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AUDIT COMMITTEE CHARACTERISTICS AND PERFORMANCE: A CROSS-COUNTRY COMPARISON OF ISLAMIC AND CONVENTIONAL BANKS

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Abstract: This study examined the relationship between audit committee characteristics and bank's financial, operational and market performance. The study used a pooled data of Banks listed on the Gulf Cooperation Council Stock Exchange during the period from 2012 to 2016. The study independent variable is audit committee characteristics. Also the study utilized bank specific and macroeconomic control variables in order to help measuring the relationship between audit committee characteristics and bank's Performance. Multiple regression approach was incorporated under Fixed-effect method. The findings showed that the Audit committee member's financial expertise has negatively influenced the ROA and ROE of Islamic and conventional banks. Moreover, the size of audit committee and the AC member's independency in Islamic banks has positive significant impact on TQ models and the audit committee meeting is significantly affecting the ROA and ROE model. However, in conventional banks the independency of audit committee and the audit committee meetings have positive significant impact on ROA, ROE and TQ models.

Keywords: Audit committee, Performance, Cross-Country Analysis, Islamic Bank

1. INTRODUCTION

Corporate Governance is a significant issue that affect the accountability and transparency in banking sector. Banks are considered globally as the best economic system due to its effect on the development and economic growth. Thus, the adoption of good practices of corporate governance is very crucial to ensure the financial justice and guarantee the stakeholders rights.

In recent years, the focus on corporate governance has increased due to the increased in number of bankruptcies caused by fraud or errors in financial accounting, the reason behind those cases was the absence of corporate governance regulations in the organizations; this resulted in the implementation of different accounting practices, increased in personal interest and biased reporting.

Corporate governance plays a significant role to design and promote the banking system. However, it is noted that there is few literature on the Islamic perspective of corporate governance. Hasan (2009) indicated that any Islamic banks need to have a governance model and proper strategies that promote the adoption of corporate governance within the Islamic banks.

The Islamic Banking sector is still in the development stage. However, the Islamic banks attracted the researcher to deeply understand the difference between conventional and Islamic banking system, especially after the Global financial crisis 2007 -2008 and its consequences.

The Corporate Governance principles among countries are not the same; that is because of the differences in the social environment, political environment and economies; it is not possible to have an identical definition because of different perspectives. Thus, it's interesting to study the variation among the countries.

Since the implementation of corporate governance is still in its early stages in gulf countries and emerging

market, significant empirical research has not yet adequately adopted. Therefore, this study provides an empirical research that discusses the relation between audit committee characteristics and bank's performance while considering the variation among banking system and countries.

This study investigates the capability of audit committee characteristics to better support and improves bank's performance. Corporate governance and performance assumed significant for all stakeholders; hence, factors affecting the relationship between corporate governance bank's performances need to be highlight. This study contributes to literature in many ways. First, it provides empirical evidence on the relationship between audit committee characteristics and bank' performance and shows whether the variation in banking system is affecting the performance, which not sufficiently examined in relation to this topic earlier. Second, the study results can be generalized to other Islamic countries or the research approaches might be exported to other emerging countries. Third, the study results will be helpful to banks' stakeholders, investors, decision maker, regulators, policy makers and scholars to improve their awareness of audit committee characteristics across the banking systems and the level of corporate governance in such countries. Finally, it will be useful for Banks to place their priorities and financial plans for effective and efficient use of corporate governance.

The study is divided into the following sections: First section being introduction, further part of this study is divided into five sections. Section 2 discusses literature review and developing hypotheses. Section 3 presents the design and research methodology. Section 4 shows the descriptive statistics. Section 5 presents empirical analysis results. Section 6 presents the study's conclusion, recommendations and the scope for further research.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Definition of Corporate Governance

Due to the increased in the restrictions on corporate governance system, the definition of corporate governance became more complicated (Chiang, 2005). In 2001, the OECD has defined the corporate governance as: "the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, on the other" (OECD, 2001). Later, the OECD defined the framework of corporate governance as follows: "The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets." (OECD, 2004).

After that, many researchers attempt to define the corporate governance from their perspectives; Clarke's (2004) has defined corporate governance as "balancing complex interests in the pursuit of value creation for the benefit of a wide constituency". Rezaee (2008) defined corporate governance as "a process through which shareholders induce management to act in their interest, providing a degree of confidence that is necessary for capital markets to function effectively". Recently, Akinkoye and Olasanmi (2014) define the corporate governance as guideline, practices, customs and regulations that decide how a corporation should operate.

2.2. The Significance of Audit Committee

Corporate governance has generated many changes in both the business environment and in particular in the accounting and auditing professions. In the past few years, interest and focus upon the role of audit committees as they act as tools within corporate governance; audit committees' aims towards increasing questioning of the board of management and to intensify the role of audit independence (Hamdan & Mushtaha, 2011).

