



Do Listed Companies Need an IFRS Committee Beside Audit Committee?

Mohammad K. SHBEILAT¹, Mohammad N. AL HARASEES²

Accounting Department, Business Faculty, Tafila Technical University, P. O. Box 179, Tafila 66110, Jordan,
¹E-mail: shbeilat@yahoo.com, ²E-mail: harasis_m@yahoo.com

Abstract

The aim of the study is to identify the necessity of forming an international accounting standards committee from the board of director and to investigate its role in reinforcing corporate governance pillars and the integrity of financial reporting. A questionnaire was designed containing 18 items distributed to a sample of 121 external auditors and 121 financial managers of companies listed in Amman Stock Exchange. Response rate of usable survey instruments reached 78%. With the help of SPSS program, one Sample T-Test used to analyze the contents of the survey instrument. The results showed that listed companies face difficulties in applying both the international accounting standards and corporate governance best practices, and also revealed that huge duties placed on the audit committees limits their ability to fulfill their objectives properly and securing the soundness of financial reporting system, therefore this study recommends the formation of an International Accounting Standards Committee from the board of directors to supervise and monitor accounting practices, evaluation judgments, recognition, measurement policies and ensuring adequate disclosure and transparency in accordance with IFRS.

Key words

IFRS Committee, corporate governance, audit committee, financial reports, Board of Directors, International Accounting Standards

Received: 20 Mar 2018 © The Authors 2018

Revised: 07 Apr 2018 Published by Human Resource Management Academic Research Society (www.hrmars.com)

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Published Online: 11 May 2018

1. Introduction

The rapid developments that casted a shadow on the global economy had a significant impact in bringing about obvious changes on the level of the business environment in general, and accounting in particular. The technological developments, privatization, global trade, trade liberalization, and the transition to free markets led countries and organizations to address the challenges that devastated accounting profession and affected its performance (Alas'ad, 2013), especially the ultimate and the most important goal of accounting, which is helping shareholders and stakeholders in improving the quality of economic decisions by providing them reliable financial information (Shirima and Patrick, 2015; Fardinal, 2013). In 1973, the International Accounting Standards Committee (IASC) was established and became responsible for issuing international accounting standards (Pacter, 2014). These standards became the guide in preparing accounting reports for companies that need to produce reliable and comparable financial statements. Therefore, many countries have scrambled to adopt the international accounting standards to achieve the goals of the accounting system (Ramzi, 2009).

The emergence of successive financial crises created a state of uncertainty of the economic situation that led to bankruptcy and collapse of several major organizations. Despite efforts made by the

International Accounting Standards Board to encounter the challenges facing the accounting profession, the problems continued to greatly affect organizations. This was a result of the lack of disclosure and transparency and not showing the real information that reflect the true financial position (Abdul Hamid, 2010). This, however, led to a decline in confidence among investors on published financial statements (Ishhadat, and Abed Al-Jaleel, 2012). A well-known notorious example of big scandal that affected investor's confidence in both accounting profession and companies' financial statements is Enron-Arthur Anderson. This scandal caused the US government, in 2002, to develop a new legislation called Sarbanes-Oxley Act (SOX), which is considered one of the most significant corporate governance reforms worldwide (Al-Qashi, and Al-Khateeb 2006). Corporate governance helps companies cope with financial and administrative faltering, maximize market value, promote corporate stability, enhances transparency and disclosure, and therefore, contributes to boosting the confidence of the community in the outcomes of the accounting system (Khoury, 2002; Isma'eel, 2010; Aljawhar, 2011; Verriest *et al.*, 2010; Matar, 2009).

