The Impact of Audit Committee Characteristics on the Performance: Evidence from Jordan

Allam Mohammed Hamdan, Adel Mohammed Sarea and Sameh M. Reda Reyad
College of Business and Finance, Ahlia University, Manama, Kingdom of Bahrain
E-mail: ahamdan@ahliauniversity.edu.bh

[Abstract] The objective of this paper is to investigate the relationship between audit committee characteristics (namely: audit committee size, financial experience, and audit committee independence) on performance, which includes financial, operating and stock performance. The study sample contained 106 corporations from the financial sector listed in the Amman Stock Exchange Market with a total of 212 observations during the 2008-2009 sample years. The results showed that the audit committee has an impact on financial and stock performance. It does not have an effect on operating performance.

[Keywords] audit committee characteristics; performance; Amman stock exchange.

Introduction

The main purpose of this study is to examine the audit committee on performance over the period of 2008-2009. The concept of the audit committees differs according to the goals, functions, and responsibilities assigned to them. However, the need to determine the impact of audit committee characteristics on performance quality has become the focus of increasing attention among accountants, academics, researchers and investors. Many countries over the world and local and international vocational bodies have spent more effort to issue instructions and standards that, when adopted help restore credibility in the financial data declared. It will also help in activating the role of the audit committee, which consolidates functioning, and independence of the external auditor for being an independent part providing his opinion on the declared financial data fairly and objectively. One of these efforts is the recommendation of the Securities and Exchange Commission (SEC). The New York Stock Exchange NYSE, and the National Association of Securities Dealers NASDA, formed a Blue Ribbon Committee (BRC) in 1999 to be a natural reaction to the distortions in financial statements.

These committees aimed to develop recommendations, which help improve financial reports through consolidating their roles. It also put down a series of qualities that should be available in order to have an active audit committee. Such qualities include the size of the committee, experience, financial knowledge of members, degree of their independence, and frequency of meetings. In July 2002, the US issued the Sarbanes-Oxley law, described by analysts to be the most significant and comprehensive American legislation since the forming of the SEC, because of its impact on general companies and independent accountants. Some of the large reforms that the legislation included were the right of declaration, submission of financial reports by foreign general company's corporate governance, and monitoring of accounting auditors. According to Article 301 of the legislation, a special part was made stressing the duties and formation of an audit committee in order to secure the safety and credibility of the report of the external auditor who might be put under management pressure that might be imposed on him. As for Jordan, much legislation that supports corporate governance was issued in order to regulate work of the audit committee in Jordanian companies. Our study attempts to discuss such legislations related to audit committees to ensure their application by Jordanian companies. Afterwards, the study tries to test the role played by the audit committee in improving the performance.

Background of the Audit Committee

Audit Committee in Jordan

Jordan tried to enact a group of legislations to support corporate governance one of which is the Stock Exchange Law No. 76 (2002). This law obliges all Jordanian joint-stock companies to form an audit committee consisting of three non- executive members from the company's board of directors. The duties and responsibilities of such committee are determined by the instructions issued by the board that comply with Article 46. It also secures Banking Law No. 28 (2000), which obliges all Jordanian banks to form audit committees.

Articles No. 32 and 33 of this law determine responsibilities and duties. Instruction No. 1 (1998) was issued by the Amman Stock Exchange and requested all Jordanian joint-stock companies to form audit committees. Modern disclosure instructions were issued and were put into effect the beginning of 2004. Article No. 15explained how to form the audit committee, determining its duties and responsibilities. The most recent concept of audit committees in Jordanian milieu was the one issued by the Amman Stock Exchange “directory of governance rules of companies listed in Amman stock exchange 2008” which stipulates that the audit committee should consist of non-executive members of the board of directors who shouldn’t be less than three. Two of them at least should be independent members, one of whom chairs the committee. All members of the committee should be equipped with knowledge of financial and accounting affairs. Decisions of the committee are taken by absolute majority of members. It should also put down written procedures to regulate its duties and commitments with the approval of the board of directors. It has the right to ask for legal, financial, administrative or technical opinion from any external consultant.

