Explanation of supervisory indicators of audit committees

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ABSTRACT
Currently, managing and supervising the activities of public joint-stock companies is one of the main issues in the economic system of various countries, including Iran. Thus, in many countries, corporate governance policies play an important role and the audit committee, as one of the committees of the board of directors in public companies, plays a key role in establishing and overseeing these policies. Since one of the most important duties and responsibilities of the audit committee is its supervisory role and the responsibility for monitoring all financial activities of the company, it is necessary to explain indicators to evaluate the supervisory function of audit committees. This study aims to explain supervisory indicators to evaluate the performance of audit committees, to formulate the supervisory indicators in the form of a questionnaire. To this end, the indicators were developed and tested by surveying professional and academic experts and also members of the audit committees of firms listed on the Tehran Stock Exchange and the Iranian OTC Market. The results showed that the supervisory indicators of audit committees in the Iranian capital market encompass four dimensions including supervision on financial reporting processes, supervision on internal controls, supervision on internal audit, and supervision on the independent auditor. Besides, these dimensions were categorized into 21 sub-indicators.

Keywords: Audit Committee Performance Evaluation, Audit Committee Supervision, Financial Reporting Supervision, Internal Controls Supervision, Internal Audit Supervision, Independent Audit Supervision

1. Introduction

Currently, managing and supervising the activities of public joint-stock companies is one of the main issues in the economic system of various countries, including Iran. Thus, in many countries, corporate governance policies play an important role and the audit committee, as one of the committees of the board of directors in public companies, plays a key role in establishing and overseeing these policies. Since one of the most important functions of the audit committee is its supervisory role and the audit committee is ultimately responsible for overseeing all financial activities of the company (Arense & Loebbecke, 2003), explaining indicators to ensure the performance of supervisory functions and responsibilities the audit committee is essential. In addition, the audit committee should regularly evaluate its performance and adequacy (KPMG, 2020). To evaluate the performance and effectiveness of the audit committee, the audit committee can begin with a thorough self-assessment that is conducted annually (AICPA[1], 2021).

The audit committee also has an important role to play on the part of shareholders in overseeing the process of independent and internal financial reporting and auditing. In recent decades, shareholders and regulators in financial markets have increasingly focused on the role of the audit committee in fulfilling its responsibilities, especially in terms of overseeing audited financial statements (European Accounting Association, 2013). To monitor the process and quality of financial reporting, internal and independent audit performance, internal control system, fraud risk management, etc., the audit committee is composed of non-executive board members. Various studies have shown that the existence of a strong and efficient audit committee along with internal and independent auditing, increases the level of audit quality, helps management to improve the governance of the organization with useful recommendations, and increases the level of accountability to stakeholders (Azad & Bakhtiari, 2011).

The American Blue Ribbon Committee published a report in 1999 on improving the audit committee's effectiveness, setting out principles for the audit committee's effectiveness in overseeing corporate governance accountability, reliance on the internal control structure, and appropriateness of audit functions.

Subsequent studies revealed that the audit committee is responsible for overseeing corporate governance, financial reporting process, the internal control structure, internal audit function, and independent auditor activities and supporting investors on behalf of the board by ensuring the company's accountability.

To improve the performance of audit committees and identify inefficiencies and opportunities to improve the committee’s effectiveness, the best available practices should be used by the audit committee in fulfilling its supervisory and management responsibilities (Leblanc, 2005).

The supervisory elements of the audit committee can be thought of as a pyramid that represents a proposed flow of information in the audit committee's oversight function to ensure that their objectives are achievable. This pyramid also shows how the performance of the audit committee can be improved through self-assessment and training while adhering to the principles of corporate governance. These elements should enable the audit committee to receive timely information from reliable individuals in a variety of contexts to provide effective oversight (KPMG, 2017).

The Committee of European Auditing Oversight Bodies (CEAOB) published an analysis of the audit committee's indicators as part of the secondary market monitoring report on audit committee requirements, including audit rules and guidelines, based on a sample questionnaire sent to audit committees across Europe. Analysis of the collected responses showed the widespread application of the requirements of both audit regulations and guidelines. However, in some areas, there were signs of inconsistency or misunderstanding. However, the results of the analysis showed that 89% of the audit committees monitor the effectiveness of the internal quality control systems and risk management of the entity and, if necessary, the internal audit of the audited entity's financial reporting (CEAOB, 2021).

