

## **The Effect of Audit Committees on the Performance of Firms Listed on the Ghana Stock Exchange**

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**Abstract:** *The role of audit committees in ensuring the quality of corporate financial reporting has come under considerable scrutiny by both the academia and corporate governance regulatory bodies. The study discusses the impact of audit committee on the performance of public traded stocks on the Ghana Stock exchange since this is crucial in protecting the interest of shareholders. The purpose of this paper is to examine the association between the characteristics of audit committees and performance of firms. Data were collected from a sample size of 36 trading stocks on the Ghana Stock Exchange for the financial year of 2015. The number of meetings and financial experts among other characteristics were the predictors of the performance of the traded stock on the Ghana Stock Exchange (GSE). To test the hypothesis for the study, Logit cross-sectional regression using SPSS 17.0 version was utilized. This study revealed a relationship between the characteristics of the audit committees and the performance of the firms. Meanwhile, the number of independent members on the audit committee had no influence on the performance of the firms. However, the number of independent members of the audit committee with finance or accounting degrees impacted negatively on the firm's performance. The study made the recommendation that the corporate governance discussions should be re-focused from independence to more experienced and financial literate members on the Audit Committees and also a relatively longer tenure should be accorded the chairman of the Audit Committee of firms to enhance firm performance.*

**Keywords:** *Audit Committee, Corporate Governance, Ghana Stock Exchange.*

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### **I. Introduction**

Prior to 1500 AD, nearly all accounting was concerned with accounting for the activities of government and the only form of auditing was the keeping of separate records by two different scribes. The objective of maintaining such records was primarily to detect fraud (e.g. to prevent defalcations within the treasuries), to minimize the erroneous recording of transactions, and to ensure the honesty of those responsible for the custody of resources. Internal controls were non-existent, although during the period 1500-1850, there was recognition that standardized systems of accounting could reduce the possibility of fraud (Coase, 1961). From 1905-1930, there was an independent progression of British and American audit objectives. In the USA, the audit objective gradually changed during this period from the detection of fraud to reporting on the 'actual' financial condition of an entity. In addition, there was considerable use of testing. In Great Britain, however, the primary objective continued to be the detection of fraud and error while the prominence of detailed checking (as opposed to testing) remained a key activity.

In recent years instances of fraudulent financial reporting have increased with such frequency and in such dramatic ways that stakeholders at all levels have been astounded. It was more than a decade ago when an increasing number of stakeholders began to suggest that instances of fraudulent financial reporting could be decreased by improving the effectiveness of audit committees (NCFRR, 1987). A common thread that runs through suggestions from these different sources is that audit committees need to assume greater responsibility with respect to corporate governance by overseeing financial reporting and internal control matters. Over the past decade, the role of audit committees has become increasingly relevant, as high-profile corporate scandals such as Enron and WorldCom have intensified corporate governance requirements and expectations. The perceived need for more audit committees (and for those audit committees to be more effective) has been galvanized through a combination of legislation and/or supported "best practice" guidelines. Evidence has shown a significant rise and harmonization in the use of audit committees internationally, including the European Commission's requirement that all public-interest entities in the European Union have an audit committee (Collier & Gregory, 1996). Likewise, in the USA, the Sarbanes-Oxley Act (2002) was enacted, which requires, among other things, that companies use audit committees and disclose the composition of their audit committees in their annual reports. The aim of an audit committee is to improve organizational governance, regardless of whether the organization is in the private or the public sector. As a subcommittee of the governing body, an audit committee aims to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve an advisory function aimed at performance improvement within the organization. This work therefore, seeks to add to existing

knowledge on the effect of committee characteristics on performance of firms listed on the Ghana stock exchange.

### **1.1 Research Objective**

The main objective of this study is to assess how audit committee characteristics affect organizational performance.

### **1.2 Research Hypothesis**

H<sub>0</sub>: Audit committee characteristics do not have any influence on firm performance.

H<sub>1</sub>: Audit committee characteristics have an influence on firm performance.

## **II. Review of Relevant Literature**

### **2.1 Corporate Governance**

There is not a universally accepted definition of corporate governance. Defined broadly, corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices, which in market economy, govern the relationship between corporate managers and entrepreneurs (corporate insiders) on one hand and those who invest resources in corporations on the other hand. Cadbury (1992) define corporate governance as the whole system of controls, both financial and otherwise, by which a company is directed and controlled". While the OECD (1998): also define corporate governance as a set of relationships between a company's board, its shareholders and other stakeholders. According to the OECD, it also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.

