The Role of the Audit Committee in Improving the Audit Report impartiality Using Analysis of the statement of Cash Flow-Analysis Study-

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Abstract

This study aimed to try to develop a general framework which can be derived some financial indicators by the Audit Committee to help in assessing liquidity on one side, and from the other side help Auditor on professional judgment regarding the possibility of continuing established to activities, as the approach to the narrow expectations in the audit.

To achieving that objective researcher was adopted the deductive and inductive approach. Where reliance on the first in the formulation of the problem study and the second used when formulating the scientific hypotheses of the study.

The study found many results, most important, there is a positive role for the Audit Committee of the activities in improving the external auditor report, in addition the analysis of the statement of cash flow carried out by the Audit Committee contribute to improving the professional judgments of the external auditor in the planning and implementation of the audit process. also relying on interpretation and critical approach.

Keywords: Audit Committee, Accounting policies, Check Financial reports, Cash flows, Quality of earnings, operating cash.

Introduction

Audit impartiality basis to support confidence and increase the credibility in financial statements that are prepared and issued by enterprises and institutions of different types. And notes the recent times audit report that impartiality has become characterized by non- credibility in some cases, and in many cases has became the interpretation of the report itself-by third party-is incorrect and that what is referred to as the expectations gap. For these reasons and others began to think seriously finding a mechanism which can improve the external audit report. This study addresses one of those mechanisms, trying to explain how to take advantage of the audit Committee of the analysis of the statement of cash flows and the role it can play in improving the report of the external auditor, and that including availability of indicators that will rule on the duration of the continuity in the activity, then their contribution to solving one of the problems of the expectations gap in assessing the auditor to enterprises in the activity.

The problem of the study

There are many activities undertaken by the Audit Committee and of which examine of financial reports, and to strengthen the independence of the external auditors, in addition to the examination and evaluation of the internal control system. The problem can be expressed in the following majors question:

1. What is the role of the Audit Committee that can play in improving the report of the external auditor?
2. Can the Audit Committee and its expertise Contribute to the evaluation of the continuity assumption?

Importance of the study

The importance of the study of being dealing with the activities of the Audit Committee and the role they can play in achieving transparency as an input to governance. they also addresses the activity should not be ignored by the Audit Committee as a complementary tool and support the work of the external auditor, to achieve more confidence in financial reporting, and is that activity in financial analysis of financial statements of different, and in this study has been to focus on the cash flow statement as one of the most important statement which give a good indication of the enterprises liquidity.

The objectives of the study

The study aims to try to establish a general framework can be guided him by the Audit Committee in carrying out its role and when used for indications of financial analysis in order to assess the financial capacity of the enterprise as well as the evaluating liquidity, which provides read about the entity's ability to continuity in practicing activity. We can achieve the overall objective through the following sub- goals:

1- Identify the reasons that led the shift from an accrual basis to cash basis in the prepartion the statement of cash flows.
2- Determine the different uses of the statement of cash flow.
3- Develop general guidelines for the development of financial indicators of the statement of cash flow, which in turn will help in assessing the liquidity facility.

Methodology of the study

The researcher used the deductive and inductive approach, as adopted on the first when formulating the problem, while relying on the second when formulation scientific hypotheses of the study. also relying on interpretation and critical approach.

The study hypotheses

Researcher seeks through this study was to validate the following hypotheses:

1- Analysis of the cash flow statement by the Audit Committee contribute to the assessment of the liquidity facility.
2- Activity Audit Committee’s goal in the analysis of the statement of cash flow has a positive relationship in the narrow expectations of a third party related to ensure the continuity facility's in activity.

Previous studies

Previous studies on the role of the Audit Committee to improve the quality of financial reports were limited, the following are the most important studies in this regard:

A study of Wolnizer (2001 ،غالي), where he conducted an observational study on the role of the Audit Committee in improving the quality of financial reporting, and finds that the Audit Committee can improve the credibility and objectivity of the financial statements, and increased reliability where by strengthening the independence of the Auditors and the implementation of the following activities:

1. Examination all of the annual financial statements and quarterly.
2. checking the accounting policies and identify the impact of changes on financial statements
3. Examination of the internal control systems and to identify the degree of compliance.
4. Identify possibility of cases of fraud.
5. Examine the significant transactions and ensure compliance with the laws that apply to the facility and conduct. and assess management’s estimates.

