

Audit Committee: Iranian Imperative

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Audit committees proposed by the Securities Exchange Commission in 1940 following the McKesson and Robbins case initiative didn't culminate in reality till 1960. Development was encouraged by the incidence of litigation involving auditors and directors. Since the middle of 1978 US companies seeking a listing are required to have an audit committee. In recent years so many countries adopt the audit committee in their environments, however, Iranian environment still waiting for that condition. The results of this study show the existence of audit committee will improve quality of financial statements, correctness of financial information. It also will improve native auditing and accounting standards, as well as internal auditing.

The demand for an auditor arises from the potential conflict of interest that exists between shareholders and managers (Salehi and Gowda, 2006; Salehi, 2007). According to the researchers the external auditor should play a critical role in lending independent credibility to published financial statements used by investors, creditors and other stakeholders as a basis for making decisions (Salehi and Biglar, 2008; Swamy and Salehi, 2008; Salehi and Abedini, 2008; Salehi, 2008 a). Unfortunately the auditor could not recover such a bad condition in

recent years; because of several reasons and strained relationship between auditors and managers (Barzegar and Salehi, 2008). It means that the independent auditors

were dependent. The audit independence is the heart of audit practice. The fact that clients pay auditors for their audit and non-audit services generates an inherent economic dependence of the auditor on its clients (Wallman, 1996; Salehi and Azary, 2008). Such economic dependence increases with the size of client firms because larger clients generate bigger fees. Following



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high-profile corporate governance failures there have been proposals and actions in a number of countries concerning the responsibilities and powers of audit committees, their mandatory or voluntary status, membership and independence. In nutshell, to solve such a problem the existence of audit committee is very useful. The audit committee is one of the main corporate governance mechanisms upon which are predicated stakeholders' hopes in constraining the behaviour of corporate managers. Stakeholders generally view the effectiveness of the audit committee as an area that is to a significant extent manageable through regulatory or self-regulatory approaches, and where diverse groups of actors struggle in trying to impose their point of view. The existence of an audit committee could improve the monitoring of corporate financial reporting and internal control. Mautz and Neumann (1970) contend that audit committees are important because they: (1) increase attention to the audit function, (2) reinforce independence of the external auditor from management, (3) add protection for stockholders and directors, (4) assist financial management in effecting necessary improvements, and (5) promote audit more effective.

Based on agency theory, the formation of an audit committee is expected to protect the interest of the principal and ensure that the agent carries out its role in accordance with the contract. The role of the audit committee is essentially threefold: (1) to ensure that management does not override established prudent financial practices and procedures; (2) to assist the board of directors in discharging their responsibilities for financial reporting and internal controls; and (3) to provide an impartial channel for complaints concerning the management and direction of a company. However, some studies have shown that the existence of the audit committee is more for cosmetic purposes, to give a positive image rather than for monitoring. This again challenges the effectiveness of audit committees (Menon & William, 1994; Wallace, 1985; Verschoor, 1990, 1992; Wolnizer, 1993; McMullen, 1996).

History of Audit Committee

The exact origin of audit committees is unknown. Klock

and Bellas (1976) date the use of audit committees to the nineteenth century. The term "audit committee" is not defined by the Corporations Act or the ASX Principles, generally the term refers to a committee (or equivalent body) established by the board of a company for the purpose of overseeing the accounting and financial reporting processes of the company and audits of the financial statements of the company usually in accordance with the terms of a charter approved by the board and adopted by the committee. The board is responsible for managing the company. It is also responsible for monitoring performance and ensuring compliance. In 1939, the New York Stock Exchange proposed that outside auditors be chosen by a select committee of those officers who were not corporate officers. The SEC first recommended the establishment of audit committee in 1940 in Accounting Series Release No.19 that recommended role was largely one of liaison with the corporation's outside auditors. In the late 1960's the idea of audit committee began to attract more intense interest. In July of 1967, the AICPA Executive Committee "Statement on Audit Committees of Board of Directors" recommended that publicly owned corporations appoint audit committees of outside directors to nominate the independent auditors of a corporation's financial statements and to discuss the audit work with them. The statement contained a suggestion that the auditors communicate with the audit committee whenever significant questions and bearing materially on the company's financial statements, had not been satisfactorily resolved at the management level.

