The Role of Audit Committees To Support The Implementation of Corporate Governance and Enhance The Competitiveness of Companies in The Iraqi Business Environment

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Abstract: Corporate governance is not a goal in itself, but seeks to improve the performance of companies and ensure their access to capital at a reasonable cost, and that there is a relationship between governance and the degree of economic performance of the company, companies that enjoy good governance have good managers and good transparency and will inspire confidence to investors.

The audit committee represents one of the axes on which good governance is based, as the lack of an effective audit committee may achieve reform, but it will be deficient, which imposes the need to make efforts to activate the role of the audit committee in local joint stock companies, which contributes to strengthening governance practices and implementation mechanisms. It requires the efforts of many parties, especially the Iraq Stock Exchange and the Registrar of Companies, to follow up on the companies' compliance with the provisions of the legislation issued related to the Audit Committee and to reconsider them for the purpose of activating this on the one hand. The proposal for the structure and practices of the audit committee in Iraqi joint stock companies, which is an important step to clarify the essence of the audit committee and enhance its role in implementing corporate governance.

Keywords: audit committees, corporate governance, banks, business community.

1. Introduction

The subject of the Audit Committee has received the attention of many professional organizations, legislative bodies and bodies regulating the stock market in many countries, and the efforts of many researchers in accounting thought have participated in this aspect because of its important role in increasing the credibility of the financial statements and supporting senior management to carry out its tasks efficiently and effectively. In addition to its role in supporting the independence of both the internal and external auditors and improving the quality of the performance of the internal control system and the consequent improvement in the quality of professional performance.

They are the basic mechanisms for implementing and strengthening corporate governance, and governance practices cannot have a positive impact on the economy unless concerted efforts are made to create constructive interaction between its internal and external parties.

The presence of the audit committee contributes to enhancing communication and coordination between these parties and solving problems and difficulties that may arise between them, which increases the chances of the administration's implementation of the appropriate proposals submitted by the committee and the external auditor to improve the quality of professional performance or those related to the design or operation of the internal control structure and on time It will also represent the focal point for developing and upgrading financial reports, protecting the interests of shareholders through its supervision of the preparation of these reports, the performance of the management and the internal and external auditor, and improving their independence.

This imposes the importance of having the necessary ingredients to activate its role in the exercise of its activity in terms of its structure and the qualifications required for its members, in addition to defining its responsibilities, the tasks assigned to work with it, its work program, the powers and authorities granted to it, and evaluating the effectiveness of its performance. This is achieved by activating the local legislation related to the Audit Committee and strengthening it with complementary legislative texts while seeking to find a suggested guiding guide to be an important step for activating the Audit Committee and supporting corporate governance and its implementation mechanisms.

-Research Methodology:

The research methodology is as follows:

First, the research problem:

Corporate governance mechanisms mainly seek to protect and guarantee the rights of shareholders and all stakeholders associated with the company's business through provisions for control over the performance of the company's management and require the availability of ingredients that support and enhance its implementation, but the reality indicates that the local environment lacks one of the most important elements and mechanisms represented by the audit committee Effective as a result of the weak interest of the competent parties in the elements of its performance.

Second, the research objectives

The research seeks to achieve a set of goals, which are summarized as:

1- Determining the nature of the audit committee and the dimensions of its role in strengthening corporate governance and the mechanisms for its implementation

2- Studying the ingredients necessary for the performance of the audit committee's work and its structure in the experiences of multiple countries

3- Standing on the analysis and evaluation of local legislation that governs the audit committee of local joint stock companies

4- Drafting a suggested indicative guide for the structure of the audit committee and its practices in local joint stock companies based on the availability of a scientific basis to benefit from previous experiences of different countries, in addition to addressing the shortcomings in local legislation, thus contributing to increasing the effectiveness and objectivity of the published financial statements and supporting the internal and external auditor in performing their tasks, which It raises the level of accounting and auditing in Iraq on the one hand, and on the other hand contributes to measuring, developing and activating the audit committee in local joint stock companies.

Third: the importance of research

The importance of the research lies in the availability of the basic ingredients for activating the audit committee in local joint stock companies, which are determinants of its new role that it can exercise in promoting and supporting corporate governance and its implementation mechanisms. Also, defining the concept of the audit committee, its importance, the structure of its formation and the responsibilities assigned to it is an important tool that paves the way for the statement of the essence of the audit committee.

Fourth: the research hypothesis

The local legislation governing the audit committee is unable to provide the ingredients

The necessary means through which it can activate its role in strengthening corporate governance and mechanisms their implementation.

Fifth: Limitations of Research

1- The research was limited to conducting an analytical study of previous experiences of different countries in the field of their interest in the Audit Committee, and these countries were represented by the United States of America, Britain and France, which are the leaders in this field, along with Arab countries represented by Egypt, Saudi Arabia and Jordan, as the Arab countries are the first to care about governance Companies and organization of the accounting and auditing profession.