Notes that, this study was based on strengthening the independence of the Auditors, but did not explain or identify activities that can Audit Committee carried out in order to achieve this independence, as well as it did not include many of the activities that the Committee carried out and that will contribute to the strengthening and improve the quality of financial reporting.

B-study (Mcmullen, 1996, PP87-101) this study on the basis of examining the relationship between the presence of the Audit Committee and quality of financial reporting (in terms of reduced errors and irregularities and illegal acts), where the study concluded that the Audit Committee can increase the credibility and improve integrity of the financial reports by:

1. examination the financial reporting process, including internal control systems and the application of generally accepted accounting principles.
2. Checking the audit process as a whole (internal and external). And the implementation of those activities by the Audit Committee would lead to:
   - Reduction of inappropriate accounting measurement.
   - Reduction of the insufficient accounting disclosure.
   - Reduction of administrative fraud and illegal acts.

The result of the study is that there is a strong correlation between the presence of the Audit Committee and the quality of financial reporting, where the first lead to the reduction or absence of errors, irregularities and illegal acts and thereby increase confidence in financial reporting. And the second researcher finds that necessarily mean that the quality of the audit report.

C-focused on some studies to identify the extent to which the reports of the Audit Committee in improving the quality of annual financial reports of enterprises, including a study (Kintzele,1991, PP 16-25) . Which wsa based on the study reports for audit committees to know the response of enterprises optionally with the recommendation of the Committee Treadway on include the annual reports of enterprises reporting to the Audit Committee, and the result was that the proportions of the disclosure of information in the reports of audit committees high reported in management reports, the study recommended the need to clarify the role and responsibilities of the Audit Committee in the report of the Committee rather than briefly in a report management.

D-study (2011،حمدان ومشتهى), study aimed to analyze the relationship between the possibility of receiving the company to audit report is clean and the characteristics of the Audit Committee in industrial companies listed on the stock exchange Oman benefiting from the institutional governance Guide issued by the (Jordan Stock Exchange)JSC. The study used a range of appropriate statistical methods of descriptive methods and autocorrelation test, test the linear correlation and testing of the instability of the random error variance. The study results showed a positive effect for each of the size of the Audit Committee and the financial expertise of the members of the Committee on the auditor’s report, also show a negative effect of the members of the Audit Committee of the company's shares on the auditor's report, at the same time was not to the standard the independence of the members of the Audit Committee (Executive, non-executive) and the number of times meetings no effect on the opinion of the external auditor.

We conclude from this that most previous studies have emphasized the role that could be played by the Audit Committee to improve the credibility and objectivity of the financial statements, and increase reliability which, perhaps these studies are complementary to each other and the main objective around which these studies is to improve financial reporting, which will reflect positively impact on external audit report. This study characterized the previous studies in that it dealing with the analysis of the cash flow statement as an activity on the Audit Committee for exercising and do to make sure the assumption of continuity.

To achieve the objectives of the study were divided into the following topics:

First: the concept of the Audit Committee and its evolution.
Second: activities of the Audit Committee.
Third: analysis of the statement of cash flows.

First: The concept of the Audit Committee and its evolution:

Defined the Canadian Certified Public Accountants Audit Committee as: "a Committee composed of the company’s directors who are concentrated their responsibilities in reviewing the annual financial statements prior to delivery to the Governing council. And prepare for the audit committee as a liaison between the Auditors and the Board of Directors, and summed up its activities in the review of the nomination of the external auditor, and the scope of the audit findings, as well as the company’s internal control, and all information intended for publication. ".

As defined by Marian: as "a Committee composed of three to five directors is charged with the responsibilities of the executive of the department of finance. Among the most important business audit financial statement, as well as the effectiveness of the internal control system and the company’s accounting and audit findings by the internal auditors and external. giving recommendations on nominate and select the external auditor fees".

Notes of concepts that they focus on the need for the formation of the Committee shall be non-executive directors. can be said that the Audit Committee interest emerged after increasing cases of fraud and failure of administrative enterprises resulting in lower third-party confidence in the financial statements and the audit process. Therefore, the role assigned to the Audit Committee is to work on improving the quality of those reports. The concept of Audit Committee evolving, as the first appearance of the term Audit Committee began late thirties (1930) when he encouraged the stock exchange and the New York Stock Exchange to establish audit committees after the occurrence of a state collapse McKesson and Robbins company and it must be noted that the establishment of audit committees has been associated in most countries reported cases of unexpected bankruptcy.