2. Statement of the problem

According to the Charter of the Audit Committee (approved by the Board of Directors of the Stock Exchange and Securities Organization on Feb. 11, 2013), the purpose of forming the Audit Committee is to help fulfill the supervisory responsibility of the Board of Directors and improve it to ensure reasonable fulfillment of the following cases:

1) Effectiveness of management system processes, risk management, and internal controls
2) The health of financial reporting
3) Effectiveness of internal audit
4) Independence of the independent auditor and the effectiveness of the independent audit
5) Compliance with laws, regulations, and requirements

On the other hand, one of the serious challenges in performance appraisal is the lack of access to a

[1] American Society of Certified Public Accountants

comprehensive source of performance indicators. Evaluating any activity requires a variety of performance indicators. Thus, it is necessary to have various indicators that allow the evaluators or self-assessors to choose the effective items from the various indicators. To this end, the present study seeks to explain the indicators used to evaluate the supervisory performance of audit committees. In other words, this study seeks to explain the supervisory indicators for the audit committee so that the committee can use them to achieve reasonable assurance that it has performed its duties and responsibilities.

3. Literature Review

3.1. Supervision of the audit committee on financial reporting

An accurate understanding of the reporting of the company's financial statements is essential for the audit committee. Thus, to be aware of the company's financial reporting process, the audit committee should consider the following cases:

- The management is responsible for preparing the company's financial statements and they submit financial reports to the audit committee.
- The responsibility of the company's independent auditors is determined based on auditing standards.
- The audit committee should have sufficient knowledge of the company's financial and non-financial plans as well as management's motivation to implement the plans.
- The audit committee should be fully aware of the accounting policies, procedures, estimates, and errors.
- The audit committee should oversee and control the company's unusual transactions.

To oversee the company's financial reporting, the audit committee's responsibilities focus on the year of financial reporting. In fact, supervisory responsibility cover all quarterly, six-month, nine-month, annual, and company-declared earnings reports at the end of the year. This is to ensure that the audit committee is aware of the accounting policies and procedures and issues related to the committee, such as amendments, changes, disclosures, etc. Many audit committees use the services offered by independent auditors to carry out their financial reporting responsibilities. Audit committees use the insights and skills of independent auditors to identify key issues and use them to monitor the quality and reliability of a company's financial statements (KPMG-2008).

The audit committee should review the company's financial statements and provide the board with important points, comments, and feedback on the financial statements prepared by the management. The audit committee shall review and report to the board of directors any cases that do not comply with financial reporting objectives together with its views. The audit committee is also required to evaluate the relationship between the information presented and the financial statements by examining the industry, the relationship between corporate governance statements, and auditing and risk management. Although other financial data (such as financial statement summaries, return on equity information, and cost information) need to be approved by the board of directors, the reviews provided by the audit committee must be first implemented (Financial Reporting Council, 2012).

Sun et al. (2014) believe that the existence of an audit committee improves the quality of the corporate governance mechanism and can increase financial reporting quality. Wang et al. (2015) examined the relationship among audit committee establishment, information transparency, and earnings quality. Using data from 313 firms listed on the Taiwan Stock Exchange in 2011, they showed that audit committee establishment was positively correlated with information transparency and earnings quality. In other words, the establishment of an audit committee has led to improved information transparency and earnings quality.

Choi et al. (2014) stated that abnormal returns are lower in companies with audit committees. Al- Al-Shaer et al. (2017) identified audit committees as an important component of the firm's governance system that is effective in improving financial reporting quality. Wang et al. (2015) suggested that stakeholders and regulators in financial markets are increasingly focusing on the role of the audit committee in fulfilling its responsibilities, especially in terms of overseeing audited financial statements. Besides, the establishment of an effective audit committee can improve reporting transparency and earnings quality.

