The Influence of Audit Committee and Director System of Listed Companies under Different Ownership on the Quality of Financial Statements

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Keywords: Different ownership systems, Audit committee of listed companies, Director system, Quality of financial statements

Abstract: The concept of audit has been developing continuously, and the audit quality mainly includes the quality of audit work, report and system evaluation, and the relevant stakeholders of the company value the audit report issued by it most. Audit is inevitable and has its limitations. There are many factors that affect the judgment in the daily management of the company, which makes the quality of audit reports mixed, and fraud cases emerge one after another. It is difficult for relevant investors and stakeholders to judge the audit. The influence of the quality of financial statements of listed companies is one of the important manifestations. This paper tries to study the influence of audit committee and director system of listed companies on the quality of financial statements under different ownership systems. The term of office of internal and external directors on the board of directors increases, the shareholding ratio increases, and their positions in other companies decrease. Analyze the use of enterprise funds under different ownership systems, grasp the problems in the use of funds in the development process of enterprises, and provide effective data support for the follow-up management and capital utilization.

1. Introduction

Audit Committee plays an important role in improving the quality of corporate governance and strengthening corporate control. However, many countries and regions have not made mandatory requirements for the establishment of audit committees. In 2006, China Securities Regulatory Commission promulgated the Corporate Governance Guidelines for Listed Companies in China, which suggested that an audit committee should be established under the board of directors, and the audit committee system emerged. The concept of audit has been developing continuously, and the audit quality mainly includes the quality of audit work, report and system evaluation, and the relevant stakeholders of the company value the audit report issued by it most[1]. Audit is inevitable and has its limitations. There are many factors that affect the judgment in the daily management of the company, which makes the quality of audit reports mixed, and fraud cases emerge one after another. It is difficult for relevant investors and stakeholders to judge the audit. The influence of the quality of financial statements of listed companies is one of the important manifestations. It has greatly damaged the interests of shareholders, creditors and other related interest groups and disrupted the normal order of the market economy. In the last century, a series of corporate financial scandals in Europe and America reminded people of the urgency of effective corporate governance. The director system is an indispensable guarantee for the normal operation of listed companies. Directors can make true, objective and fair judgments, reduce the opportunities for senior executives in the company to seek benefits for themselves through their positions, improve audit quality and strengthen management[2]. The structure of an enterprise's financial statements depends on the social and economic system, especially on the way of income distribution. Under different social systems and different ownership systems, the structure of financial statements is different. The proportion of external directors among board members is significantly lower than that of non-fraudulent companies, and the proportion of external directors is negatively correlated with the possibility of financial report quality[3]. The term of office of internal and external directors on the board of directors increases, the shareholding ratio increases, and their positions in other companies decrease, so the quality of financial statements may decrease. However, whether the company has an audit committee or not, and the proportion of independent directors in audit committees under different ownership does not significantly affect the incidence of false financial reports[4].

2. Analysis and Research on the Factors Influencing the Quality of Internal Audit Financial Statements by Directors

2.1 Assumptions on the Impact of Directors on the Quality of Audited Financial Statements

Directors evaluate the control system, inspect the authenticity of financial and accounting information, and improve audit quality. Their main members should have corresponding work backgrounds related to accounting, and the more such members, the more they can improve audit quality. The more times a board of directors is held, it can be understood that the company's management actively manages company affairs. On the other hand, the more board meetings are held, it may also indicate that the company has many problems[5]. We must fully recognize its important role in improving governance structure, ensuring the effective conduct of audit work, and realizing the directors' role in various aspects such as economy, power, and process, so that they can truly fulfill their responsibilities of internal supervision of the company. Directors have independent and objective judgments on the affairs of the company, and guide and supervise other directors in making decisions in different ownership companies, playing a supervisory role in the disclosure of accounting information quality[6]. Directors must have no interest in the supervised object when fulfilling their supervisory duties and receive full support from senior management and the board of directors during the supervision and audit process.

2.2 Analysis of the Impact of Directors on the Quality of Audited Financial Statements

With the continuous improvement of corporate governance institutions, the requirements for the allocation of independent director personnel under different ownership systems are gradually increasing, providing more ways for various personnel with accounting professional backgrounds to realize their own value[7]. One of them is to evaluate the company's internal control as an independent director in listed companies, providing assistance for the operation and supervision of the system. The size of the board of directors under different ownership systems is also one of the factors that affect the quality of accounting information disclosure. The larger the board of directors, the better the management and operation of the company through the collective efforts of the board members. Based on the analysis of the performance of directors in 2022, there were a total of 4257 directors in a certain stock exchange company. During this period, 62 directors from 51 companies expressed disapproval of the board's decision. Independent directors with different opinions accounted for 8.56% of the total number of directors in a certain stock exchange company and 2.48% of the total number of directors, as shown in Table 1.

Table 1 Statistics of Directors' Different Opinions in 2022

Type	Quantity	Proportion of total number of listed companies	Proportion of total directors
Company with different opinions.	87	8.56	
Dissenting director	167		2.48

This shows that the independent director system is still in the development stage, and many companies employ independent directors just to act as a facade and improve the system. Without actual independence, they cannot normally perform their duties of supervising and evaluating the work of the internal audit department and improve the quality of internal audit [8].

