

THE IMPACT OF THE AUDIT COMMITTEE ON THE EFFECTIVENESS OF FINANCIAL REPORTING QUALITY: EVIDENCE FROM THE EGYPTIAN STOCK EXCHANGE

Marina G. Ghabranious¹ and Tariq H. Ismail^{2*}

¹*Teaching Assistant, Accounting Department, Faculty of Business Administration,
Afram Canadian University, Egypt*

²*Department of Accounting, Faculty of Commerce, Cairo University, Cairo, Egypt, and International
Academy for Engineering and Media Science, Egypt.*

ORCID: 0000-0001-9258-4282. E-mail: t.bassaneen@foc.cu.edu.eg

**(Corresponding Author)*

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Abstract: This study looks into how the effectiveness of the audit committee affects financial reporting quality (FRQ) in the Egyptian context and offers more information on how the qualities of the audit committee affect financial reporting quality. The analysis makes use of secondary data from 327 observations covering a sample of 48 companies that were listed between 2016 and 2022 on the Egyptian Stock Exchange. The size, frequency of meetings, gender, and independence of the audit committee serve as the independent variable's proxies for the audit committee's effectiveness (ACE). Earnings Management (EM) is used to measure the dependent variable, which is FRQ. The basis for debate is provided by descriptive data, panel-corrected standard error (PCSE) and generalized least squares (GLS) regression models, audit committee features, and potential connections to the caliber of financial reporting. The findings showed that while there is no correlation between FRQ and either AC size or AC gender diversity, there is a positive and substantial association between AC meetings, AC independence, and FRQ. The results imply that a few key attributes of the audit committee might be crucial in limiting the committee's inclination to participate in earnings management.

Keywords: Audit Committee size; Audit Committee Meetings, Audit Committee Gender; Audit Committee Independence; Financial Reporting Quality; Earnings Management; Egypt

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1. INTRODUCTION

In the early twenty-first century, a series of accounting scandals around the world, as well as the bankruptcy of many major international firms, including Enron and WorldCom, reduced investors' confidence in the quality of financial reporting and raised investor worries (Fodio *et al.*, 2013). In response to these financial scandals, financial reporting quality has become a focal area for research. Moreover, providing high-quality and reliable information about the firm's activities has been considered the most important objective of financial reporting for stakeholders in general and for stockholders in particular, regarding the economic activities of corporations (Barth *et al.*, 2008).

According to Ghaleb (2020), earnings management (EM) was the primary cause of these bankruptcies and accounting problems. Furthermore, declining financial reporting quality occurs when managers make financial reporting decisions that are in line with their own interests and gains (the agency problem), misleading other stakeholders, and providing inaccurate information about the firm's actual economic performance. As a result, EM has received significant attention in the accounting literature and has become known as a vital issue for practitioners and regulators. Many studies (Soliman *et al.*, 2014) presented evidence that the agency problems connected with the separation of ownership and control between managers (agents) and shareholders (principals) resulted in conflict between them. This could be because shareholders seek activities that will lead to long-term success rather than managers, who seek activities that will lead to high compensation and short-term profits. Because the interests of the principles and the interests of the agents are incompatible, the principle-agent problem (agency problem) grows.

The failure of well-known firms highlighted the necessity for efficient corporate governance (CG) mechanisms on a worldwide basis (Norwani *et al.*, 2011), where CG can play an extremely important role in ensuring that firms report quality earnings. According to Lin and Hwang (2010), an efficient CG structure enables management to use firm resources to safeguard shareholders' interests. Additionally, it is stated that the committees and the board of directors are accountable for monitoring the management practices. Therefore, CG appeared with internal and external mechanisms to reduce accounting scandals and control the relationship between management and stakeholders. Internal mechanisms include the structure of the board of directors, the ownership structure and control, the ownership of directors' shares, gender diversity, audit committees, internal audit departments, and external mechanisms such as audit quality, the legal system, government regulations, market competition,

takeover activities, media exposure, public release, and financial statement assessment (Waweru & Port, 2018).

Buallay and Al-Ajmi (2020) concluded that one of the most important pillars of a good CG framework are audit committees, which are expected to improve the quality of financial reporting, enhance auditors' performance, independence and objectivity, and the risk-management function, and improve financial decision-making. Furthermore, the presence of internal controls, namely, AC activities, contributes to mitigating the information asymmetry between companies and market participants. On the other hand, DeFond and Zhang (2014) and El-Deeb (2015) provided evidence that companies require an external auditor (as an external CG mechanism) with sufficient experience and knowledge to express an independent audit opinion about the fair presentation of the financial statements, and an auditor's responsibility is not only to reveal any breach of accounting standards in financial statements but also to provide affirmation over financial reporting quality, and they are responsible for misleading financial statements. Audit quality is fundamental to a firm's performance as an objective audit is based on stakeholders' confidence in the integrity and credibility of financial reports (Ado *et al.*, 2020). Finally, Tran (2022) indicates that organizations, through their auditors and audit committee, show their commitment and competence by producing good-quality financial reports that can be easily understood, disclosing what is required to be disclosed, and representing the financial reality of the company.

Audit committees (ACs) are considered one of the modern concepts that have gained and continue to gain attention in many countries because the establishment of ACs is thought to be a solution for closing the gaps between management and shareholders of a firm. The AC is the main CG tool used to evaluate a company's earnings quality (Nikulin, 2022). Furthermore, according to the structure of research and agency theory, the AC is one of the most crucial CG tools as it reduces the unethical behavior of managers, enhances the transparency of financial information, and improves the accuracy of financial reporting.

According to Ayinla *et al.* (2022), an AC's primary objective is to resolve agency problems by carefully evaluating the acts of the management and the QFR. Effective internal audit function committees safeguard the interests of shareholders through financial reporting, which strengthens CG practices in firms. As a result, improving ACs would improve the quality of financial reporting, as they play a role in monitoring financial reporting and disclosure. In other words, to safeguard the interests of investors, the committee must

equally ensure high FRQ disclosure, monitor accounting policy, and maintain the independence of the external auditors. (Kantudu & Alhassan, 2022)

Soliman & Ragab (2014) have indicated that the size, independence, experience, and frequency of meetings of ACs affect the effectiveness of their monitoring. Al-Shaer *et al.* (2017) stated that effective AC oversight enhances FRQ and is crucial to CG. Thus, the characteristics of an AC increase the committee's effectiveness and enable it to perform its duties effectively.