Audit Committee Characteristics

Independence. The independence of an audit committee is considered a vital characteristic influencing the committee’s efficiency in managing the process of financial statements (Baxter, & Cotter, 2009). The independence of an audit committee can serve as active to control the financial reporting. Therefore, audit committee independence has been found to be significantly associated with measures of earnings quality in prior studies (Baxter & Cotter, 2009). On the other hand, Nimer, et al (2012) documented that, the results of the multiple regressions indicated that there is no significant relationship between audit committees’ effectiveness factors and dividend payout policies in 63 listed Jordanian firms.

Expertise. Financial expertise improves the effectiveness of audit committees. The expertise of the audit committee is generally considered an important characteristic for its effective operation (Baxter, & Cotter, 2009). According to Lisic, et al. (2011), they found negative association between audit committee financial expertise and incidence of restatements is moderated by CEO power. The audit committee financial expertise is negatively associated with incidence of restatements when the proxy for CEO power is low. Thus, they suggest that having a financial expert on the audit committee does not automatically translate into more effective monitoring. Rather, the substantive monitoring effectiveness of audit committee financial expertise is contingent on the power of the top management. On the other hand, some inconsistencies exist between the results of these studies that failed to find an association between the magnitude of earnings management and the audit committee’s financial expertise (Baxter, & Cotter, 2009). Thus, the audit committee expertise should be taken into consideration to determine whether this variable impact the performance either positively or negatively.

Activity and size. The level of activity of an audit committee has been recommended as important to enhance its effectiveness in improving earnings quality (Baxter, & Cotter, 2009). In addition, the size of an audit committee can have a positive impact on earnings quality. Larger audit committees can be more effective as they are likely to include members with varied expertise to perform more intense monitoring of financial reporting practices (Baxter, & Cotter, 2009).

Literature Review

Several prior studies provide theoretical and practical support for a cross-sectional association to show the relationship between audit committees and financial performance quality. This research used prior studies as secondary data to show the impact audit committees and financial performance quality by Jordanian companies. In addition, this study examines the audit committee on the performance over a period of time. It is necessary to consider changes of return on assets, return on equity and EPS to determine whether these ratios influencing the impact decision of committee auditing either positively or negatively. The only known published study in the region to investigate whether firms' corporate governance practices led to better financial performance and evaluate the impact of corporate governance on financial performance in Turkey was conducted by Osman, et al. (2010) They, therefore, are taking the issue of institutional ownership into account and to explore how the financial performance of the companies which are listed in the Corporate Governance Index is affected by institutional ownership, distinguishing between domestic and foreign ownership. The results of the analyses demonstrate the positive influence of corporate governance and institutional ownership on financial performance.

Additionally, the impact of institutional investors was found to be more strongly pronounced on firms listed on the corporate governance index (Osman, et al., 2010). Furthermore, Thoopsamut and Jaikengkit (2009) have examined the relationship between audit committee characteristics, audit firm size and earnings management in quarterly financial reports of companies listed in the Stock Exchange of Thailand. The data collected from financial documentation were analyzed by using multiple regression analysis at 95% confidence. A negative relation was found between the average tenure of audit committees and quarterly earnings management. However, the number of meetings of audit committees and audit firm size are not significantly related to quarterly earnings management. These results suggest that the average tenure of audit committees affects the quality of financial reports.

In line with the prior studies, Teitel & Machuga (2010) found that firms that hire high quality auditors have greater improvements in earnings quality after implementation of the Best Corporate Practices Code in Mexico than firms that hire low quality auditors. In Mexico, they believe that hiring high quality auditors may be a private contractual mechanism replacing their weak regulatory environment.