During recent year, the interest in the role of audit committees expanded in terms of their role in preparing financial statements. Pucheta & Fuentes (2007) found that an audit committee is more dynamic in reviewing financial statements and decreasing differences between managers and external auditors. This lessens the likelihood of a company having qualified opinions from

the external auditor resulting from accounting errors and non-commitment to accounting standards.

Audit committees play a crucial role in the practices of corporate governance. Audit committees have the role of monitoring internal control system through associations with internal auditors, as external reporting and compliance is completed by external auditors. Amongst all aspects of relationships between internal auditors, external auditors, and the board of directors, audit committees have a crucial role (Saibaba & Ansari, 2011).

2.2. Audit committee characteristics

Past literature on audit committees has stated that the effectiveness of an audit committee depends on its characteristics (Akhtaruddin & Haron, 2010; Dhaliwal *et al*., 2010; Li *et al*., 2012). Therefore, a reliable mixture of experience, expertise, and capabilities are crucial in supporting an audit committee's ability to efficiently carry out its responsibilities (Madi *et al*.,2014).

Baxter and Cotter (2009) stated that an audit committee's independence is a key characteristic that influences a committee's competence and effectiveness in the process of managing financial statements. Also, audit committee's independence is greatly related to the measurement of earnings quality. Independent Audit committee (AC) is expected to play a key role in financial reporting, auditing, and corporate governance; independent directors put an effort in enhancing the processes conducted by board members and even bring in specialists to make use of their expertise and knowledge, to provide continuity, and to assist in recognizing alliances and acquisitions; those directors help sustain a morally ethical climate within the organization (Kantudu & Samaila, 2015).

The efficiency of an audit committee is enhanced by financial expertise of committee members; this is a key characteristic that ensures effective operation (Baxter & Cotter, 2009). Lisic *et al*. (2011) suggest that when there is a financial expert on the audit committee then that does not mean that there is more effective monitoring. Rather, monitoring effectiveness of audit committee financial expertise depends on the authority of top management. Thorough financial expertise allows audit committee members to categorize and debate questions that challenge managers and external auditors to a bigger scope of financial reporting quality (Bédard & Gendron, 2010). In response, this will improve the clearness and reliability of corporate reporting and therefore lessen issues that are related to the flow of information. Study conducted by Kent *et al*. (2010) found a positive relation between an audit committee's financial expertise and the quality of financial reporting. Baxter and Cotter (2009) stated that the level, activities, and responsibilities of an audit committee are crucial in terms of improving the reliability in enhancing earnings quality.

Also, the size of any given audit committee has positive effect on earnings quality. The bigger an audit committee is the more effective it is due to the fact that they comprise of members with diverse knowledge and expertise in order to perform more reliable monitoring of financial practices (Hamdan *et al*., 2013). Thoopsamut and Jaikengkit (2009) found that the audit firm size is not significantly related to earnings management. In their previous work, Allegrini & Greco (2011) stated the fact that the resource dependency theory argues that a large audit committee is more eager to dedicate resources and authority to effectively carry out responsibilities. The more directors there are on an audit committee, the more diversity and expertise and capabilities there are that would guarantee operative monitoring (Bédard & Gendron, 2010). Therefore, a large number of audit committee members are more likely to aid a committee to expose and solve issues and dilemmas in corporate reporting processes (Li *et al*., 2012). This means that size is an integral factor for an audit committee to oversee corporate disclosure practices (Persons, 2009). Persons found evidence that numerous directors on audit committees tend to improve the level of voluntary disclosures.

DeZoort *et al*. (2002) define the frequency of meetings as an evaluation of an auditor committee's due diligence. The frequency of meetings is a core element in the reliability and efficiency of a company's activities and processes, although there were few studies that acknowledged the connection between the performance of the company and the number of meetings (Ioana and Mariana, 2014). The frequency of meetings is an

important characteristic of auditor committees. Board members that regularly meet are more likely to accomplish their work and responsibilities attentively and successfully. Thorough boards would more effectively improve the level of oversight of the process of financial reporting both directly and indirectly through choices of external auditors and the audit committee (Yatim *et al*., 2006). Raghunandan and Rama (2007) and Sharma *et al*. (2009) found that the frequency of audit committee meetings is positively associated with growth and profitability. Also, Abbott *et al*. (2000) found that the increasing frequency of meetings is related to better quality of financial statements.

Aforementioned above, There are a lot of researches that examined the impact of Audit committee characteristics on performance. However, to the best of our knowledge there are few studies measuring the relationship between audit committee characteristics and banks performance considering the variation among bank system and the differences among countries. Therefore, this study aims empirically to determine whether the Audit committee characteristics affect the bank's performance in Conventional and Islamic banks and compare them. Hence, the Hypothesis was developed as follows:

H_1: Conventional Banks with better audit committee characteristics have higher Performance.

H_{1a}: Conventional Banks with better audit committee characteristics have higher Return on Assets.

H_{1b}: Conventional Banks with better audit committee characteristics have higher Return on Equity.

H_{1c}: Conventional Banks with better audit committee characteristics have higher Tobin's Q.

H_2: Islamic Banks with better audit committee characteristics have higher Performance.