Proxies that are usually employed to measure AC's effectiveness are AC's size, AC meeting frequency, and AC members' expertise (Chalevas *et al.*, 2021). Additionally, Gebrayel *et al.* (2018) stated that the size of the AC, independence, frequency of meetings, and level of financial literacy can all have an impact on the quality of financial reporting. Lastly, the effectiveness of AC meetings on FRQ will be investigated in this paper by examining the impact of four characteristics of the audit committee: AC size, AC meetings, AC independence, and AC gender diversity on FRQ.

The structure of this study is as follows: Section 2 provides a review of the literature and the formulation of hypotheses. In Section 3, the research method is presented. Data analysis and discussion of results are presented in Section 4. The conclusions, limitations, and directions for future research are presented in Section 5.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The resource dependence theory states that larger audit committee members can bring more resources to the firm, such as diverse skill expertise and experience they share amongst themselves, which enhances the committee's ability to oversee management and ultimately results in enhanced FRQ (Hasan *et al.*, 2020; Lin & Hwang, 2010). Thus, a suitable-size of AC would enable its members to apply their knowledge and skills in the best interests of stakeholders (Gebrayel *et al.*, 2018). Moreover, an AC with enough members will more effectively supervise and monitor the actions of top management. Hence, Ayemere and Elijah (2015) suggested that a large AC size may play a vital role in limiting the occurrence of earnings management.

In line with the agency theory, Hasan *et al.* (2020) argued that the AC's members are committed to having relevant and substantial meetings that continuously enhance and improve the financial reporting process through greater monitoring. According to previous studies, the frequency of AC meetings lowers the amount of financial restatement. In addition, Setiawan *et al.* (2020) found that the frequency of AC meetings decreases the occurrence

of earnings management. Also, Al-Rassas and Kamardin (2015) stated that the frequency of AC meetings reflects its effectiveness and enhances internal monitoring functions.

Diversity of gender in an AC is a vital characteristic, since different genders have different attitudes and moral standards when carrying out their responsibilities. There are some differences between genders when it comes to decision-making and oversight in a firm. For example, female members are more risk-averse and give greater weight to moral considerations than male members. Furthermore, when it comes to directing, women are more careful than men. When it comes to supervising operations, female members are more rule-abiding. Therefore, it makes sense that female directors would be more successful at reducing earnings management in contrast to male directors (Setiawan *et al.*, 2020).

A wide range of previous studies have extensively investigated the AC's independence, and it is generally agreed that this is one of the primary attributes associated with the AC's effectiveness. To get the full benefit from the formation of the AC, its members must be independent of the corporations, as the independence of members of the AC is effective in reducing the level of information asymmetry, and as a result, the information provided by the firms becomes more transparent and of better quality. For that, it is expected that the AC member's independence will be able to reduce the firm's EM practices (Setiawan *et al.*, 2020).

Financial reporting is one of the most important corporate responsibilities and an essential component of the corporate structure. This is because financial reporting acts as the primary means of communication between firms and stakeholders by reducing the level of information asymmetry between the directors, who have access to management information, and other interested parties who are external to the firm (Ayemere & Elijah, 2015). In other words, Oji *et al.* (2017) stated that financial reporting is the process of giving external users access to financial information about a firm that helps them make decisions about their finances and evaluate how well the firm is managed.

Previous studies have investigated the relationship between the AC and FRQ. Table 1 summarizes the main features of some related studies. It can be noticed from the table that several studies, such as Ayemere and Elijah (2015), Bala *et al.* (2015), Kabiru and Usman (2021), Kantudu and Alhassan (2022), and Ola and Ijwo (2023), have examined the relationship between AC characteristics and FRQ in Nigeria, where the results suggested that audit committee attributes such as size, independence, financial expertise, and

Table 1: Literature on the Association between AC Effectiveness and FRQ

<i>Findings</i>	<i>Sample</i>	<i>Variables & Measures</i>	<i>Research Objective</i>	<i>Author</i>
<p>Results reveal that bigger audit committees with more independence are more likely to be associated with EQ in GCC industrial firms. Additionally, quality of earnings is unaffected by audit committee meetings.</p>	<p>23 industrial firms from the financial markets of the Gulf Cooperation Council (GCC) were included in the sample between 2014 and 2018.</p>	<p>-IV: the AC characteristics, including the audit committee independence, the size of audit committee, audit; committee diligence/meetings. -DV: EQ -The DeAngelo (1981) model and accrual accounting are used to measure EQ.</p>	<p>Examine whether AC characteristics would impact EQ.</p>	<p>Hamdan (2020)</p>
<p>The findings reveal that the frequency of meetings has a positive effect on EM, in another word might not be effective to constrain it, while gender has a negative influence on EM, where female member(s) of AC might be able to mitigate EM. However, the number of AC members, and independence of AC member do not have any significant influence on EM.</p>	<p>393 manufacturing firms listed on the Indonesian Stock Exchange (IDX) from 2006 to 2010.</p>	<p>-IV: AC effectiveness including independence of AC members, the number of members, the frequency of meetings, and the members' gender and financial expertise - DV: EM measured by abnormal accrual using modified Jones model.</p>	<p>Examine the AC effectiveness in reducing EM.</p>	<p>Setiawan <i>et al.</i>, (2020)</p>
<p>The frequencies of AC meetings, AC female gender have positive and significant impact on the FRQ of DMBs in Nigeria. However, it was reported that AC independence has no significant effect on the FRQ.</p>	<p>14 of deposit money banks (DMBs) in Nigeria made up the sample size and eleven years, from 2009 to 2019, were covered.</p>	<p>-IV: AC features namely frequency of AC meeting, AC gender, AC financial expertise and AC independence. -DV: the FRQ.</p>	<p>Test the effect of AC features on the FRQ.</p>	<p>Kabiru & Usman (2021)</p>