According to Baxter, et al (2009), they examined whether the existence of an audit committee is associated with earnings quality, tests of this association do not differentiate between whether (i) the audit committee impacts earnings quality or (ii) firms with high-quality earnings are more likely to form an audit committee. They found that the formation of an audit committee reduces intentional earnings management, but not accrual estimation errors. In addition, they found some differences in the associations between audit committee accounting expertise and the earnings quality measures and other audit committee characteristics examined are not significantly related to any earnings quality measures. In a related study conducted by Hamdan, et al., (2012), they found the audit committee characteristics examined are not significantly related to accounting conservatism excluding the financial experience of audit committee, which found to have a positive relationship to conservatism.

Based on these considerations, we hypothesize that the audit committee characteristics may have a positive effect on the financial performance quality. Therefore, we investigate whether or not the financial performance would impact by audit committee characteristics in Jordanian companies.

Differences Between Current Study and Previous Studies

Prior researches have discussed the audit committee characteristics in several angles, such as the relationship between audit committees and earnings quality, size of audit committee, independence, activity, financial expertise, percentage of common stocks owned by audit committee and so on. However, few studies have reported about the impact of audit committees on performance. Klein (1998) found that the existence of an audit committee had no effect on market performance. In line with that, Vafeas and Theodorou (1998) found no evidence to support the view that the structure of audit committees significantly affected performance. On the other hand, A–Sa'eed (2011) found that, the following independent variables effectively influence the financial reporting respectively – compliance with JSC requirements, audit quality, internal control effectiveness, and understanding of AC's functions. Finally, the interview results show that compliance with JSC requirements is the most effective feature of AC's that influence the financial reporting, whereas (68%) and (66%) of respondents have considered internal control effectiveness and financial expertise and literacy respectively are the most effective features of AC's that influence the financial reporting. Audit quality and understanding of AC's functions were valued at lower levels.

Based on these considerations, we propose an association between the audit committee and the financial performance quality. Therefore, we are not aware of any prior published research into the relationship between the impacts of audit committees on the financial performance. Thus, we consider this study as sole research to investigate the impacts of audit committees on the financial performance quality in Jordanian companies. Moreover, to distinguish this study, we analyze the impact of audit committee characteristics on the performance of companies in terms of size of committee, degree of independence, financial experience of its members, number of meetings, committee ownership of stocks.

Research Design and Methodology

Sample Selection and Data Sources

Multiple sources have been used in this study to generate the data set employed in the analyses. Audit committee characteristics data and the stock performance data regarding the companies are compiled from the financial statements for the years of 2008-2009, and the publicly available database of the Amman Stock Exchange (ASE). The corpus of the study is composed of all financial corporations listed on the ASE 117 include four sectors: banks, diversified financial services, insurance and real estate; the final sample consists of 106 companies. The sample-selection procedure is summarized in Table 1.

Table 1. ***Sample Selection***

Sub-Sectors	Listed Corporations	Excluded Corporations	Study Sample
Banks	16	1	15
Diversified Financial Services	35	4	31
Insurance	26	0	26
Real Estate	40	6	34
Total	117	11	106

Hypothesis Development

The Main Hypothesis **"**There is an impact with statistical significant of the audit committee characteristics (size of committee, degree of independence, financial experience of its members, number of meetings, committee ownership of stocks) on improving the performance of Jordanian corporations listed in ASE". This hypothesis generates sub-hypotheses, which tackle the impact of every characteristic of the audit committee on the betterment of earnings quality:

H_{01}: The audit committee characteristics has no impact, with statistical significant, on the improvement of financial performance.

H_{02}: The audit committee characteristics has no impact, with statistical significant, on the improvement of operating performance.

H_{03}: The audit committee characteristics has no impact, with statistical significant, on the improvement of stock performance.

Measuring of Variables

The selection of variables is based on an examination of previous empirical studies; Table 2 shows the dependent variable, the independent variables, in terms of audit committees, and the control variables employed for all estimated models of the study.

