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**ADDIS ABABA UNIVERSITY**

**FACULTY OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**(GRADUATE PROGRAM)**

**Effect of audit committee attributes on internal control over financial reporting:  
Perception of external auditors in Addis Ababa**

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial  
Fulfillment of the Requirements for the Degree of Master of Science in Accounting and  
Finance.**

**BY:**

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**September. 2020**

**Addis Ababa**

**Declaration**

I, KekronTefera, have carried out independently a research work on “Audit committee attributes on internal control over financial reporting: Perception of external auditors in Addis Ababa” in partial fulfillment of the requirement of the M.SC program in Accounting and Finance with the guidance and support of the research advisor. This study is my own work that has not been submitted for any degree program in any other university and that all sources of materials used for the thesis have been duly acknowledged.

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**ADDIS ABABA UNIVERSITY**

**POST GRADUATE STUDIES**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Effect of audit committee attributes on internal control over financial reporting:  
Perception of external auditors in Addis Ababa**

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## **Acknowledgement**

First, I would like to thank almighty God, the reason for the success. Secondly, my appreciation and thanks go to my advisor WollelaAbehodie (Ph.D.) for her devotion throughout the paper, invaluable comments, and inspiration to me to conclude this paper. I am also indebted to all those Auditors who gave their genuine response and cooperation in providing the necessary data requested. Finally, my thanks go to my husband AtoAyeleMelaku for his assistance to finish what I have started.

Thanks to you all!

## List of Abbreviations

AC	Audit committee
ACQ	Audit committee Quality
ACCA	Association of chartered certified accountant
APBG	Auditing Practices Board Auditing Guidelines
ASB	Auditing Standards Board
BODs	Board of Directors
CAQ	Center for audit quality
COSO	Commission of Sponsoring Organizations of the Tread way Commission
CEO	Chief of Executives Officer
CFO	Chief Financial Officer
CPA	Certified Public Accountant
EPESA	Ethiopian public enterprise supervisor authority
IIA:	Institute of internal auditors
ISA	International standard on Auditing
ICOFR	Internal Control over Financial Reporting
PCAOB	Public Company Accounting Oversight Board
PWC	Price water house coopers
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act

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## **Abstract**

*Audit committee plays an important role improving internal control and also increase financial reporting quality and this will boost confidence of interested parties. The main objective of this study was to assess the attributes of audit committee as per perception the experienced external auditors in Ethiopia. The study adopted a mixed research approach. The quantitative component used survey of employees working in 15 Audit firms in Ethiopia. Random sample of 150 Auditors were covered by the survey; the response rate was 86%. Survey data was collected by use of a structured questionnaire. Multiple regression models were used to test whether Audit committee size, independency, expertise, diligence, and tenure have any relation with internal control over financial reporting. As part of the qualitative component interviews with Audit managers and partners were held. And The collected data was analyzed multiple linear regression analysis and It was found that attributes of audit committee had a significant relationship with internal control over financial reporting. The findings of the study suggested that Audit committee attributes especially Independency, financial expertise and diligences are important areas that can have great impact to improve internal control over financial reporting and based on this corporate governance which have audit committee needs to have at least financially expert, independent, and diligent to achieve the intended objectives.*

**Keywords:** *-size, Independency, financial expertise, tenure and diligence.*

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Back ground of the study**

Known scandals of companies listed on the U.S. stock exchange in the beginning of this century (Enron & WorldCom) resulted in a lack of investors' confidence in the financial markets. In the cases of Enron and WorldCom, significant impact of deficiencies in internal control over financial reporting in internal control systems were present. Ineffective internal control environment can potentially create opportunistic behavior by managers that leads to earning mismanagement, misstatement of financial reporting and even accounting fraud.

Due to the scandals, the SEC (Securities Exchange Commission) established the Sarbanes-Oxley Act (SOX) in 2002. Passed by the U.S. federal law as a bill, SOX governs active public companies' financial reporting. Under SOX 302, management of large public firms is responsible for creating, maintaining, and reporting the effectiveness of the company's internal control system which reflects the level of quality of reported earnings. Additionally, under SOX 404, released in 2004, auditors are also required to attest the assertions made by management. There are many ways to measure the quality of reported earnings, one of them being accruals quality. Since the aim of SOX 302 and 404 is to provide reasonable assurance regarding the reliability and transparency of financial reporting, it is important to investigate the association between accrual quality and the disclosure of internal control material weaknesses.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a common internal control framework for firms to assess and standardize their internal control systems. Standard setters such as SEC expect firms to achieve effective and efficient operations, show the reliable financial reporting, and be compliant with applicable laws and regulations (COSO, 2013). By definition, internal control is a process that can provide reasonable assurance to achieve reliable financial reporting (PCAOB, 2004). Internal controls over financial reporting can improve the effectiveness and efficiency of the operational processes (Arens, Elder & Beasley, 2012). Meeting these expectations allows investors/shareholders to trust top management performance in safeguarding their assets

The U.S. Securities and Exchange Commission's rule 13a-15(f) define internal control over financial reporting as "a process designed by, or under the supervision of, the [company's]

principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting.

The Sarbanes-Oxley Act was passed in the US in 2002, having been drawn up following several high-profile accounting scandals, such as Enron, that seriously dented investor confidence. The Act brought significant legislative changes to financial practice and corporate governance regulation with the stated aim to “protect investors by improving the accuracy and reliability of corporate disclosures made under the securities laws.”

Krishnan (2005) refers to the Sarbanes–Oxley Act (SOX 2002, Section 2) to define the audit committee as ‘a committee (or equivalent body) established by and amongst the board of directors of an issuer to oversee the accounting and financial reporting process

s of the issuer and SOX also define internal control according to the definition of COSO internal control framework, which is the accepted internal control framework worldwide. The emphasis on good internal control arises because they consider it an important factor in achieving an outstanding quality of financial reporting.

PWC (2003) said that the board of directors' reviews internal control systems and the audit committee as a main sub-committee of the board, is delegated with responsibility for ensuring the integrity of the company's financial reporting by overseeing internal control and the financial reporting process. The audit committee is thus expected to play a significant role in maintaining and reviewing the effectiveness of the internal control system.

Besides Rittenberg (1994) the audit committee has oversight responsibility for corporate governance, the financial reporting process, internal control structure, IAFs, and external audit activities.

The effectiveness of internal control reporting will lead to good financial reporting quality. However, good financial reporting quality may not imply the effectiveness of internal control over financial reporting. From prior works of literature, there are Different measures of financial reporting quality, such as accruals quality (Dhaliwal, Naiker, & Navissi, 2010), financial reporting frauds (Beasley, 1996), financial restatements (Abbott, Parker & Peters, 2004), financial reporting misstatements (Abbott, Parker, & Peters, 2002). This shows that financial reporting quality also considers other factors and different issues to increase investors' confidence and also to achieve the intended aim.

## **1.2. Statement of the Problem**

Following an audit in 2009, Merrill Lynch announced that the company had understated its losses in 2008 by \$500 million. Auditors of Deloitte and Touche said that Merrill Lynch "had not maintained effective internal control over financial reporting" (Deloitte and Touch, 2009). The failure of internal controls remains the reason behind losses, whether they result from "ineffective" management or fraudulent conduct. The importance of effective internal controls was a primary reason for legislation like the Sarbanes-Oxley Act of 2002. Section 404 of this act requires public companies to file regular reports on the effectiveness of their internal control mechanisms. Yet, in the post-Enron and post-financial crisis environment we live in, stories like the one noted above persist.

As per Koigi (2016) In Ethiopia, there have been related stories about fraud existence of internal control the Commercial Bank of Ethiopia has lost more than \$314,000 to a bank fraud perpetrated at its headquarters. Twelve defendants, members of the same family, were charged with fraud. And again, in December 2012, \$296,000 was transferred from the bank into the account of a shell company called GBC construction plc. An amount of \$18,000 was also transferred into the account of another company called WDB construction plc. Bank frauds following the same pattern and design have been repeatedly committed in the past year. In March 2016, \$852,000 was transferred from the Ethiopian shipping lines and logistics services (ESLSE) account at the Commercial Bank of Ethiopia to the account of a fake company called welka plc.

According to Nashwa (2005), the audit committee is an integral element of public accountability and governance. It plays a key role concerning the integrity of the entity's financial information, its system of internal controls, and the legal and ethical conduct of management and employees. An audit committee's responsibility will vary depending upon the entity's complexity, size, and requirements. Typical audit committee responsibility includes approving the overall audit scope, recommending the appointment of the external auditor, overseeing the entity's financial statement and internal controls, helping to ensure that the audit is conducted cost-effectively, and risk management oversight.

BRC (1999) the audit committee should provide the public with correct, accurate, complete predictions, or uninformed expectations. As per Adana (2014) research Auditors only do their job in a way that secures their careers, their continuing contracts as auditors or promotes, the other business interests of their firm rather than a way that fulfills their legal and moral professional obligation to shareholders and other stakeholders. Even when fraud appears in a business, they cannot express their opinion on the fraud committed and fail to detect financial statements where fraud committed lies.

### **1.3. Research Objective**

#### **1.2.1 General objective**

In light of the problems highlighted above, the broad objective of this study is to assess the attribute of Audit committee quality on internal controls over financial reporting.”

### **1.2.2. Specific objective**

- ✓ *To identify which attribute of audit committee can affect internal control over financial reporting*
- ✓ *To what extent each audit committee attribute can affect the audit committee*
- ✓ *which attribute of audit committee can give more attention to the intended objective*

### **1.4. Research hypotheses**

Based on this broad research objective the following hypotheses (HP) and research question (RQ) were developed:

*HP1: The size of the audit committee affects internal control over financial reporting.*

*HP2: The independence of the audit committee affects internal control over financial reporting.*

*HP3: The Frequency of audit committee meetings affects internal control over financial control.*

*HP4: The financial expertise of the audit committee affects internal control over financial reporting.*

*HP5: Audit committee tenure affects internal control over financial reporting*

In addition to the above hypotheses, the study developed the following research question.

*Q1. What are the constraints of audit committee quality on internal control and financial reporting?*

### **1.5. Significance of the Study**

The output of this study will expect to enable the various company to revisit their audit committee's quality on their internal control and financial reporting problems and the study will also enable the governing body, specifically the management and the higher responsible body, to be aware of how audit committee quality can make an impact on the internal control over financial reporting and so again the results of this study will help as a reference for further research in the area.

### **1.6. Scope and Limitation of the Study**

Due to the limitation on resources, the scope of this research does not include details on the “why” and “how” to achieve the effectiveness of internal control over financial reporting (ICFOR). It is worthwhile to conduct a qualitative study using a self-administered questionnaire that was distributed to the authorized external auditing firm in the researches. And which was only done on selected audit firms and can’t cover whole audit firms because of the time and nature of work and the researcher can’t find the auditors easily because all of the auditors most of the time have spent their working time on the field which include up countries.

### **1.7. Structure of the Thesis**

The study was organized into five chapters. Chapter one is an introduction. In this chapter, the basic framework of the study including, the Statement of the Problem, Objectives, and research question with a hypothesis, significance of the study, and Scope and Limitations of the study were discussed. In Chapter two, a review was made on literature and related studies. Chapter three presented the research methodology that was used in carrying out the study. Chapter four presented results and discussion. Finally, chapter five provided concluding remarks and recommendations.

## **CHAPTER TWO: LITERATURE REVIEW**

This chapter reviews both the theories and empirical studies on audit committee quality on the effectiveness of internal control. The chapter is organized as a theoretical review (section 2.1), an Empirical review (section 2.2), and 2.3. Conceptual framework and conclusion.2.1.Theoretical Review.

### **2.1. Theoretical Review**

Debenedetti (2016) internal control enhances the reliability of financial reporting and helps to ensure that financial statements are free from major misstatements. This is important because stakeholders such as business owners, investors, and lenders all rely on the financial report to make decisions. Without internal control, businesses face an array of exposures that can drastically alter revenue-generating capability.

PACOB (2007) Effective internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. If one or more material weaknesses exist, the company's internal control over financial reporting cannot be considered effective.

PACOB (2007) Inaccuracies in a financial statement may occur, for example, due to mathematical errors, the misapplication of IFRS, or intentional misstatements (fraud). A system of ICOFR should address these possibilities. The risk of fraudulent financial reporting is a key consideration in the design and operation of public company internal controls. For example, market expectations for revenues, earnings, or other targets may create pressures on management to meet the thresholds. Effective ICOFR helps assure that corporate records are not purposefully misstated in response to those pressures. Controls should therefore be designed and implemented with the risk of fraud in mind and tailored to the particular circumstances of the company.

LaiWah (2011) the board of directors has general oversight responsibility for all of the company's activities, including the preparation of financial statements and the design and operation of controls. The board's oversight of ICOFR is delegated to the audit committee, which has specific responsibility for overseeing financial reporting under the Sarbanes Oxley Act.