H_{2a}: Islamic Banks with better audit committee characteristics have higher Return on Assets.

H_{2b}: Islamic Banks with better audit committee characteristics have higher Return on Equity.

H_{2c}: Islamic Banks with better audit committee characteristics have higher Tobin's Q.

3. RESEARCH METHODOLOGY AND DESCRIPTIVE

3.1. Study population, sample and resources of data

The study sample consisted of all Banks listed on GCC Stock Exchange during the period from 2012–2016. The sample was selected on the basis of the following main conditions; availability of all necessary data; never been merged or delisted through the study period and their shares must have been publicly traded. This selection approach resulted in a sample of 59 listed Banks out of 295 observations. (See Table 1).

3.2. The Study Methodology

The study used the audit committee characteristic to measure the relationship between audit committee and

Table 1
Sample Selection

Country	*No. of Banks*			*No. of Obs.*		
	Islamic	*Conv.*	*Total*	*Islamic*	*Conv.*	*Total*
Bahrain	5	2	7	25	10	35
Kuwait	4	5	9	20	25	45
Oman	2	6	8	10	30	40
Qatar	4	5	9	20	25	45
Saudi	4	8	12	20	40	60
UAE	2	12	14	10	60	70
GCC	21	38	59	105	190	295

Bank's performance. More interestingly, the study compared the Islamic and conventional Banks across the countries. In addition to other two macroeconomic control variables to control the differences among countries. Moreover, to reach accurate results and to avoid different measurement problems on the relationship between audit committee and performance, we used the Panel Regression Model based on the Fixed-Effect method (FE).

3.3. The Study Variables

The study independent variable (audit committee characterises) has been measured using the Audit Committee members' financial expertise, Audit Committee size, Independency of Audit committee and Audit Committee frequency of meetings (Hamdan *et al.*, 2013).

The study also used Bank's financial performance measured using return on assets (ROA) and return on equity (ROE) as a dependent variable. These three performance indicators were used as dependent variables in different regression models.

Finally, two type control variables utilized in this study; macroeconomic variables: Gross Domestic Product (GDP) and Governance (GOV). And Bank specific control variables: Bank Age (Bag), Bank size (Bsz) and Audit Quality (ADT).

3.4. Study Model

In order to measure the relationship between audit committee and bank's performance; the study estimates the linear Model as follows:

$$Perf_{it} = \beta_0 + \beta_1 ACFE_{it} + \beta_2 ACSZ_{it} + \beta_3 ACIND_{it} + \beta_4 ACM_{it} + \beta_5 PGOV_{it} + \beta_6 GDP_{it} + \beta_7 BSZ_{it} + \beta_8 BAG_{it} + \beta_9 ADT_{it} + \varepsilon_{it}$$

Where: Perf: is a continuous variable; the dependent variable is the banks' performance measured by three models (ROA model, ROE model and Tobin's Q model). ROA is the ratio of net income divided by total assets of Bank (i), in the period (t). ROE is the ratio of net income divided by shareholders equity of Bank (i), in the period (t). Tobin's Q is the ratio of current liabilities plus market value of share capital divided by total assets of Bank (i), in the period (t). â0: is the constant and â1-9: is the slope of the independent and control variables. ACFE: is dummy variable, the independent variable, 0 if a member has experience less than 5 years as audit committee member 1 otherwise, for the Bank (i), in the period (t). ACSZ: is dummy variable, the independent variable, 0 if the audit committee members are not between three and seven member and 1 otherwise, for the Bank (i), in the period (t). ACIND: is dummy variable, the independent variable, 0 if the audit committee members are not controlled by greater than 50% independent outside members and 1 otherwise, for the Bank (i), in the period (t). ACM: is dummy variable, the independent variable, 0 if the audit committee meeting less than 5 a year and 1 otherwise, for the Bank (i), in the period (t).PGOV: is a continuous variable, the country specific control variable, is the public governance level of the country, for the country (i), in the period (t). GDP: is a continuous variable, the country specific control variable, is the gross domestic product the country, for the country (i), in the period (t). BSz: is a continuous variable, the bank specific control variable, the number of board of director members in the Bank, for the Bank (i), in the period (t). Bag: is a continuous variable, the bank specific control variable, the number of years since the Bank was established, for the Bank (i), in the period (t). ADT: is a dummy variable, the bank specific control variable is the company's external auditor one of the big four audit firms, for the Bank (i), in the period (t). ε: random error.

3.5. Model Validity

General Linear Model (GLM) was used to test the relationship between audit committee and performance. We, therefore, run several tests to check whether data of this study could meet the conditions of the linearity assumptions.