### **2.2 Audit Committee**

The Sarbanes-Oxley Act (SOX 2002, section 2) defines an audit committee as "a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer". A competent, committed, independent, and tough-minded audit committee has been described as "one of the most reliable guardians of the public interest" (Levitt, 2000).

### **2.3 Composition of an Audit Committee**

Composition of an audit committee refers to the ratio of non-executive and executive directors. Audit committees with a higher composition of non-executive directors are considered more independent than those with more executive directors. There is evidence that executive directors would dominate the decision-making process of the company's top management, resulting in less objective decisions. For instance, Shivdasami (1993) and Yermack (1996) find that executive directors reveal only a limited amount of information to non-executive directors in order to prevent stakeholders from getting all the information. The domination of executive directors results in weak control mechanisms within the management structure. The presence of non-executive directors as the majority members of the audit committee would, therefore, enhance the independence of the committee. Studies show that non-executive directors are able to provide independent opinions to the top management for consideration because of their potential to act more independently than executive directors (Vinten & Lee, 1993).

Non-executive directors are able to play positive roles in corporate governance (Beasley, 1996). Vicknair, Hickman and Carnes (1993) find significant changes in the membership of audit committees from 1980 to 1987 in terms of an increasing ratio of non-executive director membership of audit committees. The change reflects the importance of independence of the audit committee in order to ensure the effectiveness and objectivity in top management strategic decision making. Porter and Gendall (1993) observe that an audit committee should comprise not less than three members with the majority of non-executive directors. A large composition of non-executive directors in an audit committee would optimize the reputation of an audit committee as a good monitor (Porter & Gendall, 1993). Non-executive directors can be seen to be more objective and more able to offer criticism in relation to policies undertaken by management. As a result, the non-executive directors would reduce the probability of financial statement manipulation (McMullen & Raghunandan, 1996).

### **2.4 The Qualifications of Audit Committee Members**

The responsibilities of audit committees include the assessment and evaluation of the corporate ethical environment, financial information, regulatory compliance, and internal control and information systems. Obviously, audit committee members should have the requisite qualifications and expertise to discharge these responsibilities. Consequently, audit committee members without accounting or finance knowledge may not be qualified to be audit committee members. BRC (1999) recommends that at least one member should have accounting or related financial management expertise. Expertise is defined as "past employment experience in

finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a CEO or other senior officer with financial oversight responsibilities" (BRC, 1999). Pomeranz (1997) cited that 35 per cent of audit committees did not include an accountant, while a third of audit committees lacked a lawyer. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, passed by the US Congress in response to the then savings and loan scandals, requires that audit committees in banking institutions should have at least 2 members with banking or related financial management expertise and have access to outside legal counsel (McMullen, 1996).

### **III. Methodology**

#### **3.1 Research Design**

The study involved both primary and secondary sources of data for the completion of the research. The study was a Cross-sectional study using data from 36 listed firms in the year 2015. A cross-sectional approach was used because with the exception of the stock prices, almost all the other variables remained the same across years, thus, for instance, the number of audit committee members for a firm may not change across the years thereby limiting this study to consider a panel or any other approach.

#### **3.2 Sampling Technique**

The sampling frame included all firms listed on the Ghana Stock Exchange as at the 2015 financial year, with the balance sheet date of December 31<sup>st</sup>. The stock price and financial data were obtained from the firms and the GSE fact books. All corporate governance data was obtained manually from annual reports as the companies are required to include a corporate governance report in their annual report. The other parts of the data that are not available in the reports are obtained through self-administered questionnaire. The target population for the questionnaire data gathering was the CEOs and Audit Committee chairpersons.

#### **3.3 Sample Selection and Procedure**

The sample for this study consisted of 36 listed stocks on the Ghana Stock Exchange. The fiscal year 2015 was the focus of this research because it is the most current financial year prior to the study. The sampling method adopted in this study is purposive sampling. The researchers chose this method purely based on the desired stated objectives of the study. The study is related to firms with specific uniqueness and thereby such firms would be sampled not by chance but by purpose. This was done by considering all the listed firms. The firms that did not have data on the variables used in this study were dropped.