CAQ (2013) The audit committee's activities usually include a review of the assessment of financial reporting risk; discussion with the management of significant control deficiencies and their potential impact on financial reporting; and evaluation of the quality of financial

reporting and related disclosures. Management officials with responsibility for ICOFR are expected to keep the audit committee apprised of the operation and effectiveness of controls. If the company has an internal audit staff, its work often includes testing controls and informing the audit committee of its findings relative to ICOFR. Under the Sarbanes-Oxley Act, the audit committee also is responsible for hiring and overseeing the activities of the independent auditor. The auditor's communications with the audit committee are an important source of information related to the company's ICOFR.

The Public Company Accounting Oversight Board's (PCAOB) auditing standards require that the auditor communicates to the audit committee an overview of the audit strategy, which typically includes a discussion of ICFR, based on the auditor's audit planning work.

PWC (2003) the board of directors is responsible for reviewing internal control systems and the audit committee, as a main sub-committee of the board, is delegated with responsibility for ensuring the integrity of the company's financial reporting by overseeing internal control and the financial reporting process. The audit committee plays a key role in monitoring financial reporting. Given its important role, it is expected that the quality of the audit committee determines the effectiveness of the system of ICOFR.

### **2.1.1. Audit Committee**

Demb and Neubauer(1992) audit committee Establishment has its purpose which is to focus on the issues of control and accountability on corporate affairs. Cobb (1993) identified four main purposes of establishing an audit committee namely: Reduction of board liability; establishing a link between the external auditor and the board; reduction of illegal activity; and the prevention of fraudulent financial reporting. Treadway Commission (1987) firmly emphasized that the primary role of the Audit Committee is to oversee the financial reporting process of the company. Later, Audit committee roles were further expanded to include monitoring of the management's financial performance or accountability, and the internal controls, as well as to be a means to enable non-executive directors to oversee the ethical behaviors of the management in respect of compliance with regulations and the company's codes of conduct.

Mautz and Neumann (1970) the role of an Audit committee was extended to enhance auditor independence or to ensure the quality of financial reporting and auditing process. In other

words, the Audit Committee serves as a link between the Board of directors and the external auditor, and it mediates potential conflicts or disputes between the management and auditors, all of which ultimately facilitates auditors to perform their job more independently. Brown et al. (2009) the Audit committees are traditionally responsible for oversight of auditing matters relating to the company's financial reporting.

Lin et al. (2008) noted Audit committee oversight roles and responsibilities for improving internal control, rules compliance, sound corporate financial reporting, and auditing processes. The key elements of an Audit committee oversight roles as mentioned in the BRC (1999) include Ensuring that quality accounting policies, internal controls, and independent and objective outside auditors are in place to accurate, high quality, and timely disclosure of financial and other material information to the board, to the public markets, and shareholders.

Laux and Laux (2009) the Audit Committee are responsible for monitoring the integrity and performance of a firm's internal audit functions. Oliverio and Newman (1993) identified the interaction between the internal auditors and the Audit Committee is likely to enhance the effectiveness and objectivity of internal audit functions. Naiker (2009) noted that the internal audit division acts as a comfort provider for the Audit Committee. A summary of the above studies concerning the Audit committee's role in internal auditing can be found in Wolnizer (1995) who stated that Audit committees are expected to: Evaluate the independence and competence of internal audit function, discuss with the chief of internal auditors about internal audit reports, the effectiveness of internal controls and problems in performing the internal audit. Review the scope of internal audits planned for the year; Review management's response to internal auditors' recommendations; Review and approve the internal audit budget; Review the relationship between internal and external auditors and coordination of their work; and, Appoint and dismiss the head of internal audit, Review the engagement letter prepared for the independent auditors.

Rezaee and Farmer (1994) ensuring reliable financial information is one of the most important functions of the Audit committees. There is pressure from the oversight role for the Audit Committee to get more involved to ensure the integrity of the financial reporting process. The establishment of the Audit committee improves the quality and accuracy of financial information, ensuring that the officers responsible for reporting and disclosure are more closely monitored and controlled.

Carnegie (1995) mentioned that the Audit committees are expected to: Review the findings of the external audit; Determine the completeness and appropriateness of management's response to audit findings; Evaluate independence of external audit function; Review the reasonableness of the external audit fees; Arbitrate in disputes between management and auditors; Nominate external auditors. Meanwhile, Kirk and Siegel (1996) argued that external auditors need the support of the BOD in performing their duties objectively and with integrity. To work independently, the external auditors need to have access to some relevant resources of the firm. At the same time, their activities need to be monitored and evaluated to ensure their accountability.

Beasley et al. (2009) also found the Audit Committee member's dependency on external auditors in performing their oversight responsibilities. Zain and Subramanian (2007) emphasized the need for a good relationship between external auditors and Audit committees through private meetings and informal communication. Therefore, Audit committees can play a significant role in dealing with External auditors.

### **2.1.2. Internal Control**

Statements of accounting standard (SAS, No55) internal control as a mixed plan, technique, and strategies used to safeguard assets, promote the effectiveness of operation, and adherence to prescribed policies and directives. The wider definition of internal control by way of United Kingdom auditing practice committee (1979) described internal control as the total system of control, monetary and operational to elevate an enterprise of any employer to safeguard asset, make certain the completeness, accuracy of records. Detect blunders and fraud and make a sure well-timed document of monetary information.

Internal control definition made by COSO (1992) and APB (1999) the two sources define internal controls as a process, effected via an entity's board assurance concerning the fulfillment of the organization's goals in the effectiveness and efficiency of operations, reliability of monetary and administration reporting, compliance with relevant legal guidelines and regulations, and defend the organization's reputation. Regardless of the source, all have the factor of accident associated with the definition of internal control. These factors are referred to as the cause or features of internal control. Accordingly, internal control is designed and operated

to safeguard assets, adherence to policies, and directive and promotion organizational efficiency to attain the desired objective.

Regarding the purpose of internal control Walter and William (1982) accomplish the function of internal control as a financial management viewpoint and administrative control, economic manipulate referred to as manage to shield asset towards unsuitable disbursement and make sure the accuracy and reliability of financial records. Administrative control is used to make sure attainment of organizational objectives, making sure efficiency and effectiveness of operation procedures. This classification of the function of internal control is in line with the statement of accounting standard which classified internal controls as accounting function and administrative role. Accounting position is a format and coordination to protect the asset and make certain reliability of financial records. While administrative control is a plan and coordination used to supply assurance of and adherence to administration policies and directives.

An Act of Sarbanes Oxley (2002) statement of audit standard make the management accountable for internal control established in the organization. Among its provisions, SOX section 302 required the company CEO and CFO in public submitting to renowned their accountability for setting up and preserve internal controls and to record on the modern-day operational effectiveness of the corporation's inside manipulate the machine. The definition of internal control by MOFED (1997) indicates that internal control is adopted by the head of the public body to assist in achieving its objective the mandate of managers on the established internal controls make the management to provide reasonable assurance on the effectiveness of the controls.

#### **2.1.2.1. Components of Internal Control**

The components of internal control are no different in many sources. Some sources refer them the elements or frameworks while some others refer to its standards of internal control. The Committee of Sponsoring Organizations (COSO), Act of Sarbanes Oxley, and American Institute of Certified Public Accountants (AICPA) claim effective internal control should primarily have five elements namely; control environment, control activities, risk assessment, information and communication, and monitoring. Each of the elements was discussed as per COSO, Sarbanes Oxley and AICPA as follows.

#### **Control Activity**

Sarban-oxley (2006) Control activities are the actions mounted via insurance policies and processes that assist to make sure that management's directives mitigate dangers to the fulfillment of targets are carried out. Control things to do are carried out at all stages of the entity, at quite a several levels inside enterprise processes, and over the science environment. They may additionally be preventive or detective in nature and can also embody a vary of guide and computerized things to do such as authorizations and approvals, verifications, reconciliations, and enterprise overall performance reviews. Segregation of responsibilities is normally constructed into the choice and improvement of managing activities. Where segregation of responsibilities is now not practical, administration select and develops choice manipulate things to do.

COSO (1994) stated that control activities should be a quintessential part of everyday activities. A high-quality internal control system requires that an appropriate control shape is set up, with control activities described at each enterprise level. This ought to include: pinnacle stage reviews; terrific endeavor controls for exceptional departments or divisions; bodily controls; checking for compliance with publicity limits and follow-up on non-compliance; a gadget of approvals and authorizations; and, a machine of verification and reconciliation. A tremendous interior management device requires that there is splendid segregation of responsibilities and these personnel are now not assigned conflicting responsibilities. Areas of practicable conflicts of pastime must be identified, minimized, and issue to careful, unbiased display.

### **Risk assessment**

COSO (1994) Every entity faces a range of risks from the exterior and inner sources. Risk is described as the opportunity that a tournament will show up and adversely affect the success of objectives. Risk evaluation includes a dynamic and iterative technique for figuring out and assessing dangers to the success of objectives. Risks to the fulfillment of these targets from throughout the entity are regarded relative to mounted hazard tolerances. Thus, chance evaluation types the groundwork for figuring out how dangers will be managed. A precondition to threat evaluation is the institution of objectives, linked at special tiers of the entity. Management specifies goals inside classes touching on to operations, reporting, and compliance with adequate clarity to be capable to perceive and analyze dangers to these objectives.

AICPA (1988) Management additionally considers the suitability of the targets for the entity. Risk evaluation additionally requires the administration to reflect on consideration on the

influence of viable modifications in the exterior surroundings and inside its very own enterprise mannequin that may additionally render inside manipulate ineffectively. This hazard evaluation ought to be performed at the stage of character corporations and throughout the extensive spectrum of things to do and subsidiaries of the consolidated organization. This can be executed through quite some methods. Effective threat evaluation addresses each measurable and non-measurable component of dangers and weighs prices of controls towards the advantages they provide.

### **Monitoring**

COSO (1994) Ongoing evaluations, separate evaluations, or some mixture of the two are used to confirm whether or not each of the 5 factors of inside control, inclusive of controls to affect the concepts inside every component, is existing and functioning. Ongoing evaluations, constructed into commercial enterprise approaches at special degrees of the entity, grant well-timed information. Separate evaluations, performed periodically, will range in scope and frequency relying on an evaluation of risks, effectiveness of ongoing evaluations, and different administration considerations. Findings are evaluated in opposition to standards installed with the aid of regulators, diagnosed standard-setting our bodies or administration, and the board of directors and deficiencies are communicated to administration and the board of directors as appropriate.

AICPA (1988) Monitoring of key dangers ought to be a section of the day by day things to do of the financial institution as nicely as periodic critiques via the business strains and internal audit. Monitoring the effectiveness of internal controls can be finished via personnel from quite a few one-of-a-kind areas, which includes the business function itself, monetary manipulation, and interior audit. For that reason, senior administration must make clear which personnel is accountable for which monitoring functions. Monitoring must be a section of the day by day things to do of the companies additionally consist of separate periodic reviews of the ordinary internal control process.

COSO (1994) The frequency of monitoring specific things to do of organizations need to be decided by way of thinking about the dangers concerned and the frequency and nature of adjustments going on in the running environment. Ongoing monitoring things to do can provide the benefit of shortly detecting and correcting deficiencies in the gadget of inside control. Such

monitoring is most wonderful when the gadget of inside manipulate is built-in into the working surroundings and produces ordinary reviews for review.

### **Corporate governance**

According to Jhonkanu (2016) cited as Corporate governance has currently acquired a lot of interest due to Adelphia, Enron, WorldCom, and different excessive profile scandals, serving as the impetus to such latest U.S. rules as the Sarbanes-Oxley Act of 2002, viewed to be the most sweeping company governance law in the previous 70 years. The code of company governance highlights the want for a company to hold a true machine of inside controls to control the dangers that the association is susceptible to. In addition to that manipulate surroundings and accounting facts device and verbal exchange used to be mentioned below. The manipulate surroundings is the set of standards, processes, and constructions that grant the groundwork for carrying out inside manipulate throughout the organization.

COSO (1994) The board of directors and senior managers establishes the tone at the pinnacle related to the significance of interior management consisting of predicted requirements of conduct. Management reinforces expectations at quite some ranges of the organization. The manipulate surroundings consist of the integrity and moral values of the organization; the parameters enabling the board of administrators to elevate out its governance oversight responsibilities; the organizational shape and challenge of authority and responsibility; the method for attracting, developing, and maintaining capable individuals; and the rigor round overall performance measures, incentives, and rewards to pressure accountability for performance. The ensuing manipulates surroundings have a pervasive have an impact on the ordinary machine of inner control.

### **Information communication**

AICPA (1988) Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives.

Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining the necessary information.

COSO (1994) adequate information and effective communication are imperative to the perfect functioning of a machine of internal control. From the bank's perspective, for

information to be useful, it should be relevant, reliable, timely, accessible, and furnished in a consistent format. Information consists of internal financial, operational, and compliance data, as well as external market data about activities and circumstances that are applicable to decision making. Internal information is part of a file keeping procedure that should include established methods for record retention.

