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The Role of the Audit Committee in Improving Voluntary Disclosure "Field Study on Jordanian Insurance Companies"

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Abstract. *The audit committee plays a major role in corporate governance regarding the organization's direction, control, and accountability. As a representative of the board of directors and the main part of the corporate governance mechanism, the audit committee is involved in the organization's both internal and external audits, internal control, accounting, and financial reporting, regulatory compliance, and risk management. This study aims to provide and explain the relationship between audit committee roles and voluntary disclosure, and how audit committee tries to enhance her role in voluntary disclosure among Jordanian insurance companies listed in Amman stock exchange (24 company). We concentrated on two roles, reviewing accounting policies and risk management used to improve the voluntary disclosure, through questionnaires distributed to all audit committee members in insurance companies (84 members), (75) questionnaire was accepted and used in the pilot analysis of the originally distributed questionnaires at (percentage of 89.3%) through use One-Sample T-Test and verify the validity of this hypothesis, the arithmetic means and standard deviations of the items concerning for the audit committee role we found that these two roles influence the level of voluntary disclosure among insurance companies. audit committee followed specific procedures in reviewing, supervising, and control of the company accounting policies to improve the voluntary disclosure. Moreover, about risk management, the study concluded that the audit committee covers all aspects of the company's operations and sets clear methods for each type of risk and how to deal with them by the voluntary disclosure of the company.*

Keywords: Audit Committee, Voluntary disclosure, reviewing accounting policies, Risk management

JEL Codes: M40, M41, M42

1. Introduction

In recent years, the role of the Audit Committees as a mechanism for corporate governance has increased (Hesiany et al., 2013), especially after the financial crises between1980s and 1990s, regulators have tried to boost the laws, specifically concerning the transparency and independence of the Audit Committee (AC) (Samaha et al., 2012). These financial crises which caused in the collapse of highly

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competitive companies like Enron, Parmalat, and WorldCom have resulted in the overthrow in investors' confidence in financial markets (Delgado-García et al., 2010) Audit Committees plays a key role in monitoring and controlling of the internal mechanism of an organization as they assist efficiently the board of directors in the decision-making process (Talpur et al., 2018).

Alsafadi, (2015) analyzes voluntary disclosure Orientations in financial reports on Rationalize investors' decisions in the listed industrial companies on Amman stock exchange. The study results explain that the Sectorial information and Information on employees one of the most important voluntary disclosure items affecting investor decisions.

Previous studies evaluate meetings number (Delgado-García et al., 2010) the independence influence (Zhang et al., 2007), existence (Alves, 2013), size (Madi et al., 2014), and financial expertise (Liu et al., 2014) of the audit committee. Other studies assessed the audit committee influence on earnings quality (Hamdan et al., 2013) found that there was an influence of some standard characteristics of audit on earnings quality, for earning management (Inaam and Khamoussi, 2016) found that the audit committee attributes have a negative relationship with earnings management, moreover for agency cost

(Cai et al., 2015) examine the role of audit committees in mitigating the agency costs, more studies concentrated on the relationship between the corporate governance and voluntary disclosure like (Talpur et al., 2018) found that audit committee size, independence, and meetings are the factors that influence the voluntary corporate-level governance disclosure, while (Alfraih and Almutawa, 2017) examined the eight corporate governance mechanisms and found Cross directorship, the board size, and role duality are negatively related to voluntary disclosure, while government ownership is positively related to voluntary disclosure. In contrast, the proportion of non-executive directors, family members on the board, the presence of an audit committee, and the presence of the ruling family on the board have an insignificant influence on voluntary disclosure practices. Even so, the role of the audit committee in enhancing the voluntary disclosure level is still mysterious.

2. Voluntary Disclosure Motivation

The Financial Accounting Standard Board (FASB, 2000) describes "voluntary disclosures" as "information primarily outside of the financial statements that are not explicitly required by accounting rules or standards" In Jordan, the voluntary disclosure items were defined as those items that are not regulated by Jordanian reporting forces (the Companies Law No. 35 of 2002, the accounting profession, the Securities Law No. 35 of 2002) (Al Shattarat et al., 2010), And/ Or additional information provided by a company, beyond the statutory and legal requirements by regulatory bodies like (Jordan Securities Commission Law No.17 of 2017), etc. These disclosures enhance the quality and quantity of information not be disclosed which could be sufficient for making a decision. In other words, this information is not mandatory to be disclosed but still disclosed by a company (Setiany et al., 2017).