The adoption of good corporate governance code is important in the process of applying accounting practices in accordance with IFRS (Verriest *et al.*, 2010). An important tool for strengthening corporate governance system is the formation of committees from the Board of Directors like the Audit Committee (Chukwunedu *et al.*, 2014) and the Nominations and Compensations Committee. This study aims to investigate the application of IFRS by Jordanian listed companies and to shed light on the relationship between corporate governance and international accounting standards, and to find out the importance of forming a special committee stemmed from the Board of Directors to follow up on the mechanism of applying the IFRS since the financial statements must be prepared by well-qualified individuals (Salah, 2008).

2. Research Importance and Goals

The importance of this study stems from the need for clarifying the role of corporate governing bodies and the extent of monitoring and supervising accounting practices, which became in need for Keeping in pace with developments in accounting standards. There is increasing adoption of IFRS worldwide and it has greatly affected the financial reports (Fifield *et al.*, 2011). However, some of ambiguity surrounding the application of accounting practices especially in the process of recognition, measuring and recording of some elements of accounting information, as well as the difficulty of understanding the requirements and practical implementation of these standards. Such these practices require well-financially educated and highly qualified accountants team which may not be available in many companies. Also, the declining of confidence in the accounting profession pushed the organizations to find means to protect shareholders and stakeholders as demonstrated in the adoption of strong corporate governance code that requires governing committees to play vital role in securing financial reporting system (Ahmed and Mohammed, 2012). Therefore, this study demonstrates the importance of having a special committee of the International Accounting Standards stemmed from the Board of Directors to contribute in giving credibility to the accounting information to further boost the objectives of corporate governance.

The study also aims to answer the following questions:

1. *What are the difficulties and obstacles that limit the application of international accounting standards?*
2. *How strong corporate governance affects financial reporting system?*
3. *What is the role corporate governance in protecting stakeholder's confidence and achieving stability for the companies?*
4. *What is the role of corporate governance in facilitating the company's application of international accounting standards?*
5. *Can the Audit Committee perform the tasks entrusted to it, especially the financial aspects that are related to supervising the application of the accounting practices in accordance with international standards?*
6. *How much important it is to form a committee stemmed from the Board of Directors that aims to ensure the application of international accounting standards and practices in order to contribute in achieving the ultimate goal of accounting which is protecting shareholder's wealth and stakeholders' interests?*

3. Literature review

3.1. International Accounting Standards: Definition and Importance

"The international accounting standards (IAS) were an older set of standards stating how particular types of transactions and other events should be reflected in financial statements.... since 2001, the new set of standards has been known as the international financial reporting standards (IFRS) and has been issued by the International Accounting Standards Board (IASB)..... many countries require the financial statements of publicly-traded companies to be prepared in accordance with IAS" (Investopedia, 2016).

The adoption of (IAS/IFRS) has a positive impact on the quality of accounting information (Bhattacharjee and Islam, 2009), and the movements towards accounting unification (Shil *et al.*, 2009) has urged many countries, especially developing ones, to adopt the IAS/IFRS (Jacob and Madu, 2009). The IAS/IFRS provides high-level professional description of generally accepted professional practices that aim at reducing the degree of difference in accounting practices (Hamdan and Al-Qadi, 2008). According to Salah (2008) the IAS is essential guide to measure processes, events and circumstances that affect the entity's financial position and operations results as well as delivering the information to beneficiaries and rationalizing the practical practices. Another benefit is that adopting *"IFRS restricts and lessens alternative accounting options. Thus, it limits the use of manipulation methods such as earning and income smoothing"* (Yurt and Ergun, 2015).

The importance of IAS comes from the importance of the information in the annual reports that are required by the shareholders to take rational economic decisions, and also because the accounting standards became the guide to measure the processes and events that affect the company's' financial position. On the other hand, the globalization caused the emergence of new forms of markets that removed the traditional boundaries between different countries (Al-Azemi , 2012) which put the IASB in a critical situation to issue accounting standards to meet those challenges and face the financial and economic crises (Iaux and leuz, 2010). Furthermore, new technological developments have affected the conceptual framework of accounting dramatically; these developments led to a fundamental change in the accounting business environment and for a call to establish a specific International Accounting Standard for Electronic Accounting Information Systems (Al Harasees and Shbeilat, 2016).