Table 2. ***The Labels and Measurement of the Variables***

Variable	Label	Definition and Measurement
Independent variables:		
Audit committees characteristics:		
Audit Committee Size	ACSize	This was measured through members of that committee elected by board of directors.
Audit Committee Independence	ACIndep	The committee that totally comprises non-executive members is given (1), but if not all the members were non-executive; it is given (0).
Number of Audit Committee Meetings	ACMeetings	This variable was measured through the number of annual meetings the committee holds.
Financial Experience of Audit Committee Members	ACExper	The financial experience of the audit committee measured by dividing the number of qualified members in accounting financial and banking management to all members.
Percentage of Common Stocks Owned by Audit Committee	ACEquity	This was measured through the percentage of ownership of the audit committee for company stocks.
Financial performance:		
Market value added	MVA	The difference between the market value of a company and the capital contributed by investors.
Return on investment	ROI	To calculate return on investment, the return of an investment is divided by the cost of the investment.
Operating performance:		
Net profit margin	NPM	Net profit margin measures how much out of every Kuwaiti dinar of sales a company actually keeps in earnings, calculated as net income divided by revenues.
Return on assets	ROA	The ratio of net income to total assets. An indicator of how profitable a company is relative to its total assets, ROA gives an idea as to how efficient management is at using its assets to generate earnings.
Stock performance:		
Earnings per share	EPS	The portion of a company's profit allocated to each outstanding share of common stock. Calculated as: net income minus dividends on preferred stock divided by the average outstanding shares.
Control variables:		
Company size	Size	Natural log of total assets
Financial Leverage	Leverage	The ratio of total debt to total assets

Study Models Development

Based on the results of prior research, as well as the audit committee environment in Jordan and data availability, we have adapted a definition for this study. We define audit committees characteristics as:

a) Audit Committee Size;
b) Audit Committee Independence;
c) Financial Experience of Audit Committee Members.

These characteristics are independent variables in our model. The dependent variables are: indicators of financial performance, operating performance indicators, and indicators of stock performance. The models can be written as follows:

Impact of Audit Committee Characteristics on Financial Performance

The study used the return on equity to measure the financial performance of Jordanian financial corporations. The models of relationship between audit committee and financial performance can be written as follows:

$$ROE_{i,t} = \beta_0 + \beta_1 Members_{i,t} + \beta_2 ACIndep_{i,t} + \beta_3 Expertise_{i,t}$$
$$\beta_4 Size_{i,t} + \beta_5 Leverage_{i,t} + \varepsilon_{i,t} \quad \text{.........} \ (1)$$

Where:
$ROE_{i,t}$: is a continuous variable: dependent variable: return on equity for the company (i) in the year of (t).
β_0: is the constant.
$\beta_{1..5}$: is the slope of the independent and controls variables.
$Members_{i,t}$: is a continuous variable: audit committee size for the company (i) in the year of (t).
$ACIndep_{i,t}$: dummy variable, audit committee independence for the company (i) in the year of (t).
$Expertise_{i,t}$: is a continuous variable: financial experience of audit committee members for the company (i) in the year of (t).
$Size_i$: is a continuous variable: company size, for the company (i) in the year of (t).
$Leverage_i$: is a continuous variable: Financial Leverage, for the company (i).
ε_i: random error.

Impact of Audit Committee Characteristics on Operating Performance

The study used the return on assets to measuring the operating performance of Jordanian financial corporations. The models of relationship between audit committee and operating performance can be written as follows:

$$ROA_{i,t} = \beta_0 + \beta_1 Members_{i,t} + \beta_2 ACIndep_{i,t} + \beta_3 Expertise_{i,t}$$
$$\beta_4 Size_{i,t} + \beta_5 Leverage_{i,t} + \varepsilon_{i,t} \quad \text{.........} \ (2)$$

Where:
$ROA_{i,t}$: is a continuous variable: dependent variable: return on assets, for the company (i) in the year of (t).

Impact of Audit Committee Characteristics on Stock Performance

The study used the earnings per share to measuring the stock performance of Jordanian financial corporations. The model of relationship between audit committee and stock performance can be written as follows:

$$EPS_{i,t} = \beta_0 + \beta_1 Members_{i,t} + \beta_2 ACIndep_{i,t} + \beta_3 Expertise_{i,t}$$
$$\beta_4 Size_{i,t} + \beta_5 Leverage_{i,t} + \varepsilon_{i,t} \quad \text{.........} \ (3)$$

Where:
$EPS_{i,t}$: is a continuous variable: dependent variable: earnings per share, for the company (i) in the year of (t).