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3. Incentive of Study

Audit committee related disclosure and reporting is a necessary element for assessing the effectiveness of audit committee function (lin et al., 2008). Previous studies that examined the role of audit committees on disclosure are still relatively scant. A study was conducted by (Arifin et al., 2001) on 153 annual reports of companies listed on Indonesian Stock Exchange (IDX) in 1999 that linked the role of audit committees on disclosure in Indonesia through using the attendance rate of audit committee's members in audit committees meetings as a proxy for audit committees. The research concluded that audit committees do not have a significant effect on voluntary financial disclosure presented by the company.

In Jordan, corporate governance instructions for insurance companies article No.7 of 2006 identified the board of directors shall establish an audit committee according to specific functions and authorities (Securities depository center, 2006). In recent years, the Jordanian legislator has adopted several legislations and laws that have played a major role in highlighting the importance and organization of audit committees and the characteristics that should be provided in audit committees. A part of these legislations and laws related to voluntary disclosure which may discover some of important information that the companies may not be disclosed in their financial reports (Alshaer, 2019), This study problem focus on the role of audit committees on voluntary disclosure as a tool to improve the level of voluntary disclosure about any information's may effect on decision making for financial statements users and how audit committee can enhance their roles in the fields of reviewing accounting policies and risk management, moreover this study also contributes to clarifying the effectiveness of the audit committees on the one hand, and on the other hand by evaluating the role of the audit committees in improving the voluntary disclosure. Over the year 2018 of Jordanian insurance companies listed in Amman stock exchange (ASE), through the distribution of a questionnaire to the audit committees operating in these companies to know the role of their audit committees.

4. Hypothesis development

Based on the above-discussed motivations, this study aimed to achieve two objectives:

First, to examine the role of the audit committee in the field of reviewing accounting policies in Jordanian Insurance Companies listed in Amman stock exchange; second to examine the role of the audit committee in the field of risk management in Jordanian Insurance Companies listed in Amman stock exchange

In the following sections, the role of Audit Committee variables are reviewed through previous studies to provide their impact on voluntary disclosures to formulate the hypotheses used to achieve the objective.

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4.1.Reviewing accounting policies

As we discussed previously, audit committees play a key role by supporting the board of directors in internal control of the company. In his article (Al mobarak,2016) explain that the audit committees aim to ensure that the reports and data required by the Company have been prepared following generally accepted accounting policies and are not limited to the general acceptance of the applicable methods. Moreover (Al-Baidhani, 2016) examined the role of audit committees in financial and accounting reports and their compliance with local laws and legislations. The general acceptance of policies is intended to ensure that these policies receive appropriate use and user support. The audit committees should ensure that these accounting policies are checked two important matters:

1- Include procedures for the preparation and presentation of reports, data, and unbiased, and to reflect as accurately as possible the data provided by accounting policies to users.
2- Determine the effect of using the accounting policies adopted and the correct principles, and companies use the proper and appropriate basis to achieve the data and reports required for the companies.

Therefore, consistent with the previous literature, this study has formulated the first hypothesis as follow:

H01: There is no statistically significant role, at the significance level of , $\alpha \leq 0.05$ for the audit committee's role in reviewing the accounting policies used to improving the voluntary disclosure in Jordanian insurance companies.

4.2.Risk management

Corporate governance instructions for insurance companies article No.8 of 2006 identified that the company must have a written risk management policy compatible with the company business size and nature of its business. Covers all aspects of the Company's operations and set clear standards and limits for each type of risk and procedures to deal with it in addition to monitoring the company's compliance with the risk management policy and regular assessment of risk management procedures and policies (Securities depository center, 2006) moreover (Musallam,2018) found there is a significant positive relationship of the existence of risk management, audit committee meeting and audit committee size with CSR disclosure in Palestinian listed companies, which mean there is a role for an audit committee on risk management. In his study (Al-btosh,2015) found that there is a relationship between the role of the audit committees improving the internal audit efficiency. And the relationship between the internal audit efficiency and the ability of the Jordanian electricity companies to risk management. This role we will try to discuss in the second hypothesis which formulated as follow:

H02: There is no statistically significant role at the significance level of 0.05 α for the audit committee's role on risk management to improving the voluntary disclosure in Jordanian insurance companies.