The ability of listed companies to effectively verify and safeguard financial performance is increasingly being focused through the audit committee. The audit committee is seen as the monitor of the company's financial integrity and internal controls; the board's "structured and professional vertical probe." The view is increasingly that an independent audit committee is better situated to objectively assess the quality of a company's financial disclosure and the adequacy of internal controls than a committee that is affiliated with management or the board as a whole.

The independent supervisory function of the audit committee is at least an implicit recognition that

management faces substantial pressures to deliver short-term performance to satisfy market expectations. These pressures can be exacerbated by the use of compensation or other incentives focused on short-term incentives. An independent audit committee with adequate resources helps to overcome this problem and to align the company's interests with those of shareholders. The audit committee can also provide an effective mechanism for the auditor to communicate in and with the directors about these issues as well as potentially troublesome issues at a relatively early stage and to broach sensitive issues in an uninhibited fashion.

The audit committee not only plays an important monitoring role to assure the quality of financial reporting and corporate accountability (Carcello and Neal, 2000), but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively.

The Blue Ribbon Committee (BRC) on improving the effectiveness of Corporate Audit Committee's (1999) recommendation that each audit committee should have at least one financial expert highlights the importance of the financial literacy and expertise of audit committee members.

BRC on Improving the Effectiveness of Audit Committees (1999) considered an audit committee a catalyst for effective financial reporting (p. 20).

Among other things, the BRC recommended that the audit committee of every listed company should:

- (1) Have members who are "independent";
- (2) Have members each of whom is "financially literate";
- (3) Have a formal charter approved by the Board of Directors; and
- (4) Disclose in the proxy statement whether the committee has adopted a formal charter and fulfilled its responsibilities under that charter.

As noted the efforts were founded in the hope that the committees would improve the balance of power in

auditor-management disputes. Given the wide interest in audit committees, it is surprising that no one in either the profession, or in government, actually mandated the establishment of the committees; that step was left to the stock exchanges and to the over-the-counter trading authority. In any event, audit committees have spread geographically and by constituency, i.e. beyond private sector corporations to non-profit organizations and government agencies. It is well known that the mere act of audit committee creation is likely to have little or no effect. Nevertheless, no organization has mandated specific committee duties, responsibilities, or activities. However, in 1987, the National Commission on Fraudulent Financial Reporting (The Treadway Commission) issued a paper on recommended audit committee activities which has become standard for many audit committees (Harrison and Lanier, 1995). The Treadway list represents a good starting point; it requires development through the addition of requirements that arose subsequent to the issuance of the Treadway report. Moreover, numerous committees, as well as individuals, have published normative prescriptions, amounting to virtual job descriptions for audit committees. The urge to authorship was not emulated by the committees themselves, which, by and large, failed to define their responsibilities. Indeed, many corporations did not take the trouble to draft a charter, i.e. a formal statement of the charge, or to acknowledge the existence of the audit committee in the corporate bylaws. In the 229 largest publicly held corporations other than banks, the specific functions assigned to the audit committee by the full board varied widely (Verschoor, 1993). In addition to the committees' responsibilities, the preferred quality of committee members' independence has remained uncertain. Even the prescribed number of independent directors has varied on the basis of a corporation's listing status.