Under Article (7) of the Charter of the Audit Committee approved by the Exchange and Securities Organization, the most important responsibilities of the Audit Committee concerning financial reporting are as follows:

1) Supervising important financial reporting issues, major judgments, and estimates, major accounting procedures, how to disclose, select, and make changes in each of them, and disclosure of transactions with affiliated parties in the company's financial statements
2) Gaining reasonable assurance about the reliability and timeliness of the company's financial reports
3) Gaining reasonable assurance about the compliance with accounting standards and other regulations in the company's reports

4) Gaining reasonable assurance that all information necessary for decisions to be made by the Board of Directors regarding financial reporting has been made available to them.
5) Inspecting the draft financial reports of the company before approval by the board of directors as well as the recommendations of the independent auditor regarding its amendments.

3.2. Supervision of the audit committee on internal controls

The responsibility of the audit committee to oversee the internal control and risk management process should be defined in line with the overall responsibility of the company's board of directors and executives. Risk management includes the definition of risks (risks that may cause the organization to fail to achieve its goals) and risk analysis (avoidance of specific risks and the transfer, reduction, or acceptance of risks that remain). An organization can classify definite risks, and this classification is not based solely on financial or insurance risks but can include such issues as reputation, ethics, technology, and environmental risks.

Management is responsible for identifying, evaluating, managing, and monitoring operational risks and internal control systems, and assures the board that they are being fulfilled, and ultimately it is the board that is responsible for approving the company's core risk assessment and its acceptable risk level. The main function of the audit committee is to oversee the key risks that can affect the financial reporting process and to oversee the internal controls governing financial reporting, as well as overseeing internal and independent auditing. Internal controls include not only controls over financial reporting but also operational controls for compliance with rules and regulations. The board of directors is ultimately responsible for the company's risks and delegates internal controls in the form of supervisory responsibilities to the audit committee (KPMG-2008).

The audit committee should review the internal controls governing the company's financial reporting, which include defining the company's internal control system, assessing, managing, and monitoring the company's financial risks, unless explicitly reviewed by a board risk committee consisting of independent directors or members (Financial Reporting Council, 2012).

The main responsibilities of the audit committee concerning internal controls and risk management described by KPMG (2008) are as follows:

1) Supervising the company's core risk management that affects the company's financial reporting
2) Supervising the integrity of the financial reporting process and the system of internal controls governing the company's financial reporting
3) Supervising the internal audit process and independent auditors
4) Supervising the observance of applicable laws and regulations in the company

Furthermore, under Article (6) of the Charter of the Audit Committee approved by the Stock Exchange and Securities Organization (2012), the most important responsibilities of the Audit Committee regarding internal controls and risk management are as follows:

1) Monitoring the effectiveness of the company's internal control systems, including information technology control and maintaining their security
2) Gaining reasonable assurance of the adequacy of the scope of internal auditors' review of the company's internal control system
3) Gaining reasonable assurance of the effectiveness of the risk management process, including identification, measurement, analysis, evaluation, management, and monitoring of the risk management system
4) Reviewing the internal auditor's assessment of internal controls and the independent auditor's comments on internal controls
5) Following up on the implementation of recommendations and eliminating weaknesses in internal controls that are reported to the committee by internal or independent auditors
6) Submitting the report of internal controls to the board of directors, including the evaluation and commenting on the internal controls of the subsidiaries

Matari et al. (2017) examined the relationship between the activities of the audit committee and the internal control system. They considered the four characteristics of the audit committee, namely, audit committee meetings, meetings between audit committees and independent auditors, and internal auditors, as well as reviewing the work of internal auditors. The findings showed that the above features can make audit committees more effective.