#### **3.4 Sources of Data**

The study made use of both qualitative and quantitative data collection techniques since that affords the opportunity to use a bit of interview and a well structured questionnaire. Based on the nature of this research, it depended on both secondary and primary data. The secondary data was extensively drawn from various published reports. The questionnaire formed for this purpose was focused on capturing the responses for the information necessary for this study that are not financially reported. The research was partly grounded on primary data collection during the administration of the questionnaire and a greater amount of face-to-face interviews with respondents at some selected firms. The secondary data used in this thesis is chiefly the Audit committee reports, company annual financial reports and the Ghana Stock Exchange Fact Book.

#### **3.5 Study Variables**

##### **3.5.1 Firm Performance**

This study focused on which audit committee's characteristics (if any) drive firm performance (dependent variable). Specifically, whether in the period under study, Audit Committee quality affects firm performance consistent with prior researches (Bhagat & Bolton, 2008; Brown & Caylor, 2009). The selection of firm performance on the sample had been made first to maintain the maximum difference of firm performance and therefore easier to show the differences in characteristics. Firms in the financial industries were included though they have debt structure and unique accounting practices that make comparisons with other industries difficult (Klein, 2002) since the research does seek to compare different sectors. The performance of a firm is represented in study by the performance of its stock. The difference between the previous and current stock prices gives the performance of the stock.

*FIRM PERFORMANCE (FP) = CHANGE IN STOCK PRICE*

$FP_t = P_t - P_{t-1}$  where  $P$  is the price of stock

$P_t$  is the price at time  $t$  (year 2015) and  $P_{t-1}$  is the price at time  $t - 1$  (year 2014)

The difference of the stock prices is arranged from the least to the highest. They were grouped into two (top and bottom performers). The top performance among the sample of performances is attributed as the upper

quartile or the seventy-fifth percentile of the firm performance measure and bottom performers as those below the upper quartile. The dependent variable FP was then coded as 1 for the top performers and 0 otherwise (1= firms above the upper quartile, and 0= firms below the upper quartile).

### 3.5.2 Audit Committee Characteristics

The independent variables of this study are the characteristics of the audit committee and are expressed below:

**Table 1: Independent Variables**

VARIABLE	DEFINITION
NOM	The number of members on AC.
NOIM	The number of independent members on AC
AGE	The number years the firm has been operating.
NMT	The number of meetings of AC in one year.
CHOA	1=Chairman on AC, 0=Otherwise.
COA	1=CEO on AC, 0=Otherwise
BLK	1=Block holder on AC, 0=Otherwise
CHI	1=Chairman Independent; 0=Otherwise
NED	The Number of AC members with external directorships.
NOP	The number of AC members with finance or accountant degree.
NOPI	The number of AC independent members with a finance or accountant degree
DPAC	The number of directorships compared to the number of AC members
CHP	1=Chairman of AC holds a finance or accountant degree, 0=Otherwise.
CHEP	1=Chairman of AC is experienced, 0=Otherwise.
CHNYE	AC Chairman Number of years of experience working as manager or for Boards/committees.
FS	The log of the book value of Total Assets of sample year.

Source: Authors' construct

As usual, this study draws heavily on the large body of prior works to define the measures for each of the 16 variables defined in Table 1 to represent the characteristics of the audit committees. Each of the variables that were not binary were reduced to a binary form by assigning 1 where the variable score is greater than or equal to the median for all companies and 0 otherwise. The researchers tested if each variable impacted on performance and also conducted robustness tests with an index of audit committee governance reduced through principal components dimensions.

### 3.6 Control Variables

The control variables used in this study are related to firm size, and age. Kinney and McDaniel (1989) find that larger firms tend to have better internal controls, better information systems, more resources for hiring fully qualified personnel, and therefore increased reporting quality. Increased reporting quality in turn leads to an improvement of firm performance (Wild, 1996). The firm size is measured as the logarithm of the book value of total assets (Klein, 2002; Sharma, Naiker & Lee, 2009; Bronson, Carcello, Hollingsworth & Neal, 2009) and age was also measured as the number of years a firm has been operating.