In 1978, the body issued securities in the United States series (ASR) NO. (278) Audit Committee, recommended the following (Rittenberg, 1993, P, P 16.17):

1. To choose or change of external auditors.
2. Checking the audit fees. And other professional services fees.
3. To discuss the plan and audit with the external auditors.
4. Approval of the professional services provided by the external auditors.
5. Ensure the independence of the external auditors.
6. Examination of the scope and activities of the internal audit.
7. Ensure the adequacy of internal control systems

He also noted the report of the Committee on responsibilities of Auditors Known as the Committee on Cohen issued by AICPA in 1978, that can Audit Committee to play an active role in achieving a balance in the relationship between the external auditor and management (غالي, 2001, p. 76). As explained statement of audit standard No (61) issued by the auditing standards Board (AICPA) in 1988 entitled "Communication With Audit committees" Committee need to make sure that the Auditor of the Audit Committee receive additional information that can help in the examination of financial reports, such information relates to the following (2001،غالي):

1. Significant accounting policies
2. Significant audit adjustments.
3. Management’s estimates and accounting estimates
4. Other information contained annual report.
5. The disagreement between the auditor and management regarding:
   a. The application of accounting principles
   b. The scope of the audit
   c. The sufficiency of disclosure
   d. Auditor’s report on the financial statements.
6. Advisory services provided to the department by another Auditor.
7. Fundamental issues that have been discussed with the management.
8. The difficulties faced by the auditors during the implementation of the audit process.

The IIA also recommended internal auditors in the United States in 1985 all corporations formed Audit committees of outside directors, and in 1993 issued a report entitled "Improving Audit Committee Performance What Work Best" confirmed the need to publish the report of audit committees within the annual reports of enterprises which must include the responsibilities and activities implemented (Price water house, 1993, P1) as an extension of the development Audit Committee in the United States, has formed a Committee in 1985 to study the "Fraudulent Financial reporting" and known as the Treadway committee, has issued in 1987 its report which stressed the importance of the role of the Audit Committee to improve the integrity of the financial statements, and include in the report recommendations regarding the Audit Committee are as follows (2001،غالي):

1. Must be in the form of securities requiring corporations to the formation Audit committees consisting of independent directors.
2. Every public company to prepare a list of written specifically to include the duties and responsibilities of the Audit Committee.
3. Need to be available to the Audit Committee sufficient resources and powers to carry out its responsibilities, including the right to the use of specialized external experts if necessary to do so.
4. The need to conduct the annual examination of the program that is determines by the management to ensure compliance with the rules of conduct.
5. Examination of the internal control system of the company.
6. Make ensure there is appropriate coordination between the internal and external auditors in relation to the financial report.
7. Examination of management's assessment of factors affecting the independence of the external auditors.
8. Advising management in the case of multiple views on important accounting issues, as in the case of the choice of accounting policies.
9. Examination the annual reports and quarterly.

10. Examination of management plans to link with external auditors to perform consulting services for management taking into account the types of services to be provided and the fees assessed.

Notes of these recommendations that the Audit Committee is seen as main element in the process of the financial management control of companies (Metz, 1993, P42) and for the same reason that evolved by the Audit Committee evolved in the United States, there has been a similar development has in the United Kingdom.
Where a Committee passed on the Financial Corporate Governance Aspect in 1992 the report recognized the importance of the role of audit committees at the assert the integrity of the financial statements, the following are some of the recommendations (Cadbury committee, 1992, PP 62-70):

1. Must set up a list of written clearly define the objectives and powers, duties and responsibilities of the Audit Committee.
2. You must set up the Audit Committee of at least three members, and to be membership to the members of the board of directors non-executive directors of the company.
3. Must attend both the external and internal auditor and chief financial Audit Committee meetings.
4. Must be authorities of the audit committee and clear regarding the examination of any matters within the limits of the written regulations.
5. Must disclose the membership of the Audit Committee in the annual report of the company, also must attend audit committee chairman of the annual general meeting to answer questions and inquiries that may raised.