3.2. Corporate Governance

Accounting literature reviewed several special definitions of the concept 'Corporate Governance'. Velury *et al.*, (2005) defined the governance as the procedures of relevant authorities to monitor the company's management performance, while the Organization for Economic Cooperation and Development (OECD) defined governance as "Procedures and processes according to which an organization is directed and controlled" (OECD, 2007).

Governance emerged as one of the important concepts that countries need as a result of economic crisis that hit the global economy and were witnessed by a number of East-Asian countries and the United States and Europe. The importance of governance has also increased after many countries transformed to the capitalist economic systems which led to the liberalization of markets and to the expansion of the size of these projects and later the separation of ownership from management (Abu Dhabi center of the governance). These reasons, in addition to financial corruption and to the inability of the company's directors to perform their supervisory role properly, have created a state of uncertainty in the global economy recently, which contributed to the decline of investor confidence in the financial statements (Ishhadat and Abed Al-Jaleel, 2012; Bouguerra and Hadjerah, 2012).

The international accounting standards provide the necessary guidance and framework to lend financial statements credibility that enables stakeholders to take informative decisions (Abu Ghazaleh, 1997). The adoption of corporate governance best practices reinforces supervisory and monitoring tools over company's activity and therefore promoting the integrity of financial reporting system (Eyenubo *et al.*, 2017; Dey, 2005; Abdel Hamid, 2010). The quality of the accounting information, which is the responsibility of the company's directors, depends on the work of governance mechanisms (Khalil, 2005; Al-Sufy *et al.*, 2013; Aljawhar, 2011), which can be achieved through forming supervisory committees over financial reporting such as the audit committee (Sami, 2009). In this regard, the researchers posit the following

arguable questions “to what extent can the audit committee ensure the integrity of financial statements in accordance with IFRS? and, do listed companies need a special committee designated to follow up on contemporary accounting practices, proper use of accounting estimates, judgments and fair value measurements according to IFRS?”. The researchers believe that the answer to these questions is through firstly, evaluating the actual application of IAS and the extent of entity’s ability to apply the guidelines and interpretations of the standards and secondly, the ability of governance mechanisms in monitoring and dealing with contemporary issues in accounting practices in accordance with international accounting standards.

One of the most significant challenges facing the application of international accounting standards is the lack of qualified professionals, i.e. well-trained accountants in IFRS (Shil *et al.*, 2009; Abu Ghazaleh, 1997). Since the accounting standards and practices have become more complex and require strong analytical skills and judgments, it became necessary to emphasis on accounting education (AL Al Frijat and Shbeilat, 2016; Shima, Yang, 2012; Ahma and Ahmad 2017; Ramsey, 2009; Waweru and Kamau, 2008; Pătruț, 2013). Shil *et al.* (2009) pointed out that accountants may fail in applying IFRS and also revealed that there is a shortfall of the number of accountants who can apply accounting practices in accordance with the (IFRS) properly.

The numerous functions of audit committees limit their performance in securing financial reporting system. Sami (2009) added to that point that audit committees have a short time to complete their tasks since they have many responsibilities such as getting sure of the effectiveness of internal control procedure, adherence to the accounting standards and rules as well as reviewing the accounting policies and procedures, ensuring external auditor's independence and the integrity of their work performance. Another criticism to the audit committees is the disparity of its members' disciplines which negatively affects their performance (Al-Qashi and Al-Khateeb 2006; Arnold 1993).