As presented in Table 2, to secure approximation of data to normal distribution, Shapiro–Wilk parametric test and Kolmogorov–Smirnov non parametric were used. The null-hypothesis of these tests is that the population is normally distributed. Thus, if the p-value is less than the chosen 0.05 then the null hypothesis is rejected and there is evidence that the data are not normal. As is shown Table 2, we noticed that the value for all

Table 2
Model Validity

Variables	*Labels*	*Measurements*	*Normality*	*Collinearity*	*Stationarity*	*Autocorelleation*	*Heteroscedasticity*
			Shapiro-Wilk / Kolmogorov–Smirnov	*VIF test*	*ADF/ Phillips–Perron*	*Durbin Watson test*	*Breusch-Pagan test*
Dependent variables:							
Operational performance	ROA	Net income divided by total assets.	0.222		-4.002***	1.662	0.003
Financial performance	ROE	Net income divided by shareholder's equity.	0.141		-2.011***	2.045	0.034
Market performance	TQ	The (Market value of equity + Book value of short-term liabilities) ÷ Book value of total assets.	0.197		-5.191***	1.905	0.019
Independent variable:							
Audit Committee members' financial expertise	ACFE	0 if a member has experience less than 5 years as audit committee member 1 otherwise	0.202	1.505	-1.994***		
Audit Committee size	ACSZ	0 if the audit committee members are not between three and seven member and 1 otherwise.	0.091	2.204	-2.200***		
Audit Committee independence	ACIND	0 if the audit committee members are not controlled by greater than 50% independent outside members and 1 otherwise.	0.058	2.099	-1.203***		
Audit Committee meetings	ACM	0 if the audit committee meeting less than 5 a year and 1 otherwise.	0.099	1.696	-1.007***		

contd. table 2

Variables	*Labels*	*Measurements*	*Normality*	*Collinearity*	*Stationarity*	*Autocorelleation*	*Heteroscedasticity*
			Shapiro-Wilk / Kolmogorov–Smirnov	*VIF test*	*ADF/ Phillips–Perron*	*Durbin Watson test*	*Breusch-Pagan test*
Control variables:							
Macroeconomic							
Public Governance	PGOV	Governance Effectivness level in the country	0.000	-1.115	3.780***		
Gross Domesstic Product	GDP	total consumer, investment and government spending, plus the value of exports, minus the value of imports	0.240	-6.096	1.0448***		
Bank Specific							
Bank Size	Bsz	The total assets of the Bank	0.088	-1.334	2.051***		
Audit Quality	ADT	The company's external auditor one of the big four audit firms (KPMG, E&Y, PWC, Deloitte)	0.059	-6.554	2.991***		
Bank Age	Bag	The number of years since the company was established	0.315	-5.285	4.009***		

Significance at: *10%, **5% and * 1 levels.**

variables was more than 0.05. This ascertains that the study data are normally distributed.

However, empirical research that uses time series, like the case of this study, presupposes stability of these series. Autocorrelation might occur in the model because time series on which this study is based is non-stationary (Gujarati, 2003). To check stationarity of time series, Unit Root test, which includes the parametric Augmented Dicky-Fuller test (ADF) and non-parametric test Phillips–Perron test were used. As is presented in Table 2, we can notice that the (ADF) test and (PP) test are statistically significant at the level of 1% which meant that the data of time series (2011-2015) was stationary.

As for the strength of the Linear Model, basically depends on the hypothesis that every variable from the independent ones is by itself independent. If this condition is not realized, the Linear Model will then be inapplicable. It can never be considered good for parameters' evaluation. To actualize this, Collinearity Diagnostics Standard used incessant Tolerance quotient for every variable of the independent ones. Variance Inflation Factor (VIF) has to be found afterwards. This test is the standard that measures the effect of independent variables. Gujarati, (2003) stated that getting a (VIF) higher than (10) indicates that there is a Multicollinearity problem for the independent variable of concern. As presented in Table 2, it can be noticed that the (VIF) values for all independent variables is less than (10) which means that we do not have any Ccollinearity problems in the study models.

To test the Autocorrelation problem in the study models, we used Durbin Watson (D-W) test. Table 2 shows that the (D-W) values of the Models are within the (1.5-2.5) range. This indicates there is no autocorrelation in this model.

Finally, one of the significant assumptions of the regression models is the presence of Homoskedasticity. Its mean should be equal to zero. If the Heteroskedasticity is present in the model, then some statistical methods will be used to overcome this problem, like using (Breusch-Pagan test). As is shown in Table 2, we find that p-value of the three models are more than (0.05) which indicates admitting the null hypothesis; these models not suffers from actual Heteroskedasticity.

4. DESCRIPTIVE ANALYSIS

In this section, we used the descriptive in order to achieve the study aims and proves hypotheses. Thus, we first show the mean, maximum, minimum and standard deviation of the variables. Also, Skewness was used to measure the lack of symmetry and Kurtosis to measure whether the data are heavy-tailed or light-tailed relative to a normal distribution. Then, we use cross-countries analysis to show the variation across each country separately. Finally, we adopt path analysis to show more advances results.

4.1. Descriptive statistics

As shown in table (3) the values for asymmetry and kurtosis between -2 and +2 are considered acceptable in order to prove normal univariate distribution (George, 2011).(see Table 3). Also, we observed that the mean of ROE is greater than the ROA and TQ.