2- The research focused on paying attention to the structure of the audit committee and its practices in joint stock companies

Listed in the Iraq Stock Exchange, which implies that he was not exposed to the formation of that committee in companies that are not listed in the market or those that are affiliated with government units or non-profit organizations.

3- The research emphasized the importance of the audit committee in supporting and enhancing the implementation of corporate governance and its mechanisms, but the focus was mainly on each of the board of directors mechanism and its sub-mechanism of internal audit in addition to the external audit mechanism, without paying attention to the role of the audit committee in supporting other mechanisms to implement corporate governance companies.

First: The concept of the audit committee and its importance

The idea of forming an audit committee from part-time members of the company's board of directors appointed from outside the company spread to increase the effectiveness of the board, support and develop the accounting and control systems, and discuss issues and problems objectively. And to support the senior management to carry out its tasks efficiently and effectively and to support the independence of the internal and external auditors, as well as to improve the quality of the performance of the internal system and the consequent increase in the efficiency of the performance of the audit process) (Sami, 2009, 19)

This indicates that it represents the first line of defense to prevent violations of the authority and to confront the possibilities of defect or lack of confidence in the control system of the company by supervising and following up on all activities of the company independently, drawing conclusions and presenting its recommendations to the Board of Directors, in addition to its endeavor to support the independence of the internal and external auditor and increase the effectiveness of Internal control system and supervision of the reporting process.

Those who follow the concept of the audit committee will find that it has received great attention from specialized international scientific and professional bodies and researchers and has undergone a great development since its appearance more than half a century ago until the present time, due to the reasons:

1- The size of the board of directors and the lack of heterogeneity among the group of members in a way that is not commensurate with the arduous process that is full of details related to the audit of the company's financial statements.

2- The date for submitting the financial reports, as some countries require the actual publication of quarterly financial reports in addition to the annual reports, which requires more time and effort to accomplish this, and the involvement of all members of the Board of Directors in this task may take a long time is inefficient in allocating the resources of the Board Administration.

3- The nature of potential disputes that may arise between the interests of the management and the interest in the quality of financial reports, which may make it inappropriate for the members of the Board of Directors, including managers and executives, to enter into the preparation of reports, and instead seek the assistance of independent and qualified members of the Board of Directors to work in this field.

4- Effective supervision of the reporting process, specifically in large public companies, which require experience and practice in accounting and financial management, which indicates the importance of having independent board members with those qualifications to work in those areas (Raafat, 2007, 361).

Second: The structure of the audit committee and the qualifications of its members

The Audit Committee shall consist of members of the Board of Directors, provided that they are not less than three who have the following qualifications:

First: Independence: Independence is almost a universal principle and requires that the committee include a majority of non-executive board members who have the ability to exercise discretion and judgment independently of management, and beyond that, some countries see the need for them to be members of the truly independent board of directors whom they do not associate with. The company or its management has any links or interests to ensure its objectivity when analyzing the financial results and evaluating the administrative and company performance

Second: financial knowledge and experience. The complexity of financial instruments and corporate capital structures and the creative application of accounting standards push the need for members of the audit committee to have financial and accounting knowledge and experience. Finance

Third: Accumulated Experience: Attention should be paid to the accumulated experience of committee members who have a good understanding of work risks, operations, financial reporting, accounting and auditing standards, laws, control controls and administrative leadership, and their continuation of those experiences through training and continuing education.

Fourth: Due Diligence: Given the responsibilities entrusted to the Audit Committee and the complex nature of the accounting and financial affairs that they are entrusted with supervising and exercising, the Committee deserves an appropriate amount of the resource of the members of the Board of Directors, whether in terms of the number of members allocated to it or in terms of the time that the member allocates for its affairs. , Lillian, 2003, 208-212).

Third: - Responsibilities of the Audit Committee

Although the specific responsibilities of the audit committee may differ from one country to another and may vary based on the type and degree of complexity of the volume of work, the responsibility entrusted to the members of the audit committee is great because it represents an important part of the supervision and control process and has a real role in helping to maintain confidence The investor in the financial statements that he discloses, as the audit committee is generally entrusted with supervising three areas:

1- Preparing financial reports:

A - The responsibility for preparing financial reports is the responsibility of the financial administration, specifically the accountants, but the role of the audit committee in this aspect is the supervisory role The supervisory authority is to examine all annual or interim financial statements before approving Board of Directors on it and before its publication to ensure its objectivity, credibility, suitability and timely submission

B- Review the results of the internal and external audit and the observations contained in the report of the external auditor or his recommendations made to improve performance, operations and the internal control system.