It is said that there are many ways to govern a company and an audit committee is an essential part of this governance (Green, 1994). However, the concept of an audit committee is not new as there is evidence provided by Tricker (1978) that the Great Western Railway Company had an audit committee in the early nineteenth century. Today, the rapid emergence of audit committees is a response to the dissatisfaction of stakeholders in the way companies are managed. As a result, the Stock Exchange

listing requirements in several countries, such as the United States, Canada, the UK, Australia, Singapore, Netherlands, France, Germany, Hong Kong, Japan, New Zealand, South Africa, Thailand and India (Price Water house Coopers, 1999) have given audit committees predominance in managing the corporate governance. Since 1990, attention has been given to the composition of audit committees, the independence of audit committees (ISB, 1999), the knowledge and experience of audit committees' members (Blue Ribbon Committee, 1999), the financial disclosure (SEC, 1999), the interaction and the relationship with the external auditors by audit committees. Therefore, the functions and roles of audit committees are both challenging and taking new directions.

Audit Committee and Independence

There are two strands of studies on audit committee independence. The first strand of literature studies the relation between audit committee composition and specific accounting issues. Carcello, Hermanson, Neal and Riley (2002) examine board characteristics and audit fees. Their results suggest that board independence and audit fees are positively correlated. They argue that independent boards, in general, demand higher audit quality beyond normal standards and, hence, auditors need to charge higher fees. In similar studies, Carcello and Neal (2003) and Felo, Krishnamurthy and Solieri (2003) document a positive relation between audit committee independence and financial reporting quality. In general, for boards with less independent directors, it is likely that their auditors only issue unmodified reports on going-concern issues. Xie, Davidson and DaDalt (2003) examine the role of the audit committee and the prevention of earnings management. Xie et al. (2003) find that boards and audit committee members with corporate or financial backgrounds are more likely to associate with firms that have smaller discretionary current accruals. Their results suggest that financial expertise is an important factor to limit executives in engaging earnings management.

The second strand of literature examines the relation between "financial expertise" in audit committee and firm value. Using event study methodology, Defond, Hann and

Hu (2005) examine the announcement effect of 850 newly appointed outside directors to audit committees during 1993–2002. They find significant positive abnormal returns around the appointment of "accounting" financial experts to the audit committee, but not around the appointment of non-accounting financial experts and directors without any financial expertise. The "accounting" financial expertise in Defond et al. (2005) is defined as directors with work experience as public accountants, auditor, principal accounting officer, and controller. The "non-accounting" financial expertise includes all CEOs or presidents of for-profit corporations.

Research Problem

In the wake of the increased incidence of fraudulent and misleading financial reporting, business failures and alleged audit failure, public concern and regulatory initiatives have been prominent recently regarding the quality of financial reporting and the auditor's role in the financial reporting process. Audit committees have been considered to be a significant element of corporate accountability and governance and engender a high degree of integrity in the financial reporting process, which is an essential element of efficient securities market (Braiotta, 1994). Audit committees are well-established institutions in the corporate financial reporting process and assume the responsibility of ensuring the accuracy and the adequacy of the financial reporting system. By establishing a formal communication channel between the board of directors and the internal and external auditors; audit committees perform an oversight role with respect to the internal controls, auditing and financial reporting process (Braiotta, 1994). However, according to Salehi (2008b) the Iranian legislators did not mandate audit committee to Iranian companies. It caused the very big problem to Iranian auditors as well as legislators. So, in this research the authors try to illustrate the benefits of such a committee to Iranian environment.

Literature Review

Audit committees serve as a bridge in the communication network between internal and external auditors and the board of directors, and their activities include review of nominated auditors, overall scope of the audit, results of

the audit, internal financial controls and financial information for publication. Indeed, the existence of an audit committee in a company would provide a critical oversight of the company's financial reporting and auditing processes (Walker, 2004).

Audit committee could also enhance auditor independence. Knapp (1987) discovered that an audit committee is more likely to support the auditor rather than management in audit disputes and the level of support is consistent across members of the committee, regardless of whether the member is in a full-time or part-time position, such as corporate managers, academicians and retired partners of CPA firms.

In addition, audit committees could play a role in selecting auditors, determining their remuneration and in the dismissal/retention of auditors. Goldman and Barlev (1974) pointed out that audit committees could observe the financial reporting process and provide recommendations in the selection of auditors, negotiation of fees and termination of external auditors, which would ultimately diminish management's power over the auditor. An audit committee is anticipated to ensure that a business organization has sufficient internal controls, proper accounting policies, and independent external auditors that will prevent the incidence of fraud and promote high quality and timely financial statements.