5. Methodology

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5.1.Sample and data resources

To get the primary data, the researchers used the analytical descriptive method to collect data, analyze and test the hypotheses by relying on questionnaires distributed to the audit committee members (84 members) operating in Jordanian insurance companies (24 company) (Insurance commission.2019), In which the members were asked to state the likelihood (on a 5-point scale: [5] strongly agree; [4] agree; [3] neutral; [2] disagree; [1] strongly disagree). Questionnaires distributed to all these (84) member, (77) questionnaires were returned (percentage of 91.6%); (2) Questionnaires were excluded for incomplete filling and clear randomization during filling at (percentage of 2.3%) the rest of 75 copies were accepted and used in the pilot analysis of the originally distributed questionnaires at (percentage of 89.3%). Secondary data is collected from different articles published by the well-known periodicals, books, and dissertations related to the audit committee and voluntary disclosure.

6. Data Analysis and Findings

6.1.Reliability Test

The reliability of the instrument used to measure the variables involved in the questionnaire was confirmed by calculating the value of the Cronbach's Alpha Coefficient (Internal Consistency Coefficient) where the result is statistically acceptable if the value is greater than 0.60. (Sekaran and Bougie, 2012). As shown in Table 1, the Cronbach's alphas for the questionnaire as a whole was (0.918), for the first factor was (0.712) and the second factor was (0.756).

Table 1. Cronbach's Alpha Coefficient (Internal Consistency Coefficient)

Factor	Cronbach's Alpha
The audit committee role on reviewing the accounting policies (paragraph 1-6)	0.712
The audit committee role on risk management (paragraph 7-11)	0.756
Questionnaire as a whole	0.918

6.2.Normal distribution test

It was conducted normal distribution of the data collected and tested to make sure if the data is under the normal distribution or not, through using (Skewness) which indicates if the values less than (1) its means that the data is distributed naturally (Hair, et.al.2014)

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Table 2. Normal distribution through using (Skewness)

Factor	Main	Standard deviation	Skewness
The audit committee role on reviewing the accounting policies	4.15	0.399	0.631
The audit committee role on risk management	4.16	0.430	0.839

6.3.Sample Characteristics

The respondents were (n=75,100%) an audit committee members, most of them were (n=67, 89.3%) had accounting degree, (n=6, 8%) had master degree, (n=2, 2.6%) had Ph. Degree. Thus, most of the respondents have university degrees that qualify them to understand and answer the study questions. Most of respondents were (n=25, 33.3%) do not hold professional certificates, (n=20, 26.7%) CPA holders, and evenly (n=15, 20%) JCPA and ACPA holders. Which indicate that most of the study sample hold professional certificates. Furthermore most respondents (n=28, 37.3%) had experience between 5-10 years, then (n= 19, 25.3%) had experience between 10-15 years, then (n= 13, 17.4%) had experience between 15-20 years, then (n=12, 16%) had experienced less than 5 years, and (n=3, 4%) had experienced more than 20 years. this is an indicator that all audit committee members have a good experience and therefore have useful data, which helps to come up with results or indicators that can be generalized. As illustrated in table 3.