Empirical Results

This section presents the results of validity data tests, descriptive statistics, and the results of regression analyses. At the onset, we have to examine the validity of data for statistical analysis. For this purpose, we used the normal distribution test, and the Multicollinearity test, the Autocorrelation test, and the Homoskedasticity test. The validity of the study model representing the correlation between audit committee characteristics and performance was secured. Thus, we can say that the study models are accurate. All the variables on the right side express non-random variables excluding the last one $\varepsilon_{i,1}$ that is supposed to belong to the natural distribution with a zero average and a fixed variance is expressed in $\sigma 2_1$. All these variables are independent ones. As for the variables (performance: ROE, ROA, and EPS) they are dependents in the model and have the same probability random error $\varepsilon_{i,1}$ with a variance of $\sigma 2_1$ and the average is:

$$\beta_0 + \beta_1.\ell(Members_{i,t}) + \beta_2.\ell(CIndep_{i,t}) + \beta_3.\ell(Expertise_{i,t})$$
$$+ \beta_4.\ell(CSize_i) + \beta_8.\ell(Leverage_i) + +0 \quad .... (2)$$

Descriptive Statistics and Univariate Test

Description of performance indicators. The descriptive statistics of the continuous variables has been conducted to reflect the impact of independent variables as stated in the model on the performance. The Member of committee and expertise as independent variables reveal the impact of audit committee on the performance either positively or negatively. In other words, table 3 shows that, the comparison between the effect of a number of members on the performance, the results shows that, the mean of audit committee size in terms for 2008 and 2009 are 3.36, 3.38 respectively, which means there is an impact of audit committee size on the performance. One of the possible explanations of that, Jordanian industrial company's regulations impose a number of members to be involving of accounting conservatism in the financial reports issued by Jordanian industrial companies.

On the other hand, expertise as stated as independent variable in Table 3 shows that the level of mean is less than the normal, which means there is less awareness and understanding about the need of experience of audit committee to be adopted in order to reveal the impact of that on the performance and quality of financial reporting.

Table 3 also shows the impact of ROE, ROA and EPS on the financial performance. The ratio of ROE refers to confirm the positive impact on the performance and quality of financial reporting. In Table 3, we notice that the Mean of the one ratio is positive and the other one is negative. Maybe that reflects the low level of conservatism in the financial reports of such companies. Additionally, ratios of EPS for 2009 are negative and for 2008 are positive. This result is in line with the previous studies that reflect the important of these variables on the level of performance; for instance, we notice that the two variables as stated as controlling variables do follow the normal mean for size but leverage less than normal.

Table 3. ***Descriptive Statistics***

Part A: Continuous variables								
Variable	**Label**	**Year**	**Mean**	**SD**	**Minimum**	**Maximum**	**Skewness**	**Kurtosis**
Independent variables:								
Audit Committee Size	Members	2009	3.364	0.484	4.000	3.000	0.571	-1.706
		2008	3.383	0.488	4.000	3.000	0.487	-1.796
Financial Experience of Audit Committee Members	Expertise	2009	0.515	0.261	1.000	0.000	0.268	-0.454
		2008	0.512	0.261	1.000	0.000	0.298	-0.448
Dependent variables:								
Return on equity	ROE	2009	15.599	53.803	-222.534	171.720	0.012	4.136
		2008	19.799	44.282	-139.755	176.610	0.815	2.538
Return on assets	ROA	2009	-3.352	14.341	-85.904	16.250	-3.287	13.561
		2008	-0.337	12.099	-62.080	28.934	-2.299	11.096
Earnings per share	EPS	2009	-0.010	0.201	-0.920	0.468	-1.141	3.846
		2008	0.053	0.207	-0.69	0.763	0.665	2.989
Control variables:								
Company size (JOD'000,000)	Size	2009	452.660	2,330	0.4200	23,099	8.975	86.360
		2008	429.725	2,276	0.413	22,751	9.183	89.577
Financial leverage	Leverage	2009	38.703	27.552	0.405	91.872	0.388	-0.959
		2008	38.139	27.817	0.330	91.259	0.332	-0.978