2.3 Research Conclusion on the Impact of Directors on the Quality of Audited Financial Statements

The establishment of the board of directors system can make the corporate governance structure more standardized. Hiring directors with relevant accounting backgrounds is the most basic requirement for the reasonable setting of the system. The more directors with accounting backgrounds, the more potential risks in the internal audit process can be effectively identified under different ownership systems, providing assurance for the sound internal control system [9]. At present, listed companies are gradually realizing the importance of the nature of directors in the daily governance development process for the internal audit department to ensure high-quality and high-level completion of work, including the director system, rights, functions, and other aspects [10]. According to the descriptive statistical data in Table 2, it can be seen that the average proportion of directors is 0.368, with a median of 0.357 and a standard deviation of 0.067. Overall, the majority of directors in listed companies on the Shenzhen Stock Exchange's main board account for more than one-third, which is in compliance with legal regulations.

Table 2 Descriptive Statistics of Variables

Variable	N	Mean	P50	Sd
Ddbl	2136	0.368	0.357	0.067
Lzhy	2136	0.195	0	0.412
Hycs	2136	12.452	13	5.23
Zcds	2136	25.458	24.124	1.502

This shows that the number of shares held by each company's board of directors varies greatly and the proportion of directors holding more shares is not high. Under different ownership systems, the lack of autonomy in accounting work can be avoided. Managers can analyze the use of enterprise funds through the accounting results, grasp the problems in the use of funds in the development of enterprises, and provide effective data support for the subsequent management work and fund utilization. To rationally adjust the knowledge structure of directors and strengthen the cultivation of directors' talents, we can consider including certified public accountants, practicing lawyers and senior administrators of securities institutions in the list of directors' talents, increase the number of professionals, and enable directors to have the corresponding knowledge and ability to participate in the management of enterprises, so as to avoid the emergence of “vase directors”.

3. Policy Recommendations

3.1 Improving the Comprehensive Quality of Accounting Personnel

The establishment of an audit committee by listed companies in China is voluntary, and the purpose of its establishment is not to improve the quality of financial reporting, but to act in response to external influences. Fully grant directors the right to be informed and investigate in the actual problem research process, and enhance their enthusiasm for participating in company decision-making. Directors are responsible for regularly reporting to the company's regulatory authorities and regularly inspecting the work of the internal audit department. By ensuring the comprehensive quality of accounting personnel through different ownership systems while promoting the smooth implementation of accounting work, scientific management plans are formulated based on obtaining true accounting data to promote the efficient implementation of accounting work in state-owned enterprises. Because the current modern enterprise system in our country requires the establishment of a supervisory board, the regulations on the responsibilities of the audit committee should not only give it sufficient power, but also balance the relationship between the supervisory board and the audit committee, so that the board of directors, supervisory board, audit committee, and other professional committees can form a good interaction mechanism, which can perform their respective duties and balance each other. Disclose the execution status and problem description of their responsibilities in the annual financial settlement report, as well as the reasons for audit issues, corresponding solutions, and the effectiveness of directors to enhance their sense of responsibility for participating in the company's internal audit management. At the same time, diversified professional training and skill guidance should also be carried out based on the actual situation of enterprises under different ownership systems. Emphasis should be placed on improving the awareness of accounting personnel about job responsibilities through thematic training, enhancing the professional ethics and service awareness of staff, and promoting the stable development of accounting work.

3.2 Attach Importance to Cost Control and Accounting

Most enterprises ignore the value of cost control and cost accounting in the process of development. The purpose of the CSRC's proposal to set up an audit committee is to improve corporate governance, protect shareholders' rights and regulate the stock market. However, many companies misinterpret this intention, and in the end, it costs more money than people. This has also greatly tarnished the reputation and image of the audit Committee. The lack of equity balance of listed companies under different ownership systems has a strong negative impact on the quality of financial information; Under the corporate governance environment of lack of checks and balances of equity, independent directors effectively played a supervisory role, and corrected the negative impact of equity imbalance on the quality of information disclosure to some extent through their supervisory behavior. Therefore, state-owned enterprises should combine the development of the times with the demand analysis of accounting work, pay attention to cost control and accounting on the basis of improving internal management system, which is conducive to promoting the stable development of accounting work. Cash compensation can be determined according to the number of times independent directors attend board meetings, so that independent directors can attend board meetings on time; Independent directors who put forward effective suggestions to create profits or reduce losses in board meetings under different ownership systems can get additional cash rewards from listed companies and encourage independent directors to provide effective suggestions for the operation and management of listed companies. One of the original intentions of the audit committee to supervise financial reports is to improve the transparency and quality of information. The disclosure of the relevant information of the audit committee can let the report users know whether the audit committee of the company is established in compliance, independent and fulfilled.

4. Conclusions

State owned enterprises need to attach importance to the value of accounting in the process of industry development, and improve the efficiency of fund utilization through accounting to avoid wasting funds due to inaccurate accounting during market operation. The board of directors system is an important system for supervising the management of listed companies. It can not only ensure the effectiveness of the internal audit department, but also ensure the good operation of various internal control systems. Excessive part-time work by directors reduces the independence of the board of directors, which has a negative impact on the operational performance and financial information quality of state-owned listed companies; The low professional knowledge richness of independent directors in sample companies reduces the independence of the board of directors, which has a negative impact on the information disclosure of state-owned listed companies. Directors are still in a vulnerable group within the board of directors for a certain period of time, and relying solely on the power of independent directors to prevent financial statement fraud is not enough. It is necessary to combine various channels such as auditing financial statements. There are inevitably some problems in whether directors can effectively perform their duties and achieve their due role. This requires us to further study and analyze the system, and work together. The director system under different ownership systems has a crucial impact on the operating performance, stock prices, and information disclosure quality of state-owned listed companies; Establishing a sound independent director system can effectively improve the quality of accounting information disclosure for state-owned listed companies.

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