### 3.7 Model Specification

The following Logit-regression model is used to test the hypothesized relation between Audit Committee characteristics and the dichotomous firm performance variable FP. We test whether each of the Audit Committee characteristics and the controls are significantly different from zero in a two tailed t-test.

$$FP_i = \beta_0 + \beta_1NOM_i + \beta_2NOIM_i + \beta_3NGM_i + \beta_4NMT_i + \beta_5CHOA_i + \beta_6COA_i + \beta_7BLK_i + \beta_8CHI_i + \beta_9NED_i + \beta_{10}NOP_i + \beta_{11}NOPI_i + \beta_{12}DPAC_i + \beta_{13}CHP_i + \beta_{14}CHEP_i + \beta_{15}CHNYE_i + \beta_{16}FS_i + \varepsilon_i$$

The variables are defined in Table 1 above where the *i* indicated a cross-sectional study at time *i* (2015) and the  $\beta_i$ 's are the coefficients of the independent variables as well as the constant with the error termed as  $\varepsilon_i$ .

### 3.8 Data Analysis

The study first compared the performing firms to the non-performing firms by comparing the codes. To test the hypothesis, the logit regression was run to ascertain the impact of the Audit Committee characteristics on the performance of the firms. The study conducted additional sensitivity and robustness tests. Omitted variables, potentially bias coefficients, and irrelevant variables can result in poor model fit. Likelihood and Wald tests are conducted to test for these problems. Also, further test was conducted to verify whether the individual Audit Committee characteristics explained firm share returns by running a regression on share returns.

Another potential problem is multicollinearity likely to be associated with the Audit Committee characteristics which potentially inflate standard errors and although coefficients are unbiased could impact

hypothesis testing. To address this issue the study conducted additional analyses by running an exploratory factor analysis to reduce the Audit Committee characteristics to key uncorrelated principal components. The researchers re-ran the regression analysis on the reduced independent variable set as additional robustness analysis. For better analysis and presentation of results, the study employed the use of SPSS and the Microsoft Excel software in this study.

#### IV. Results and Discussions

##### 4.1 Descriptive Statistics and Univariate Analysis

Table 2 shows the descriptive statistics of all the considerable variables under study in this research. A summary of the firm performance and the Audit Committee characteristics of the sample are reported in Table 2.

**Table 2.** Descriptive Statistics

Good Performance			Poor Performance		
Variable	Mean	Std. Deviation	Variable	Mean	Std. Deviation
NOM	1.00	.000	NOM	1.00	.000
NOIM	.53	.513	NOIM	.41	.507
NMT	.68	.478	NMT	.82	.393
CHOA	.16	.375	CHOA	.18	.393
COA	1.00	.000	COA	1.00	.000
CHI	.00	.000	CHI	.00	.000
NED	.68	.478	NED	.47	.514
NOP	1.00	.000	NOP	1.00	.000
NOPI	.47	.513	NOPI	.29	.470
DPAC	.63	.496	DPAC	.65	.493
CHP	.68	.478	CHP	.71	.470
CHEP	.79	.419	CHEP	.47	.514
FS	.47	.513	FS	.53	.514
Age	.47	.513	Age	.59	.507
CHNYE	.53	.513	CHNYE	.65	.493

Source: Authors' construct

There were 19 poor performers and 17 good performing firms. Four variables, COA, CHI, NOM and NOP, all had zero variance. Thus, all of the firms had the CEO on the Audit Committee which was not a very good signal for the Audit Committee independence. In addition the Audit Committee Chair for all firms were not independent; all the committees had four or more members on them and at least two members of the Audit Committee had finance or accounting education. Since these four variables do not differentiate the two groups, they were dropped from the Logit-Regression model.

Comparing the two different firms, it was observed that both performance groups had similar mean levels for most of the variables. However, on the surface, the good performing group had fewer meetings, more independent members, a greater chairman experience, more external directorships, more independent professionals, lower firm size and age. The poor performing groups of firms do have on average more meetings than better performing firms. It is also more likely to find a Chair of the board of directors on a poor performing firms' Audit Committee. The percentage of Chair of Board of directors on Audit Committee is approximately 53.3% for the poor performers group and 46.7% for the good performers. The descriptive statistics indicates that firms are complying with most of the Corporate Governance recommendations which recommends at least four members on Audit Committee, at least four meetings per year, majority of members are independent, an independent chairman, who is not the chairman of the board, consists of only non-executive members and at least one member is a financial expert.