T- Examination of all approved accountants' policies with a focus on showing the implications of the change in them on the financial statements and evaluating management policies with estimates that are influential and fundamental to the financial statements, in addition to focusing on the essential operations, especially those that are non-routine or subject to accountability or immoral

D-Consulting with the management and the external auditor about the financial statements and resolving any tangible differences that may arise between them when preparing them. (Loutfy, 2005, 827-828)

2- Internal control and risk management

A- Evaluating the effectiveness of the internal control system and ensuring the degree of compliance with it and in the laws and instructions in force

b- Ensuring that there is a formal process for identifying and managing risks at all administrative levels, and verifying the existence of an appropriate system for managing them

T- Assisting the Board of Directors in carrying out its oversight responsibilities, specifically in the field of managing the main risks that may affect the preparation of financial and non-financial reports for the company and seeking to understand the risk environment that may be exposed to the company and determining how to deal with those risks. , 2004, 16)

3- Internal and external audits

A- Following up and evaluating the effectiveness of the internal audit and its procedures, and determining the qualifications required in this field

b- A statement of the impact of significant changes in accounting principles and policies on the scope of the audit process

c- Solve problems, difficulties and disagreements that arise during the practice of the audit process, providing the required information at the appropriate time, and coordinating between the external and internal auditors and management.

D- Recommending the appointment or dismissal of the external auditor to the Board of Directors, determining his wages, and contributing controls on his participation in the provision of non-audit services.

C- Reviewing and approving the financial statements after completing the audit and before submitting them to the Board of Directors

H- Follow up on the external auditor's observations and recommendations and ensure that they are taken into consideration and addressed

g- Reviewing the scope of the audit to be performed by the external auditor, the time required for it, the procedures that will be used, and making recommendations to the Board of Directors in this area. (Al Moataz, 2007, 5).

Fourth: - The objectives of forming audit committees

One of the most important objectives of forming audit committees is.

1- Assisting the Board of Directors with its financial responsibilities: This goal is achieved by performing the tasks of audit committees authorized by the Board of Directors.

2- Ensuring the integrity and implementation of the internal control system: The audit committees must verify the adequacy of the internal control system and the effectiveness of its implementation, and then submit recommendations that would activate and develop the system to the Board of Directors in order to achieve the company's goals and protect the interests of shareholders and other stakeholders.

3- Supporting the independence of the internal auditor: This goal is achieved by following up on the internal auditor and establishing a direct channel of communication between him and the Audit Committee, receiving his recommendations, providing him with the necessary resources, and resolving problems and disputes that may arise between him and the administration.

4- Quality control of financial reports: committees aim to control the company's financial reports by examining the financial reports and studying the accounting policies and methods to reduce cases of fraud and illegal behavior in the financial reports, and then support confidence in the financial reports and increase their credibility

5- Supporting the independence of the external auditor: Many professional organizations recommended the formation of audit committees due to the role they play to support the independence of the external auditor through the fact that these committees are a channel of communication between him and the board of directors. (Sulaiman, 2008, 19).

Fifth: The entrance to the formation of audit committees

There are two entrances to the formation of audit committees:

A- The optional approach: Under this approach, companies have the freedom to choose and form their audit committees according to the company's conviction of the extent to which they need the role of these committees.

B- Mandatory approach: Under this approach, companies are obliged to form audit committees according to regulatory or legal requirements. their availability and the tasks they must perform during the financial period. Accordingly, the researchers see the necessity of mixing the two approaches: mandatory in the event of the beneficiaries' absence from the administration, and optional by convincing the administration of the expected benefits of forming audit committees (Al-Rahili, 2008, 102).

Sixth: The reality of audit committees in private banks

The 21 private Iraqi banks whose shares are traded in the Iraq Stock Exchange were selected out of the 30 banks, i.e. 70%, which were studied by the audit committee reports issued by them for the year 2009, and this study seeks to identify the adequacy of the disclosure of the information contained in the committee reports. .

Reports of the committees of these banks were taken for examination based on some indicators that were inferred from the nature of the work of the committees and the tasks entrusted to them, as well as the reporting standards that were developed in two main axes:

1- Disclosure of information related to the structure of the audit committee and some other information

2- Disclosing information related to some of the committee's tasks. (Emad, Khawla, 2011, 75).