#### **2.1.2.2. Limitations of Internal Control**

COSO)1994) Internal control presents real looking assurance of attaining the entity's objectives, barriers do exist. Internal control can't stop awful judgment or decisions, or exterior activities that can purpose an enterprise to fail to gain its operational goals. In different words, even a high-quality gadget of internal control can trip a failure. Limitations may also result from the suitability of targets installed as a precondition to inside control, fact that human judgment in selection making can be erroneous and issue to bias, breakdowns that can appear due to the fact of human disasters such as easy errors, the capability of administration to override internal control, the capacity of management, different personnel, and/or third parties to keep away from controls via collusion and exterior events past the organization's control.

COSO (1994) these limitations preclude the board and administration from having an absolute assurance of the fulfillment of the entity's targets that is; internal control gives practical however no longer absolute assurance. Notwithstanding these inherent limitations, the administration needs to be conscious of them when selecting, developing, and deploying controls that minimize, to the extent practical, these obstacles.

#### **2.1.2.3. Internal Control over Financial Reporting**

The U.S. Securities and Exchange Commission's (SEC) rules define internal control over financial reporting as

“a procedure designed by, or under the supervision of, the [company's] fundamental government and predominant monetary officers, or individuals performing comparable functions, and effected by using the registrant's board of directors, administration and different personnel, to supply life-like assurance related to the reliability of financial reporting and the preparation of financial statements for external functions per GAAP and includes these policies and methods that, Pertain to the maintenance of records that, in real looking detail, precisely and fairly reflect the transactions and dispositions of the belongings of the corporation;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements under GAAP and that receipts and expenditures of the company are being made only under authorizations of management and directors of the company; and Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Krishan (2005) Internal Control over Financial Reporting is intended to supply real looking assurance regarding the reliability and protection of financial reporting and to verify that external financial reporting complies with legitimate legal guidelines and accounting standards. The Board of Directors has the final accountability for chance administration and internal control which is continually monitored by way of the Audit Committee The emphasis on suitable internal control arises due to the fact it is regarded as a vital aspect in accomplishing suitable fantastic economic reporting.

SEC (2002) ICOFR became a well-known component of internal control as a result of Section 404 of the Sarbanes-Oxley Act (SOX) of 2002, which requires both managers and auditors to assess and publicly disclose the effectiveness of ICOFR.

In May 2019, in its efforts to continually improve audit quality and to enhance investor confidence and public trust in the global capital markets, the CAQ reissued its Guide to Internal Control over Financial Reporting to educate stakeholders on the purpose and benefits of ICOFR.

SEC (2002)The information gives an overview of the structure and design of ICOFR and stresses the significance of internal processes and controls to the integrity of financial reporting. The information explains what ICOFR is and describes management's duty for implementing effective ICOFR. It additionally discusses the duties of the audit committee to oversee ICOFR and of the independent auditor to audit the effectiveness of the company's ICOFR. As a reminder, public corporations are required to set up and hold a device of internal accounting controls sufficient to provide realistic assurance that transactions are recorded as vital to allow the preparation of financial statements under GAAP.

SOX brought a requirement below Section 404(a) that management annually assesses the effectiveness of the company's ICOFR and report the results to the public. SOX also requires the most massive issuers beneath section 404(b) to have an integrated audit performed utilizing their external auditor.

COSO(1994) An ICFR framework provides shape and instruction for administration on how to design, enforce, and preserve internal controls that efficiently and successfully tackle financial reporting risks. Using an acknowledged framework assures oversight boards, stakeholders, and regulatory bodies that the organization is taking a systematic method based totally on excellent practice. COSO is one frequently used and mentioned framework (see [coso.org](http://coso.org) for extra information). An ICFR framework is regularly managed and maintained by using imposing an annual process. This usually consists of threat and scope assessments, design maintenance and improvement, communications and training, non-stop or periodic monitoring, and checking out and reporting on status and results.

#### 2.1.2.4. Reasonable Assurance

CAQ (2019) guided that no system of ICFR can supply absolute assurance internal control structures are operated by way of individuals, and individuals inevitably make mistakes. Further, whilst nice ICFR is a criminal requirement for some public companies, fee concerns may additionally affect the graph of control systems. For these reasons, it is not possible to create a realistic control system that will become aware of or forestall all manageable errors. Also,

PACOB (2015) assures that intentional misconduct, such as fraud, collusion, or administration override, may additionally forestall controls from operating as intended, regardless of how nicely they are designed. Accordingly, control systems can furnish reasonable, however no longer absolute assurance that financial statements are dependable and organized under GAAP. What is life like depends on the information and situations of every specific situation. The securities legal guidelines outline lifelike assurance as the degree of assurance that would fulfill prudent officials in the behavior of their very own affairs.

#### 2.1.2.5. The Control Environment as per internal control over financial reporting

COSO (1994) One key component of ICFR is the control environment the structures and values within the organization. Controls designed to generate reliable financial reporting are more likely to succeed in the company's culture, including the "tone-at-the-top" established by senior management, reflects the importance of integrity and ethical values and a commitment to reliable financial reporting. Some indicators of a positive control environment include statements and actions of the board of directors and senior management that demonstrate support for effective controls; issuance and enforcement of an appropriate corporate code of conduct; and training programs that equip employees to identify and deal with ethical issues.

### Control Activities

SEC (2002) Control activities the specific policies and procedures designed to mitigate financial reporting risk are another key component of ICOfR. Control activities are as varied as the business activities of public companies. Three concepts segregation of duties, preventive and detective controls, and entity-level and process-level controls help understand control activities.

### Segregation of Duties

AICPA (2004) One key component of ICOfR is the control environment the structures and values within the organization. Controls designed to generate dependable financial reporting are more possibly to prevail if the company's culture, including the "tone-at-the-top" established by using senior management, reflects the significance of integrity and moral values and a dedication to dependable financial reporting. Some indications of high-quality control surroundings consist of statements and actions of the board of directors and senior management that demonstrate support for effective controls; issuance and enforcement of an appropriate corporate code of conduct; and coaching programs that equip employees to identify and deal with ethical issues.

### Preventive and Detective Controls

SEC (2002) In broad terms, controls fall into two classes preventive controls and detective controls. Preventive controls are meant to stop the incidence of an undertaking that is no longer constant with management objectives. For example, Separating Approval and Payment. A requirement that an employee who is licensed to provoke a charge to a dealer is now not additionally licensed to signal dealer charge tests would be a preventive control. Among different things, such a manipulate is designed to minimize the hazard of unauthorized payments, Limiting Access to ITS Systems. Controlling get right of entry to software program applications associated with accounting or price features via the use of passwords and get right of entry to codes is every other kind of preventive control. Limiting individuals who can exchange IT packages reduces the chance of unauthorized transactions.

AICPA (2004) Detective controls are supposed to discover blunders or unauthorized things to do after they have occurred so that corrections can be made in a well-timed manner. For example, Reconciliations. Independently evaluating two units of files that relate to the equal transaction and examining any variations is a detective control. Reconciling the money account stability on the company's books to its financial institution archives could discover whether or

not any repayments recorded through the company had been now not obtained by way of its bank, or whether or not any withdrawals pronounced through the financial institution have been now not accounted for via the enterprise Performance monitoring. Comparing running effects to budgets or forecasts, or the consequences in prior periods should be a way of highlighting uncommon activities. Examining deviations would possibly find blunders in the archives reflecting running outcomes or unanticipated modifications in enterprise activities.

## **2.2. Empirical Review**

This section provides an overview of the previous research on audit committee attribute based on its characteristic of internal control with its related financial reporting quality. Thereby focus on the relevant literature that relates to this research objective.

Kusnadi et al. (2005) inspect three features (independence, expertise, and overlapping membership) of audit committees and their effect on the financial reporting quality for Singapore listed companies. They employed cross-sectional regression analysis to test the impact of audit committee characteristics on financial reporting quality in Singapore. they have sampled around 782 firms listed on the Singapore Exchange as of 31 December 2010. They manage to extract 539 non-financial firms with accounting data in the fiscal year 2010 from the COMPUSTAT(international database including data on over 42,000 non-North American companies((active and inactive)) global database and they excluded 101firms without at least five years of consecutive financial data available for computing accrual quality for the fiscal year 2010 and another 15 firms with missing values on control variable for the subsequent regression analyses.

They then manually collect the data from the board of directors and audit committees for the remaining 423 non-financial companies from their respective annual reports for the fiscal year 2010. Their final sample consists of 423 firms with complete financial data as well as board and audit committee characteristics data for the fiscal year 2010, which is much larger than the 139 samples. The key outcome is that financial reporting quality will be advanced if audit committees have mixed expertise in accounting, finance, and/or supervisory. Also, they did not find an indication that incremental independence of audit committees boosts financial reporting quality because audit committees already comprise of a common of independent directors. They

conclude based on the results of how policies have a basic impact on improving the effectiveness of financial reporting quality.

Yip(2019) he studied audit committee characteristics with its related audit quality based on archival modeling that assesses the relationships between effective audit committee characteristics (size, independence, financial expertise, meeting frequency, directorship, tenure, and age of audit committees) and perceived audit quality with questionnaire survey study that can explore the effects of external auditors' trust in audit committee members on both their interactions and perceived audit quality in Hong Kong. In the archival modeling study, he took data obtained from the Hong Kong Hang Seng Composite Index between 2010 and 2015, his findings suggest that their financial expertise, size, tenure, and age are important factors of perceived audit quality. Kong Hang Seng Composite Index because it covered 95 percent of the market capitalization of listed companies (Hang Seng Indexes, 2018).

The period of his study is from 2010 to 2015. An effective AC assumes even greater importance to constrain earnings management by ornamental audit quality after the financial crisis because managers are under the enormous burden to manage earnings to establish that the financial position and performance of a company continue to be strong. Data on corporate governance variables were hand collected from 2010 to 2015 annual reports for each company. He studied the directors' profiles and the corporate governance reports to identify AC and board characteristics and also collect financial data for control variables and calculation of discretionary accruals, a proxy for audit quality from DataStream, and annual report. His result also indicates that their expertise enables them to fulfill their oversight role competently, whereas their size provides them with sufficient resources to be able to perform their roles. Similarly, their length of tenure enables them to obtain more experience and knowledge of the operations of companies, while their age indicates that they may have less energy to perform their oversight role and have difficulties in keeping abreast of the changing environment of companies.

Dang and fang (2018) they are trying to review the benefit of regulation based on internal control over financial reporting report which can relate to external auditors and the benefit of reporting to improve financial reporting quality, they based on Chinese government Basic Standard for Enterprise Internal Control in 2008 and other related guidelines/regulations in the following years (hereafter China SOX). Formal adoptions of China SOX require management

and external auditor's report on the effectiveness of internal control over financial reporting (ICFR). The purpose of their study was to investigate whether China's external auditor attestation of ICFR discourage earnings management, an indicator of financial reporting quality. They used performance-matched discretionary accruals as the proxy for earnings management. they empirically analyzed a sample of Chinese public firms for the period 2011-2013 and find that: (1) Chinese firms that disclose audited ICFR reports revealed lower earnings management than firms that do not; (2) Chinese firms that are instructed to disclose audited ICFR reports revealed lower earnings management than firms that voluntarily disclose audited ICFR reports. their empirical results seem to suggest that verification of the effectiveness of ICFR rejects earnings management and therefore recover financial reporting quality. Ali et al. (2018) studied the contemporary timeliness of financial reporting in the United Arab Emirates (UAE), and the effect of audit committee effectiveness on this timeliness. Timeliness of financial reporting in this study is measured by audit report lag (ARL), which is the number of days between the date of the financial year-end and the date of the audit report.

The data from listed companies on the UAE capital markets; Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), for three years from 2011 to 2013 resulted in 298 observations.

The main statistical techniques of the study are means and multiple regressions. The findings show that generally, all companies meet the submission deadlines imposed by the two UAE markets. Furthermore, ARL is influenced by audit committee size and profitability, while no evidence is found to support the effect of audit committee expertise, audit committee meetings, and firm size on ARL.

The results of the study show that only audit committee size has a significant influence on reducing ARL. This may be attributed to having minimal variation in the implementation of the Code of Corporate Governance (CCG), particularly audit committee attributes, in the UAE. Based on their research timely audited financial reports are demanded by local and international investors to make decisions and alleviate speculation. Thus, determining audit committee attributes that reduce ARL is beneficial to the UAE markets, the listed companies, and investors.

Mat and Sherlize (2012) tries to examine the association of audit committee expertise and internal audit function characteristics, with audit quality, using publicly available

information, they use as a sample 200 Malaysian listed companies through the year of both 2009 and 2010. They tried to show the positive relationship between external audit fees and two of the audit committee characteristics, i.e. audit committee with postgraduate qualification and frequency of audit committee meeting. Further, a positive relationship was found between external audit fees and a characteristic of the internal audit function, which is the size of the internal audit function. Apart from contributing to the literature on corporate governance and audit quality, this study may serve as an input for regulators to encourage strict enforcement for Malaysian listed companies to incorporate corporate governance practices, especially in respect of audit committee composition and internal audit function. They also highlighted the call for continuous education for directors, to become more resourceful to improve their relationship with auditors.