The descriptive analysis of dependent variables (bank's performance) shows that ROE value has the highest mean score of 10.3 % indicating that the income of GCC banks is highly generated from their equity. The high standard deviation of ROE indicates significant variations of equity comparing to income among banks.

4.2. Cross-Countries Descriptive

In this section, we compared the audit committee characteristic and the performance between the GCC countries.

As shown in table (4), the Audit Committee members' financial expertise mean of Islamic banks has the highest value in Saudi. However, the ACFE mean of conventional banks has the highest value in Qatar. Moreover, the lowest ACFE mean among the GCC countries for Islamic and conventional banks was found in Oman. Further, the ACFE has higher mean in conventional than Islamic banks in all GCC countries except in Saudi.

The Audit Committee size mean of Islamic banks has the highest value in Saudi. However, the ACSZ mean of conventional banks has the highest value in Qatar. Moreover, the lowest ACFE mean among the GCC countries for Islamic banks was found in Oman. Further, the ACSZ mean of Islamic and conventional banks are

Table 3
Descriptive Analysis

		Descriptive					
Variables		*Mean*	*Max*	*Min*	*SD*	*Skewness*	*Kurtosis*
Dependent variables							
Operational Performance	ROA	5.500	24.340	0.000	5.690	1.026	0.176
Financial Performance	ROE	10.300	38.670	0.000	8.480	0.795	0.403
Market Performance	TQ	1.010	2.980	0.200	0.400	1.208	3.963
Independent variables							
Audit Committee members' financial expertise	ACFE	3	8	2	0.471	0.076	-0.541
Audit Committee size	ACSZ	3	8	2	1.001	1.005	-1.058
Audit Committee independence	ACIND	2	3	0	0.084	1.012	1.027
Audit Committee meetings	ACM	5	10	1	2.030	1.119	-1.211
Control Variables: Country Specific							
Public Governance	PGOV	69.200	92.830	44.020	0.680	0.101	-0.980
Gross Domestic Product*	GDP	299493.737	753831.733	28776.596	0.340	0.062	-0.667
Bank Specific							
Bank Size*	Bsz	22837607	670516654	4.134	1.336	0.909	-0.845
Bank Age	Bag	20.738	54.000	4.000	1.004	0.770	-0.226

**Note:* The Bank Size and GDP are converted to US Dollar for comparison purpose

equal in Bahrain, Kuwait and UAE. Furthermore, the ACFE has higher mean in Islamic banks than conventional banks Saudi only.

The Audit Committee independency mean of Islamic banks and conventional banks are equal in Qatar, Kuwait and UAE. However, in Bahrain, Oman and Saudi the ACIND means of conventional banks are higher than Islamic banks.

The Audit Committee meetings mean of Islamic banks has the highest value in Saudi. However, the ACM mean of conventional banks has the highest value in Oman. Moreover, the ACM has higher mean in conventional than Islamic banks in Kuwait , Oman and Qatar.

The return on assets mean of Islamic banks has the highest value in Saudi. However, the ROA mean of conventional banks has the highest value in Oman. Moreover, the worst ROA among the GCC countries for Islamic banks was found in Qatar and for conventional banks was found in Bahrain. Further, the ROA has higher mean in Islamic than conventional banks in Saudi, Bahrain and Kuwait.

The return on equity mean of Islamic banks has the highest value in Saudi. However, the ROE mean of conventional banks has the highest value in Qatar. Moreover, the worst ROE among the GCC countries for Islamic banks was found in Oman and for conventional banks was found in Kuwait. Further, the ROE has higher mean in conventional than Islamic banks in Qatar and Oman.

The Tobin's Q mean of Islamic banks has the highest value in Oman. However, the TQ mean of conventional banks has the highest value in Kuwait. Moreover, the worst TQ among the GCC countries for Islamic and conventional banks was found in Qatar. Further, the TQ has higher mean in conventional than Islamic banks in all GCC countries except in UAE.

Table 4
Cross- Country Descriptive

Variables	*Label*	*Country*	*Islamic*	*Conventional*
Independent variable			*Mean*	*Mean*
Audit Committee members' financial expertise	ACFE	Bahrain	3	4
		Kuwait	2	3
		Oman	1	2
		Qatar	3	5
		Saudi	4	3
		UAE	2	3
Audit Committee Size	ACSZ	Bahrain	3	3
		Kuwait	3	3
		Oman	2	3
		Qatar	3	4
		Saudi	4	3
		UAE	3	3
Audit Committee independence	ACIND	Bahrain	1	2
		Kuwait	2	2
		Oman	1	2
		Qatar	2	2
		Saudi	1	2
		UAE	1	1
Audit Committee meetings	ACM	Bahrain	5	4
		Kuwait	3	4
		Oman	5	6
		Qatar	4	5
		Saudi	7	4
		UAE	6	5
Dependent variable				
Return on Assets	ROA	Bahrain	0.017	0.011
		Kuwait	0.026	0.024
		Oman	0.028	0.029
		Qatar	0.015	0.019
		Saudi	0.029	0.026
		UAE	0.025	0.031
Return on Equity	ROE	Bahrain	0.022	0.015
		Kuwait	0.017	0.014
		Oman	0.014	0.023
		Qatar	0.024	0.027
		Saudi	0.034	0.025
		UAE	0.026	0.019
Tobin's Q	TQ	Bahrain	0.126	0.129
		Kuwait	0.114	0.175
		Oman	0.171	0.122
		Qatar	0.092	0.104
		Saudi	0.103	0.131
		UAE	0.163	0.122