Shbeilat (2014) argued that “*the audit committee’s heavy responsibilities and the vital roles and duties set by legislators can’t be achieved by conducting a small number of meetings each year*”, such these duties put more pressure on audit committees’ roles in underpinning financial reporting system, therefore, the researchers argue that audit committee needs supporting mechanisms, whether from internal auditing and financial management as suggested by Kirzan (2013), or, by a special IFRS committee as proposed by this study. An example of audit committee failure is the case of Centro, where the “*directors of Centro Properties Group were found guilty of issuing misleading financial reports, which resulted in hefty fines some Audit Committees have been punished for breach of duties*” (MASB, 2012). In the same context, Erasmus (2014), from Deloitte and Touche, commented on the case of (CENTRO) and arose the question “to what extent reliance may be placed on the audit committee and the finance team”?

Another financial scandal of Dell Corporation, which witnessed financial misstatements, also emphasizes the goal of this study of forming an IFRS committee. An investigation conducted by Dell’s audit committee to ensure proper correcting of misstatements revealed “*the company did not maintain an effective control environment, including a “tone-and-control consciousness” that consistently emphasized strict adherence to Generally Accepted Accounting Principles GAAP*” (Dell audit committee, 2007). Furthermore, the AICPA, while discussing the relationship between IFRS and audit committees, wondered about the audit committee's understanding of the accounting options and policies in accordance with the accounting standards which have fewer details than GAAP, and requires it to exert a larger degree of professional judgment. The AICPA posed several questions such as “*How will audit committee members become financially literate in IFRS ... How the audit committee will understand and question management’s IFRS accounting-policy choices? IFRS contains less detail than U.S. GAAP and their application may require more professional judgment* (AICPA, 2010).

In summary of the literature, corporate governance system needs reform and securing the soundness of financial reporting system should not be placed solely upon on the audit committees due to their heavy duties in monitoring internal and external auditing. This has been also emphasized by Professor Wolnizer who commented “*If the community was to look to audit committees as a profound solution to the problem of corporate governance and to increase the quality of audited financial statements, I fear that we may be disappointed*” (Wolnizer, 2002).

4. The Study Hypothesis and Methodology of research

Based on the previous studies and theoretical framework, one *hypothesis* has been formed states [There is a positive relationship of forming an international accounting standards committee to further boost the goals of corporate governance best practices].

Due to modernity of the study and the lack of available data about the importance of forming an international accounting standards committee to promote the goals of governance, this study designed a questionnaire to be distributed to a sample CFOs and CPAs whose their views will be analyzed to obtain the results and recommendations of the study. This study depends on two essential sources to get the data. Firstly, *the secondary sources*; This study reviewed books, articles, research journals, and conference proceedings of relevance to objectives of this study and MA and PhD theses and internet websites due to the lack of related studies about the importance of forming an IFRS committee. Secondly, *the primary sources*; these sources are obtained through a questionnaire that had been prepared and distributed to cover the field part of the study. The researchers utilized the five-scale Likert measurement (1-5) to refer to the respondent's answer to this questionnaire, as follows:

(5. strongly agree), (4 - agree), (3 - neutral), (2-disagree), (1 - Strongly Disagree).

The questionnaire was designed to include information related to corporate governance and IAS/IFRS, the extent of applying both of them. The design also includes statements to survey the obstacles facing their application and the need to form an IFRS committee to support the Audit Committee to boost the goals of governance and the soundness of financial reporting system.

4.1. The study community and sample

The study community consists of: *Firstly* Financial Managers (CFOs) in companies listed in the Amman Stock Exchange until May, 2015. These listed companies are mandated to apply both the international accounting standards and to comply with the Jordanian corporate governance code (Jordanian corporate governance code, 2009). The number of listed companies according to the Amman Stock Exchange Bulletin, is 236. *Secondly* the CPAs, according to the bulletin of the Jordanian Association of Certified Public Accountants till May 2015, there were 381 auditors of the Jordanian certified auditors practicing the profession. By this, the total of the study population is 617 of financial managers and members practicing the audit profession. While the sample size has been selected according to the following equation:

The study population / [1+ (study population * study' moral level square)] (1)
(Mason *et al.*, 2003).