Table 3. Sample Characteristics (n=75)

*

Category	Educational Certificate		Professional Certificates		Years of experience	
	Freq.	%	Freq.	%	Freq.	%
Bachelor	67	89.3				
Master	6	8				
Ph. Degree	2	2.7				
Total	75	100%				
JCPA*			15	20		
CPA			20	26.7		
ACPA**			15	20		
Non-holders			25	33.3		
Total			75	100%		
Less than 5 years					12	16%
Between 5-10 years					28	37.3%
Between 10-15 ears					19	25.3%
Between 15-20 years					13	17.3%
more than 20 years					3	4%
Total					75	100%

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Jordan certified public accountant

** Arab Certified Professional Accountant

6.4.Hypotheses Test

In this part of the study, through review the hypothesis test, the hypotheses were subjected to the test (One-Sample T-Test)

6.4.1. First Hypothesis

H01: There is no statistically significant role at the significance level of $\alpha \leq 0.05$ for the audit committee's role in reviewing the accounting policies used to improving the voluntary disclosure in Jordanian insurance companies. To verify the validity of this hypothesis, the arithmetic means and standard deviations of the items concerning for the audit committee role on reviewing the accounting policies used to improving the voluntary disclosure, as it is illustrated in the following table

Table 4. The arithmetic means and standard deviations of the items concerning for the audit committee role on reviewing the accounting policies used to improving the voluntary disclosure

Rank	N	Items	Mean	Std.	Sig.
1	8	Reviewing the accounting policies to enhance the internal control related to the company's voluntary disclosure	4.09	0.756	High
2	1	Following up on the company's compliance with the accounting policies adopted in accordance with the company's voluntary disclosure.	4.39	0.695	High
3	3	Supervising and controlling the company's business in relation to the accounting policies of the voluntary disclosure.	4.21	0.703	High
4	6	The audit committee expresses its opinion as to whether the policies adopted are consistent/appropriate with the company's voluntary disclosure.	4.15	0.800	High
5	10	The audit committee determines the impact of using appropriate policies in the preparation of company reports and statements to improve voluntary disclosure	4.01	0.797	High
6	5	Discussing matters relating to the accuracy of the accounting procedures and matters relating to the preparation of Company reports and statements in accordance with the applicable policies in the Company for voluntary disclosure.	4.15	0.748	High
7	9	Management follows up any changes to the Company's accounts and any changes in accounting policies as a result of the auditor's suggestion related to the voluntary disclosure.	4.04	0.796	High
8	4	Reviewing the accounting policies and selects those policies that appropriate to the work nature required, to	4.16	0.772	High

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(Volume 19, Issue 1 /2020), pp. 5-16
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e-mail: editors@reaser.eu

		achieve the voluntary disclosure.			
9	2	Studying any legal recommendation or a new instruction in accounting policies in accordance with the Company's voluntary disclosure.	4.24	0.732	High
10	7	Examination of the insurance policies of the company and audited them under the appropriate company's voluntary disclosure.	4.11	0.764	High
Average		-	4.15	0.399	High

The table above showed that the arithmetic mean range between (4.39) and (4.01). Item (2): "Following up the company's compliance with the accounting policies adopted under the company's voluntary disclosure" came first with a mean (4.39) and with standard deviation (0.695) while item (5): "The audit committee determines the impact of the using appropriate policies in the preparation of company reports and statements to improve voluntary disclosure" came last with a mean (4.01) and with standard deviation (0.797). And the mean of the audit committee's role in reviewing the accounting policies used to improving the voluntary disclosure was (4.15) and with standard deviation (0.399).

Table 5. Testing the First Hypothesis Using T-test

Calculated-t	Tabled-t	Sig	Degree of freedom	H01 result
25.035	1.992	0.000*	74	rejected
*Significant level at (a≤0.05)				
Tabled T value at a degree of freedom (N-1)				

Through using (One-Sample T-Test) for testing this hypothesis we found that calculated-t value equal (25.035) which is greater than the tabled-t value (1.992), so t-value consider statistically significant. The results of table 5 showed that there is a statistically significant role at the significance level of $\alpha \leq 0.05$ for the audit committee role on reviewing the accounting policies used to improving the voluntary disclosure in Jordanian insurance companies with the total mean for (4.15) and standards deviations for (0.399). Therefore the null hypothesis was rejected and the alternative one was accepted.

6.4.2. Second Hypothesis

H02: There is no statistically significant role at the significance level of $0.05 \geq \alpha$ for the audit committee 's role on risk management to improving the voluntary disclosure in Jordanian insurance companies.

To verify the validity of this hypothesis, the arithmetic means and standard deviations of the items concerning the audit committee role on risk management to improving the voluntary disclosure, as it is illustrated in the following table.