4.3. Path Analysis

4.3.1. Audit Committee Characteristic and Performance based on Bank Specific

In this section, we divided the ACC and performance into two categories; banks with a high level of assets and banks with low level assets (see Table 5). The study used path analysis based on the total assets median to identify the variance between the means of the two samples t-statistic test was used.

The analysis using t-statistic test showed that the ACM, ACSZ and the ROA tend to be higher with banks that have less asset size. However, the ACEF, ACIND, ROE and TQ found to be higher with banks that have more assets. ACZ, ACM, ROA and ROE found to be significance in the variance between the means of the two samples since the p-value less than 0.05. However, the ROA is negatively significant to the means of two samples.

Further, the study used path analysis based on the bank age median to identify the variance between the means of the two samples t-statistic test was used. The analysis using t-statistic test showed that the ACM, ACSZ, the ROA and the ROE tend to be higher with younger banks. However, the ACFE, ACIND and TQ found to be higher with older banks. ACM and ROE found to be significance in the variance between the means of the two samples since the p-value less than 0.05.

4.3.2. Audit Committee Characteristic and Performance based on Macroeconomic

We divided the ACC and performance into two categories; banks located in high public governance country and banks located in low public governance country (see Table 6). The study used path analysis based on the public governance index median to identify the variance between the means of the two samples t-statistic test was used.

The analysis using t-statistic test showed that the ACFE, ACIND and the ROA tend to be higher with banks located in high public governance country. However, the ACM, ACSZ, ROE and TQ found to be higher with banks located in low public governance country. ACFE, ACSZ, ACIND and ROA found to be significance in the variance between the means of the two samples since the p-value less than 0.05.

Further, the study used path analysis based on the GDP median to identify the variance between the means of the two samples t-statistic test was used. The analysis using t-statistic test showed that the ACFE, ACIND and the ROA tend to be higher with banks that located in low GDP countries. However, the ACSZ, ACM, ROE and TQ found to be higher with banks that located in high GDP countries. ACSZ, ACIND and ROA found to be significance in the variance between the means of the two samples since the p-value less than 0.05.

5. EMPIRICAL ANALYSIS

Our study can only assume a correlation between error and independent variables of the study sample. "Hausman Test" confirmed this where a null hypothesis assumes that capabilities of fixed-effect approach (FE) and random-effects approach (EF) are same, but if a null hypothesis is accepted then this indicates that random-effect approach is appropriate, and it is therefore preferable to use Random-effect approach. "Houseman" "chi-squared" model shown in tables (7 and 8) statistically significant as p-value less than 5%, which mean that capabilities of Fixed-effect model (FE) is best representing the relationship, confirming our assumption that εi and X's are correlated.

The results reveal that ROA, ROE and Tobin's q on both regression models (Islamic and conventional models) have high statistical significance and high explanatory power as P-value of F-test is less than 5% (0.000, 0.018 and 0.042) for conventional banks and (0.005, 0.011 and 0.009) for Islamic banks.

5.1. Conventional Banks Results

As shown in Table 7, the results revealed that the Audit committee member's financial expertise has negatively influenced the return on assets (ROA) and return on equity (ROE), which is significant at 5% (0.008 and 0.013). To clarify the results, when there is a financial expert on the audit committee then that does not mean that there is more effective performance. Rather, monitoring

Table 5
The ACC and Performance based on Bank Specific

*The t-statistic is based on parametric test Two-Independent Sample t test, The difference Significance at: *10%; **5% and ***1% levels.*

Variables	*Bank Size*				*Bank Age*			
	Mean Difference by B.Size		*Difference tests*		*Mean Difference by B.Age*		*Difference tests*	
	High Asset	*Low Asset*	*t-Statistic*	*P-value*	*Older Banks*	*Younger Banks*	*t-Statistic*	*P-value*
Audit Committee members' financial expertise	2.225	1.117	1.004	0.112	1.851	0.305	1.203	0.166
Audit Committee size	2.141	3.006	1.204	0.010**	1.221	3.305	1.066	0.123
Audit Committee independence	2.030	1.808	1.103	0.312	1.091	0.902	1.451	0.036
Audit Committee meetings	2.333	4.496	1.239	0.017**	1.641	5.394	1.646	0.006***
ROA	4.949	6.003	-1.649	0.004***	4.884	7.006	-2.994	0.484
ROE	8.110	2.610	3.154	0.001***	7.012	8.664	1.074	0.002***
TQ	1.454	1.318	5.981	0.254	1.115	0.902	0.045	0.099*