Part B: Dichotomous variable						
			Frequency of 1's		**Frequency of 0's**	
			Frequency	Percent	Frequency	Percent
Audit Committee Independence	ACIndep	2009	73	68	34	32
		2008	69	64	38	36

First, Performance Indicators

There are two conditions to consider whether the performance of the banks sectors is better than other sectors: first the mean to be (positive) & second, P-value (less than 5%). Based on those conditions, the findings as following:

1. ROE in banking sectors in Jordanian companies to be higher performance than other sectors (financial services, insurance and real estate) as shown in table (4). Thus, the ratio of ROE refers to confirm the positive impact on the performance and quality of financial reporting.
2. ROA in banking sectors in Jordanian companies are not greater than other sectors.
3. EPS in banking sectors in Jordanian companies to be higher performance than other sectors (financial services, insurance and real estate) as shown in table (4).

Second, Audit Committee's Characteristics

Members: in banking sectors in Jordanian companies are not greater than other sectors.

Expertise: Expertise in banking sectors in Jordanian companies to be higher performance than other sectors (financial services, insurance and real estate) as shown in Table (4).

Table 4. ***Comparison of Variables***

Characteristics	**Label**	**Sectors Compared to banks**			**ANOVA**	
		Diversified Financial Services	*Insurance*	*Real Estate*	*F-test*	*p-value*
Oneway ANOVA – Bonferroni						
Performance Indicators:						
Return on equity	ROE	20.636*	-75.149**	13.475	11.100**	0.000
		(0.017)	(0.000)	(0.283)		
Return on assets	ROA	6.591	2.783	2.002	2.193**	0.000
		(0.151)	(0.946)	(0.912)		
Earnings per share	EPS	0.237**	0.203**	0.250**	13.416**	0.000
		(0.000)	(0.000)	(0.000)		
Audit Committees Characteristics:						
Audit Committee Size	Members	0.241	0.254	0.291	2.722*	0.045
		(0.146)	(0.131)	(0.036)		
Financial Experience	Expertise	0.191**	0.225**	0.324**	12.861**	0.000
		(0.003)	(0.000)	(0.000)		
Oneway ANOVA – LSD						
Audit Committee Independence	ACIndep	-0.023	-0.059	-0.028	0.109	0.955
		(0.828)	(0.590)	(0.786)		

Mean difference (top), and p-value (bottom).
*Significant at **1%; *5% levels*

Empirical Research and Regression Results

Most previous surveys and empirical analyses have explored the relationship between corporate governance 'witch including audit committees' and performance from the perspective of developed economies (Sueyoshi, et al., 2010; Aaboen, et al., 2006; Bianco & Casavola, 1999). This study tries to fill in a gap by focusing on an emerging economy, Jordan.

The main hypothesis tests the impact of the audit committee characteristics on enhancement the performance of Jordanian's financial sector. In testing this hypothesis Ordinary Least Squares OLS test was used. Table 5 presents the OLS regression results with clustered standard errors at the firm level that are estimated from 106 firm observations. Return on investment (ROI) as the dependent variable to proxy for firm financial performance in line with many papers in literature, the results indicate that the coefficients of audit committee characteristics on Model 1 are statistically significant; these results add credence to our conjecture that the positive relation between audit committee characteristics and financial performance may be driven, at least in part, by high quality of audit committee preference toward companies with better financial performance. As managers have direct responsibility for the most efficient utilization of the owner's investment and its operations. Regarding the relation between audit committee characteristics and operating performance (as measured by return on assets), our hypothesis was that such a relation was positive in the sense that an efficient audit committee could lead to an increase in operating performance.