<i>Findings</i>	<i>Sample</i>	<i>Variables & Measures</i>	<i>Research Objective</i>	<i>Author</i>
The results showed a significant negative relationship between AC size and EM, which reduces discretionary accruals and increases the FRQ.	41 non-financial firms listed on the Nigerian Stock Exchange (NSE) between 2011 and 2019.	- IV: AC; Measures of the AC effectiveness include its size, the presence of financial experts on the committee, and the shareholders on the committee. - The DV: FRQ which is proxied by EM.	Examine the effect of the AC on FRQ.	Kantudu & Alhassan (2022)
The study found AC Size insignificantly increases EM thereby reducing the QFS. while AC Independence and AC gender diversity insignificantly reduces EM thereby increasing the QFS.	The population is made up of all the three Cement companies listed on the Nigerian Exchange from 2011 to 2022.	-IV: AC characteristics [Size, Independence, Accounting Expertise and Gender Diversity]. - DV: quality of financial statement proxied by EM that measured by Discretionary Accruals.	Investigate the effect of AC characteristics on the quality of financial statement.	Ola & Jwo (2023)
The results show that AC size and AC independence positively and significantly relate to FRQ.	The population covers all the 125 Iraqi companies listed on the Iraqi Stock Exchange.	-IV: AC characteristics as size, independence and expertise. -DV: FRQ and used an annual reporting FRQ index with some adjustment for calculating FRQs.	Test the influence of AC characteristics on FRQ.	Barzo <i>et al.</i> , (2023)

meeting frequency have significant impacts on financial reporting quality, where larger and more independent audit committees with financial expertise positively affect financial reporting quality, while frequent meetings enhance monitoring effectiveness. However, there are inconsistencies regarding the impact of certain factors, like the financial expertise of audit committees, on the FRQ.

Other studies have used data related to different contexts, for example, the studies of Juhmani (2017) in Bahrain and Setiawan *et al.* (2020) in Indonesia.

Other studies revealed similar findings regarding the impact of audit committee size, financial expertise, and gender diversity on earnings management.

Hamdan (2020) focuses on the GCC and finds that larger, more independent audit committees are associated with higher-quality earnings. Besides, Barzo *et al.* (2023) examined Iraqi firms and found that audit committee size, independence, and expertise positively relate to financial reporting quality.

However, it was found that the results of the prior studies were not consistent. These disagreements may be due to: (i) using different samples related to different countries and different industries; (ii) using different measures and different statistical techniques for both AC and FRQ. In other words, the findings were mixed regarding whether AC features can reduce the likelihood of aggressive EM provided by managers and, as a result, enhance FRQ. In addition, by assessing the significance of the role of AC characteristics (AC size, AC independence, AC meetings frequently, and AC gender diversity) in improving FRQ, this relationship specifically using these measures was not yet tested in an Egyptian context. Accordingly, this paper tests the relationship between AC and FRQ.

Hence, the hypotheses are developed as follows:

H1: There is a significant association between audit committee effectiveness and financial reporting quality.

H1a: There is a significant association between audit committee size and financial reporting quality.

H1b: There is a significant association between audit committee meetings frequently and financial reporting quality.

H1c: There is a significant association between audit committee gender diversity and financial reporting quality.

H1d: There is a significant association between audit committee independence and financial reporting quality.

3. RESEARCH METHD

3.1. Sample and Data Collection

The study sample consisted of 48 firms listed on the Egyptian Stock Market in the period from 2016 to 2022, representing 327 firm-year observations after excluding banks and financial services, where they are mandated to comply with specific financial reporting standards and regulations, as well as firms with data lacking.

The data in the current work is a secondary one that is gathered from different sources, such as the Thomson Reuters Eikon Database to collect annual financial statements and financial key metrics ratios and the Egyptian Stock Exchange (EGX) website to obtain the annual board of directors' reports

3.2. Definition and Measurement of Variables

3.2.1. Independent Variables

The independent variables used in this study are AC effectiveness, measured by Ac size, Ac meetings, Ac gender diversity, and Ac independence. The number of members on the AC is a key indicator of the committee's size and aids in the accomplishment of its objectives. CG regulations often set a minimum size for the AC but not a maximum; thus, it is up to each firm to decide how big of a committee to be considering its circumstances and the extent of its need for the services of the committee. AC size is measured by the number of firms' audit committee members. (Sun *et al.*, 2011)

The activities of the AC are highlighted by the number of meetings held by the committee during the year. CG laws and regulations state the minimum number of such meetings during the year without identifying the maximum number. The AC can review and discuss the information immediately because they meet on a regular basis. The ideal time to arrange these meetings is well in advance of the relevant board meeting. AC meetings are measured by the number of AC meetings held in a year (Habbash, 2010; Xie *et al.*, 2003).

The participation of women in corporate strategic decision-making is recommended by numerous global CG guidelines as a means of enhancing organizations. According to the results of prior research, firms with female members are more willing and committed to committee activities than those with male members. Thus, having women as members of the AC will enhance the QFR. AC gender diversity is measured by the percentage of female members in AC. (Sun *et al.*, 2011; Thiruvadi & Huang, 2011)

The independence of the members of the AC is one of the most crucial requirements for the AC to accomplish its objectives because the presence of independence limits management's ability to influence the committee's work, allowing it to reduce management's opportunistic behavior and enhance the financial reporting process. To achieve independence, AC's members must not be executive members of the board of directors or be non-executive members. Additionally, there cannot be any relationship, either direct or indirect, between the AC's members and the board of directors' executive members. AC independence is measured by the percentage of independent non-executive directors in the total number of AC members (Al-Rassas & Kamardin, 2015).

3.2.2. Dependent Variable

The dependent variable used in this study is FRQ, which refers to the fact that financial statements should provide accurate, reliable, and fair information on the financial status and economic performance of a firm. The FRQ is proxied by EM, which is measured using the modified Jones model, because it is more effective at revealing discretionary accruals than the original Jones model (Dechow *et al.*, 1995).

EM is considered one of the primary issues when assessing a firm's financial health to determine the degree of reported earnings reliability, which occurs when managers alter financial statements for their own benefit (Usman, 2013). Selecting EM as a proxy for FRQ can be justified on the ground that it is a crucial factor in assessing accounting quality and will make the statistical tests more reliable, as well as that its proxies are reacting specifically to the use of the firm's reporting incentives and discretion (Burgstahler, Hail & Leuz, 2006).

3.2.3. Control Variables

Empirical models used in this research include control variables, which are expected to influence FRQ, besides the independent variable (AC). Accordingly, the control variables include firm size, capital structure as measured by leverage, firm profitability as measured by ROA, operating cash flow, asset structure as measured by tangibility, and cash holding. The description of the variables and related measures is shown in Table 2.