3.3. Supervision of the audit committee on internal audit

The Institute of Internal Auditors has developed guidelines for the audit committee to oversee the internal audit activity. These guidelines include 10 requirements detailed as follows:

1) The audit committee must have a clear and transparent relationship with the internal audit director.
2) The annual audit committee must review and approve the internal audit charter.
3) As a result of discussions and exchanging ideas with the Director of Internal Audit, the audit committee gains a clear understanding of the strengths and weaknesses of the organization's internal controls and its risk management systems.
4) The internal audit unit must have enough professional and qualified people to implement its programs.
5) The internal audit unit must be independent and have power and authority through exchanging information with the board of directors and the audit committee.
6) The audit committee should explain all issues related to the independence and impartiality of the internal audit unit to the internal audit director.
7) Internal audits should be quality-oriented and have a strong and well-planned program to improve and guarantee quality.
8) The audit committee should have regular communication with the director of internal audit about the performance of the internal audit unit and its improvement.
9) The report of the internal auditors should be submitted to the audit committee periodically or during the year.
10) The audit committee should have periodic meetings with the internal audit director without the presence of management.

In reviewing the performance of internal audit, the audit committee should perform the following cases (Financial Reporting Council, 2012):

1) Ensuring that internal audit has direct access to the Chairman of the Board and the Audit Committee and is accountable to the Audit Committee.
2) Reviewing and evaluating the annual internal audit program
3) Reviewing and monitoring internal audit findings and recommendations and related management responses.
4) Holding a meeting with the director of internal audit at least once a year without the presence of management.
5) Evaluating and monitoring the role of internal audit concerning the company's risk management.

Internal audit functions can help improve the effectiveness of the audit committee by identifying areas where they can improve, as well as appreciating areas where they have performed well. This value-added function of internal audit can be accomplished during the self-assessment of the board of directors and its committees. The audit committee should demand the following cases from the internal auditor (Institute of Internal Auditors, 2019):

1) Formulating an approved internal audit strategic plan.
2) Receiving regular information from the internal auditor about the program's progress and changes.
3) Obtaining feedback from executives on internal audit findings and the involvement of the chief audit executive
4) Establishing an effective relationship between internal and independent auditing
5) Balancing traditional audit coverage with strategic reviews integrated with new areas
6) Receiving periodic 360-degree feedback reports from managers regarding direct reports by the Chief Internal Audit Officer and submitting a comprehensive report to the Audit Committee

Under Article (8) of the Charter of the Audit Committee approved by the Exchange and Securities Organization, the most important responsibilities of the Audit Committee concerning internal audit are as follows:

1) Examining the charter and organizational structure of internal audit and ensuring the adequacy of the said structure and its independence to perform internal audit functions and responsibilities
2) Reviewing and submitting the annual plan of the internal audit unit and the adequacy of the required resources to the board of directors for approval
3) Supervising the effectiveness and effective performance of internal audit in line with pertinent rules and regulations
4) Gaining reasonable assurance of the access of the internal audit unit to the resources and information required to fulfill its responsibilities
5) Gaining reasonable assurance that the internal audit activity is compliant with applicable domestic or relevant international standards
6) Reviewing internal audit reports and submitting them to the company's board of directors when necessary
7) Gaining reasonable assurance from the presentation of important findings and recommendations by internal auditors to the

management and taking follow-up of necessary measures
8) Establishing the possibility of free and complete communication between the director of the internal audit unit and the audit committee
9) Proposing to the board of directors for the appointment, dismissal, and determination of salaries, benefits, and compensations for the internal audit director

3.4. Supervision of the audit committee on the independent auditor

The audit committee is responsible for overseeing the independent audit process. There are important factors in the relationship between the audit committee and the independent auditors that should be overseen by the audit committee, including the appointment of independent auditors, monitoring the independence of independent auditors, understanding the audit procedures and findings of independent auditors, and evaluating the performance of independent auditors (KPMG, 2008).

The audit committee has primary responsibility for proposing the appointment, reappointment, and dismissal of independent auditors. If the board does not accept the audit committee's proposal, it should state in a statement the reasons for disagreeing with the audit committee's proposal. In proposing the appointment of independent auditors, the audit committee should state in its annual evaluation and report to the board the quality, experience, independence of the independent auditors, and the effectiveness of the audit process, and ensure that the proposed stakeholder goals will be met by the proposed independent auditor (Financial Reporting Council, 2012).