Table 5. ***OLS Results on the Relation Between Audit Committee and Performance with Control Variables***

Variables	Label	Models		
		Model 1 ROE	*Model 2 ROA*	*Model 3 EPS*
Independent variables:				
Audit Committee Size	Members	1.726*	0.196	1.730*
		(0.047)	(0.845)	(0.047)
Financial Experience	Expertise	2.255**	0.196	1.709*
		(0.001)	(0.845)	(0.038)
Audit Committee Independence	ACIndep	1.809**	2.472**	1.093
		(0.004)	(0.001)	(0.276)
Control variables:				
Company size	Size	-1.423	3.439**	2.738**
		(0.156)	(0.001)	(0.007)
Financial leverage	Leverage	3.742**	-1.116	0.450
		(0.000)	(0.266)	(0.653)
Sub-Sectors	SSec	1.809	1.712	-1.576
		(0.072)	(0.088)	(0.117)
F-statistic		2.907**	2.119*	5.241**
p-value		(0.010)	(0.053)	(0.000)
R^2		0.078	0.058	0.132
Adj. R^2		0.051	0.031	0.107

OLS: t-test (top), p-value (bottom), two-tailed.
t-Critical: at df 65, and confidence level of 99% is 2.390 and level of 95% is 1.671 and level of 90% is 1.296
F-Critical (df for denominator n-β-1 = 66-13-1 = 52) and (df for numerator =β =10 and confidence level of 99% is 2.730 and confidence level of 95% is 2.040
** and ** denote significance at the 0.05 and 0.01 levels.*

Part two of Table (5) reports estimates of regression of ROA on firm’s audit committee characteristics: Model (2) estimates a regression of ROA on firm’s audit committee characteristics (audit committee size, financial experience of members, audit committee independence), and this regression controls for company size, financial leverage and sub-sectors. The regression shows that firm’s audit committee structure has no impact on firm’s ROA. Model 3 estimates a regression of earnings per share (EPS) on the audit committee characteristics. The regression results show that there is statistically significant correlation between (EPS) and audit committee characteristics: audit committee size and financial experience, exception the variable of audit committee independence.

Conclusion

The audit committee is one of the corporate governance tools that consist of a group of persons selected from members of the board of directors who are responsible for retaining independence of the auditor, increasing the auditing quality and questioning of board of directors. The main objective of this study is to determine the relationship between audit committee characteristics (namely: audit committee size, financial experience, and audit committee independence) on performance, which includes financial, operating and stock performance, in the financial sector listed in Amman Stock Exchange Market.

The study discussed such legislations related to audit committees to ensure their application by Jordanian companies and tested the role played by audit committee in improving the performance. The study sample contained 106 corporations from financial sector listed in Amman Stock Exchange Market with a total of 212 observations during the 2008- 2009 sample years.

The study used the multiple regressions of Ordinary Least Squares (OLS) to examine three models; the first model examined the relationship between the independent variables of audit committee characteristics and the dependent variable of financial performance measured by the return on equity; the second model examined the relationship between the independent variables of audit committee characteristics and the dependent variable of operating performance measured by the return on assets, and the third model examined the relationship between the independent variables of audit committee characteristics and the dependent variable of stock performance measured by the earnings per share.

This study was limited to only one sector of the economy, the financial sector during the 2008- 2009, so the result of this study may not apply to other sectors. Future research might attempt to examine whether other monitoring mechanisms can be used to test the relation between audit committee characteristics and financial performance.

The study concluded that there was positive relation with statistically significant between audit committee characteristics and financial performance in the financial sector listed in the Amman Stock Exchange Market, there was no relation between audit committee characteristics and operational performance in the financial sector listed in Amman Stock Exchange Market, and there was positive relation with statistically significant between audit committee characteristics and stock performance in the financial sector listed in Amman Stock Exchange Market.

Finally the study recommended the importance of the characteristics that could be required in the members of the audit committee and strengthening their independence with the need to determine the maximum percentage of ownership shares to members of the audit committee, with an increasing number of financial experts of the committee in view of their positive impact in raising the quality of financial performance.

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