Therefore, the study sample is = $617 / (1 + (617 * 0.0025)) = 242$. This number will be distributed equally between the financial managers and auditors practicing the profession in Jordan.

4.2. The used Analysis methods

To obtain the results of the study, the data were analyzed employing SPSS software and the following statistical methods were used:

1. Frequencies and percentages.
2. Descriptive statistical methods as averages and standard deviations.
3. Testing hypotheses by using T- Test to accept or reject the hypothesis.

4.3. Analysis and Discussion

Table 1 indicates that study sample attitudes means regarding questionnaire statements ranged between (3.768-4.62). The results indicated that sample's agreement regarding forming an international accounting standards committee from the board of director is significantly perceived to further reinforcing corporate governance pillars and the integrity of financial reporting as the range they gained was high.

Table 1. Means and standard Deviation of Sample's responses regarding research Statement

Item No.	IFRS contributes in enhancing the quality of financial reporting	Mean	Standard Deviation	Rank	Degree
1	Companies do not apply IFRS properly.	4.239	.7602	17	High
2	Companies face difficulties in recruiting qualified accountants and able to apply all practices of IFRS.	4.577	.5738	3	High
3	There is difficulty in the application of IFRS due to its rapid and continuing developments.	4.338	.7871	13	High
4	Weakness of rehabilitation and accounting education reduces the ability of IFRS implementation.	4.254	.7831	16	High
5	The difficulty of understanding and application of Jordanian companies to the concept of corporate governance and its practices.	4.451	.6462	6	High
6	Jordanian companies are convinced of the importance of the implementation of corporate governance best practices and its impact on the quality of financial reporting.	4.465	.7669	5	High
7	Jordanian companies facing difficulty in applying corporate governance mechanisms in a way that ensure them achieving their desired goals.	4.352	.7718	12	High
8	Governance committees of corporations do not possess a high degree of independence.	3.768	.9202	18	High
9	Audit committees lack the necessary financial expertise and qualified individuals in accounting and finance to fulfill their duties effectively.	4.592	.5717	2	High
10	The huge duties and responsibilities of audit committees reduces their efficiency in fulfilling their objective.	4.310	.7808	15	High
11	The application of IFRS affected the work of audit committees in regard to oversight of accounting practices and financial reporting	4.338	.8049	14	High
12	Signing the annual reports by the proposed IFRS committee, along with CEO and CFO lends more credibility to the financial statements	4.380	.7201	7	High
13	Financial statements lack of adequate disclosure, although they prepared under the supervision of audit committees.	4.380	.6798	8	High
14	Shareholders' confidence in the role of audit committees compromises with the existence of corporate scandals and misleading financial reports.	4.380	.6587	9	High
15	Additional committees of the board of directors contribute in reinforcing the integrity and soundness of corporate governance.	4.620	.5410	1	High
16	The presence of the IFRS committee support companies to produce high quality of financial reporting.	4.380	.7201	10	High
17	The presence of IFRS committee beside the audit committee support companies in strengthening the pillars of corporate governance and better implementing IFRS.	4.479	.6256	4	High
18	IFRS contributes in enhancing the quality of financial reporting.	4.37	.51963	11	High

Statement no. 15 "Shareholders' based confidence in the role of audit committee compromises with the existence of corporate scandals and misleading financial reports" ranked the first; this confirms the need for the proposed committee of this study to support financial reporting system. However, the last ranked statement is no. 8 which denotes that Jordanian companies are not properly applying corporate governance mechanisms; this however could be enhanced by supporting corporate governance constituents with an IFRS committee.

To ensure the validity and the reliability of the questionnaire statements, the questionnaire was sent for 3 academic staff in accounting for pre-testing; valuable feedback was obtained and taken into consideration for the second version of the questionnaire. Moreover, Cronbach Alpha test has been used to ascertain instrument reliability, the value of Cronbach Alpha was = 0.873 which indicates that instrument reliability is good because it is greater than accepted percentage (0.60) (Sekaran and Bougie, 2013).