Notes from the above and from experience the United States and the United Kingdom regarding the Audit Committee, the primary objective of the formation of this Committee is to increase the credibility and integrity of the financial statements, reducing administrative fraud, and thus improve the quality of financial reporting and audit report.

Second: Activities of the Audit Committee:

It should be noted that, while a short time ago erupted three financial issues are important at the international level are the cases of Enron, WorldCom and Xerox, where he was the impact of these issues a loud threatening the capitalist system, in addition to its impact on the profession of accounting and auditing and members of Board of directors in companies, and bonuses received by executives. Therefore you must follow the more stringent accounting standards and more transparency, and that the appointment of external auditors of the committees and committee to independent committee. And which already dealt with the role of the Audit Committee, it could be argued that its effectiveness in improving the quality of financial reporting systems, through the exercise of certain activities and disclosure. These activities relate to (2001،غالي):

1. Examination of financial reporting 2-To strengthen the independence of the external auditors
2. Examination of the internal control system and the relationship with the internal auditors.

And we will focus only on the first activity.

Examination of financial reports:

There is complete agreement among researchers on the importance of the role of the Audit Committee in the examination of financial reports, but there is no agreement about the dimensions and limits of this role. Where some researchers believe it must be on the Audit Committee to examine the annual financial statements and the information quarterly or half with a particular focus on the following (AARF, 1997, P16):

1. Accounting policies applied by the facility.
2. Significant changes in the figures and financial ratios and the reasons for those changes.
3. Examination the unusual items and get a convincing explanations for why they occur and how accounted for.
4. Check all important adjustments proposed by the external auditors and identify the impact on the financial statements.
5. Assessing the accounting estimates prepared by the manager with the justification that is based on Auditor in respect of economic rationality on those estimates (AICPA, 1988, P196).
6. Examination of other reports received the annual report to identify aspects of the disagreement between the information contained in the financial statements and those contained in other reports.
7. Ensure the adequacy of disclosure as recommended by the Cadbury Committee need to make sure to disclose as much information as possible without damaging the competitive position of the enterprise.

8. Checking the letter of Auditor, and requires that Audit Committee to follow up the implementation of the management of the observations and recommendations contained therein. It is also the Audit Committee can propose an improvement the content of the letter of auditor (Jack, 1993, P10)

It can also add another aspect of the activities of the Audit Committee with respect to examine financial report, is that to make sure the entity's ability to continue in activity, where should the Audit Committee to ensure the entity's ability to continue in the activity and safety of imposing continue used in the preparation of financial statements, which requires the study of entity liquidity position and credit enterprises available to them, and examine the factors that may affect the continuation of the activity.

And in this area will offer an attempt can Audit committee be guided by them when assessing the liquidity of the enterprises and its ability to generate future cash flows, so by analyzing the statement of cash flow and their relationship to the income statement as a means of auditing critical (which could of course be used by Auditor for the same purpose).

Analysis of the statement of cash flows would provide some warning signals with regard to:

1. irregular accounts 2. turnover or inflation inflate profits
2. confused or resource expenses and capital expenditures.
3. treatment of income received in advance and for subsequent periods as the period in revenues.

This analysis also provides indicators for:

1. established economic ability to generate cash flows in the future.
2. established ability to conduct economic dividend and commitments.
3. the reasons for the difference between net income and net cash flows from operating activities. 4. evaluation and financial liquidity and financial flexibility.

Third: Analysis of the statement of cash flows:

Analysis will be taken from the statement of cash flows through the following points:

a. reasons for the shift from an accrual basis to a cash basis.
b. the concept of the statement of cash flows and their development.
c. the importance and objectives of the statement of cash flows and their uses.
d. analysis of the statement of cash flows.

a. reasons for the shift from accrual basis to cash basis:

There are many reasons that led to concern mainly cash basis including:

1. that investors, creditors and others interested in financial and economic circles have become more interested in the cash flows of the business after the expansion of the economic establishment in borrowing and other means of credit instruments. In addition, in the presence of the statement of cash flow it can determine the break-even point for the business, and that means the point at which they are established is able to meet the needs of operating cash receipts from customers.
2. the financial statements do not take into account inflation, forcing the business to search for more specific standards for evaluating the performance of the enterprise such as cash flows.
3. the statement of sources and uses of funds were focused on the concept of working capital, a concept that does not provide information as important as liquidity and financial flexibility as in the case of a cash basis as the bad administration of both inventory and customer accounts, leads to a lack of liquidity does not discover the statement focused on working capital. And clarification traditional for such problem is the case of a company demonstrating an appropriate working capital through the statement of sources of funds and uses, but a large part of the working capital is recorded in the number of customer accounts a very low turnover rate plus large inventory is discharged slowly; examination the company's cash flows from operating activities in this case may indicate significant shortages in liquidity and lack of financial flexibility, which may ultimately lead to the bankruptcy of the company.
4. Some enterprises may show statement the results of its profits year after year, at a time of increasing overdraft from the Bank in the year after, and in the absence of cash flow cannot judge of the annual financial statements for these enterprises – directly-whether the cash generated from operations, which represent the usual activity of facilities has enabled it to pay dividends and pay taxes owed them or they resorted to other sources, it is difficult to know whether the facility has been able to provide the cash required to service the debt owed them a year of cash derived of the normal activity or the obligation to return for the annual burden of debt has been added to the original debit to the company's inability to meet debt service expenses in cash.

5. In difficult to identify pattern generation and use of cash flows in the absence of a statement of cash flows, this pattern is so important that you should be considered when assessing the company and finds its financial capacity, the analysis of their ability to pay out and the burdens of loans and their ability to make cash distributions and their potential future exposure to liquidity crises.

b-The concept of the statement of cash flows and their development:

Before we know the statement of cash flow must be starting to say that this statement settled the matter after a relatively long period of time, which happened to her evolution in terms of form and content during this period.

Three phases can be essential to this development, which took place at each stage including a commensurate with the needs of business as follows (2003 ،مطر):

1- Statement of funding sources and uses, this statement required by Accounting principle Board (APB) opinion NO. (3) ,issued from the A.I.C.P.A in 1963.
2- Statement of changes in financial position, this statement required by opinion No. (19) of the FASB in 1971.
3- Statement of cash flows that required by the standard No. (95) adopted by FASB in 1987 as well as IAS.NO. (7) adopted by the IASC in 2000.

Can be defined statement of cash flows as a list that displays the cash receipts and cash payments and net change in cash from three main activities are operating activities, investing activities and financing activities for the economic during a specific period, to bring the cash balance in the first period and another period. Cash refers to cash here in its comprehensive either in cabinets or in banks, this concept also introduces what is the rule of cash such as short-term investments with high liquidity that can be easily converted to cash and risk a small change such as short-term deposits which are in a period of three months.

c-the importance and objectives of the statement of cash flows:

The importance of the statement of cash flows of its role in providing information cannot be provided through any of the income statement or balance sheet. Where is this statement link between these two statements. In addition to being more convenient than both in identifying strengths and weaknesses in the activity of the facility, where the form with all its information and what can be derived from the quantitative indicators of an effective tool to assess the efficiency of the policies adopted by the Administration in the field of finance and investment, as well as in discovery of plans future expansion (2003 ،مطر). This will assist the Audit Committee in carrying out some of the core activities, which in turn help to improve financial reports indicating Auditors definitely improve his report. With regard to the objectives of the cash flow it can be summarized in:

1. Provide information on cash receipts and cash payments for a specific period.
2. To provide information in accordance with the basis of cash from operating activities, investing and financing.

And information provided by the statement of cash flow if used and linked with other information provided by the other financial statements, it will help the Auditors, investors, creditors and others in:

1. assess the enterprise's ability to generate positive cash flows in the future.
2. assessment of the enterprise's ability to meet its obligations and its ability to distribute profits, and the need for external financing.
3. evaluation of the reasons for the difference between the net income and cash inflows and outflows.
4. evaluation of the impact on the financial position of each of the enterprise investment and financing operations of monetary and non-monetary.

And from the above, information identified in the statement of cash flow should help:

1. measurement of the enterprise ability to generate cash flows in the future. Since the primary objective of financial statements is to provide information makes it possible to predict the value of the timing and the uncertainty of the cash flows future by examining the relationship between some of the items such as sales and net cash flow from operating activities or net cash flows from operating activities and the increase or decrease in cash.
2. determine the enterprise's ability to conduct economic dividend and payment liabilities.