3.3. Research models

This work employs two models where the Model (1) is related to the association between internal audit quality (audit committee) index and FRQ as measured by accrual EM, and Model (2) which is related to the association between

Table 2: The Study' Variables

<i>Variables</i>	<i>Proxies</i>	<i>Measure</i>
Dependent Variable		
Financial Reporting Quality	Earnings management	Measured by the modified Jones model. (Dechow, Sloan and Sweeney,1995)
<i>Independent Variables</i>		
Audit Committee Effectiveness	Audit committee size	Number of firms' audit committee members. (Sun <i>et al.</i> , 2011)
	Audit committee meetings frequency	The number of AC meetings held in a year. (Habbash, 2010; Xie <i>et al.</i> , 2003)
	Audit committee gender diversity	Percentage of female directors in audit committee. (Sun <i>et al.</i> , 2011; Thiruvadi and Huang, 2011)
	Audit committee independence	The percentage of independent non-executive directors on the total number of AC members. (Al-Rassas & Kamardin, 2015)
<i>Control Variables</i>	Firm size	Logarithm of firm market capitalization
	Leverage	Long-term debt divided by the market value of common equity at the end of year
	Profitability	Earnings before interest, taxes, depreciation, and amortization divided by total assets
	Operating cash flow	Ratio of cash flow from operations to total assets
	Assets structure (Tangibility)	Ratio of property plant and equipment divided by total assets.
	Cash holding	Liquidity measure that shows a company's ability to cover its short-term obligations using only cash and cash equivalents

internal audit quality characteristics as (Ac size, Ac meetings, Ac gender diversity, and Ac independence) and FRQ as measured by accrual EM. Hence the study's models are as follows:

$$FRQ_{AEM}_{i,t} = \beta_0 + \beta_1 IAQ_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 ROA_{i,t} + \beta_5 OCF_{i,t} + \beta_6 Tang_{i,t} + \beta_7 CH_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where:

$FRQ_AEM_{i,t}$: financial reporting quality as measured by accrual earning management of firm (i) at year (t).

β_0 : the estimated constant term.

$IAQ_{i,t}$: internal audit quality index of firm (i) at year (t).

$Size_{i,t}$: size of firm (i) at year (t).

$Lev_{i,t}$: leverage of firm (i) at year (t).

$ROA_{i,t}$: return on Assets of firm (i) at year (t).

$OCF_{i,t}$: operating cash flow of firm (i) at year (t).

$Tang_{i,t}$: assets tangibility of firm (i) at year (t).

$CH_{i,t}$: cash holding of firm (i) at year (t).

$\varepsilon_{i,t}$: the estimated random error

$$\begin{aligned}
 FRQ_AEM_{i,t} = & \beta_0 + \beta_1 Ln_ACS_{i,t} + \beta_2 Ln_ACM_{i,t} + \beta_3 Ln_Fem_{i,t} + \beta_4 AC_Indep_{i,t} \\
 & + \beta_5 Size_{i,t} + \beta_6 Lev_{i,t} + \beta_7 ROA_{i,t} + \beta_8 OCF_{i,t} + \beta_9 Tang_{i,t} \\
 & + \beta_{10} CH_{i,t} + \varepsilon_{i,t}
 \end{aligned}
 \tag{2}$$

Where:

$FRQ_AEM_{i,t}$: financial reporting quality as measured by accrual earning management of firm (i) at year (t).

β_0 : the estimated constant term.

$ACS_{i,t}$: audit committee size of firm (i) at year (t).

$ACM_{i,t}$: audit committee meetings of firm (i) at year (t).

$Fem_{i,t}$: female's members on audit committee of firm (i) at year (t).

$AC_Indep_{i,t}$: audit committee independence of firm (i) at year (t).

$\varepsilon_{i,t}$: Refer to the estimated random error of firm (i) at year (t).

4. DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1. Descriptive statistics

Descriptive statistics of each variable included in the research models aim to describe the characteristics of the data. The importance of descriptive statistics stems from the simplicity of presenting the basic properties of a large set of observations. Also, the appropriate statistical techniques used to analyze the

data are chosen based on the underlying characteristics of the data included in the study sample.

The main statistical features of all variables used to investigate the impact of AC effectiveness and AQ on FRQ for Egyptian listed firms are shown in Table 3. It can be noticed that accrual EM, an indirect measure of FRQ, exhibits large changes over time, as shown in the overall standard deviation (0.051), which represents around 83.6% of the overall mean (0.061). EM varies widely in each single firm over the investigated time horizon, as represented by the within-level of its standard deviation (0.043). Moreover, there is a moderate variation among the sampled firms, as shown by the between-levels of the standard deviation (0.027). AC Size, as a measure of AC effectiveness, shows an overall mean of (3.413), with a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the audit committee size for Egyptian listed firms. Additionally, AC Meetings as a measure of AC effectiveness shows an overall mean of (5.587), with a high dispersion around the mean (overall and between), reflecting high heterogeneity in the accounting conservatism of Egyptian listed firms.

However, when it comes to accounting conservatism, each firm has a low dispersion around the mean (within), indicating excellent homogeneity within each firm over the course of the research period. The overall mean of AC independence, a gauge of AC efficacy, is 0.715. The sampled firms exhibit modest variance, as indicated by the standard deviation levels (0.332 and 0.276) for the overall and between levels, respectively. However, when it comes to accounting conservatism, each firm has a low dispersion around the mean (within), indicating excellent homogeneity within each firm over the course of the research period.

AC female representation (AC_fem) as a measure of AC effectiveness shows an overall mean of (0.12), with a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the accounting conservatism of Egyptian listed firms. The firm size (SIZE) score shows an overall mean of 21.351, with a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the firm size of Egyptian listed firms. Capital structure, as measured by leverage (LEV), shows an overall mean of (0.464), which means firms have a balanced capital structure with a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the capital structure for Egyptian listed firms. The profitability, as measured by return on assets (ROA), shows an overall mean of (0.057), which indicates firm assets generate low profitability, with a high dispersion