Ali et al. (2017) they studied mainly to investigate the impact of audit committee (AC) effectiveness on the internal control system of commercial banks through the use of four of its characteristics namely AC meetings, meeting frequency between AC and internal auditors (IAs), AC reviews and internal audit proposals and lastly, AC reviews of the internal audit results. Their results were achieved by using data gathered from the Yemeni commercial banks through the questionnaire survey method. A total of 88 usable questionnaires out of 170 questionnaires distributed to 17 commercial banks were considered suitable for analysis. The results showed that the AC effectiveness, represented by meetings frequency between AC and IAs, AC reviews of the internal audit proposals, and audit reviews of the internal audit significantly related to the commercial bank's performance. Literature also reviewed AC characteristics that are relevant to study, and practical implications as well as recommendations for future studies were provided based on their hypothesis.

Abdulsaleh (2014) his study aims to recognize the practices that should be taken into deliberation by audit committees as an implementation of corporate governance in Libyan commercial banks by investigating various perceptions on his topic. His study is based on a questionnaire submitted to audit committees 'members at Libyan commercial banks, directors of internal audit departments as well as members of the board of directors at these banks in addition to some external auditors and academic staff from Libyan universities. His study shows that the role of audit committees has to be shifted from traditional areas of accounting to a broader role

including functions related to financial reporting, audit planning, support the independence of internal and external auditors, acting as a channel of communication between external auditors and board of directors, reviewing the external audit, and evaluating internal control systems. Although the study is an initial point in developing as the outline of good audit committees' practices in Libya, his beliefs indicate that the adoption of his results can result in enhancing the corporate governance practices not only in the banking sector but also in the entire corporate sector in Libya.

In Nigeria there have been studies more related to the objective of this study and the first study was made by Aderem (2011) to evaluate the impact of audit committee attribute on financial reporting quality in Nigeria quoted companies and multivariate regression technique was utilized to estimate the model and the findings showed that each of the audit committee independence, audit committee size and audit committee meeting attendance had a positive.

Oji et al. (2017) were evaluating the effect of Audit Committee Qualities on Financial Reporting of listed companies in Nigeria. The study used structured questionnaires administered to a sample of 145 administrative staff of selected listed companies located in Rivers State, Nigeria to elicit the required data for hypothesis testing. The statistical technique employed in testing and analyzing the hypothesis was the Ordinary Least Square regression analysis to accurately establish the effect of the dependent and independent variables with the aid of version 17.0 of the Statistical Package for Social Sciences (SPSS) computer software. Results of the analyses suggested that audit committee independence, audit committee members' qualification, and audit committee monitoring function have a significant and positive effect on the financial reporting of listed firms in Nigeria.

Joseph et al. (2018) examined the effect of audit committee independence and size on financial reporting quality of listed deposit money banks (DMB) in Nigeria. The cross-sectional data method used from the Nigerian Stock Exchange fact books and the financial statements of fifteen (15) listed deposit money banks over ten years (2007-2016). The modified Jones (1991) model was used to measure financial reporting quality. The data were analyzed using STATA 13. The study reveals that audit committee independence has a negative but significant effect on the financial reporting quality of listed deposit money banks in Nigeria. Also, audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in

Nigeria. They resolved that audit committee independence has a negative and significant effect while audit committee size is positive and has an insignificant effect on financial reporting quality of listed deposit money banks in Nigeria. Based on the conclusion, the study recommends that (i) Deposit money banks in Nigeria should certify that their boards are independent as this is likely to boost financial reporting quality; and (ii) Management of deposit money banks in Nigeria should consider the provisions of the Nigerian code of corporate governance in audit committee composition.

Madawaki (2012) examined whether the formation of audit committees and their characteristics are associated with improved financial reporting quality. His sample from Nigerian listed companies before and after the introduction of mandatory audit committee requirements in The Code of Corporate Governance in 2003. He also used secondary data from the archived date of annual reports. He used the model used by Dechow and Dichev (2002).

(Dechow and Dichev (2002)) model measures abnormal accruals as the residuals from regressions of changes in working capital accruals on past, present, and future and formula). operating cash flow was used to measure the earnings quality as a proxy for financial reporting quality.

His result indicates that there was some evidence that earnings quality significantly reduced in the years after audit committee formation, thus providing some support for the notion that the formation of the audit committee improved financial reporting quality.

His Second finding shows that there was a weak association between the characteristics of the audit committee and improved financial reporting quality. The audit committee's independence and expertise are found to significantly associate with improved financial reporting quality. The audit committee meets 4 to 5 times a year and the audit committee size consist of 4 members. The result also shows that 70% of the sample firms employed Non-Big 4 auditors. These findings offer a sign of the mandatory audit committee condition under the NSE listing rules on how the companies respond towards the Code

Kirubi (2018) aimed at this study to form the effect of audit committee characteristics on the quality of financial reporting in non-commercial state corporations in Kenya. Specifically, he identified the audit committee characteristics which he has included independence, diversity,

financial competence, and meetings on the quality of financial reporting. He tried to study all the non-commercial state corporations.

The study was founded on agency theory, stewardship theory, the policeman theory, lending credibility theory, theory of inspired confidence, and stakeholder theory. He reviewed and analyzed empirical evidence and identified research gaps. he has adopted a descriptive research design and the target population of the study was the 72 noncommercial state corporations that existed after the introduction of Treasury guidelines in 2005 on the formation and operationalization of audit committees in the public sector. He has used census on all 72 state corporations.

The study employed purposive sampling to select the respondents from the target population. he used primary and secondary data. Primary data was obtained from the administration of the questionnaires and the secondary data obtained from the Kenya National Audit Office annual reports, Audited Financial statements of state corporations, and Finance Bills of the respective financial years. Descriptive statistics used were frequencies, mean and standard deviation, while inferential statistics used are correlation and regression analysis. Regression analysis was employed to measure relationships between dependent and independent variables. The findings from both correlation and regression analysis revealed that audit committee independence, audit committee diversity, audit committee financial competence, and audit committee meetings had a statistically significant relationship with the quality of financial reporting.

Krishnan (2005) examines the association between audit committee quality, expertise, and the quality of corporate internal control. The empirical results are based on a comparison of companies disclosing such internal control problems with a control sample of companies disclosing such internal control problems. Audit committee quality was measured in three dimensions: its size, its independence, and its expertise the internal control and material weakness. The sample time precedes the effective dates of recent policy changes regarding audit committees. The results indicate that independent audit committees with financial expertise are significantly less likely to be associated with the incidence of internal control problems.

Abbott et al. (2004) address the effect of certain audit committee characteristics on the likelihood of financial restatement and they examine 88 restatements of annual results in the

period 1991-1999 together with a matched pairs control group of firms of similar size, exchange listing, industry, and auditor type and they find strong evidence that independence, audit committee diligence, and the presence of at least one director with financial expertise on the audit committee are associated with a lower incidence of a restatement.

Rono (2016) established the effect of audit committee size and experience on firm Performance among listed firms in the Nairobi securities exchange, Kenya. The study is informed by agency theory and institutional theory. The study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2006 to 2011. Multiple Regression was used to test the hypothesis.

Research findings showed that audit committee experience and audit committee size have a significant effect on firm performance. The presence of audit members with experience will also reduce financial misreporting and enhance quality monitoring. As such, having experienced audit committee members should be a key priority for firms.

Mohamed et al. (2018) was studied to establish the role of audit committee financial expertise on the financial performance of banking and insurance firms in the Nairobi Securities exchange. This study adopted an explanatory research design.

The study target population was banking and insurance firms listed on the Nairobi Securities Exchange for the period ranging from 2011-2016.

The study used a census sampling design. The study used secondary data collected from financial reports. Regression analysis was used to address the objectives of the study. The results indicated a positive significant influence of audit committee independence and financial expertise of the audit committee on the financial performance of banking and insurance companies.

### **Knowledge gap Identification**

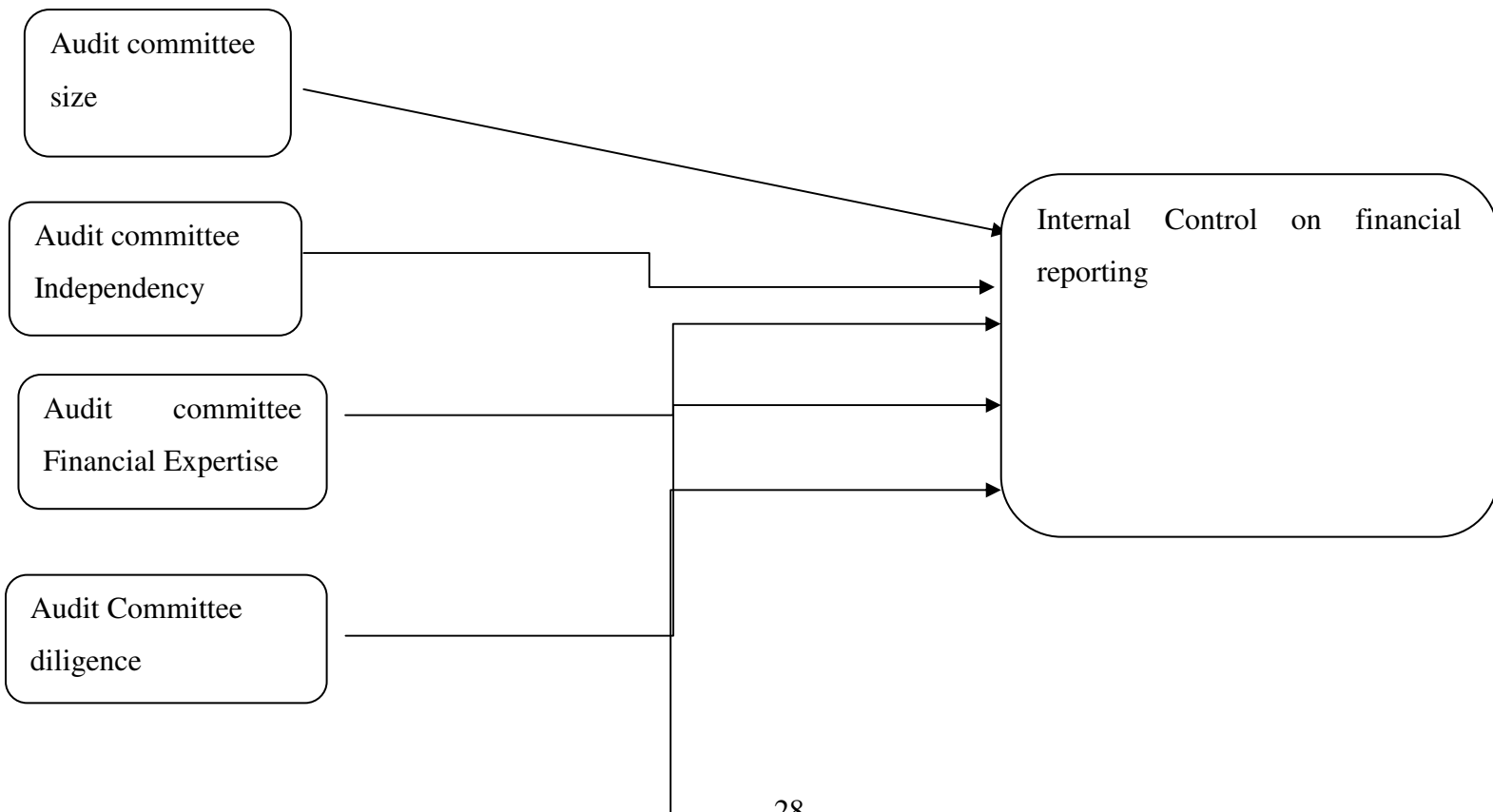
Generally, the review of empirical studies reveals that almost all of the studies were outside Ethiopia, but there are few studies work on internal audit function and corporate governance in public enterprise and they were incorporated into the study about audit committee relations with the internal audit department. The study was not covering all attributes of the audit

committee (Zelege 2009). For example, the composition of AC, meetings of AC, financial reporting, external and internal audit. the study followed a descriptive research design and made use of probability sampling techniques to select the public enterprise which is under the umbrella of MOPE (Ministry of Public Enterprise).

As a result, primary data was collected from 60 respondents of 10 public enterprises using a structured questionnaire, interview for 2 regulatory agencies. Also, secondary data, relevant for the study, was collected. Descriptive statistics were used to analyze the collected data. The findings of the study indicated that audit committees of selected public enterprises failed to have the required competencies and as to their role in assessing financial reports, moreover there is no clear understanding or procedure in the process of appointed and approval of external and internal auditors.

***INDEPENDENT VARIABLE***

***DEPENDENT VARIABLE***



Audit Committee

Tenure

Figure 2.1. conceptual Framework of Internal Control over financial reporting based on the above the above literature and empirical review

### **CHAPTER THREE: RESEARCH METHODOLOGY**

This chapter describes the research methodology of the study that was used to achieve the objective of the study. The research methodology is the procedural plan that was adopted by the researcher to validly, objectively, economically, and accurately answer the research questions. The chapter was organized into four sections. The first section 3.1 presented the objective, research questions, and hypotheses.

