze the main research model, version EVIEWS 10 and Stata 12 software was used.

RESULTS AND DISCUSSION

According to agency theory, the audit committee in companies reduces the cost of agency by reducing the issue of agency and information asymmetry by increasing the quality of accounting information. Also, according to the theory of resource dependence, the audit committee is a monitoring tool and mechanism that, with an advisory role to the board, helps the board to benefit from more expertise and people and increase the quality and transparency of the company's financial information. Therefore, by considering the two theories of agency cost and resource dependence, this study examines the effect of the characteristics of the audit committee on risk disclosure in companies listed on the Tehran Stock Exchange. After reviewing 68 companies during the years 1392 to 1398, the results show that among the characteristics of expertise, independence and size of the audit committee, only the size of the audit committee has a significant and direct relationship with companies' risk disclosure. This means that with increasing the size of the audit committee, risk disclosure also increases. This result is consistent with the resource dependence theory; this means that increasing the number of members of the audit committee has increased the number of specialized and experienced people in the company, and through more related consulting services to the board of directors, also increases risk disclosure. This research finding is consistent with the research findings of Alshirah et al. (2021) and it contradicts with the results of the research of Abdullah et al. (2017) and Zang et al. (2013). In addition, among the characteristics of the board of directors the board financial expertise had a significant relationship with risk disclosure. This means with increasing the financial expertise of the board of directors, risk disclosure has increased.

CONCLUSION

The purpose of this study is to investigate the relationship between the characteristics of the audit committee and corporate risk disclosure. The research sample includes 68 companies for the period 1392 to 1398. The results indicate that among the characteristics of the audit committee, only the size of the audit committee had a significant and direct relationship with the level of risk disclosure of companies. This result is consistent with the resource dependence theory. In addition, among the characteristics of the board of directors the board financial expertise had a significant relationship with risk disclosure. These mean with increasing the financial expertise of the board of directors, risk disclosure has increased. Future researchers are also advised to examine the impact of the audit committee on different categories of corporate risk disclosure, especially financial and operational risks. Also, considering that the focus of this study was on non-financial companies, future researchers are advised to examine the role of the audit committee on risk disclosure in banks and other financial and leasing firms.

Keywords: Audit Committee, Audit Committee Independently, Audit Committee Expertise, Audit Committee Size, Risk Disclosure, Information Asymmetry.

JEL Classification: G3, M420, M410.