Table 6
The ACC and Performance based on Macroeconomic

*The t-statistic is based on parametric test Two-Independent Sample t test, The difference Significance at: *10%; **5% and ***1% levels.*

Variables	*Public Governance*				*Gross Domestic Product*			
	Mean Difference by PGOV		*Difference tests*		*Mean Difference by GDP*		*Difference tests*	
	High PGOV	*Low PGOV*	*t-Statistic*	*P-value*	*High GDP*	*Low GDP*	*t-Statistic*	*P-value*
Audit Committee members' financial expertise	2.151	3.006	1.040	0.002***	1.062	2.235	1.005	0.059*
Audit Committee size	3.100	2.005	1.060	0.012**	2.061	1.007	1.008	0.009***
Audit Committee independence	2.041	4.946	1.846	0.001***	1.064	3.221	1.054	0.004***
Audit Committee meetings	2.112	1.015	0.066	0.252	1.052	0.707	0.098	0.103
ROA	4.717	6.669	-1.952	0.040**	4.398	6.750	-2.351	0.011**
ROE	11.343	8.759	2.584	0.068*	10.898	9.630	1.267	0.365
TQ	1.061	0.940	6.669	0.070*	1.045	0.977	0.068	0.301

effectiveness of audit committee financial expertise depends on the authority of top management. Theoretically, it may be said that an increase in Audit committee member's financial expertise should lead to a better company performance. Additionally, the findings show good indicators of audit committee effectiveness as the size of committee, the independency of audit committee and the audit committee meetings have positive significant impact on ROA, ROE and TQ models. Based on this result, it can be concluded that the size of the Audit committee being between 3-7 members has a positive relationship with performance. This evidences that bank's performance of GCC banks has been created more small size audit committee. It is believed that a smaller board is able to create more performance and make better decisions and that a larger committee size may lead to less performance. The smaller AC size is able to direct and make better decisions regarding assets utilization whereas the bigger AC size may lead to a less performance. Additionally, the AC independency and AC meetings in GCC banks are powerful to realize the full potential of the performance. This means Audit Committee independence has influence over the bank's performance and the majority independent members in GCC banks may encourage the utilization of assets and equity. Last but not least, there is a significant positive relationship between Audit committee frequency of meetings and ROA, ROE and TQ. This is due to the fact that as these meetings increase, awareness and experience increases among members, and there will be more encouragement of performance. For the Bank specific control variables; the bank size found negatively affects the ROA. However, the bank age and audit quality positively influenced the ROA, ROE and TQ models. Finally we tested the macroeconomic control variables; we found that public governance has negative significant impact on ROA. The effective governance in country the adversely affect the return on assets. Further, the GDP found positively affect the ROA and ROE models.

5.2. Islamic Banks Results

As shown in Table 8, the results revealed that the Audit committee member's financial expertise in Islamic banks has the same results of Conventional banks which is negatively influenced the return on assets (ROA) and return on equity (ROE), which is significant at 5% (0.041 and 0.009). The corporate governance code of GCC Islamic banks should consider the Audit committee member's financial expertise to structure relevant strategies and policies on how to obtain; best utilize, develop and retain their assets and equity for better performance.

Additionally, the findings show that the size of audit committee and the AC member's independency has positive significant impact on TQ models. However, the audit committee meeting is significantly affecting the ROA and ROE model. To clarify the results, Islamic Banks are depends on trust; hence, protecting reputation, trustiness and credibility is another performance objective for Islamic banks rather than achieving pure financial outcomes. Therefore, Islamic banks are expected not to violate moral hazard and suffer from agency problem due to sharia'a compliance. Since Islamic Banks provide ethical/cooperative financial services to the community they are expected to have a subsequently higher degree of corporate governance. Further, we believed that Islamic banks are followed the sharia'a rules which is built on the trust instead of the corporate governance in protecting the investors. For the Bank specific control variables; the bank size found positively affects the ROA, the bank age found positively affect the TQ. However, the audit quality positively influenced the ROA, ROE models. Finally we tested the macroeconomic control variables; we found that public governance has positive significant impact on TQ. The effective governance in country the more return on assets. Further, the GDP found adversely affect the TQ model. Although findings of this research clearly discussed the importance of Audit committee in enhancing GCC banks' profitability, the results of this study give us a crucial signal as a wake-up call for Islamic Banks manager to start explore and examine for the reasons of imperfect relationship between the audit committee with the financial performances (ROA and ROE). However, in Conventional banks the corporate governance is a driving factor behind investment decisions and stock valuation.