Lickert five scores scale was used to differentiate sample’s responses, where (5) degrees were given to strongly agree while (1) degree was given to strongly disagree.

With respect to samples response ranking the following formula was used:

$$5 \text{ [the highest response]} - 1 \text{ [the lowest response]} = 4$$

$$4 \div 3 \text{ levels (low, medium and high)} = 1.33$$

Therefore the interval between the levels is 1.33

So, $1 + 1.33 = 2.33$; low level [1- to 2.33]

$2.34 + 1.33 = 3.67$; Medium level [2.34 to 3.67]

3.68 up to 5 is high level

Table 2. Hypothesis testing result

Sig	df	T- tabulated	T-calculated	Standard Deviation	Mean
0.000	425	1.96	54.455	.53063	4.250

Table 2 indicates that T- calculated value = 54.455 is more than T tabulated value = 1.96 and is significant at level ($\alpha = 0.05$). Therefore the hypothesis of this study is accepted, this means that there is a positive relationship statistically significant in forming an international accounting standards committee to further boost the goals of corporate governance best practices.

5. Conclusions

Based on the analysis of the study instrument and literature, the study reached the following conclusions: Weaknesses in the applied governance practices because of the accounting systems and professional standards, which agrees with Matar (2009). Second: The difficulty of applying international accounting standards due to the lack of qualified accountants, this result is consistent with Abu-Ghazaleh, (1997) and Shil *et al.*, (2009). Third the multiplicity of duties of the audit committee, causing inability to achieve the objectives of governance, such as their ability to of securing financial reporting system and limiting financial statement manipulation, this is consistent with Sami, (2009), Lisa *et al.* (2009) and Shbeilat (2014). Fourth: The need for committees to control and supervise the accounting practices in accordance with international accounting standards because of the ambiguity and complexity that accompanies the adoption and application of those standards, which is consistent with the studies of Al-Mashhadani (2008), Shima and Yang (2012) and Klapper and Love (2004).

The results of this study is also consist with other studies that proposed forming committees to boost the goals of corporate governance such as the investment committee in Emirati (du) company with the duty of reviewing all suggestions for financial investment opportunities (Governance report du.co, 2012). Furthermore, Yousef (2010) pointed out the importance of separating the duties of risk and compliance committee into two committees, in order to best allow the latter one to follow the staff's commitment to the laws and regulations. Moreover, this study also agrees with the conclusions of Bouchareb *et al.*, (2014). They investigated the impact of a combination of adopting IFRS with a strong governance mechanism on earnings management, they conclude that the presence of an audit committee has greatly impacted earnings management practices on French listed companies and thus, enhancing the integrity of financial statements.

6. Practical Implications and Future Studies

This study suggests that the existence of an IFRS committee to follow up on accounting practices in accordance with international accounting standards contributes in boosting the application of corporate governance over financial reporting. In order to fulfill its job properly, the committee members must be highly qualified and the tasks of the committee must be directed for monitoring the mechanism of international accounting standards best implementation, the processes of accounting recognition, evaluation policy, measurement and following up the developments of the international standards as well as ensure adequate disclosure and transparency among financial statements. The results of the study provide important message to regulators interested in the best implementation of corporate governance

that the current corporate governance needs another controlling tool to best secure financial reporting system. The study also sends clear message to company directors of the importance of having qualified committee and staff in the field IFRS. To lend financial statements more credibility, the researchers suggest that chief of the proposed committee i.e. the IFRS committee has to certify annual and quarterly reports filed with the Securities Exchange Commission.

Suggested future researches might be needed to identify duties, responsibilities and the power of the proposed IFRS committee and also to give it an international dimension. Moreover, future research may also focus on the establishment criteria of the IFRS committee and communication mechanism between the IFRS committee and both the company management and board of directors.

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