Furthermore, the existence of an audit committee was found to have an association with the tendency to switch from less credible to more credible auditors (Eicheneher and Shields, 1985). Kunitake (1981) believed that independent directors of audit committees might have exposure to larger and better-known CPA firms rather than to local or regional firms, through their involvement as officers or directors of other public corporations. In addition, Kunitake (1983) found that there was less frequent auditor switching in companies that had audit committees than companies that did not have audit committees. These results indicate that the audit committee acts as a catalyst to enhance good financial reporting and support the role of auditors.

Further, the formation of an audit committee would improve the credibility and reliability of financial statements through providing an assurance of the objectivity of financial statements to shareholders (Auerbach, 1973).

An active audit committee would enhance their role to pursue the terms of reference and objectives (Treadway Commission, 1987). The frequency of audit committee meetings would indicate whether the committee was active or not. Although the presence of non-executive directors was linked with audit committee effectiveness, it is not guaranteed. Menon and Williams (1994) pointed out that audit committee independence did not guarantee effectiveness unless the committee was active. In addition, Kalbers and Forgarty (1993) supported this argument and indicated that audit committee effectiveness would only materialize if the members were committed to pursue their roles and duties. The Treadway Commission (1987) suggested that audit committees should meet at least four times a year.

To effectively pursue their objective, audit committees need unambiguous, practical and flexible terms of reference, sometimes referred to as the charter (Mohamad and Sori, 2001). This charter should be deliberated on and accepted by the board of directors that govern the firm's operations. The charter should be re-evaluated periodically, sufficiently flexible to incorporate a changing business environment and clearly spell out the responsibilities of the audit committee.

Several last studies have documented the various roles of audit committees. Vanasco (1994) contended, there seems to be a consensus among researchers in the field and the various national and international organizations that audit committees provide significant benefits to the corporation, public, investors and regulatory agencies" (p.38). He further provided the most cited functions of audit committees, as follows: strengthening the internal and external audit functions, coordinating the work of the external and internal auditors, strengthening the position of non-executive directors, and assisting the board of directors to fulfill their legal responsibilities (p.38). Furthermore, audit committees are also expected to regularly assess a company's risk and management's responses to significant financial and non-financial risks facing the organization. Duncan (1991) argued that audit committees must take into account the following audit risk assessment: (i) the major risks facing the organization; (ii) the auditor examines the company's efforts to control these risks through contingency plans, security measures

and other means; (iii) the auditor compares the risks and company responses to determine adequacies; (iv) the auditor recommends improvements in company activities in the identification, control and financing of critical risks. Cowan (2004) argued that risk management is crucial to corporate governance and it has become the main component of effective modern management. He further pointed out that the complexity of today's business environment necessitates the committee and the entire organization to understand the importance of risk management. Mohamad and Sori (2001) summarized an audit committee's responsibilities to include ensuring quality accounting policies, internal controls, and the independent and effective role of outside auditors to deter fraud, anticipate financial risks and promote accurate, high quality and timely disclosure of financial and other material information to the board, to the public markets, and to shareholders.

In a review of the previous studies, DeZoort et al. (2002) concluded that: (i) audit committee responsibilities are diverse and seem to be intensifying; (ii) the main areas of audit committee oversight include oversight of financial reporting, auditing and controls; (iii) audit committee authority is associated with written authority and management support. However, they pointed out several limitations of prior studies: (i) none of the prior studies focus on the ultimate source of the audit committee's authority (i.e. board of directors) or aspects linked with variations in such authority; (ii) there is a lack or absence of empirical research that addresses the relationship between audit committee effectiveness and audit committee authority.