The audit committee should review the independence of the independent auditors at least annually and contribute to the independence and impartiality of the independent auditors by performing related procedures. For this purpose, the auditing firm should have an internal monitoring program and instructions to maintain the independence of the firm and each member of the audit team through proper supervision. Any of the following cases can affect the independence of the auditors, which should be considered by the audit committee:

1) The auditor has direct and indirect financial interests in the company
2) Personal and business relations of the auditor or their close relatives with the company.
3) The nature of the relationship between the partner of the audit firm and the CEO of the company.
4) The economic dependence of the audit firm on the company

Each year, the audit committee must obtain information from the audit firm about the supervisory process to maintain its independence and comply with legal rules and regulations (KPMG, 2008). As part of the supervision process, the audit committee should review the management letters, and evaluate the management response to the internal auditors' findings and their recommendations (Financial Reporting Council, 2012).

The Audit Committee is responsible for selecting, evaluating, and, if necessary, dismissing independent auditors. In evaluating the audit committee of independent auditors, the auditors' competence and the quality and effectiveness of the audit should be considered, although with audit costs that are commensurate with the size and complexity of the company's operations, risk, and control to ensure that the company audit will be performed without any problems (KPNG, 2008).

The audit committee should evaluate the effectiveness of the independent audit using the following procedures (Financial Reporting Council, 2012):

1) Focusing on designing and estimating the audit program and considering the necessary changes due to changes in audit risk
2) Considering the professional competence and power of the auditors in handling financial and audit judgments, as well as the auditors' accountability to the audit committee and the auditors' report on internal controls
3) Considering the feedback of auditors' behavior on managers involved in the audit process such as financial management and the company's internal audit manager
4) Reviewing and monitoring the content of the auditors' management letter to assess whether the auditors have the correct knowledge of the company and also whether the auditors' recommendations have been implemented and the identified problems have been resolved and find out the possible reasons if the auditors' recommendations have not been implemented
5) Submitting an audit effectiveness evaluation report to the board

In their study of listed companies in Egypt, Suleiman and Rajab (2014) measured the relationship between the quality of the audit firm and the effective audit committee with earnings management and concluded that there is a significant relationship between quality earnings management, the audit firm, and the existence of an effective audit committee. Khazami et al. (2014) studied the relationship between earnings management, audit firm quality, and corporate governance of companies listed on the Tehran Stock Exchange and found no significant relationship between the quality of the independent audit firm and earnings management.

According to Article (9) of the Charter of the Audit Committee approved by the Exchange and Securities Organization, the most important responsibilities of the audit committee towards the independent auditor are as follows:

1) Monitoring the independence of the independent auditor and the non-conflict of its potential benefits according to the code of conduct governing the independent auditor
2) Examining all the terms of the audit contract and the proportionality of the fee received by the independent auditor
3) Submitting a proposal regarding the selection, rotation, or change of the independent auditor and statutory inspector to the board of directors in line with the reviews and requirements
4) Monitoring the effectiveness of the performance of the independent auditor and statutory auditor of the company and the results of their work
5) Negotiating with the independent auditor and statutory auditor about the overall audit planning and strategy.
6) As the case may be, obtaining reasonable assurance about the coordination of the independent audit of the parent and subsidiary companies in cases where more than one auditing firm is involved in the audit work
7) Coordinating independent audit affairs with internal audit
8) Reviewing the draft report of the independent auditor and the statutory auditor and assisting in resolving the disagreement between the independent auditor and the board of directors and the managing director.
9) Examining the results of the independent auditor and statutory auditor in the presence of the executive management. This review includes a review of any limitations on the scope of the independent auditor's review, any disagreement between the independent auditor and management, key accounting and auditing judgments, errors and corrections in the financial statements, and inquiry from the management if needed
10) Reviewing the "management letter" of the independent auditor and following up the senior management actions in response to it
11) Examining and following up the measures taken to implement the clauses contained in the audit report and the statutory inspector and the tasks determined by the general assemblies
12) Providing prior feedback on the performance of authorized non-audit services according to the professional code of conduct by the independent auditor as well as the auditor's skills and experience in providing these services
13) Establishing the possibility of free and complete communication of the independent auditor with the audit committee.