This was followed by a discussion of the research approaches in section 3.2. Section 3.3 was presented methods adopted and the assessment of data. Finally, the summary and the link between research questions and hypotheses and the different data sources were presented in section 3.4.

#### **3.1 Research Design**

According to Creswell (2009) research design is a plan or proposal to conduct research. It involves the intersection of philosophy, strategies of inquiry and specific methods. A descriptive, survey research design was chosen to investigate.

Creswell (2014) A descriptive research design can use anextensive variety of research approaches to investigate one or more variables. Descriptive research is asuitable choice when the research aim is to identify characteristics, frequencies, trends, and categories. It is valuable when not much is acknowledged yet about the topic or problem. The research chose this design because the thesis is all about the study of characteristics of audit committee based on variables with the help of survey-based approach.

#### **3.2. Research Approaches**

Research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. The research approach implicitly reflects the researcher attitude as to how knowledge is constructed and also commands what method to be employed in the study. According to Creswell (2014), Quantitative, qualitative and mixed methods based their assumption towards knowledge creation on post-positivism, social constructivism and pragmatic philosophical grounds respectively.

Creswell and Plano Clark (2007) defined mixed methods and is a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems that either approach alone.

Leech N, Onwuegbuzie A, (2008) In general, mixed methods research represents research that involves collecting, analyzing, and interpreting quantitative and qualitative data in a single study or in a series of studies that investigate the same underlying phenomenon.

**Quantitative research** is an approach for testing objective that arises by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. The final written report has a set structure consisting of introduction, literature and theory, methods, results, and discussion. Like qualitative researchers, those

who engage in this form of inquiry have assumptions about testing theories deductively, building in protections against bias, controlling for alternative explanations, and being able to generalize and replicate the findings? Creswell (2014) and also Dawson (2002) generate statistical data through the use of large-scale survey research, using method as close-ended questionnaires and/or structured interviews.

**Qualitative research** is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making

interpretations of the meaning of the data. The final written report has a flexible structure. Those who engage in this form of inquiry support a way of looking at research that honors an inductive style, a focus on individual meaning, and the importance of rendering the complexity of a situation. (Creswell, 2014)

Finally, a mixed methods research is an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks. The core assumption of this form of inquiry is that the combination of qualitative and quantitative approaches provides a more complete understanding of a research problem than either approach alone. (Creswell, 2014)

### **3.3 Research Approach Adopted**

In this study, a mixed research methods approach was adopted. A mixed methods design is useful capture the best of both quantitative and qualitative approaches. In light of the research objectives, the study was employed both qualitative and quantitative research approach, i.e., self-administrated questionnaires and interview.

Therefore, using both approaches is helpful for generating the benefits of mixed methods approach presented earlier and mitigating the bias in adopting only either quantitative or qualitative approach. Hence, in this study, concurrent procedure was employed to triangulate quantitative and qualitative data to provide a comprehensive analysis of the research problem. Moreover, the researcher was collected both forms of data at the same time during the study and integrates the information in the interpretation of the overall results. The following sub-sections orderly the quantitative and qualitative aspects of the study.

#### **3.3.1. Quantitative Aspect—Survey design**

The quantitative component intends to investigatory primarily uses post-positive claims for developing knowledge from cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories, employee's strategies of inquiry such as experiments and surveys. As part of the quantitative component of the study survey design was adopted as a strategy of inquiry.

The purpose of the survey design is to generalize from a sample to a population so that inferences can be made about some characteristic, attitude, or perception of the population. The

advantages of survey designs are the economy of the design and the rapid turnaround in data collection. The subsequent discussion shows the survey design in respect to population and sampling design, instrument and conduct of survey, definition and measurement of variables and model specification, and ordinary least square assumptions.

### **3.3.2. Qualitative Aspect of the Study**

Qualitative research is typically used to answer questions of complex phenomena. Thus, in the current study qualitative aspect was intended to understand Audit committee attributes on internal control over financial reporting and partners and Audit manager considered in the study. This was accomplished by face-to-face interviews held with five (5) Audit managers and partners from five audit firms. Face to face interviews were used because of their flexibility, high response rate and also allowing new questions to be brought up during interviews. The results of the interviews were used to supplement data obtained from the quantitative aspect of the study. Qualitative results were analyzed concurrently with the quantitative data.

### **3.4. Population, sample size and sampling technique**

The population considered in this study is the number of private audit firms in Addis Ababa and the researcher used multiple stage sampling. First audit firms were selected and then auditors which include seniors and associate who face the challenge of my study every client. According to Agrestic and Finlay (2008), Multi-stage sampling represents form of cluster sampling in which larger clusters are further subdivided into smaller, more targeted groupings for the purposes of surveying.

According to Accounting and auditing board as of March, 2019, the total numbers of private audit firms authorized under proclamation 847/2006 in Addis Ababa were 94. According to Cohen et al. (2005), covering the entire companies in the study makes the study difficult. Therefore, out of the total number of private audit firms in Addis Ababa, the researcher decided to draw 15 sampled audit firms of the whole population for the investigation and the rationale behind to select only 15 audit firms is based on their experience, size, capacity and are taking in to account the previous research studies and judgments,

For example, research conducted by Wudu (2014), and also the researcher considered the available resources, time, and budget. The researcher draws 10 auditors which is a total of 150 auditors. The proportion of the total audit firms to the sample selected was not equal size. Hence, the equal selection of audit firms from different category despite their variation in proportion does not have a significant impact for this study. To select auditors the researcher used stratified random sampling. In random sampling each individual in the population has an equal probability of being selected which is important for the external validity of the study (Creswell, 2009).

### **3.5. Data Collection Method**

This study used questionnaire which is a widely used and useful instrument for collecting survey information. The questionnaire was developed in two sections. The first one is on the general aspect of the respondent and the second one was developed based on standard of audit firms. The first section was aimed to evaluate whether the status and experience of the respondents can help to give more verification on the knowledge and experience they are giving on the area. The second section was used to evaluate the audit committee quality.

This section uses questions to various external auditors with response ranging from strongly agree to strongly disagree. A five-point Likert response scale Likert (1932) that ranged from 1 “strongly agree (scored as 1) to “strongly disagree” (scored as 5) was used. The questionnaire was prepared in English. The survey used self-administration to achieve the intended objective where Questionnaires were hand-delivered to respondent for them to complete on their own.

A total of 150 questionnaires which dealt with the audit committee attribute on internal control over financial reporting were distributed to a sampled private audit firm. However, only 130 questionnaires were collected and all of them were usable responses (67.7% response rate). Considering the difficulty of collecting data in developing countries such as Ethiopia, 67.7 % response rate was reasonably good. All the survey respondents were located in Addis Ababa. And since the aim of the study is to make theoretical inferences from the results of the study that are suitable for further empirical investigation in any other context, this random sampling is the most appropriate method for the researcher.

Finally, this method of data was considered appropriate because the information sought is not publicly available and the auditor are intended in good position to know the answers to the question asked Cronbach's alpha test.

### **3.6. Data Analysis Method**

This section presents the definition and measurement of variables; and then specifies the model Employed in the analysis.

**Internal control over financial reporting (ICOFR)** :-is dependent variable which refer to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework and include those policies and procedures that , pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transaction and dispositions of the assets of the entity, provide reasonable assurance that transaction are recorded as necessary to permit preparation of financial statement in accordance with the applicable financial reporting framework, and that receipt and expenditures of the entity are being made only in accordance with authorization of management and those charged with governance and provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the financial statements.

Researcher predict that the effectiveness of ICOFR increases with the following audit committee characteristics: (1) Size – the number of audit committee members on the corporate board, (2) Independence - the proportion of independent directors on the audit committee, (3) Financial Expertise – whether audit committee members have financial experience and accounting body qualifications

(4) Diligence – the frequency of audit committee meeting and (5) Tenure – the year of service of audit committee members, by five-point of Likert scale of strongly agree (1), agree (2), Neutral (3) disagree (4) and strongly disagree (5), (see details in appendix I to all variables)

**Size**-This means the number of people in the audit committee and also the requirement of minimum members of audit committee. This was measured by the responses of study participants to the items of whether there is a relationship between size of audit committee and financial reporting, whether they agree or disagree of minimum statutory requirement or it affects

this minimum requirement on board of directors and also the impact of organized size on internal control quality and these all were answered by the five-point Likert scales.

**Independence**—is the ability to decide on issues related to internal control and financial reporting. This was measured by average responses of study participants to the statements of whether they face independent audit committee or not if they do is it the sign of good governing and if that good governing could have possible impact on financial result and whether independent auditors are ability to affect internal control and to ensure fairly stated financial report and all this items and other were measure audit committee independency on internal control over financial reporting based on participant experience.

**Financial expertise:** - This is the requirement that the audit committee members should be financial expertise to understand and decide the financial issue of the company. This was measured by the question raised by five-point Likert-scale to answer whether audit committee knowledge and expertise has direct effect on their effectiveness and how this effectiveness can affect their capability of problem solving related to material misstatement on internal control over financial reporting.

**Diligence** – is frequency of audit committee meeting which can show their commitment to their responsibility. This was measured by responses of study participants to the items of whether they experienced charters that can guide audit committees and whether they have clear understanding about this listed responsibility on charter and how about their meeting on their responsibility to identify their devotion on internal control over financial reporting and this and other items were answered by the five-point Likert scale.

**Tenure**—it defined audit committee members with more than 10 years of service. This will be measured by response of study participant how it can decrease fraud and increase internal control quality regarding to risk assessment ability based on their length of service and all participate were asked by five-point Likert scale whether they agree or not audit committee experience have effect on their efficiency and this efficiency relate to their capabilities of minimizing frauds related to internal control over financial reporting.

## **Model Specification**

Following the approach used from empirical review made by karishen (2005), Oij et al (2012), Rono (2016), Mohamed (2018) this study used Multiple regression model; the equation is given below:

$$\text{ICOFR} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where,

ICOFR= Internal control over financial reporting

$\beta_0$  - Constant

$X_1$  – Financial expertise

$X_2$  – Independence

$X_3$  – diligence

$X_4$  – Size

$X_5$  –Tenure

$\beta_1 - \beta_5$ = Measure of sensitivity of variable X to changes in audit quality

$e$ = Error term

### **3.6.1. Ordinary Least Square Assumptions**

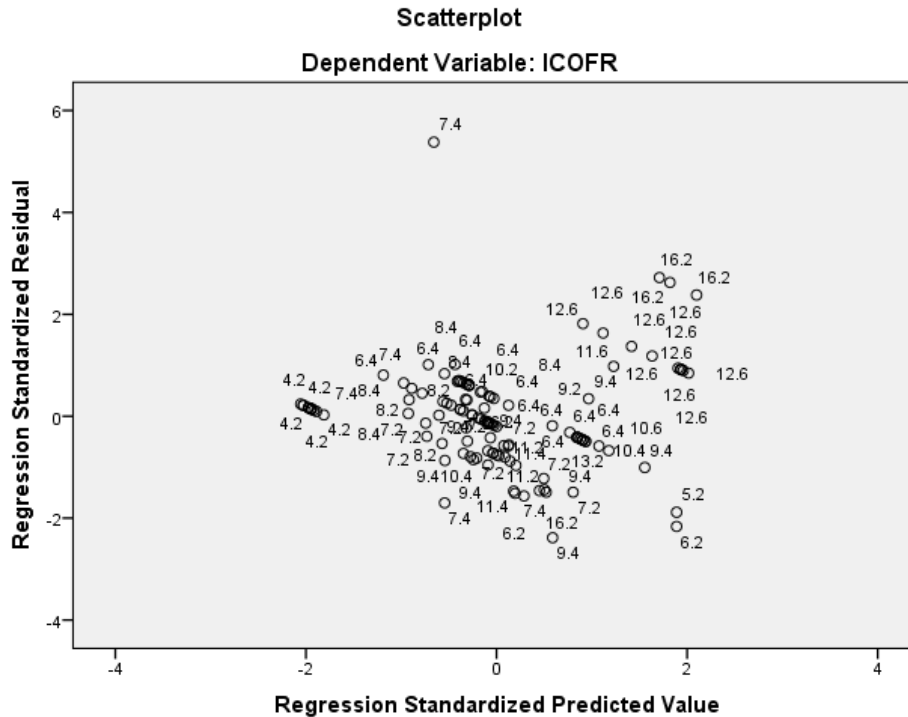
Under this section present the following test Normality of residuals test, Heteroscedasticity / presence of Homoscedasticity, Multicollinearity, and auto correlation.

Normality of residuals test

We can also check for normality of residuals with a normal P-P plot. The plot shows that the points generally follow the normal (diagonal) line with no strong deviations. This indicates that the residuals are normally distributed.