Seventh: The Audit Committee's relationship with corporate governance and its implementation mechanisms

The responsibilities and tasks entrusted to the audit committee and the tasks assigned to it indicate the existence of a strong relationship between the audit committee and the concept of corporate governance and the mechanisms for its implementation in general. Its relationship with some other governance mechanisms and related parties will be addressed, as this relationship is determined through the following:

1- Relationship of the Audit Committee to the Board of Directors

One of the reasons for adopting the application of corporate governance stems from its importance as a tool to reduce risks and from the harms of the phenomenon of compatibility of interests between the company's management and its executive managers on the one hand, and auditors and other parties on the other hand. On the other hand, the Audit Committee plays a pivotal role in activating corporate governance and facing the risks it faces, and it contributes to assisting the administration to solve the problems it faces due to the impartiality, independence and expertise of its members and the inability of the Board of Directors to achieve this in isolation from the presence of the Audit Committee Because of its huge size and the work entrusted to it and the heterogeneity among its members that prompted it to form a specialized subcommittee in this field that seeks to activate the role of the board of directors to carry out its responsibilities and exercise the tasks entrusted to it efficiently and effectively through the audit committee verifying the The adequacy of the internal control system, its effective implementation, and making recommendations to the Board of Directors that would activate and develop the system in a manner that achieves the company's objectives and protects the interests of shareholders and investors with high efficiency and reasonable cost, in addition to its role in the policies adopted by the company before its adoption and any change in it and presenting what the committee deems to be of proposals in this regard, taking into account Considering their relevance to the nature of the company's business and its impact on the outcome of its business and its financial position, and studying the annual financial statements before submitting them to the Board of Directors, with strengthening communication between the external auditor and the Board of Directors, resolving disputes that may arise between them, and ensuring the company's compliance with the laws (Al-Rahili, 2008, 195-210).

2- The relationship of the audit committee with internal audit

Historically, the Audit Committee was responsible for supervising the annual financial reports prepared by the management, and today this role has extended to also ensuring the strength of internal control procedures and supervising external audit activities. For companies, which imposes the importance of the internal audit in cooperation with the Audit Committee, especially when identifying and managing risks and when examining the internal control system by providing continuous assessments of the risks to which the company is exposed and internal control measures to overcome those risks, to contribute to increasing the effectiveness and quality of management, strengthening the company's infrastructure and improving The effectiveness of this audit committee, on the one hand, and on the other hand, the internal audit function provides the audit committee with appropriate information regarding illegal acts, errors, inefficiency, weak control, conflict of interest and other information contained in the internal auditor's report.

At the same time, the Audit Committee supports internal auditing by providing the appropriate environment to perform its governance-related activities, and thus enhances the internal audit function to ensure the quality of the financial reports prepared by the administration, as the Audit Committee has a role in appointing, promoting, rewarding or dispensing the internal auditor and assisting In defining his qualifications and tasks and seeking the availability of sufficient resources to perform his tasks, this indicates that the quality of the complementary relationship between the two parties will be positively reflected on the quality of corporate governance (Issa, 2008, 76-79).

3-The relationship of the audit committee with external audit

The main objective of the audit committee is to confirm and increase the reliability and credibility of the financial statements. In order to achieve this, the audit committee seeks to support audit independence and help the external auditor to perform the audit process without any pressures that negatively affect the credibility or efficiency of its results and thus questioning the validity of his submitted report. This is through the committee undertaking the task of nominating the external auditor who will be appointed, dismissed or changed, evaluating his work and resolving disputes that may arise between the external and internal auditor or the administration. Improving the quality of professional performance and identifying the fundamental weaknesses in the operation of the internal control structure in a timely manner, as achieving coordination between members of the committee and the external auditor by defining the audit field and reviewing the financial statements before and after publication, whether those related to the approved accounting policies and the proposed changes or those related to the problems that The performance of his work can better enhance audit functions and support mechanisms for implementing corporate governance (Jacob, 2006, 72)

4- The relationship of the audit committee with stakeholders

There is no doubt that the concept of corporate governance focuses primarily on the supervisory aspect of companies, and therefore it is necessary to search for a mechanism to achieve this goal. Preparing financial reports, management performance, internal and external auditors, extending a line of communication between these parties, alleviating the problem of asymmetric information between management and the board of directors, and closing the expectations gap through Monitoring the administration and improving the independence of the external auditor. Its presence may achieve a relative decrease in the incidence of illegal actions, which is reflected in the high trading volume and stock prices. This confirms that the Audit Committee, as a mechanism of governance mechanisms, has a pivotal role in improving the quality of financial reports (Hassan, 2006, 6) .

Conclusion

1- Raising the awareness of the members of the Board of Directors of the importance of the Audit Committee and its active role in supporting corporate governance and its implementation mechanisms, supporting them in performing the tasks assigned to them, supervising financial control operations, obtaining appropriate information in a timely manner, and supporting their supervisory role.

2- Ensuring the importance of achieving effective coordination and communication between the committee and each of the board of directors and the internal and external auditor

3- The number of committee meetings during the year and their disclosure in the annual report, specifying the nature of the required reports and the powers granted

4- Obligating the company to issue an order to assign the committee and its agenda, and to be approved by the Board of Directors

5- Activating the practices of the Audit Committee to monitor the performance of companies and support them in applying the principles of corporate governance properly and strengthening the mechanisms for their implementation

6- It serves as a tool that paves the way for the statement of the Audit Committee.

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