4. Research variables

Following the literature and a review of factors affecting the performance of the audit committee, the supervisory indicators used for evaluating the performance of the audit committee were developed in four dimensions including financial reporting processes, internal control, internal audit, and independent auditor:

1) Indicators used to monitor financial reporting processes
    a. Checking the quality and appropriateness of financial accounting and financial reporting
    b. Reviewing important and major financial reporting issues
    c. Reviewing the company’s major policies
    d. Reviewing management processes to identify and disclose transactions with affiliates
    e. Reviewing the processes used to check annual, quarterly, and projected profit and loss statements
    f. Reviewing the management letter
    g. Reviewing the processes of approval and publication of financial statements
    h. Reviewing draft financial reports before approval by the board
2) Indicators used for monitoring internal controls
    a. Receiving sufficient information from the management to evaluate internal controls
    b. Evaluating the process of detecting internal control deficiencies and fraud
    c. Assessing the adequacy and experience of the company's accountants and financial staff
    d. Reviewing the management letter of the independent auditor and internal auditors
    e. Monitoring the actions taken by the management actions in response to the management letter
    f. Reviewing the adjustments made in financial statements resulting from the audit
3) Indicators used for monitoring the internal audit

   a. Reviewing cooperation between the independent auditor and internal auditors
   b. Providing regular reviews of the effectiveness of the internal audit unit
   c. Supervising the role of internal audit from appointment to dismissal
   d. Establishing internal auditor reporting lines
   e. Reviewing internal auditor reports and management responses
   f. Reviewing and controlling the effectiveness of internal audit activities
   g. Evaluating role and effectiveness of the internal auditor's risk management duties
   h. Examining the compliance of the internal auditor's duties with professional internal auditing standards
4) Indicators used for monitoring the independent auditor
   a. Annual evaluation of impartiality and independence of the independent auditor
   b. Supervising the role of the independent auditor from appointment to dismissal
   c. Reviewing independent audit contracts
   d. Reviewing the independent audit plan and submitting a proposal
   e. Checking the fee paid to the independent auditor
   f. Reviewing the resignation of the independent auditor
   g. Inspecting managers' confirmation
   h. Reviewing other professional financial reporting services (e.g., consulting, legal, and tax services)
   i. Approving all audit and non-audit services provided by the independent auditor
   j. Controlling rotation and relocation processes of independent auditor partners
   k. Holding private meetings with the independent auditor and the internal auditor
   l. Reviewing the draft report of the independent auditor and statutory inspector
   m. Reviewing and following up the measures taken to implement the clauses contained in the audit report and the statutory inspector and the tasks set by the general assemblies
   n. Evaluating the effectiveness of audit processes at the end of the annual independent audit

5. Research methodology

To validate the initial framework of the study, determine the indicators, and find out whether the defined indictors and their constituting elements are in line with the real conditions of the capital market in Iran, several subject-matter experts were surveyed in this study. To this end, the indicators were formulated in the form of a questionnaire by reviewing the indicators and checklists used in other countries and the data and documentation available in Iran especially the Charter of the Audit Committee. Furthermore, a list of 30 academic and professional experts was prepared and the experts with adequate academic and professional qualifications and experts were selected and the questionnaire was administered to them.

The research population included the firms listed on the Tehran Stock Exchange and the Iranian OTC market and members of the audit committees of the selected firms. To avoid any statistical and sampling errors and increase the test power, all the firms in the research population were examined in this study, and no sampling procedure was performed.

Of the questionnaires distributed to the members of the sample, 156 completed questionnaires were received. However, after conducting detailed and supplementary analyses, 118 completed questionnaires were selected for data analysis.

The collected data were adjusted and classified using EXCEL software. Besides, the demographic data were analyzed using SPSS software (version 23). In the second step, using Expert Choice, the effective criteria and sub-criteria were determined and then the relations between the criteria were determined using LISREL software.