*Figure 3.1 normal P-P plot of regression standardized residual*





Source: IBM SPSS Statistics version 22

### **Multicollinearity**

Multicollinearity is an improper high level of inter correlation among the independent variables, such that belongings of independent variables cannot be separated (Garson, 2012). In multiple regression, the variance inflation factor (VIF) is used as an indicator of multicollinearity. Variance inflation factor (VIF) is a feature by which the variance of the specified partial regression coefficient increases due to given variables amount of correlation with other predictors in the. As a rule of thumb, lower levels of variance inflation factor (VIF) are desirable as higher levels of VIF are known to affect adversely the results associated with multiple regression analysis. A simple diagnostic of co linearity is the variance inflation factor for each regression coefficient (Fox, 1991).

This study adopted a VIF value of 4.0 as the threshold. Audit committee size had a VIF of 1.070, Audit Committee independency 1.147, Audit Committee expertise 2.039, Audit Committee deficiency, 2.125 and audit committee tenure 1.610. These results indicate that the VIF values of the independent variables were within the threshold of 4.0. This indicated that

there was no significant threat of multicollinearity problem and therefore, the study used linear regression model.

The information in the table below also allows us to check for multicollinearity in our multiple linear regression models. Tolerance should be  $> 0.1$  (or  $VIF < 4$ ) for all variables, which they are. Since all VIF is less than 4 there is no multicollinearity problem

**Table 3.1. Multicollinearity**

Coefficients

Model	Collinearity Statistics	
	Tolerance	VIF
Size	.935	1.070
Independency	.872	1.147
Expertise	.491	2.039
Diligence	.471	2.125
Tenure	.621	1.610

a. Dependent Variable: ICOFR

Source: IBM SPSS Statistics version 22

**Auto correlation**

Durbin Watson test has been conducted to test presence of auto correlation among variables. According to Durbin Watson significant table ranges in value 0 to 4. A value near 2 indicates non-auto co linearity. A value towards 0 indicates positive auto correlation; a value towards 4 indicates negative auto correlation. So, the table for assessment of auto correlation indicates a value of Durbin-Watson  $d = 1.864$  which is between the two critical values of  $1.5 < d < 2.5$ . Therefore, that suggests there is no auto correlation problem.

### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	.639 <sup>a</sup>	.409	.385	.37467	1.708

a. Predictors: (Constant), Tenure, Independency, SIZE, Diligence, Expertise

b. Dependent Variable: ICOFR

Source: IBM SPSS Statistics version 22

A study was conducted on the relationship between internal control over financial control and attributes of audit committee. The analysis applied the statistical package for social sciences (SPSS) to compute the measurements of the multiple regressions for the study. The study evaluated the independent variables and the dependent using questionnaires

### 3.7. Chapter Summary

In this chapter, the research methodology, research approach, methods of data collection, sampling procedure and data analyzing techniques were discussed. The link of research model and conceptual framework adopted in this particular study is also presented with proper justification. The method selection is in line with the advantage and disadvantage of research approach and data analysis technique. For this study mixed research approach is adopted that helps the researcher to achieve the research objectives and the required data is collected through interview and survey of Survey Questionnaire. With this end, the next chapter discuss about results and discussion.

## **CHAPTER FOUR: DATA PRESENTATION, ANALYSES AND DISCUSSIONS OF RESULTS**

The previous chapter presented the methodology used in the thesis. More specifically, the chapter showed the different research approaches, methods of data collection, and analysis adopted in the study. This chapter presents the results of the various data collection methods and analysis in the context of the existing knowledge reviewed in chapter two. Accordingly, this chapter is arranged into four sections; the first section (4.1) presents results of the different data sources. This is followed by the discussion of results in the context of the knowledge in the literature as reviewed in chapter two in section (4.2). Finally, Summary for the chapter presented in section (4.3)

### **4.1. Results of The Study**

One of the purposes of this study was to study the impact of audit committee attribute on internal control over financial reporting. The principal data sources to this end were the survey result and interview conducted to audit managers and partners. The following discussion was presented the survey result, and interview. Therefore, in section 4.1.1 was presented survey result while interview result was presented 4.1.2.

**4.1.1. Survey Results**

In light of the above idea, the purpose of this section was to show the results from survey that was conducted in audit firms in Ethiopia of which Audit associate, audit seniors and audit Managers. Therefore, it covers the respondents’ profiles and Descriptive Statistics in section 4.1.1.1.and 4.1.1.2, finally Regression result was presented in 4.1.1.3

**4.1.1.1 Respondents’ Profile**

The respondent’s profiles to this regard consist of gender, respondent age, educational level (academic qualification), field of study, and working experience in an Auditing sector. The gender of the respondents was sought. Majority (89%) of the respondents were male while the rest (41%) of the respondents were female as shown in table 4.1.

**Table 4.1 Gender Categories of the Respondents**

	Frequency	Percent
Valid Male	89	66.9
Female	41	30.8
Total	130	97.7

In terms of educational background, the respondents indicated their highest level of education. According to their response, 17% of respondent were diploma ,96% of the respondents obtained a bachelor degree as their level. In addition, 7% of the respondents obtained a post graduate degree or masters as their highest level of education. The remaining respondents

	Frequency	Percent
--	-----------	---------

obtained ACCA qualified as shown in table 4.2.this shows that more educated respondent were participated on the survey

**Table 4.2 Education Background of the Respondents**

	Frequency	Percent
Valid Diploma	17	12.8
BA Degree	96	72.2
Masters	7	5.3
ACCA Qualified	10	7.5
Total	130	97.7

*Source: Source Survey data and own computations*

According to survey result the respondents working experiences in a in audit firm ranged from six year up to ten years is 53%. 45.5%of the respondents had above ten years working experience in an auditing sector as shown in table 4.3.

**Table 4.3 Experiences of the Respondent**

Valid	6 to 10 years	70	53.0
	11 to 15 years	60	45.5
	Total	130	98.5

*Source: Survey data and own computations*

#### 4.1.1.2. Descriptive Statistics

This section presents the descriptive statistics for all the variables considered in the regression estimation. The dependent variable, as noted earlier, was perception of performance while the independent variables were perceptions of Size, Independency, Financial

expertise  
diligence and  
Tenure.

	N	Minimum	Maximum	Mean	Std. Deviation
Size	130	2.43	4.14	3.3154	.26841
Independency	130	1.13	3.63	1.8587	.40299
Expertise	130	1.00	3.00	1.8934	.49144
Diligence	130	1.00	3.00	1.9615	.61511
Tenure	130	1.00	3.50	2.0000	.76503
ICOFR	130	1.10	3.70	1.9638	.47691
Valid N(listwise)	130				

As stated previously, the dependent and independent variables were measured taking the average responses to the relevant statements for each (see details on the measurement variables in Appendix IV)

**Table 4.4. Descriptive statistics on independent and dependent variable** Strongly agree (1), agree (2), neutral (3), disagree (4) and strongly disagree (5).

**Source; Survey Results, SPSS (2018) output and Own Computation**

In the Table 4.5, the researcher set out to examine the independent variables such as Size, Independency, Expertise, Diligence and tenure and the dependent variables (ICOFR). The test statements were equally ranked in terms of their mean and standard deviation as a way of interpreting the results. The details of the survey in this regard was discussed as follows; from the above findings, it was observed that Size had mean value of more than 3 showing that respondents tended to disagree with statements used to measure this variable ( $\bar{x}=3.31$  and  $S=.26$ ). In terms of Independency the sample mean was found to be less than 3 showing respondents tended to agree with the statements used for this variable ( $\bar{x}= 1.85$  and  $S=.49$ ). Similarly, for Financial expertise the average responses were less than 3 ( $\bar{x} =1.89$  and  $S= .49$ ), and Diligence had mean value less than 3 ( $\bar{x}=1.96$  and  $S= .61$ ). Tenure had mean value less than 3 ( $\bar{x}=2$  and  $S= .76$ ). Finally, Internal control over financial reporting had sample mean value of less than 3 points ( $\bar{x}=1.96$  and  $S=.47$ ) (details of these are shown in Appendix III).

#### **4.1.2 Regression Results**

A study was conducted on the relationship between attributes of the audit committee and internal control over financial reporting. The analysis applied the statistical package for social sciences (SPSS) to compute the measurements of the multiple regressions for the study. The study evaluated the independent variables and the dependent using questionnaires. The results were as shown below:

A multivariate regression model was conducted to test the joint relationship of all the independent variables and the dependent variable. To quantify the extent to which the straight-line equation matches the data, the in-shape measure, R-square used to be developed. R -square which can vary from zero to 1 is the correlation coefficient squared. it can be interpreted as the share of the variant of the structured measure that can be estimated structure the mixture of impartial variables (Salcedo and McCormick ,2020).

The results showed that audit committee size, audit committee independence, audit committee expertise and audit committee diligence, audit committee tenure had a significant association with to ICOFR ( $R=0.639$ ). The results further revealed that audit committee size, audit committee independence, audit committee financial expertise, audit committee diligence

and audit committee tenure jointly accounted for 40.9% of the variation in quality of ICOFR measured by ratio of queried transactions.

### Model Summary

The model summary shows the summary of the regression analysis as shown in the regression model present in table 4.5

#### 4.5. Model Summary

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.639 <sup>a</sup>	.409	.385	.37467	1.708

a. Predictors: (Constant), Tenure, Independency, size, Diligence, Expertise

b. Dependent Variable: ICOFR

Source: Survey data and own computations

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.764	.441		1.734	.085
Size	-.035	.129	-.020	-.269	.788
Independency	.113	.089	.095	1.264	.208
Expertise	.359	.097	.370	3.686	.000
Diligences	.157	.079	.202	1.978	.050
Tenure	.060	.056	.095	1.072	.286

$$\begin{aligned}
 \text{ICOFR} = & .764 + \\
 & -.035X_1 + .113X_2 + .359X_3 + .157X_4 + .060X_5
 \end{aligned}$$

Th

e equation  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$  hence became  $\text{ICOFR} = 0.764 + -0.035$  (Audit committee size) + 0.113 (Audit committee independency) + -0.359 (Audit committee Financial

Competence) + 0.157 (Audit committee diligence) + 0.060 (Audit committee Tenure) The equation above infers that a unit increase in Audit committee size will result to -0.035 units change in ICOFR. The equation further showed that a unit increase in Audit committee Independence will cause a change of 0.113 ICOFR. The result also implied that a unit change in Audit committee Financial Competence will cause a change of 0.359 units in ICOFR. The result also implied that a unit change in Audit committee diligence will cause a change of 0.157 units in ICOFR. Finally, a unit change in Audit committee Tenure will result in the change of 0.060 units in the ICOFR. A reduction ICOFR infers that there will be a reduction in the value of queried transactions which will result in improved quality of audit committee attribute.

The finding also revealed that audit committee size ( $\beta = -0.035$ ,  $p = 0.788$ ), audit committee independency ( $\beta = -0.113$ ,  $p = 0.208$ ), audit committee knowledge ( $\beta = 0.359$ ,  $p = 0.000$ ), audit committee diligence ( $\beta = 0.157$ ,  $p = 0.050$ ) and audit committee tenure ( $\beta = 0.060$ ,  $p = 0.286$ ) and this implies that only size had a negative and insignificant relationship with the ratio of ICOFR. and also, only financial expertise had a positive and significant relationship with the ratio of ICOFR and the others variables had positive but insignificant relationship with ICOFR.

#### **4.1.3. Interview Results**

As stated in chapter 3, apart from the survey, this study employed interviews with the audit manager and partners. the interviews aimed to answer the research question in another way which to identify the constraint of audit committee quality on internal control over financial report. The following section presents the result of interviews with three partners and two audit managers.

As far as this study the researcher is concerned about the issue of the audit committee with their Experience in our country related to internal control and financial reporting. Their view in general is better to say that there is no audit committee in general. Means in our country there is no legislation like SEC that can control issues of the audit committee. But in terms of its benefit, no question must be raised because it closes the gap the problem that is shown currently in our country.

Most of them thought that independence and financial expertise are a bottom line for internal control and financial reporting. When audit committees are independent, when they are

financially expert that have knowledge of accounting, and auditing and also when they are diligent means that committed to their company .it will minimize the problem around internal control over financial reporting.

Most of them agree that the audit committee size has its contribution but not significant to internal control and financial reporting. The size whether it is small or large both have their advantages and disadvantages means that if they are small like one or two their commitment or their decision-making ability might be minimized or if they are large it might not directly affect their decision-making ability. If they are large means that their largeness without financial literacy and independence or their commitment wouldn't get the intended impact. But size has its support for other variables. In terms of tenure, the experience is a better way to solve day-to-day activities so that they thought tenure has a significant effect on internal control over financial reporting quality and has also direct contributions like independence, financial literacy, and diligence.

All of them agree that financial reporting based on internal control has a big contribution to make a significant impact on nowadays problems like fraud and to prepare a fair clear and understandable financial reporting system and also an integrated internal control system. So, the audit committee has its contribution for this matter.

## **4.2. Discussion**

In light of the above idea, the purpose of this section was to show the discussion of a survey result and interview results. This was organized as follows; firstly, presented Sizes, and ICOFR performance. This will be followed by Independency and ICOFR in Section 4.3.2. Section 4.3.3 will be provided financial Expertise and ICOFR, and then Section 4.3.3 will show Diligence and ICOFR, and Finally, Tenure and ICOFR will also be presented in section 4.3.4.