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(Volume 19, Issue 1 /2020), pp. 5-16
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Table 6. The arithmetic means and standard deviations of the items concerning for the audit committee role on risk management to improving the voluntary disclosure

Rank	N	Items	Mean	Std.	Sig.
1	3	Following up and monitoring how the company compliance with the risk management policies and risk limits, related to the voluntary disclosure.	4.21	0.622	High
2	6	The Audit Committee contributes to the evaluation of risk management policies and their limits in the light of the risk of the problems that may be faced to improve to voluntary disclosure.	4.16	0.806	High
3	8	Contributing through periodic review to know the effectiveness of the most important financial risks that may be company exposed and related to the company's voluntary disclosure.	4.04	0.761	High
4	4	Cover all aspects of the company's operations and set clear standards and methods for each type of risk and how to deal with them under the company's voluntary disclosure.	4.21	0.810	High
5	7	Following procedures to ensure that information reaches at the right time, and know the necessary steps to address the risks that the company may face.	4.15	0.817	High
6	1	Contribute to the plan's development to reduce the risks faced by various departments of the company's business under the company's voluntary disclosure.	4.24	0.589	High
7	2	The audit committee provides direct communication channels between the head of risk management and the internal audit department to ensure transparency in improving voluntary disclosure.	4.24	0.803	High
8	5	The audit committee recommends to the Board of Directors regarding the company's ability to facing the risks that may be exposed and related to voluntary disclosure	4.19	0.730	High
9	9	Review the irregularities with management and the head of risk management, follow up the management's reactions and proposed corrective actions to deal with them to improve the level of voluntary disclosure.	4.03	0.677	High
Average		-	4.16	0.430	High

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The table above showed that the arithmetic mean range between (4.24) and (4.03). Item (6): "Contribute to the development of the plan to reduce the risks faced by various departments of the company's business under the company's voluntary disclosure" came first with a mean (4.24) and with standard deviation (0.589) while item (9): "Review the irregularities with management and the head of risk management, follow up the management's reactions and proposed corrective actions to deal with them to improve the level of voluntary disclosure" came last with a mean (4.03) and with standard deviation (0.677). And the mean of the audit committee's role in reviewing the accounting policies used to improving the voluntary disclosure was (4.16) and with standard deviation (0.430).

Table 7. Testing the Second Hypothesis Using T-test

Calculated-t	Tabled-t	Sig	Degree of freedom	H02 result
23.397	1.992	0.000*	74	rejected
*Significant level at (a≤0.05)				
Tabled T value at be disclosed degree of freedom (N-1)				

Through using (One-Sample T-Test) for testing this hypothesis we found that calculated-t value equal (23.397) which is greater than the tabled-t value (1.992), so t-value consider statistically significant. The results of table 7 showed that there is a statistically significant role at the significance level of 0.05≥α for the audit committee role on risk management to improving the voluntary disclosure in Jordanian insurance companies with the total mean for (4.16) and standards deviations for (0.430). Therefore the null hypothesis was rejected and the alternative one was accepted.

7. Results and Recommendations

7.1.Results

Depend on the previous discussion, the study results revealed that the role of the audit committee in reviewing the accounting policies and their role in supervising and control of the company accounting policies followed in improving the voluntary disclosure has achieved a high degree of approval from the point of view of the audit committees members as appeared in (Al-Baidhani, 2016) and (Al Mobarak, 2016).

About the audit committee's role in risk management, the study concluded that the audit committee covers all aspects of the company's operations and sets clear methods for each type of risk and how to deal with them under the voluntary disclosure of the company. In addition to the audit committee contribution in the evaluation of the risk management policies and limits. These results are similar to (Albotosh, 2015) study.

7.2.Recommendations

According to the previous results, the researchers recommended the following:
The audit committee must determine the impact using the correct and appropriate accounting policies in the preparation of company reports and statements, following up issues and amendments issued by the International Accounting Standards Board related to the voluntary disclosure components, and review

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irregularities with management and risk management department and follow up corrective proposed actions to improve voluntary disclosure.

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