Research Methodology

According to the above literature the objectives of this study is determination of significance of auditing committee on auditing system and auditors' performance in Iran. Some of the important factors that auditing committee can affect on them including: financial statement quality, financial information correctness, auditors' independence, regarding auditing and accounting standards, accounting systems of company and effectiveness of internal auditing. Thus in this research we concentrate of auditing committee on these variables.

Therefore, the main research question is: do the audit committee effects on audit practice overall in Iran? So far accurate answer to this question, the authors design and developed a questionnaire which it is stable for gathering useful data. Our selected method of investigation is a questionnaire, for three reasons. First, since it is acknowledged that current theory is not well specified in Iran, the general objective of this study is to incorporate qualitative behavioural factors concerning audit committee into the research design, to assess the relative influence of each factor type. This necessitated the use of a direct method. Second, other specific objectives necessitate the use of direct methods to elicit non-public information. Finally, closed-form questions can be identified from the extant auditor choice literature. The research instrument was designed with close reference to the literature on questionnaire design. The questionnaire contains two parts namely (A) bio-data and (B) this section includes several questions regarding to the rejection/acceptance level of audit committee affects on auditing system and auditors performance in Iran. The questionnaire designed to the bases of likert spectrum and all participants were requested to determine degree of agreement or disagreement to each question for assessing degree of disagreement and agreement by likert spectrum used the range of integer number from -2 to 2 which -2 represents highly disagreement and two represents highly agreement to the hypotheses while zero represent none of them (They graded corneal staining using a -2 to 2 scale where -2=highly agreeing, -1=agreeing, 0=none, 1=disagreeing and 2=highly disagreeing). The questionnaires were distributed among the respondents from the first July till 20th Oct 2008. Totally 150 questionnaires were distributed among the 30 accountants, 30 auditors, 30 financial managers, 30 financial analysers and 30 stockholders from the Tehran Stock Exchange (TSE). The draft questionnaire was pre-tested with the assistance of several senior business executives and audit partners, and the content, ordering and terminology was revised accordingly. The questionnaires (serially numbered to permit non-respondents to be followed up) were accompanied by an explanatory letter which assured the confidentiality of responses and return envelopes were provided. A reminder letter was sent out after 10 days, with a second request (accompanied by a duplicate copy of the

questionnaire and the original covering letter) being sent after a further 10 days.

The Cronbach's Alpha coefficient was used to assess reliability of questionnaire there was 0.928 for final questionnaire.

To the bases of important factor we conducted five hypotheses including:

- H1: Auditing committee has affected on the quality of financial statement.
- H2: Auditing committee affects correctness of financial information.
- H3: Auditing committee affects on auditor independence.
- H4: Auditing committee affects on auditing and accounting standards.
- H5: Auditing committee affects on accounting mechanism.

H6: Auditing committee affects on effectiveness of internal auditing.

Results of the Study

Results in total, out of 150 questionnaires which distributed among the participants 95 respondents were completed the questionnaires. Among these 95 participants, 72 participants had accounting knowledge (75.80 percent); the rest 15 participants (24.20 percent) had not accounting knowledge. To conclude, that the majority of participants had accounting and auditing knowledge.

Out of 95 participants 25 participants were accountants (28.40 percent), 23 were auditors (24.20 percent), 16 were financial managers (16.8 percent), 12 were financial analysers (12.60 percent) and 16 were stockholders. Demographic characteristics of participant are summarized in below table (Table 1).

Table (1) Frequency Table of Participant

Case	Label	Frequency	Percent
Academic Degrees	Accounting and Auditing	72	75.00
	Other	22	25.00
	Total	94	100.00
Job Position	Accountant	27	28.40
	Auditor	23	24.20
	Financial Manager	16	16.80
	Financial analyst	12	12.60
	Stockholder	16	16.80
	Total	95	100.00

The binomial test was first conducted to assess how many percent of participants accept the effects of independent factors on dependent ones. At the first step the respondents who had not any idea (not agree or not disagree) about the effect of independent factor on dependent one eliminated and then we divided reminded participants into two groups including agreeing and disagreeing with hypotheses. The results revealed that 82 participants (88.00 percent) agreed that auditing committee affected on financial statement quality of auditing, therefore the first hypothesis significantly

confirmed ($p < 0.05$). Mean degree of agreement for this hypothesis was 0.518 (SD= 0.721, 95 percent of confidence interval from 0.36 to 0.62).