Table 3. Descriptive Statistics

<i>Variable</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>	<i>Observations</i>
AEM	overall	0.061	0.000	0.214	N = 327
	between	0.027	0.013	0.139	n = 48
	within	0.043	-0.046	0.211	t-bar = 6.8
AC_Size	overall	3.413	2.000	8.000	N = 327
	between	0.771	2.857	6.714	n = 48
	within	0.431	1.699	5.127	t-bar = 6.8
AC_Meeting	overall	5.587	0.000	17.000	N = 327
	between	2.952	2.000	12.833	n = 48
	within	1.803	-3.413	12.016	t-bar = 6.8
AC_Indep	overall	0.715	0.000	1.000	N = 327
	between	0.276	0.000	1.000	n = 48
	within	0.187	0.005	1.441	t-bar = 6.8
AC_Fem	overall	0.120	0.000	0.750	N = 327
	between	0.141	0.000	0.571	n = 48
	within	0.107	-0.118	0.691	t-bar = 6.8
Size	overall	21.351	17.575	25.511	N = 327
	between	1.766	17.885	24.989	n = 48
	within	0.257	20.550	22.357	t-bar = 6.8
Lev	overall	0.464	0.005	0.952	N = 327
	between	0.197	0.121	0.857	n = 48
	within	0.092	0.138	0.913	t-bar = 6.8

<i>Variable</i>		<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>	<i>Observations</i>
ROA	overall	0.057	0.086	-0.153	0.307	N = 327
	between		0.067	-0.086	0.291	n = 48
	within		0.054	-0.206	0.312	t-bar = 6.8
OCF	overall	0.056	0.104	-0.170	0.327	N = 327
	between		0.071	-0.045	0.256	n = 48
	within		0.077	-0.227	0.324	t-bar = 6.8
Tang	overall	0.282	0.216	0.002	0.949	N = 327
	between		0.195	0.002	0.794	n = 48
	within		0.097	-0.489	0.689	t-bar = 6.8
CH	overall	0.086	0.092	0.000	0.544	N = 327
	between		0.077	0.004	0.453	n = 48
	within		0.054	-0.119	0.321	t-bar = 6.8

around the mean (overall, between, and within), reflecting high heterogeneity in the profitability of Egyptian listed firms. The operating cash flow (OCF) shows an overall mean of (0.056), with a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the cash flow from the operation of Egyptian listed firms. Assets structure as measured by plant, property, and equipment to total assets (Tang) shows an overall mean of (0.282), with a high dispersion around the mean (overall and between), reflecting high heterogeneity in the asset structure of Egyptian listed firms. In contrast, each firm has a low dispersion around the mean (within), reflecting high homogeneity in asset structure for each firm during the research period. Cash holding (CH) shows an overall mean of (0.086), with a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the cash and cash equivalents of Egyptian listed firms.

4.2. Diagnostic Statistics

4.2.1. Normality Test

As a stand in for FRQ, the Shapiro-Wilk normality test looks at the FRQ_AEM normal distribution. The alternative hypothesis contends that the data are not normally distributed, contrary to the null hypothesis, which claims that the data have a normal distribution. In cases where the p-value is higher than 5%, the null hypothesis is acknowledged. If the p-value is less than 5%, on the other hand, the alternative hypothesis is accepted. Given the normally distributed data in Table (4.), the alternative hypothesis is accepted for all variables, and the null hypothesis is rejected since the p-values for each dependent variable are less than 5%. Whenever the sample size is large, $n > 30$ ($n = 48$ businesses, $N = 327$), the parametric approaches can still be applied (Elliott & Woodward, 2007).

Table 4: Shapiro-Wilk W test for normal data

<i>Variable</i>	<i>Obs.</i>	<i>W</i>	<i>V</i>	<i>Z</i>	<i>Prob>z</i>
FRQ_AEM	327	0.90512	21.822	7.267	0.000

4.2.2. Optimal lag Selection Test

The optimal lag selection test aims to determine whether FRQ_AEM and MTB are dynamic or static by testing whether the previous events influenced variables at time zero occurred to them. Three criteria are used to determine whether the variable under investigation is dynamic or static. These are Akaike

Information Criterion (AIC), Hannan-Quinn Information Criterion (HQIC), and Schwarz Information Criterion (SBIC). As shown in Table (5), a decline in the values of the Akaike information criterion (AIC) and Hannan-Quinn information criterion (HQIC) at the first level indicates that the FRQ_AEM is a dynamic phenomenon, meaning that the previous FRQ_AEM impacts the current level of the FRQ_AEM.

Table 5: Optimal lag selection for FRQ_AEM

<i>Lag</i>	<i>LL</i>	<i>LR</i>	<i>df</i>	<i>P</i>	<i>FPE</i>	<i>AIC</i>	<i>HQIC</i>	<i>SBIC</i>
0	457.427				.00246	-3.16963	-3.16453	-3.15691
1	459.791	4.7287*	1	0.030	.002437*	-3.1791*	-3.16891*	-3.15367
2	459.86	13789	1	0.710	.002453	-3.17264	-3.15735	-3.13448
3	460.95	2.1795	1	0.140	.002451	-3.17326	-3.15287	-3.12239
4	460.984	.0687	1	0.793	.002468	-3.16656	-3.14107	-3.10296

* Indicates lag order selected by the criterion

4.2.3. Stationarity Test

The stationarity test examines the time series of each variable used in testing the impact of AC on FRQ for Egyptian-listed firms. The variable has a stationary time series if its statistical properties, such as mean and variance, are time-invariant (constant over time). Therefore, the time series of stationary variables exhibits a mean reversion. That is, the effect of shocks fades gradually because the time trend reverts to its variance and mean. Meanwhile, the variable has a non-stationary time series if its statistical properties are time variants (changes over time). Hence, the series has a unit root. Therefore, the results of models that include non-stationary variables cannot be generalized for future periods.

A fisher-type unit-root test is conducted to examine whether the time series of each variable is stationary or has a unit root for unbalanced panel data. The null hypothesis states that the series contains a unit root. Conversely, the alternative hypothesis assumes that the series is stationary. The null hypothesis is accepted when the p-value is greater than 5%. However, the alternative hypothesis is accepted when the p-value is less than 5%. Table (6) shows that the size has a unit root at their original levels because their corresponding p-values are greater than 5%. However, the remaining variables have a stationary time series at their original levels because their corresponding p-values are less than 5%. Nonetheless, the stationarity of the non-stationary variables can be obtained by taking their first difference (difference once).