Table 1: The descriptive statistics

Measures of central tendency	Value
Mean	163.23
Median	167.00
Power	172.00
Standard deviation	18.28
Variance	334.31
Skewness	-1.18
Skewed deviation	.22
Kurtosis	2.01
Kurtosis deviation	.44

As shown in the table above, the skewness value is within the normal range of -2 to 2, confirming the normality of data distribution.

One of the nonparametric tests to assess distribution is the Kolmogorov-Smirnov test. In the Kolmogorov-Smirnov output, if the test was significant ($p<0.05$), the distribution is not normal and thus non-parametric tests should be used. Therefore, if the result of this test is not significant, it is possible to use parametric tests.

Table 2: Testing the normal distribution of the data

Criterion	Probability	Statistic	Normality assumption
Supervision	0.05	1.35	Normal

To perform the hierarchical analysis, first, the relative weights of the indices (36 indices) were calculated. Then, the indices that had zero weight (15 indices) were removed from the model. Thus, the remaining indicators were confirmed as the final indicators according to the opinion of experts and the participants who completed the questionnaires. As a result, the supervision of performance evaluation includes 4 criteria and 21 indicators.

Confirmatory factor analysis examines the relationship between items (the questions) and constructs. In fact, the research hypotheses cannot be tested until the items prove that the hidden variables are well measured. Therefore, confirmatory factor analysis is used to show that the data were measured correctly. The strength of the relationship between the factor (hidden variable) and the observable variable is indicated by the factor load. The factor load is a value between zero and one. If the factor load is less than 0.2, the relationship is weak and negligible. A factor load between 0.3 and 0.6 is acceptable, and a factor load greater than 0.6 is highly desirable (Klein, 1998). The minimum acceptable factor load in some references is 0.2, but the main criterion for judging is t-statistic. If the test statistic, t, is greater than the critical t-value, i.e. 1.96 ($p<0.05$), then the observed factor load is significant.

The data in this study were analyzed using SPSS23, Expert Choice, and LISREL software. In the first stage of data analysis, demographic and descriptive statistics were estimated using SPSS23 software. In the second stage, hierarchical analysis was performed to determine the indicators related to each dimension using Expert Choice software. An analysis of the weighted averages confirmed 4 components (monitoring financial reporting processes, monitoring internal controls, monitoring internal audit, and monitoring independent auditor). The indicators and sub-indicators related to each dimension were determined and introduced according to the final average weight. In the third step, LISREL software was used to measure the relationships between each of the dimensions specified in the model. The results showed a relationship between all dimensions and indicators of each dimension with the performance of the audit committee. Thus, all research hypotheses were confirmed and the final model is presented in the following table:

Table 3: The dimensions and indicators of the research model

Dimensions	Indicators	Factor loads	t-value
Monitoring financial reporting processes	F1-1	0.50	5.58
	F1-2	0.46	5.15
	F1-3	0.62	7.28
	F1-4	0.28	2.99
	F1-5	0.64	7.61
	F1-6	0.55	6.34
	F1-7	0.63	7.52
	F1-8	0.63	7.49
Monitoring internal controls	F2-1	0.74	9.16
	F2-2	0.77	9.67
	F2-3	0.80	10.31
	F2-4	0.69	8.41
	F2-5	0.73	9.09
	F2-6	0.82	10.65
Monitoring internal audit	F3-2	0.75	9.42
	F3-5	0.74	9.15
	F3-6	0.74	9.36
	F3-8	0.69	8.36
Monitoring the independent auditor	F4-12	0.57	6.55
	F4-13	0.45	5.06
	F4-14	0.37	4.00

6. Conclusion

Following the data in this study, the supervisory indicators of the audit committee are classified into 4 dimensions and 21 sub-indicators, as follows:

1. Monitoring financial reporting processes including 8 indicators
2. Monitoring internal controls including 6 indicators
3. Monitoring the internal auditor includes 4 indicators
4. Monitoring the independent auditor including 3 indicators

Thus, the indicators used to evaluate the performance of the audit committee are summarized for each dimension as follows:

1) Supervision of the audit committee on financial reporting processes

a. Checking the quality and appropriateness of financial accounting and financial reporting
b. Reviewing important and major financial reporting issues, judgments made in connection with the preparation of financial statements, interim reports, and other regulatory disclosures
c. Reviewing the company’s major policies
d. Reviewing management processes to identify and disclose transactions with affiliates
e. Reviewing the processes used by the audit committee to check annual, quarterly, and projected profit and loss statements
f. Reviewing the management letter and presenting feedback and suggestions to the management and the independent auditor
g. Reviewing the processes used for the approval and publication of financial statements by the CEO and the highest financial official of the company
h. Reviewing the draft financial statements of the company before the approval of the board of directors and the recommendations of the independent auditor regarding its amendments

2) Supervision of the audit committee on internal controls

a. The audit committee receives sufficient information from management to be able to understand management processes to evaluate internal controls. It is also assumed t that the scope of the internal controls test by the management sufficiently supports the management's assessment of the internal controls.
b. The audit committee understands the tests performed by management, the internal auditor, and the independent auditor and has effective considerations for them so that it can evaluate the process of detecting defects in internal controls and fraud.
c. The audit committee inquiries from the independent auditor, internal auditors, and management about the adequacy and experience of the company's accountants and financial staff.
d. The audit committee reviews the management letter for appointing the independent auditor and the internal auditors and considers all relevant matters.
e. The audit committee oversees management actions in response to the management letter to address issues related to internal controls.
f. The audit committee reviews the adjustment of the financial statements resulting from the audit.

3) Supervision of the audit committee on internal audit

a. The committee regularly reviews the effectiveness of the internal audit activity, including the audit plan, budget, quality, and continuity of staff.
b. The audit committee reviews the internal auditor's reports and management responses and takes steps to improve them.
c. The audit committee reviews and controls the effectiveness of internal audit activities and presents effective recommendations to the board.
d. The audit committee shall ensure that the tasks of the internal audit unit are consistent with professional internal auditing standards.

4) Supervision of the audit committee on the independent auditor

a. The draft committee reviews the report of the independent auditor and the statutory auditor and tries to resolve the disagreement between the independent auditor and the board of directors and the managing director.
b. The committee reviews and follows up the measures taken to implement the clauses contained in the audit report and the report of the statutory inspector and the tasks assigned by the general assemblies.
c. At the end of the annual independent audit, the committee evaluates the effectiveness of the audit processes.

Given the importance of the audit committee's supervision on financial reporting processes, internal controls, internal auditor, and independent auditor, there are different models for measuring and evaluating the performance of the audit committee. One of these models is the self-assessment model whereby the audit committee measures the improvement process with the help of a questionnaire during consecutive operational periods. To conduct a self-assessment of the supervisory function of the audit committee, a questionnaire can be developed to include four dimensions: Monitoring financial reporting processes, monitoring internal controls, monitoring the internal auditor, and monitoring the independent auditor. Besides, these dimensions cover 21 indicators as detailed above.

Suggestions

One of the contributions of the present study was the development of the self-assessment model of the audit committee for the first time in Iran and its focus on the supervisory function as one of the most important responsibilities of the audit committee. Following the insights from this study, the following suggestions are offered:

1) The members of audit committees or internal auditors of companies are recommended to apply the indicators identified in this study in Iranian companies, including companies listed on the Tehran Stock Exchange and OTC Iran and other holdings and non-listed companies to evaluate the supervisory function of audit committees. Besides, the members of the board of directors of companies can benefit from the findings of this study to improve the performance of the audit committees of their respective companies and thus enhance the monitoring process in the company. The performance of the audit committee can also be checked as a self-evaluation by the audit committee itself.
2) The Stock Exchange and Securities Organization as a regulatory institution supervising the country's capital market or, Tehran Stock Exchange companies, and Iran OTC Company can evaluate the performance of the audit committees of the listed companies using the indicators identified in this study and evaluate the degree of compliance with the relevant instructions for establishing corporate governance and audit committees in these companies.
3) Furthermore, researchers can apply the indicators revealed in this study to assess the supervisory performance of audit committees and compare their findings with the results of the present study. They can also review and proposed other possible variables in evaluating the supervisory performance of audit committees or improving this model can be of interest to researchers in future research.

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