The results also show that 61 participants (73.00 percent) agree that auditing committee affects on correctness of financial information. As it shows by the results: this hypothesis is accepted (H_2) and mean degree of agreement for this hypothesis is 0.574 (SD= 0.861, 95 percent of confidence interval from 0.382 to 0.763).

However, regarding the third hypothesis only 53 participants (60.00 percent) agree that auditing committee affects on independent auditor independency. Thus the results of this hypothesis reveal that the hypothes has been rejected ($P > 0.05$) and mean degree of score for this hypothesis is 0.021 ($SD = 1.161$, 95 percent of confidence interval from -0.182 to 0.238).

Regarding the fourth hypothesis, the results revealed that only 56 participants agreed to this hypothesis. Then this hypothesis confirmed ($p < 0.05$) and mean degree of agreement was 0.1701 ($SD = 0.61$, 95 percent of confidence interval from 0.012 to 0.255).

Regarding the fifth hypothesis, the results revealed that majority of participant agree to the effects of auditing

Committee on accounting system of company. There are 80 participants agreed to this hypothesis. Then this hypothesis confirmed ($p < 0.05$) that mean degree of agreement was 0.635 ($SD = 0.625$, 95 percent of confidence interval from 0.512 to 0.765).

About the sixth hypothesis, the results revealed that there is a significant relationship between auditing committee actions on the effectiveness of internal auditing. There are 75 participants agreed to this hypothesis ($p < 0.05$) and mean degree of agreement was 0.842 ($SD = 0.76$, 95 percent of confidence interval from 0.62 to 1.055).

The results of testing hypotheses by binomial test are showed in Table 2.

Table 2: Dependent variable effect on Detecting Distortions and Test Result by Binomial Test

Hypotheses	Category	Frequency	Observed prop.	Test prop.	Asymp. sig.	Result
H ₁ (Quality of financial statements)	Disagreeing	11	0.12	0.5	0.000	Confirmed
	Agreeing	82	0.88			
	Total	93	1			
H ₂ (Correctness of financial information)	Disagreeing	22	0.27	0.5	0.000	Confirmed
	Agreeing	61	0.73			
	Total	83	1			
H ₃ (Independencies of independent auditors)	Disagreeing	35	0.40	0.5	0.061	Rejected
	Agreeing	53	0.60			
	Total	88 ^a	1			
H ₄ (Improving auditing and accounting standard)	Disagreeing	32	0.38	0.5	0.029	Confirmed
	Agreeing	53	0.62			
	Total	81	1			
H ₅ (Accounting system)	Disagreeing	11	0.12	0.5	0.000	Confirmed
	Agreeing	80	0.88			
	Total	91	1			
H ₆ (Internal auditing effectiveness)	Disagreeing	12	0.14	0.5	0.000	Confirmed
	Agreeing	75	0.86			
	Total	87	1			