##### 4.2 Test of Hypotheses

A logit regression estimated to test whether the Audit Committee characteristics had any impact on the performance of the firms by considering the performance of shares prices on the Ghana Stock Exchange and that which Audit Committee characteristics impact firm performance. Table 3 reports the results from this analysis.

**Table 3:** Results from the Logit Regression

Variables	Beta	S.E.	Wald	Sig.	Exp(B)
Constant	0.702	2.461	0.081	0.775	2.018
NOIM	-0.757	1.301	0.339	0.560	0.469
NMT	1.347	1.296	1.081	0.298	3.847
CHOA	0.687	1.498	0.210	0.647	1.987
NED	-4.945	2.668	3.436	0.064*	0.007
NOPI	-4.093	2.193	3.484	0.062*	0.017
DPAC	0.006	1.403	0.000	0.997	1.006

CHP	2.035	1.604	1.609	0.205	7.652
CHEP	-2.917	1.392	4.393	0.036**	0.054
FS	2.378	1.443	2.714	0.099*	10.778
Age	0.705	1.234	0.327	0.568	2.024
CHNYE	2.786	1.520	3.359	0.067*	16.220

(\*\* and \* Significant at the 0.05, and 0.10 levels significance (two-tailed test) respectively, COA, CHI, NOM and NOP characteristics were excluded due to no variance).

Source: Authors' construct

The chi-square test of model coefficient was significant at the 5% level of significance with p- value of 0.004 and indicates that the model as a whole (i.e. all the slopes coefficients as a group) were significantly different from zero. Therefore, the overall model was valid and the variables do influence firm performance. The reported two-tailed Wald test (table 3) examined if the independent variable's estimated parameter was statistically different from zero.

A good performing firm has a high probability to have negative relationship with the number of independent members with finance or accounting degrees (NOPI) on the Audit Committee (significant at 10% level), the chairman experience in auditing (CHEP) also negatively impacts the performance (significant at 5% level) and level of external directorships (significant at 10% level). However, if the Audit Committee chairperson had more years on management and boards then it is likely to have a positive impact on performance. Of the control variables only Firm size (FS) was significantly related to performance with bigger size positively impacting performance.

The interpretation of the valid coefficients is different than with a normal regression as the Logit model is a probability regression. Therefore the coefficient of the Logit model shows a probability log odd ratio of the likelihood of the independent variable that is related to the dependent variable, in this case firm performance. Holding all other variables constant, the model predicts the log odd for firm performance would drop by 0.757 for every one unit change in the number of Audit Committee members. The negative coefficient reduces the probability of a good performing firm. That is, the higher the number of Audit Committee members, the less likely a firm performs better. This result is quit not in line with the traditional wisdom and regulatory thrust in recent periods since those Audit Committee members with vested interests are likely to help performance improve in the financial year. The negative coefficient for the NED suggests that performance of a firm is likely to drop by 4.945 for each unit change in the number of Audit Committees members with external directorships. It therefore appears that having more Audit Committee members spread across more firms is likely to reduce performance.

Finally, the negative coefficient on CHEP, which is the incumbents Audit Committee chairperson's tenure in management and board, suggest that tenure has a high chance to negatively impact the performance of the firms during the financial year. As expected, firm size was positively related to performance with the poor performers having smaller size.

**Table 4: Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	29.379	0.433	0.578

Source: Authors' construct

The pseudo R-square (Nagelkerke R<sup>2</sup>) from the model was reported to be 0.578. This means that, per the model in this study, the audit committee characteristics are able to explain the variability in a firm's performance by approximately 57.8%. Considering the chi-square test results stated earlier, it can be inferred from these results that overall, the characteristics of the audit committees of the firms listed on the Ghana stock exchange are likely to impact on the performance of such stock on the market.

### 4.3 Robustness Tests

A classification (prediction) evaluation test was also performed to assess the logit model's goodness of fit. The percentage of correct prediction statistic assumes the event is expected to occur, when the estimated probability is greater than or equal to 0.5 (the cut off value).

**Table 5: Classification Table**

Observed		Predicted		Percentage Correct
		FP		
FP	POOR PERFORMANCE	17	2	89.5
	GOOD PERFORMANCE	4	13	76.5
Overall Percentage				83.3

Source: Authors' construct

Table 5 presents the results for the prediction evaluation test and shows that the estimated model predicts 89.5% of the bad performing and 76.5.5% of the good performing firms correct. Overall, the estimated model correctly predicts 83.3% of the total observations. This adds to the goodness of fit of the model.