Table 7
Fixed Effect Regression Model (Conventional Banks)

Variables	*Label*	*ROA Model*		*ROE Model*		*TQ Model*	
		β	*t-Statistic*	*β*	*t-Statistic*	*β*	*t-Statistic*
Independent variables							
Audit Committee members' financial expertise	ACFE	-0.111	-1.541***	-0.041	-0.241**	0.150	0.203
			0.008		0.013		0.622
Audit Committee size	ACSZ	0.151	2.031***	0.280	1.001**	0.210	2.207***
			0.007		0.021		0.003
Audit Committee independence	ACIND	0.156	7.422***	0.244	2.014***	0.160	2.644***
			0.002		0.006		0.009
Audit Committee meetings	ACM	0.202	2.142***	0.899	3.002**	0.115	2.552**
			0.002		0.019		0.037
Control Variables:							
Bank Specific							
Bank Size	Bsz	-0.105	-0.535**	-0.022	-0.242	0.011	0.131
			0.010		0.250		0.582
Bank Age	Bag	0.104	3.040***	0.155	1.505**	0.484	4.250**
			0.002		0.031		0.016
Audit Quality	ADT	0.562	7.225***	0.141	0.136**	0.062	2.336***
			0.000		0.012		0.009
Macroeconomic							
Public Governance	PGOV	0.488	3.444	0.111	1.282	-0.222	-2.424**
			0.201		0.431		0.010
Gross Domestic Product	GDP	0.552	5.204***	0.183	0.056***	0.052	4.331
			0.000		0.004		0.158
R2		0.333		0.256		0.128	
Adj. R2		0.302		0.195		0.085	
F-Statistic		18.013		14.017		2.088	
p-value		0.000		0.018		0.042	
Hausman Test (Chi2)		3.213		4.440		1.289	
p-value (Chi^2)		0.008		0.001		0.002	

Significance at: *10% , **5% and *** 1 levels.

Table 8
Fixed Effect Regression Model (Islamic Banks)

Variables	*Label*	*ROA Model*		*ROE Model*		*TQ Model*	
		β	*t-Statistic*	*β*	*t-Statistic*	*β*	*t-Statistic*
Independent variables:							
Audit Committee members' financial	ACFE	-0.032	-1.040**	-0.053	-0.204***	0.307	0.316
			0.041		0.009		0.711
Audit Committee size	ACSZ	0.405	2.480	0.211	1.745	0.174	2.075**
			0.102		0.237		0.041
Audit Committee independence	ACIND	0.425	6.374	0.083	2.112	0.048	2.603***
			0.404		0.115		0.009
Audit Committee meetings	ACM	0.208	1.022***	0.848	3.604**	0.173	2.321
			0.004		0.021		0.063
Control Variables:							
Bank Specific							
Bank Size	Bsz	0.175	1.602**	-0.022	-0.284	0.012	0.135
			0.020		0.614		0.504
Bank Age	Bag	0.388	3.448	0.201	2.001	0.171	2.884**
			0.123		0.154		0.021
Audit Quality	ADT	0.335	8.011***	0.233	3.012**	0.209	2.007*
			0.002		0.042		0.087
Macroeconomic							
Public Governance	PGOV	0.364	3.669**	0.287	2.181***	0.124	2.225
			0.023		0.004		0.196
Gross Domestic Product	GDP	0.431	4.011	0.138	3.866	-0.108	-3.050***
			0.102		0.441		0.000
R2		0.411		0.204		0.122	
Adj. R2		0.317		0.018		0.098	
F-Statistic		16.008		12.996		4.036	
p-value		0.005		0.011		0.009	
Hausman Test (Chi2)		4.015		2.255		2.722	
p-value (Chi^2)		0.005		0.012		0.044	

6. CONCLUSION AND RECOMMENDATIONS

This study considers the audit committee characteristics among GCC Islamic and conventional banks and investigates the relationship between audit committee characteristics and bank's operational, financial and market performance. The data collected was as a pooled data from GCC listed banks during the period 2012-2016.

The findings showed that the Audit committee member's financial expertise has negatively influenced the ROA and ROE of Islamic and conventional banks. Moreover, the size of audit committee and the AC member's independency in Islamic banks has positive significant impact on TQ models and the audit committee meeting is significantly affecting the ROA and ROE model. However, in conventional banks the independency of audit committee and the audit committee meetings have positive significant impact on ROA, ROE and TQ models.

We suggest that Islamic banks in GCC countries to focus more on audit committee for best performance. In Gulf countries, the laws associated with corporate governance is voluntary. Therefore, we recommend the bank's regulators and Ministry of finance to pay more attention to the law associated with corporate governance and they should have a clear and mandatory law associated with corporate governance to assure more transparency in and attract more investors.

Added to that, the stakeholders such as investors, shareholders, creditors and debtors have to increase their knowledge about the term of corporate governance and its importance in the business to make better investment choices. Furthermore, we suggest that organizers like ministry of finance, external auditors and stock exchange organizer to take the audit committee characteristics into consideration to assure better business performance.

Conducting the current research has few limitations. Mainly, there was a lack in prior studies conducted for the audit committee in Islamic banks because corporate governance in Islamic banks is considered to be a new method or topic.

Finally, we suggest that future research has to be taken in order to understand the factors that affect the effectiveness of audit committees in Islamic banks and how these factors interact with the governance to affect the performance eventually.

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