3. determine the reasons for the difference between net income and net cash flow from operating activities, is net income is an important number because it provides information about the success or failure of the company from time to time, some reticent on the net income derived in accordance with the accrual basis because access to this number requires some estimates of the reliability of this figure is controversial, however, is for cash, many users wish to financial causes the difference between net income and net cash flows and thus can determine the extent of relying on net income.
4. evaluation of liquidity and financial flexibility, which refers liquidity to the approach of monetary assets and liabilities (i.e. the length of time it takes the Assets turn into cash, and the length of time required to provide the cash necessary for the payment of liabilities), and is intended to ease the financial company's ability to pay its debts and meet their payments at maturity, either the financial flexibility refers to the ability to respond and adapt to unfavorable financial conditions and needs sudden and unexpected opportunities.

D-analysis of the statement of cash flows:

Can analyze the statement of cash flow to detect important relationships and classification can analyze this statement to achieve this goal as follows (2003 ،مطر):

a. to assess the quality of the company's profits:

the statement provides information with which to distinguish between net income and net cash flow and on the based that net income is determined under the accrual basis, while net cash flow determined under the cash basis. Thus, the investigation established for the a high number of net income does not necessarily mean they make high cash flows and vice versa. And it is recognized that the higher the number of net operating cash flow achieved by established during the year, the higher the quality of profits generated and vice versa. Moreover, determining the value of cash flows from operating activities of the company make it possible to make a valid comparison between developed cash and cash position of the other companies in the same field – different from the methods of calculating depreciation of fixed assets – and the most important ratios that can be derived from the statement of cash flows and that serves the purpose of assessing the quality of corporate profits are:

a/1- adequacy ratio of operating cash flows; they illustrate the ability of the cash inflows from operating activities to cover cash needs basic and are these needs; cash outflow for operational activities, and payments of debt, and capital expenditure required to maintain production capacity and repayment of outstanding debt during the year. This is calculated by the equation:

$$\frac{\textbf{Cash flows from operating activities}}{\textbf{Basic cash needs}}$$

a/2-operating cash indicator; measures the profits of the company’s ability to generate operating cash flow, is calculated as follows:

$$\frac{\textbf{Net operating cash flow}}{\textbf{Net income}}$$

a/3-operational activity indicator, measures the extent to which the operational activities of the company to generate operating cash flow, calculated as follows:

$$\frac{\textbf{Net operational flow/operating profit before}}{\textbf{Benefits and taxes}}$$

b. return on assets of operating cash flow: measures the ability of the assets of the company's to generate operate cash flow, calculated as follows:

$$\frac{\textbf{Net operating cash flow}}{\textbf{Total assets}}$$

c. operating cash flow ratio: it is reflecting the efficiency of credit policies in the collecting cash, calculated as follows:

$$\frac{\textbf{Total cash flows from operating activities}}{\textbf{Net sales}}$$

d-assessment of liquidity:

Linked to the strength or weakness of the company's liquidity the availability of net cash flow from operating activities, if the net cash flow from operating activities is positive it means cash surplus the company’s management can be used by either expansion or investment activities in the repayment of long-term debt. . If it is negative, it means that the company search for sources to financing the deficit. In addition to the sources and uses of operating cash provides indications on how efficient the collection policies. The most useful in assessing liquidity ratios established the following:

d/1- Coverage of cash, which measure the ability of net cash flows from operating activities to cover the total cash outflow for investment activities and financing (e.g. debt, loans payable, and leases payments for finance leases, purchase of fixed assets and dividends, calculated as follows:

$$\frac{\textbf{Net cash flow from operating activities}}{\textbf{Total cash outflow for investing activities and financing}}$$

d/2-rate payments to pay off debt interest is calculated as follows:

$$\frac{\textbf{The interest of debt}}{\textbf{Net cash flow from operating activities}}$$

And this percentage rising bad indicator, that means the company may face problems in liquidity needed to pay interest on debt. And the inverted index over the company's ability to repay debt.