Table 6: Fisher-type unit-root test

<i>Variables</i>	<i>P-Value</i>
FRQ_AEM	0.0000***
ACS	0.9999
ACM	0.0000***
AC_Fem	0.9999
AC_Indep	0.5462
Size	0.0000***
Lev	0.0000***
ROA	0.0000***
OCF	0.0000***
Tang	0.0781
CH	0.0000***

Concerning the ACS, AC_Fem, AC_Indep, and Tang, the first differencing transformation is taken. Hence, the stationarity of the time series of ACS, AC_Fem, AC_Indep, and Tang is met after taking the first differencing transformation, as shown in Table (7); the p-values reveal that there is no unit root, and all the study variables are stationary.

Table 7: Fisher-type unit-root test after transformation of non-stationary variables

<i>Variables</i>	<i>P-Value</i>
ACS	0.000***
AC_Fem	0.000***
AC_Indep	0.000***
Tang	0.000***

4.2.4 Pearson's correlation test

Pearson's correlation coefficient shows the direction and strength of the linear association between any two variables included in the current research. Moreover, Pearson's correlation coefficients are used to detect the possible multicollinearity between any two independent variables included in the same regression model. Table 8 shows Pearson's correlation coefficients for all the study variables.

From Table 8, it can be concluded that FRQ, as measured by accrual earning management, has no significant association with AEM Q ($r = -.068$; $p\text{-value} = 0.220$). There is no significant direct association between FRQ and AC size (Ln_ACS) ($r = -0.050$; $p\text{-value} = 0.368$), AC meetings (Ln_ACM) ($r = 0.006$; $p\text{-value} = 0.916$), or AC female representation (AC_Fem) ($r = 0.002$;

Table 8: Pearson's Correlation Test

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) FRQ_AEM	1.000										
(2) Ln_ACS	-0.050 (0.368)	1.000									
(3) Ln_ACM	0.006 (0.916)	0.307*** (0.000)	1.000								
(4) AC_Fem	0.002 (0.968)	0.044 (0.431)	-0.047 (0.401)	1.000							
(5) AC_Indep	0.143*** (0.009)	-0.067 (0.226)	-0.042 (0.450)	0.050 (0.364)	1.000						
(6) Size	0.008 (0.882)	0.139** (0.012)	0.150*** (0.006)	-0.140** (0.011)	0.098* (0.078)	1.000					
(7) Lev	-0.067 (0.226)	-0.085 (0.123)	-0.140** (0.011)	-0.113** (0.041)	0.001 (0.982)	0.508*** (0.000)	1.000				
(8) ROA	-0.096* (0.083)	0.320*** (0.000)	0.201*** (0.000)	0.097* (0.081)	-0.023 (0.683)	0.288*** (0.000)	-0.123** (0.026)	1.000			
(9) OCF	-0.125** (0.024)	0.225*** (0.000)	0.272*** (0.000)	0.153*** (0.006)	-0.125** (0.024)	0.188*** (0.001)	-0.162*** (0.003)	0.530*** (0.000)	1.000		
(10) Tang	0.089* (0.108)	-0.085 (0.127)	0.150*** (0.007)	0.248*** (0.000)	-0.185*** (0.001)	-0.109** (0.049)	-0.274*** (0.000)	-0.158*** (0.004)	0.117** (0.035)	1.000	
(11) CH	-0.162*** (0.003)	0.107* (0.053)	0.171*** (0.002)	-0.057 (0.308)	-0.045 (0.417)	0.062 (0.260)	-0.185*** (0.001)	0.265*** (0.000)	0.330*** (0.000)	-0.069 (0.210)	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

p-value = 0.0968). On the other hand, there is a significant positive direct association between FRQ, as measured by accrual earning management, and AC independence (AC_Indep) ($r = 0.143$; p-value = 0.009). Furthermore, there is no significant direct association between FRQ firm size, capital structure (Lev), and firm profitability (ROA). However, the results suggest that there is a negative significant direct association between FRQ and both operating cash flow and cash holding, while there is a positive significant direct association with asset structure (Tang).

4.4. Hypotheses testing

Testing the validity of the developed research hypotheses concerning the impact of AC effectiveness on FRQ for Egyptian listed firms starts by conducting an initial pooled OLS regression and conducting some goodness of fit tests to determine whether the model best fits the sample data or if some statistical issues need to be solved before ensuring the validity and reliability of the model. The results in Table 9 reveal that there is no multicollinearity among the explanatory variables included in the model because all explanatory variables show a VIF coefficient less than 10. As Landau and Everitt (2004) and Field (2005) state, multicollinearity exists when the variance inflation factor (VIF) of any independent variable exceeds 10. Therefore, there is no multicollinearity among the explanatory variables included in the model because all explanatory variables show a VIF coefficient less than 10.

Moreover, there is a heteroskedasticity problem, which means that the error variances are not constant for research models. Therefore, the null hypothesis is rejected because the p-value is less than 5%. Supporting the alternative hypothesis, which states that the variances of errors are non-constant across observations for models 1 and 2 of the impact of audit committee effectiveness on financial reporting quality for Egyptian listed firms.

Table 9: OLS goodness of fit (models 1 and 2)

<i>Model 1</i>		<i>Model 2</i>	
<i>Variable</i>	<i>VIF</i>	<i>Variable</i>	<i>VIF</i>
Lev	1.792	Lev	1.872
Size	1.786	Size	1.869
ROA	1.69	ROA	1.783
OCF	1.59	OCF	1.649
Tang	1.266	Tang	1.427
IAQ	1.207	Ln ACM	1.25
CH	1.19	Ln ACS	1.232

<i>Model 1</i>		<i>Model 2</i>	
<i>Variable</i>	<i>VIF</i>	<i>Variable</i>	<i>VIF</i>
		CH	1.206
		AC Fem	1.189
		AC Indep	1.125
Mean VIF	1.503	Mean VIF	1.46
Heteroskedasticity	9.58 0.0020	Heteroskedasticity	7.51 0.0061
Omitted variables	3.18 0.0243	Omitted variables	2.87 0.0367
Autocorrelation	0.430 0.5151	Autocorrelation	0.000 0.9975

Concerning the specifications, Gujarati (2015) stated that model specification errors may arise from the omission of essential explanatory variables from the model, the inclusion of irrelevant explanatory variables, or the incorrect functional form of independent and dependent variables. As shown in Table (10.), the p-value of the omitted variables test is less than 5% for models 1 and 2. Therefore, the null hypothesis is rejected, supporting the alternative hypothesis, which states that the functional form is incorrect and has omitted variables in the model of the impact of AC effectiveness on FRQ for Egyptian listed firms. In addition, autocorrelations do not exist, which means that the models' residuals are not serially correlated because the p-value is greater than 5%.