## **V. Discussions**

Regulations and listing rules have focused much on the Audit Committee (Owens-Jackson, 2009; Bronson et al., 2009). Several characteristics of the Audit Committees have been identified in the corporate governance and audit committee literature. These attributes were expected to influence firm performance directly or indirectly. The Audit Committee itself is expected to contribute to the quality of financial reporting and risk evaluation/monitoring and thus leads to firm performance. Prior empirical evidence found a direct relationship between the quality of financial reports and the appreciation of shareholders as measured by the share price (Wild 1994; Wild 1996). Consistent with prior research, this study has employed a Logit model to identify the differing characteristics between two groups of performers (Beasley, 1996; Abbott et al., 2004). In this case, firm performance is the dependent variable and the attributes the independent variables. A dummy variable for firm performance was created where the top performers (25 % of the sample) were assigned a one, and a zero for those in the bottom quartile of performance. Two control variables moderated the analysis. The literature identify that firm size (measured as the log of the book value of total assets), and age were necessary to be included. This study has shown that the characteristics of the audit committee influence the performance of the firms. The benefit of having independent directors on audit committees has been the subject of debate due to conflicting results in the empirical evidence available in the USA. Abbott and Parker (2002) find that firms with audit committees which consist entirely of outside directors are less likely to be sanctioned by the Securities and Exchanges Commission. From this study, the number of independent members on the audit committee had no influence on the performance of the firm however, the number of independent members of the audit committee with finance or accounting degrees impacted negatively on the firm performance.

The study also confirms Yang and Krishnan (2005) that outside directorships by audit committee members are associated with lower levels of performance. This somehow is in consistent with Beasley (1996) who documented that the instance of fraud increases when outside directors hold more than two directorships in other firms. Audit committee members with financial reporting knowledge are more likely to understand auditor judgments and to support the auditors in conflict situations with management (Dezort & Salterio, 2001). But this study revealed that it does not impact on the firms' performance. This is in line with the studies of Lin et al. (2006). The results from this study suggest that the size of the audit committee matters not to the performance of the firm. It shows consistency with Bedard et al. (2004) who found no relation between audit committee size and performance. Further, Abbott et al. (2004) find no evidence of an association between audit committee size and earnings restatement. With the issue of meeting frequency, our findings are contrary to Vafeas (2005) which indicated a negative relation between the number of audit committee meetings and earnings management. The results indicate that only some of the Audit Committee characteristics are associated with firm performance. The number independent members of the Audit Committee members with Accounting/ Finance background, chair experience, and number of external directorship negatively impact firm performance. However, with a longer tenure of the Chairman of the Audit Committee and larger firm size, they impact positively on performance.

## **VI. Conclusion**

This study has shown that the characteristics of the audit committee impact on the performance of the firms. Some of the literature showed that, having an independent audit committee with a majority of independent directors, Audit Committees and at least one of those members having accounting expertise, is shown to be associated with a reduced level of conservative (income-decreasing) earnings management. The frequency of audit committee meetings is associated with a reduced level of aggressive (income-increasing) earnings management. From this study, the number of independent members on the audit committee had no influence on the performance of the firm however, the number of independent members of the audit committee with finance or accounting degrees impacted negatively on the firm performance. Also, outside directorships by audit committee members are associated with lower levels of performance.

These findings therefore add to the robustness of the studies regarding the relationship between audit committee characteristics and the performance of the firms. The results highlighted the importance of the role played by the audit committee in the performance of the firms which have been the focus of prior studies. In this regard, the results provided support for the validity of the stated hypothesis. Meanwhile, the results indicated that some of the Audit Committee characteristics were associated with firm performance. The number of independent Audit Committee members with Accounting/Finance background, chair experience, and number of external directorship negatively impacted firm performance. However, a longer tenure of the Chairman of the Audit Committee and larger firm size impacted positively on performance.

## VII. Recommendations

Results demonstrate clearly that Audit Committee characteristics have a positive impact on firm performance. The significant results should help to re-focus the corporate governance discussions from independence to more experienced and financial literate members on the Audit Committees.

A longer tenure of the chairman of the Audit Committee impacted positively on performance of the firm; hence it is recommended that a relatively longer tenure should be accorded the chairman of the Audit Committee of firms to enhance firm performance.

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