d/3. with regard to the suitability of current ratio as an indicator to assess the liquidity of the financial analysts raise question marks about its validity, and suggest instead by other ratio can be termed a cash flow from operating activities(CFO) are calculated as follows:

$$\frac{\textbf{Net operating cash flow + cash}}{\textbf{Current liabilities}}$$

e/assessment funding policies: and one of the most important ratios are useful in this area:

e/1-ratio of dividends; and is providing information on the policy followed by the company’s management in the area of distribution of profits and the extent and stability of this policy. It is also an indicator of the company's ability to distribute cash dividend by displaying inverted this ratio. and calculates the ratio of dividends as follows:

$$\frac{\textbf{Cash distribution to shareholders}}{\textbf{Net cash flows from operating activities}}$$

e/2-percentage interest and dividends received, a measure of the relative importance of revenues from investments in loans or securities. Is calculated as follows:

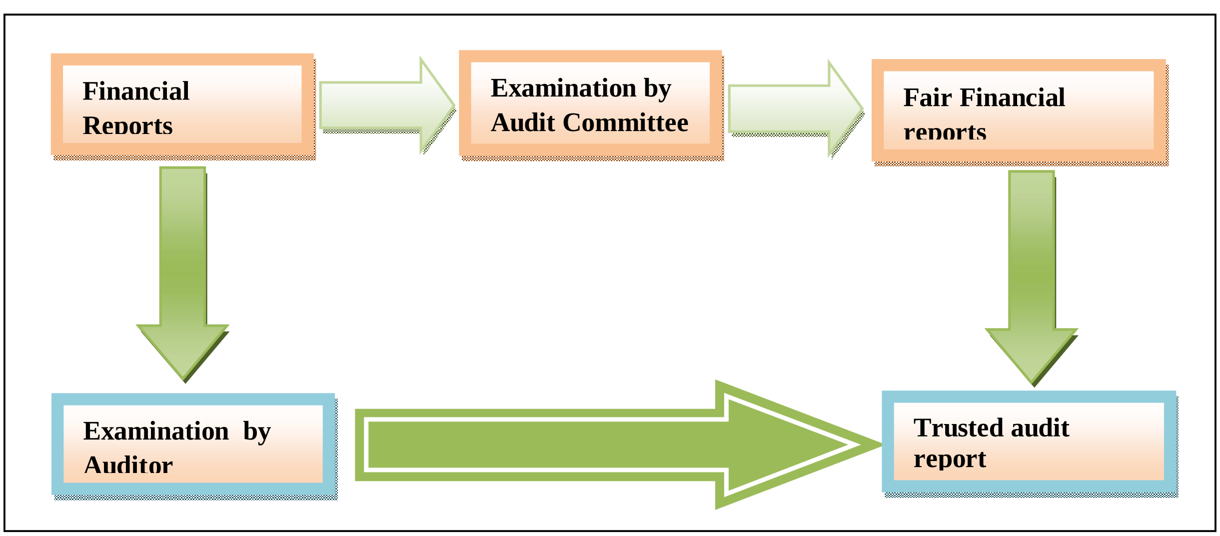
$$\frac{\textbf{Cash receipts from interest income and distributions}}{\textbf{Cash flows from operating activities}}$$

e/3. capital expenses ratio, a measure of the relative importance of external funding sources to finance capital expenditure invested in the acquisition of fixed assets, reflects the success of the company’s management to follow a policy adapted to finance long-term assets of long-term funding sources. Is calculated as follows:

$$\frac{\textbf{Real capital spending}}{\textbf{Cash inflows of long-term loans and equity issues and bonds}}$$

We conclude from this that the Audit Committee can play a role in improving the external auditor’s report, by improved financial statements and which are focus of the audit work. From Figure (1) we find that there is a relationship between the presence of the Audit Committee and the audit report, as the Audit Committee includes its report on the disclosure of more than that contained in the management report, which can be Auditors from perform audit process accurately under provide disclosure appropriate so as not to damage enterprise competitively, all of which will surely reflect positively on the audit, so that they can be trusted audit report.

Figure (1). The relationship between the Audit Committee and the external auditor's report



Add to that, the role that could be played by the Audit Committee in assessing the entity's ability to continuity in the conduct of economic activity, through the study of the entity's liquidity position and credit facilities, whether conferred by or granted to them. In addition to the study of other factors. will focus here on the study of liquidity position in financial analysis.