Table 10: Hausman test (Model 1 and 2)

	<i>Model 1</i>	<i>Model 2</i>
Chi-square test value	10.937	14.411
P-value	0.0.141	0.155

However, there is a need to choose whether the fixed effect model or the random effect model best fits the data of the financial reporting quality models. As shown in Table (10), the Hausman test results indicate the support of the null hypothesis, which states that the random effect model should be applied because the p-value is greater than 5%.

Before accepting the random effect model that has been chosen based on the results of the Hausman test, some goodness of fit tests should be conducted to confirm that the statistical techniques applied in the current study best fit the sample data. The cut-off of p-values for each model fit test is 5%. Therefore,

5% is the cut-off value for each model's acceptance. As shown in Table (11), the results reveal the existence of heteroscedasticity for financial reporting quality models, which means that the standard errors of an investigated variable are not constant within the sample period.

Table 11. Random effect goodness of fit tests (Model 1 and 2)

		<i>Model 1</i>	<i>Model 2</i>
Heteroskedasticity	Statistics	10.85	10.81
	p-value	0.0005	0.0005
Autocorrelation	Statistics	0.430	0.000
	p-value	0.5151	0.9975

In addition, autocorrelations do not exist, which means that the model's residuals are not serially correlated because the p-value is greater than 5%. In conclusion, the authors added a quadratic term of tangibility and OCF to treat model specification error using generalized least squares GLS and panel-corrected standard error estimators to test the final fitted models of the impact of AC effectiveness on FRQ for Egyptian listed firms, as shown in Table 12.

Table 12: The impact of AC effectiveness on FRQ

<i>FRQ_AEM</i>	<i>Model 1</i>		<i>Model 2</i>	
	<i>GLS</i>	<i>PCSE</i>	<i>GLS</i>	<i>PCSE</i>
IAQ	0.0101*	0.0097*	--	--
Ln_ACS	--	--	0.005	0.006
Ln_ACM	--	--	0.0097*	0.0095*
AC_Fem	--	--	-0.009	-0.007
AC_Indep	--	--	0.0134*	0.0137*
Size	0.0041**	0.0042**	0.0035*	0.0036*
Lev	-0.0494***	-0.0501***	-0.0359**	-0.0367**
ROA	0.023	0.021	0.024	0.022
OCF	0.1845***	0.1855***	0.1905***	0.1907***
OCF2	-1.5951***	-1.6061***	-1.6550***	-1.6621***
Tang	-0.1170***	-0.1158***	-0.1064***	-0.1053***
Tang2	0.1603***	0.1587***	0.1547***	0.1529***
CH	-0.0658**	-0.0671**	-0.0697**	-0.0707**
Cons	-0.0969***	-0.0981***	-0.1166***	-0.1182***
Year Fixed Effect	Included		Included	
Obs.	327	327	327	327
R-Square	0.3465	0.3412	0.3580	0.3527

Legend: * p<.1; ** p<.05; *** p<.01

The results in Table (12) suggest that the overall model can be accepted as a reliable model of the impact of AC effectiveness on FRQ as measured by accrual earning management (FRQ_AEM) for Egyptian listed firms because the Prob > F and Prob > Chi2 are less than 5%. In addition, AC effectiveness can explain (35%) of the variation in FRQ as measured by accrual earning management (FRQ_AEM) for Egyptian-listed firms by using GLS and PCSE estimators. This implies that FRQ, as measured by accrual earning management (FRQ_AEM), is driven by the AC's effectiveness and firm-specific characteristics. However, the results suggest that there is no direct and significant impact of AC size or AC gender diversity on FRQ. Furthermore, there is a positive, direct, and significant impact of the AC meetings and AC independence on FRQ. The firm's size has a positive, direct, and significant impact on FRQ, whereas the capital structure has a negative, direct, and significant impact on FRQ. However, there is no direct, significant impact of firm profitability (ROA) on FRQ. The results suggest that a curvilinear relationship exists between operating cash flow and FRQ, which means the existence of an optimal level of OCF to maximize FRQ practices for Egyptian listed firms. Any deviation will lead to a negative impact on FRQ; there is an inverted (U) shape between OCF and FRQ_AEM, where the OCF parameter is positive and significant and the OCF2 squared is negative and significant. The turning point in the association between OCF and FRQ_AEM is $OCF = 0.057$, as shown in Figure 1.

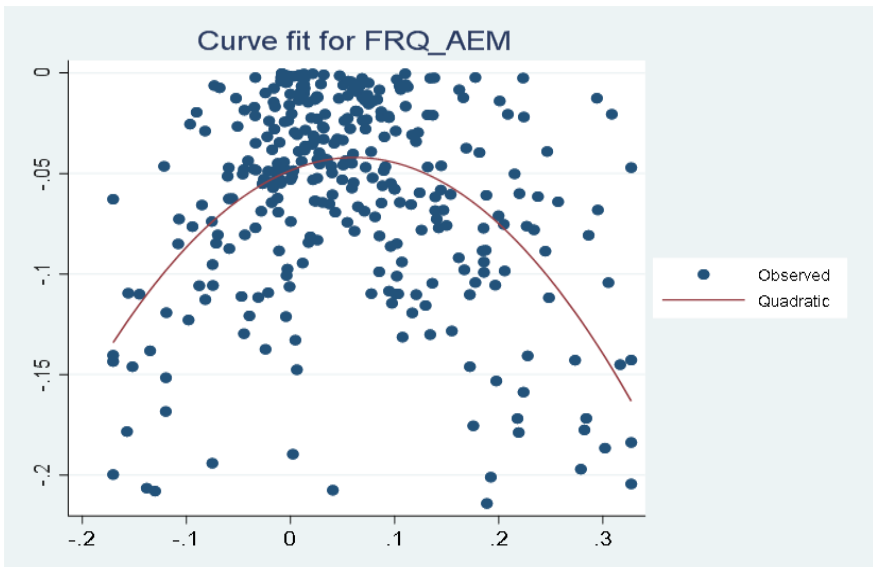


Figure 1: The relationship between OCF and FRQ

This means an OCF from 0 to 0.057 shows a positive association between OCF and FRQ_AEM. In addition, OCF exceeding 0.057 will negatively impact FRQ_AEM. This implies that Egyptian-listed firms must have an optimal level of OCF to maximize financial reporting quality practices.