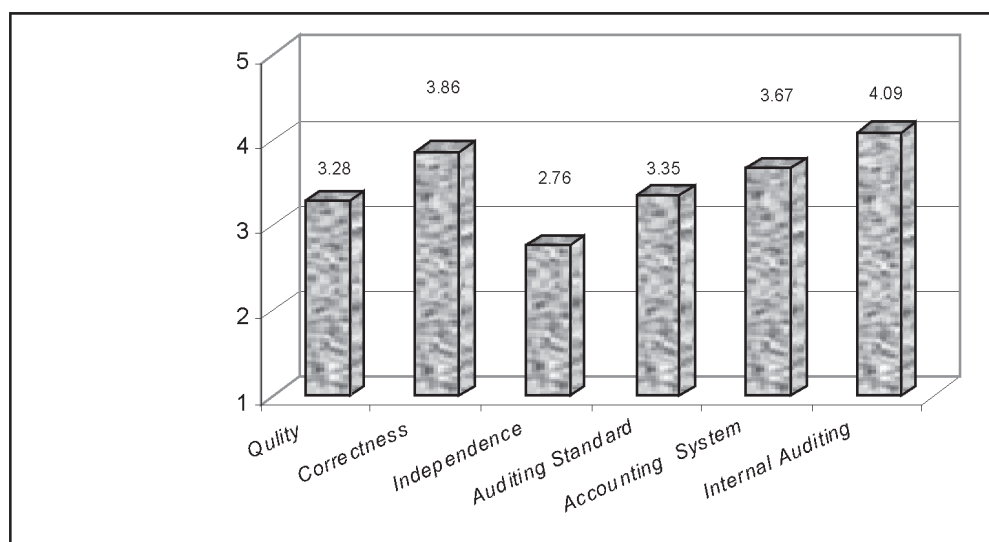
Note: Because of binomial test characteristic we divided respondents into two groups including agreeing and disagreeing and eliminate those of respondents that haven't idea.

Table 3: Mean Degree Participants Agreement or Disagreement to the effects of Auditing Committee on Independents Factors and Other Statistics

Independent Variable	Mean Degree	Standard Deviation	95 Percent of Confidence Interval
Quality of financial statements	0.518	0.721	0.361-0.620
Correctness of financial information	0.574	0.861	0.382-0.763
Independencies of independent auditors	0.021	1.161	-0.182-0.238
Regarding auditing standard	0.1701	0.61	0.012-0.255
Accounting system	0.635	0.625	0.512-0.765
Internal auditing effectiveness	0.842	0.76	0.62-1.055

Note: Positive number represents mean degree of agreement while negative number represent mean Degree of agreement

Figure 1: Fridman Mean Rank of Independent Variable Affections on Auditor Independence



Regarding those participants who requested to determine degree of agreement or disagreement to the question by likert spectrum, Table No. 3 represents mean degree of agreement or disagreement according to their idea and other statistics.

As shown in the table, the auditing committee have the most effects on internal auditing effectiveness while they have the least effect on auditor independence in Iran.

Because of non parametric characteristics of gathered data the independent variable affects (auditing committee) on dependent ones was compared by non- parametric two-way ANOVA (Friedman) Test too. The results showed that three factors have no significant differences. The result demonstrated in following figure (Figure 1).

As seen in the figure too, while the auditing committee have the most effect on internal auditing, they have the least effect on auditor independence in Iran.

Conclusion

Overall, the emerging literature on audit committee studies suggests that the committees play a role in various accounting related issues. The overall objective of the audit function is to increase the credibility of the financial statements. An effective audit committee should contribute significantly its objectives. Over the past several decades, advisory panels and regulatory bodies have emphasized the need for effective performance of the duties by audit committees of publicly traded companies. The SEC has followed the recommendations of these advisory panels and made rules that later were followed by the stock exchanges in requiring audit committees to exercise due diligence when carrying out their fiduciary responsibilities in relation to the reporting companies. With the passage of the Sarbanes-Oxley Act of (2002), the responsibilities of audit committees have increased significantly. Since the compliance with the SOX became mandatory after April 2003 (US SEC, 2003a, b) in many countries, unfortunately it is not mandate in Iranian environment. According to the results of this survey from the participants' viewpoints the existence of audit committee in Iran will affect on quality of financial statements which it is very important to stakeholders and correctness of financial information. Further, the participants' belief that the audit committee will improve native auditing and accounting standards as well as corporations accounting system. The results also reveal that the existence of audit committee will improve corporations' internal auditing system. The authors come to conclusion that the existence of audit committee in Iran is very emergency. Any delay in mandating audit committee caused very bad condition to Iranian corporate sector. So Iranian legislators should establish audit committee in Iran soon.

Key words: Audit committee, Audit independence, Audit quality, Iran.

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