The attempt made by the researcher in this area are suitable for use by both the Audit Committee and the external auditor as a critical audit, the analysis of the statement of cash flow in accordance with the format specified by the standard issued by FASB No. (95) and IAS No.(7)

It can add detail another one of the activities of the Audit Committee, and of the examination of the annual financial reports and quarterly, as most previous studies did not explain how to do this examination, and on the general we propose in this area to the means of the examination of other conduct analytical study using analysis financial statements for the purpose of extracting some of the indicators that are useful for evaluating the general situation of the enterprise, guided by the recommendation of the Treadway committee need to identify significant changes in the numbers and financial ratios and the reasons for those changes.

Results and recommendations

First results:

Basis On the above it can be concluded many of the results of this study, which are:

1- There is a considerable role can be played by the Audit Committee in improving the external audit report through the activities carried out and represented mainly in the examination of financial reports and in terms of accounting policies applied by the enterprise and the significant changes in the numbers and financial ratios and reasons those changes, we find that the Audit Committee in order to carry out its activities using financial analysis as one of the most important activities, and thus the service provided by the audit committee is the possibility to take advantage Auditor from the results that are reached by the Committee and compared them with the results that make audit in financial analysis and determine the deviation, if any, relevance, and this reviewer can direct tests of fundamental deviation points; As an example of a service that could be provided by the Audit Committee. Add to this that there is a distinct relationship between the Audit Committee and the external auditor's report, financial statements examined by the Audit Committee would confirm the integrity of the financial statements of the theory because there is no benefit for members of the Audit Committee, and therefore that any fraud or misstatements in financial statements can be identified by the Audit Committee and periodically check the activities established by the Commission, and the Commission highlight cases disclosed in its report and describes how the detected cases; and the final outcome is the adoption of a molecule by auditor to the results of the Audit Committee, resulting in the need for comparing the results of the analysis undertaken by the Commission with the analysis of the auditors and identify any deviations and identify the causes of these deviations. In other words, the screening process conducted by the Audit Committee represents a new source of information sources based on the references.
2- Contribute to the process of analyzing the statement of cash flow carried out by the Audit Committee in improving the professional judgment of the auditor through the availability of indicators contribute to the assessment of the entity's ability to continuity in the conduct of its activities, as this analysis provides indicators of the extent of the liquidity facility. And the other side to use auditor from that analysis is in the planning audit process, which should be the case represent a form of professional who carried out the auditor.
3- Statement of cash flows provides information that can be linked with other information derived from the financial statements, and analysis in assessing the ability of enterprises to generate positive cash flows in the future, as well as to assess their capacity to meet their obligations and their ability to profit distribution and the need for external financing. And the statement shows that the strength or weakness of liquidity in the short term is linked to the availability of net cash flow from operating activities, net cash flow from these activities is positive it means necessarily a surplus cash facility management can be used by either the expansion or investment activities in long-term debt, if the net cash flow is negative, it necessarily requires looking established sources to finance that deficit. The end result of the analysis is to assess liquidity and its ability to continuity in its activity in the future.
4- The activities of the Audit Committee to examine financial reporting, examination and assessment of the internal control system, strengthening the independence of the external auditor; plus activity financial analysis of financial statements, statement of cash flows in particular would give greater credibility to the external audit

report, because these activities would provide a good base of information which can benefit the references when planning and implementing audit and get the report credible and realistic as a result of its reliance on careful planning from the outset.

5- The application of financial analysis as a tool of audit based on the expectation that the auditor expects that the relationship between the information going on the same or previous direction in the absence of the conditions to the contrary, the existence of such relationships provide evidence on completeness and accuracy of the accounting system, however, confidence in the results of the analysis will depend on the assessment of the Auditor to the risk of financial analysis to diagnose relations as expected, while the truth may indicate A wrong information. The Auditor can benefit from the experience of members of the Audit Committee in this area, through its Audit Committee reached conclusions in its financial analysis process.

Second: recommendations:

Based on previous results, we recommend by the following:

1- To meet the Audit Committee role expected of them must be taken into account when shaping the experience factor to the Audit Committee, as well as the need for the members of the Committee shall not be less than five and not more than ten members of the non-commissioned officers.

2- As the Audit Committee of the standing committees, taking into account the Member change periodically to ensure its independence and impartiality, as well as to ensure the renewal of ideas and the transfer of expertise.

3- The Audit Committee supports the financial analysis activity in General, and the focus on liquidity and profitability analysis in its activities, which would strengthen the Administration's estimates.

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