Furthermore, as shown in Figure (2), the results reveal that a curvilinear relationship exists between asset structure as measured by tangibility and FRQ, which means the existence of a minimum tangibility level to maximize FRQ practices for Egyptian listed firms. Any deviation will lead to a negative impact on FRQ; there is an U shape between Tang and FRQ_AEM. Where the Tang parameter is negative and significant, and the Tang2 squared is positive and significant. Turning point in the association between Tang and FRQ_AEM: Tang = 0.366.

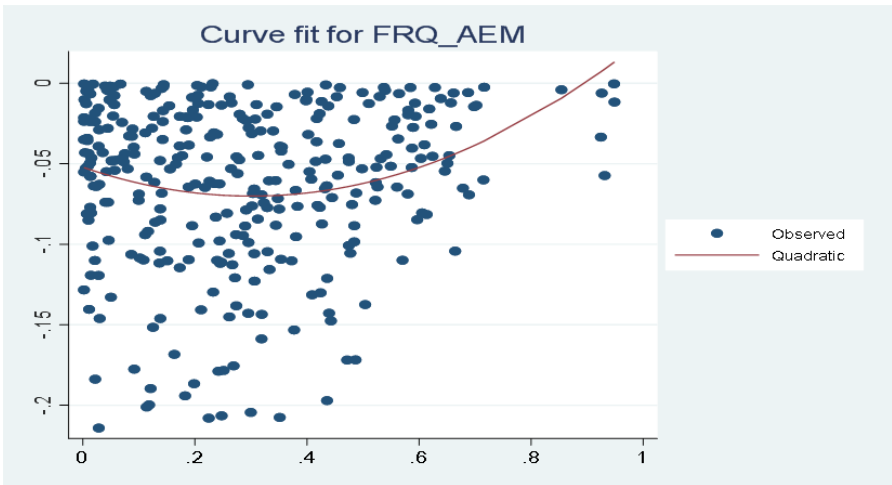


Figure 2: The relationship between asset structure (tangibility) and FRQ

This means Tang from 0 to 0.366 shows a negative association between Tang and FRQ_AEM. In addition, when Tang exceeds 0.366, this will positively impact FRQ_AEM. This implies that Egyptian-listed firms must have a minimum level of tangibility to maximize financial reporting quality practices. However, there is a negative, direct, and significant impact of cash holdings on FRQ.

Based on the above results, the findings of this paper conclude that some characteristics of AC may affect the FRQ in the selected sample of Egyptian listed firms, such as AC meetings and independence. While there are other characteristics that don't have any effect on FRQ, such as Ac size and gender diversity, The following table (13) summarizes the main research findings.

Table 13: Summary of the research findings

<i>Hypotheses</i>	<i>Expected Sign</i>	<i>Findings</i>	<i>Accepted/Rejected</i>
H1: There is a significant association between audit committee effectiveness and financial reporting quality.	+	+	Accepted
H1a: There is a significant association between audit committee size and financial reporting quality.	+	INS	Rejected
H1b: There is a significant association between audit committee meetings frequently and financial reporting quality.	+	+	Accepted
H1c: There is a significant association between audit committee gender diversity and financial reporting quality.	+	INS	Rejected
H1d: There is a significant association between audit committee independence and financial reporting quality.	+	+	Accepted

The findings confirm the following: (i) a positive association between AC size and FRQ, which is in line with some prior studies (Hamdan, 2020; Kantudu & Alhassan, 2022; Barzo eal., 2023), hence H1a is accepted, (ii) an insignificant association between AC meetings and FRQ, such finding is in contrast with other studies that show that there is a positive relation audit committee meetings and financial reporting quality (Setiawan *et al.*, 2020; Kabiru & Usman, 2021), hence H1b is rejected, (iii) an insignificant association between AC gender diversity and FRQ; where these finding is confirmed by some of the prior studies (Setiawan *et al.*, 2020) and contradicted with other studies that revealed a positive association between AC gender diversity and FRQ (Kabiru & Usman ,2021; Ola & Ijwo ,2023), then, H1c is rejected, and (v) a positive association between AC independence and FRQ, which are confirmed by some of the prior studies (Hamdan, 2020; Kantudu & Alhassan, 2022; Barzo eal., 2023) and contradicted with other studies (Setiawan *et al.*, 2020; Ola & Ijwo, 2023), hence, H1d is accepted.

6. CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

This study looks into whether a company's audit committee's effectiveness affects the quality of its financial reporting. To find out how much the audit

committee's size, meetings, gender diversity, and independence matter to the quality of financial reports as determined by earnings management, in particular, these attributes are analyzed.

The findings of the research indicate that firms with different characteristics of audit have a different relationship with earnings management practices. The quality of financial reports is more likely to be high in firms with a larger AC, as well as if the AC is independent. Furthermore, FRQ is also driven by the firm-specific characteristics of the sample under study of the Egyptian listed firms. Hence, the firm's size has a positive, direct, and significant impact on FRQ, whereas the capital structure has a negative, direct, and significant impact on FRQ. However, there is no direct, significant impact of firm profitability (ROA) on FRQ.

The current paper has some limitations that may constrain the generalization of the results; the selected proxies of the main variables used in this paper (AC and FRQ) are not necessarily suitable ones to represent such variables, and there are other proxies that might provide more reliable results. Furthermore, the sample used in this paper is limited to non-financial firms, and this revealed a small sample, reaching 48 with 327 observations, which might affect the ability to generalize the results.

However, future research on the effectiveness of AC and their impact on FRQ could explore several avenues, such as: (i) examining the role of technology, such as data analytics and artificial intelligence, in enhancing the effectiveness of AC and improving FRQ; (ii) assessing the impact of regulatory changes, such as new AC requirements or governance reforms, on AC effectiveness and FRQ. Event studies before and after regulatory changes can reveal their effectiveness and unintended consequences; (iii) explore the role of ACs in overseeing non-financial reporting practices, such as environmental, social, and governance (ESG) disclosures. Investigate how ACs can ensure the reliability and transparency of non-financial information, and (v) examine the interactions between AC and other board committees, such as the risk or compensation committees, and their collective impact on governance effectiveness and reporting quality. By exploring these avenues, future research can contribute to a deeper understanding of the role of AC in safeguarding FRQ and enhancing CG practices.

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Conflict of Interest

There is no conflict of interest involved in the publication of this paper.

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