Respondent profile results indicated that the respondents were at adequate education level to understand the concept of internal control over financial reporting. Most of them are male and the reason behind this is that most of the experienced people in the audit sector are male this is because of the challenge that is available in the sector and the researcher respondents were most of them are experienced which around 53% had more than 6 years of experience and around 45.5% had above 11 years' experience. This implies that they can understand the question that

the researcher raised and had sufficient knowledge to answer. To, explain the percentage of variation in the dependent variable ICOFR as explained by the independent variables.

The researcher used the coefficient of determination that was obtained from the model summary in 4.8. The coefficient of determination was used to explain whether the model is a good predictor. From the results of the analysis, the findings show that the independent variables (Size, Independency, Financial literacy, diligences, and tenure) contributed to 40.9% of the variation in performance as explained by adjusted  $R^2$  of 0.409 which shows that the other variables not included in this study. This study depends on the participant's perception which is collected through a questionnaire. Therefore, an R-squared value of more than 25% can be respectable and good to fit (Hinton; Brownlow; Isabella; McMurray & Bob Cozens, 2004). In addition to that, the results of the findings in the analysis of variance in Table 4.8 revealed that F value 15.76, with p value= .000, is significant at 0.05. This implies that the regression model is significant in predicting the relationship between the Audit Committee and internal control over financial reports.

#### **4.2.1. Size of Audit Committee and Internal Control over Financial Reporting**

The size of the audit committee from the survey result indicates that it does not affect the internal control over financial reporting individually. The overall mean was approximated to 3.31 which indicates a disagreement from the question raised means it showed a negative correlation and an insignificant effect on ICOFR. From regression result in table 4.8 also observed that size has a negative coefficient that means that all other things constant a unit increase in size internal control over financial reporting will decreased by .035. These show that a weak relationship between the size and internal control over financial reporting, the negative beta sign, and an insignificant result of size related to internal control over financial reporting ( $\beta = -.035$ ,  $\rho > 0.05$ ).

This also supported by the above interview result which identified as the size whether it is small or large both have their advantages and disadvantages means that if they are small like one or two their commitment or their decision-making ability might be minimized or if they are large it might not directly affect their decision-making ability and base on this result the proposed hypothesis relating to size is unacceptable. Vafeas (1999) argued that larger audit committees can lead to inefficient governance, because of yielding frequent meetings which lead to increased expenses. Hence, a larger audit committee can negatively affect firm performance.

audit committee effectiveness may likely be experiencing problems if the committee becomes too large.

As a large committee may generate more losses, process and workload distribution are immoderate. Therefore, the previous studies have shown that the right size of the audit committee will provide a high quality of monitoring financial reporting. As per the result of the study which has a negative coefficient logically agree with the presence of the size but if it is increasing in size it might affect the effectiveness of the audit committee which supports the idea of ideas (1999) based on the interview and the regression result.

#### **4.2.2. Independency of Audit Committee and Internal Control Over Financial Reporting**

The independence of the audit committee from the survey result indicates that it does affect the internal control over financial reporting individually. The overall mean was approximated to 1.85 which indicates an agreement from the question raised means it showed a positive correlation and an insignificant effect on ICOFR. From regression result in table 4.8 also observed that Independency has a positive coefficient that means that all other things constant a unit increase on the independent variable the internal control over financial reporting was also increased by .113. and it also supported by the interview result and interpreted as there is a relationship between independence and internal control over financial reporting, the positive beta sign, and insignificant result of independency related to the internal control over financial reporting ( $\beta=113$ ,  $\rho>0.05$ ). and it can't be significant alone unless it is with other variables. This shows that it is stronger than another variable like Size and supports the proposed hypothesis is acceptable.

This finding supports the hypothesis that has been made which is based on Song & Windram (2004) there is strong evidence that independence is a key element affecting audit committee effectiveness). Abbott et al. (2002) conclude that the presence of an independent audit committee is significantly related to a lower incidence of financial reporting misstatement. Lin and Wang (2010), Dechow et al. (1996), and McMullen (1996) unveil that firms that have an independent audit committee are less likely to manipulate profits, more likely to disclose information voluntarily, and more likely to present quality financial reporting. Likewise, Garcia-Meca and Sanchez-Ballesta (2009) argue that the independence of the audit committee can significantly improve the quality and credibility of financial reporting. Cohen and Hanno (2000)

further highlight that the existence of an independent audit committee significantly influences the risk assessment quality of the manager.

The existence of an independent audit committee also provides a signal of a firm's commitment to good corporate governance (Sommer 1991). DeZoort (1997) notes that an independent audit committee acting as a governing body improves corporate governance practice in the firm. Beasley (1996) notes that the incidence of financial fraud largely deters the independence of the board of directors. Bedard et al. (2004) argue that objectivity in the financial reporting process can be ensured when the audit committee has more independent members. An audit committee is to protect stakeholders' interests so they must be independent and free from management intervention.

#### **4.2.3. Financial Expertise of Audit Committee and Internal Control Over Financial Reporting**

The financial expertise of the audit committee from the survey result indicates that it does affect the internal control over financial reporting individually. The overall mean was approximated to 1.89 which indicates an agreement with the question raised. It showed a positive correlation and a significant effect on ICOFR.

From regression result in table 4.8 also observed that financial literacy has a Positive coefficient that means that all other things constant a unit increase in Financial expertise quality the internal control over financial reporting will Increase by .359.

These show that a strong relationship between financial expertise and internal control over financial reporting, the positive beta sign, and a statistically important result of Financial expertise related to the internal control over financial reporting ( $\beta=.359$ ,  $p<0.05$ ). support the proposed hypothesis is acceptable. De Zoort&Salterio (2001) and Bédard (2004) found that audit committee members with accounting and financial expertise provide more support on auditing output and to reduce problems on auditor's disagreement, as well as to confine earnings management. The Blue-Ribbon Panel (1998) is concerned with audit committee knowledge and financial expertise as it can affect their effectiveness. The panel states that members of the audit committee should be financially expert; as a result, it can affect the monitoring process and possible financial fraud.

#### **4.2.4. Diligence of Audit Committee and Internal Control Over Financial Reporting**

The diligence of the audit committee from the survey result indicates that it does affect the internal control over financial reporting individually. The overall mean was approximated to 1.96 which indicates an agreement from the question raised means it showed a positive correlation and not significant effect on ICOFR. From regression result in table 4.8 also observed that diligence has a positive coefficient that means that all other things constant a unit increase in diligences the internal control over financial reporting was Increased by .157. These show that a strong relationship between the diligence and internal control over financial reporting, the positive beta sign, and a not significant without other variables result of diligence related to the internal control over financial reporting ( $\beta=157, \rho>0.005$ ).

This shows that the proposed hypothesis is acceptable. Implication of companies having diligent corporate audit committees has been emphasized by many regulatory authorities (e.g. the US Securities and Exchange Commission; Sarbanes-Oxley Act, 2002. Beasley, 1996; McMullen 1996; Abbott et al., 2004; Pucheta-Martínez and De Fuentes, 2007 diligent audit committee can reduce financial frauds and enhance the quality of accounting information. Menon and Williams (1994) that for audit committees to be effective monitors, it is not enough just to be independent and that they must be active. Being active could be measured by the frequency of their meetings

#### **4.2.5. Tenure of Audit Committee and internal control over financial reporting**

The tenure of the audit committee from the survey result indicates that it does affect the internal control over financial reporting individually. The overall mean was approximated to 2.00 which indicates an agreement from the question raised means it showed a positive correlation and a significant effect on ICOFR. From regression result in table 4.8 also observed that tenure has a positive coefficient that means that all other things constant a unit increase in tenure over the internal control over financial reporting was Increased by .060. These show that a strong relationship between the size and internal control over financial reporting, the positive beta sign, and a statistically significant result of independency related to the internal control over financial reporting ( $\beta=157, \rho>0.05$ ). This shows that the proposed hypothesis is acceptable. Significance of companies having diligent corporate audit committees has been Hoitash et al., 2009; Beasley, 1996; Bedard et al (2004) another stream of the literature suggests that longer tenure of directors on the board and audit committee is associated with less fraud and earnings management. This

means that if audit committee members serve longer on the board, the likelihood of financial statement fraud decreases.

## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

The purpose of this chapter is to pinpoint the major findings of the study and indicate recommendations that can help an improvement of the attribute of the audit committee on internal control over financial reporting. Thus, the chapter is organized as section 5.1. A conclusion which presents major findings of the study, and section 5.2 which presents recommendations based on the findings.

### **5.1. Summary of Major finding**

The study was conducted with the view of attribute of audit committee on internal control over financial reporting in terms of size, independency, financial literacy, diligence, and tenure and a great deal of effort was exerted to address the following question

What are the constraints of audit committee quality on internal control and financial reporting?As the result, the study has come up with several findings. Here below is summary of the results and major findings of the studycorporate governance or other public companies required audit committee but what is the right audit committee to achieve the intended objective regarding internal control over financial reporting. And based on this the research finds that size of audit committee does not have direct impact on the internal control over financial reporting but it needs minimum statutory requirement to achieve the goal. But like three minimum these means that whether it has above three or less than three does not have direct effect on internal control over financial reporting.

In terms of independency, it is like that whether the audit committee is financially literate or diligent it is required with the independency. Without independency they can't make the right decision. The decision they are making based on knowledge and based on their experience is that they need to be more independent and this will help them to be freerto make their own decision.

In terms of literacy, it is like a back bone to the audit committee which is more related to internal control over financial reporting. Which is like a base to make any influential decision. The decision they would make based on their knowledge is that they can make any decision which more related to the intended objectives.

And also, most of the respondent agree on the tenure of the audit committee which help them to retrieve more knowledge and experience they are sharing which help them to identify more problems and help them to minimize the problem they are facing more easily this is the other issue which make audit committee to be more perfect and make a better decision

The other finding is about diligences which help them to show their committee on the work they are given and the finding shows that diligences is that the frequency of their meeting. Which require internal control over financial reporting to be more part of day-to-day work which help to minimize the problem of the issue which will increase problem minimization so early.

## **5.2. Conclusion**

An audit committee is part of the board of directors and they do their job as a committee to control internal issues and also to present fair financial statements. If no statutory requirement guides them or the companies themselves do not prepare charter it would be difficult to meet their requirement.

Because of this SEC rules were developed relating to the audit committee. Current issues of internal control weakness and financial statement frauds and scandals couldn't be minimizing unless companies do have a quality-based audit committee.

Based on this ground researchers aimed to assess whether audit committee quality affects internal control over financial reporting and to their extent. To achieve these objectives survey method was used in the quantitative approach. The survey method used questioner to efficient external auditors who had better exposure to visit different industries with their different companies and their answers were analyzed through descriptive and inferential spastic's analysis. A qualitative research approach used in the study used a semi structured interview with senior external auditor and partners or audit firm owners. The questioners were aimed to examine whether the attribute of audit committee quality can affect internal control over financial

reporting. And the interview was also used to gather additional information on audit committee availability and strength.

The detailed finding and area of deficiencies on the audit committee are summarized as follows. First, the finding on the relationship between audit committee qualities and size of the audit committee and the result indicated that its availabilities are good for discipline, to minimize job burden and to be genuine and also to fulfill the statutory requirement but has fewer attributes on internal control over financial reporting quality. This means that if other qualities are there it is not a major issue to create a big impact on the intended objective. But this doesn't mean that the minimum requirement doesn't need at all. Because we need also to remember it is a committee. And the finding had negative and less significant as an attribute on internal control over financial reporting.

Second, finding on the attributes of audit committee independence on internal control over financial reporting and the result indicates that there was a strong attribute on internal control over financial reporting, criteria to decide, or to make the decision on related issues. And the finding study found independence of the audit committee had a positive attribute on internal control over financial reporting.

Third, finding on the attributes of audit committee financial literacy on internal control over financial reporting and the result indicates that there was strong attribute on internal control over financial reporting, which include understanding the preparation of financial statements, understand the international reporting system, disclosure related to financial statements, identify rules and regulation related to the financial report made by external auditors on a financial statement and internal control. And the finding found financial literacy has positive and significant attributes on internal financial reporting.

Fourth, the finding on the attribute of audit committee through diligence on internal control over financial reporting which include commitment, using meeting, using the right agenda on the right issue by using a minute to identify and to answer the gap on company weakness of internal control over financial reporting and the researcher found the positive attribute on internal control over financial reporting.

Fifth, finding on an attribute of audit committee related to the tuner of the audit committee on internal control over financial reporting, including the experience of the audit committee, the level of understanding through the year of working, which include also understanding easily the companies the whole structure so based on this the research found based on the experienced educated respondent significant. and the researcher found the positive attribute of internal control over financial reporting.

Finally, the relationship between the attribute of the audit committee and internal control over financial reporting from inferential static result observed that based on the coefficients of the independent variable ( $\beta$  sign) five hypotheses proposed by the researcher and are acceptable except the only one(size). Which shows negative and other shows positive relationship with the dependent variable. But based on the static significances of the independent variable over the dependent at 5% level of significance, only one independent variable (financial literacy) is significantly contributed to internal control over financial reporting at ( $p>0.05$ ) level of confidence.

### **5.3. Recommendations**

The audit committee provides actionable insight to oversee and improve financial practice and reporting, create and maintain effective anti-fraud programs through an effective internal control system and audit process that compliance with rules and regulations.

It is known that every company especially public companies faced the risk of fraud and also have been struggled to minimize every fraud to enhance investor's confidence. So that audit committee is one way to minimize those frauds that are faced by different public companies but this does mean that not only having audit committees but also having independent, financially literate, and committed that can achieve the intended goal.

Based on this the study recommend a company which have audit committee is better to be independent to make a better decision without any other interference,

And also need this audit committee to be fully aware of financial report and also internal control system to achieve the intended objective. this objective will help the share holder to make the right decision.

The audit committee also better to be more diligent to solve the problem more easily and to be more committed to identify the problem so early.

. Finally, the studies recommended that Ethiopian public company need to have financially expert, independent, and committed audit committee if they need to minimize fraud and to enhance their investor confidence. They are also very important for our future second market achievement.

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## Appendix I: Questionnaire

ADDIS ABABA UNIVEERSITY

FAUDIT COMMITTEEULITY OF BUSINESS AND ECONOMICS

AUDIT COMMITTEECOUNTING AND FINANCE MASTERS PROGRAM

Dear Participants

My name is kekronTefer. I am currently Msc student in department of Audit committee Accounting and Finance at Addis Ababa University. The aim of this project is to assess the audit committees quality to minimize the problem related to internal control and financial reporting. The information collected with this survey questionnaire will be used to support the date gathered from different literatures and from different countries experience. -

The participation in this survey is totally voluntary. The investigator respectfully requests your kind cooperation in answering all questions as frankly as possible. Your responses' confidentiality will be strictly maintained. Your participation in this survey is greatly appreciated.

For further information, you may contact the researcher using the following address:

Tel. (mobile): .....

E-mail: .....

Instruction

-Do not write your name

-Please put a tick (✓) mark to choose

-Select your response for the questions and write your opinion when needed.

Part I

Respondent profile

The following questions concern about your personal information. Completion of this information is voluntary and its confidentiality is assured

1. Gender:

- Female  Male

2. Educational Background

- Technical / vocational certificate (Diploma)  BA's Degree  
 CPA or AUDIT COMMITTEECA  Master's degree  PHD  
 Other (specify) \_\_\_\_\_

3. Years of work experience:

- Less than 5 years  
 6 to 10 years  
 11 to 15 years  
 16 to 20 years  
 Over 20 years

4. Grade of your firm\_\_\_\_\_

5. Your current position in your firm \_\_\_\_\_

6. Number of years in current position\_\_\_\_\_

II) Subjective information

Part II: Audit committee quality on internal control over financial reporting:

The following set of statements deal with your perception towards some issues that relate to audit committees (AQ) in your Experience and knowledge. Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4=Agree, and 5=Strongly Agree.

1.Items related to Audit committee size

	Stro ngly agree	A gree (4)	Neu tral (3)	Di sagree (2)	Strongly Disagree (1)
Items					

		(5)				
	There is a relationship between audit committee size and financial reporting Quality					
	The Audit committee size is affected by the size of board of director					
	Large audit committee may not necessary result in more effective functioning because more member in audit committee may lead to unnecessary debate and delay in decision.					
	Minimum requirement of audit committee size is important					
	Minimum statutory size requirement is important for strength internal control.					
	The size of the Audit committee is appropriate for carrying out its duties properly.					

	Items	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
	The majority of audit Committee members are independent/non-executive directors.					
	Audit committee independence is a sign of firms commitment to good governing Audit committees					
	Audit committee independence is from management and owner of the organization able to deter management from manipulating financial result					
	Incidence of financial fraud is negatively associated with independence of board of directors.					
	If audit member include more independent members objective of financial reporting can be ensured.					
	Independence of audit committee can potentially improve the Quality and reliability of financial reporting.					
	Independent audit committees are important for risk assessment.					

	Audit committee employment, personal and business relationship affect independence of audit committee.					
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Items related to auditors knowledge and expertise

NO	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
5	Audit committee knowledge and expertise has direct effect on audit committee efficiencies					
6	The Audit Committee members have sufficient knowledge on Audit committee counting and/or Auditing pr Audit committees					
7	The Audit Committee members have sufficient experience in Audit committee counting and/or Auditing.					
8	The Audit Committee members are capable of refereeing problems in performing their duties.					

9	The Audit Committee members have sufficient knowledge on the entity's business					
10	Audit committee has a potential for material misstatement due to fraud assessing risk to Audit committee have financial reporting objective					
11	The Audit committee has ready Audit committees to relevant information if required					

Items related to Audit committee diligence

NO	Items	Strongly agree	Slightly agree	Neutral	Disagree	Strongly disagree
12	The Audit Committee has a charter which outlines its objectives, duties and responsibilities.					

13	The Audit Committee charter is reviewed annually.					
14	Audit Committee members have a clear understanding of their responsibilities					
15	Members of the Audit Committee readily assume their responsibilities.					
16	The Audit committee members devote sufficient time to the committee's affairs					

Items related to Tenure

o	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
17	Audit committee members serve longer on the board the likelihood of financial statement fraud decreases					

18	Audit committee tenure can affect the internal control system					
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Items related to audit committee’s relation with internal control over financial reporting.

NO	Items	S trongly Agree	A gree	N eutral	D isagree	S trongly disagree
19	The Audit committee reviews the integrity of enterprises’ financial statements					
20	The Audit committee reviews accounting policies and any changes made therein					
21	The Audit committee reviews accounting estimates and judgments done in preparing financial statements.					
22	The Audit committee reviews the compliance of the Audit accounting Standards (e.g.					

	IAS, ) in preparing financial statements					
23	<p>The Audit committee reviews the clarity and completeness of disclosures in financial statements.</p> <p>And reviews other information (e.g. the auditors' report, financial highlights etc.) presented in the annual report</p>					
24	The audit committee assesses and reviews the annual internal audit work plan					
25	The audit committee reviews the annual internal audit reports, budget and other findings					
26	The audit committee reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations.					
27	The Audi committee nominators and evaluates the effectiveness of the internal audit function					

Items related to audit committee with External auditors relation.

NO	Items	S trongly agree	A gree	N eutral	D is agree	S trong ly disagree
28	External auditors are appointed and/or removed up on the recommendation of the Audit Committee.					
29	The Audit Committee assesses and reviews the expertise and resources of the external auditors.					
30	The Audit Committee reviews and approves the terms of the Engagement Letter (EL) prepared for the external auditors					
31	The Audit Committee monitors the external audit firm's compliance with the existing ethical and regulatory requirements.					
	The Audit Committee reviews the findings of the					

2	annual audit obtained by the external auditors.					
33	The Audit Committee reviews the management's responsiveness to the external auditors".					
34	The Audit Committee reviews the management's responsiveness to the external auditors".					
35	The Audit Committee meets with the external auditors without the presence of the management to discuss any issues, problems or reservations arising from the audit.					
36	The Audit committee reviews and monitors the independence and effectiveness of the external auditing process.					

**Appendix II: Interview Question**

INTERVIEW QUESTION

Do you think there is an audit committee in Ethiopia that can achieve the intended objective related to internal control and financial reporting?

In your experience and knowledge what constraints exist on the audit committee quality?

In your opinion do you think there must be legislation that can specifically control the audit committee?

What is your idea on the audit committee to improve their quality?

**Appendix III: Descriptive Statistics On Size, Independency, Expertise, Diligence, Tenure And ICOFR**

Table 1 Descriptive statistics on Size

Descriptive Statistics

		Minimum	Maximum	Mean	Std. Deviation
There is a relationship between audit committee size and financial reporting Quality	30	1.00	1.00	1.2000	.66356
The Audit committee size is affected by the size of board of director	30	1.00	1.00	1.8231	.65255

Large audit committee may not necessary result in more effective functioning because more member in audit committee may lead to unnecessary debate and delay in decision.	30	10	2.00	4.6615	.59133
Minimum requirement of audit committee size is important	30	10	2.00	4.6615	.59133
Minimum statutory size requirement is important for strength internal control	30	10	1.00	2.0231	.77225
The size of the Audit committee is appropriate for carrying out its duties properly.	30	10	1.00	2.0923	.70925
Valid N (listwise)	30	10			

Table 2 Descriptive statistics on Independency

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The majority of audit committee members are independent/non-executive directors	30	10	40	17.462	.67412

Audit committee independence is a sign of firms commitment to good governing pr Audit committees	30	1 0	1.0 0	5.0 .8923	1 0	1.0801
Audit committee independence is from management and owner of the organization able to deter management from manipulating financial result	30	1 0	1.0 0	5.0 .9462	1	.82885
Incidence of financial fraud is negatively associated with independence of board of directors	30	1 0	1.0 0	5.0 .9769	1	.50525
If audit member include more independent members objective of financial reporting can be ensured.	30	1 0	1.0 0	4.0 .7846	1	.72587
Independence of audit committee can potentially improve the Quality and reliability of financial reporting.	30	1 0	1.0 0	5.0 .7154	1	.69589
Independent audit committees are important for risk assessment	30	1 0	1.0 0	5.0 .5231	1	.87352
Audit committee employment, personal and business relationship affect independence of audit committee.	30	1 0	1.0 0	5.0 .9308	1 3	1.0206
Valid N (listwise)	30	1				

Table 3 Descriptive statistics on expertise

### Descriptive Statistics

		Minimum	Maximum	Mean	Standard Deviation	Std.
Audit committee knowledge and expertise has direct effect on audit committee efficiencies	30	1.00	1	5.001000	272	.913
The Audit Committee members have sufficient knowledge on Audit committee counting and/or Auditing pr Audit committees	30	1.00	1	5.002769	2102	1.38
The Audit Committee members have sufficient knowledge on the entity's business	30	1.00	1	3.006692	111	.751
Audit committee has a potential for material misstatement due to fraud assessing risk to Audit committee have financial reporting objective	30	1.00	1	3.009692	170	.834
The Audit committee has ready Audit committees to relevant information if required	30	1.00	1	5.009308	1968	1.07
The Audit committee has ready Audit committees to relevant information if required	30	1.00	1	3.006692	140	.686
The Audit committee members devote sufficient time to the committee's affairs	30	1.00	1	3.006154	156	.697
Valid N (listwise)	30					

Table 4 Descriptive statistics on Diligence

Descriptive Statistics

		Minimum	Maximum	Mean	Standard Deviation
The Audit Committee has a charter which outlines its objectives, duties and responsibilities	30	1.00	5.00	3.1231	1.07844
The Audit Committee charter is reviewed annually	30	1.00	3.00	2.8231	0.3099
Audit Committee members have a clear understanding of their responsibilities	30	1.00	5.00	3.1923	1.04989
Members of the Audit Committee readily assume their responsibilities.	30	1.00	3.00	2.7231	0.3541
The Audit committee members devote sufficient time to the committee's affairs	30	1.00	3.00	2.9692	0.3415
Valid N (listwise)	30				

Table 5 Descriptive statistics on Tenure

Descriptive Statistics

		Minimum	Maximum	Mean	Med. Deviation	Std.
Audit committee members serve longer on the board the likely hood of financial statement fraud decreases	30	1.00	1.00	.77	2.0365	1.00
Audit committee tenure can affect the internal control system	30	1.00	1.00	.231	1.97738	.90
Valid N (listwise)	30					

Table 6 Descriptive statistics on ICOFR

Descriptive Statistics

		Minimum	Maximum	Mean	Std. Deviation
The Audit committee reviews the integrity of enterprises' financial statements	30	1.00	3.00	.9000	.79582
The Audit committee reviews accounting policies and any changes made therein	30	1.00	3.00	.9231	.74309

The Audit committee reviews accounting estimates and judgments done in preparing financial statements.	30	1.00	5.00	.1154	2	.77394
The Audit committee reviews the compliance of the Audit accounting Standards (e.g IAS, ) in preparing financial statements	30	1.00	11.0	.9538	1	1.13344
The Audit committee reviews the clarity and completeness of disclosures in financial statements.						
And reviews other information (e.g the auditors' report, financial highlights etc.) presented in the annual report	30	1.00	5.00	.8538	1	.77870
The audit committee assesses and reviews the annual internal audit work plan	30	1.00	5.00	.6846	1	.84482
The audit committee reviews the annual internal audit reports, budget and other findings	30	1.00	21.0	.2462	2	1.92520
The audit committee reviews and monitors the management's responsiveness to the internal auditor's findings and recommendations.	30	1.00	5.00	.1308	2	.83887
The Audi committee nominators and evaluates the effectiveness of the internal audit function	30	1.00	3.00	.9231	1	.67761

Valid N (listwise)	30				
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