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Overcoming the comparative confusion of the audit committee's impact on the financial performance of conventional and Islamic banks: An international evidence in a framework of agency theory

Achraf Haddad^{1*}, Mohamed Naceur Souissi², Abdelfattah Bourri³

¹Doctor of Financial and Accounting Methods.

Affiliation: Researcher at a Laboratory of Governance, Finance and Accounting, University of Sfax, Tunisia.

* Corresponding author: E-mail: achraf.haddad2015@gmail.com

²Associate Professor of Accounting and Finance and an Internship Director at the Higher Institute of Business Administration of Sfax, Tunisia.

Affiliation: Researcher at a Laboratory of Governance, Finance and Accounting, the Faculty of Economic Sciences and Management of Sfax, Tunisia.

E-mail: souissinaceur@yahoo.fr

³Professor of Finance at the Faculty of Economic Sciences and Management of Sfax, Tunisia.

Affiliation: Department Head of Accounting and Finance and Director of Governance, Finance, and Accounting Laboratory, University of Sfax, Tunisia.

E-mail: bouriabdelf@gmail.com

Abstract

Based on the banking and governance literature, the impacts of the audit committee quality on the financial performance of conventional and Islamic banks are mixed, unstable and sometimes contradictory. In this study, we consulted deeply the theoretical foundations of the audit committee quality on the financial performance of conventional and Islamic banks to solve the ambiguity of comparison in a framework of agency theory. Measures of financial performance and audit committee determinants are collected from 30 countries. Under the panel data estimations, data were collected from 112 banks of each type that have published their reports regularly during the period (2010-2019). Overall, we obtained 1120 bank-year observations in each sub-sample. The results showed that the audit committee in conventional banks negatively affected their financial performance. However, in Islamic banks, it revealed a vague impact because of his secondary role.

Keywords: *Conventional Banks (CBs), Islamic Banks (IBs), Audit Committee (AC), Corporate Governance, Financial Performance (FP), Comparative Study, Agency Theory*

JEL classification: F39, G29, G30, G38, G39, G40, G41.

1. Introduction

Audit committee (AC) is a major means to control the reliability of the Financial Reporting process (McMullen, 1996). On their part, De-Zoort et al. (2002) identified the effective AC by distinctive features such as the authority of its members and the resources needed to protect the interests of stakeholders by ensuring the reliability of financial information controls, internal controls, and risk management through its diligent oversight efforts. Besides, the AC partners oversee and coordinate various parts of the governance chain

such as internal auditors, external auditors, and board of directors (Chanawongse et al., 2011). This governance body strengthens the board in monitoring and maintaining good governance practices for the benefit of the stakeholder network (Ansari and Rehman, 2011). AC assists the board in the oversight role of the internal control system, the reviewing of the audit process, the control of efficiency, and the publication of accounting and financial reports. Its main role is to approve the appointment, the remuneration, and the dismissal of external auditors, but it also has other occupations such as the reception of audit reports, the creation of value, governance risk management, performance monitoring actors, auditing FP, monitoring the implementation of appropriate corrective actions by managers, addresses audit weaknesses and control rules, policies, procedures, and laws.

The results of previous studies examining the differences between firms with and without ACs have not been conclusive, which has become necessary to apply additional and more advanced research. The various results found, as well as the different explanations given, are not preferred by researchers, but they can be explained by several constraints. Among the factors influencing the nature of the effect of AC quality on FP, we emphasized the availability of data, the lack of detail, the lack of information on ACs. This may be due to the conservatism of the managers or because of the pressure exerted by the external auditors. In the opposite case, the diversity of the explanations returned to the contextual variation of the studies or the homogeneity of the context. Besides, the impact of the AC quality on FP in conventional and Islamic financial institutions has been measured in the literature by several methods and by multiple criteria.

Apart from specific case studies, a lot of research has focused on the study of committee aspects focusing on its composition (Carcello and Neal, 2000; Klein, 2002a), regardless of whether the audit committee is located in a company, a conventional or Islamic bank. According to the literature review, previous studies have emphasized more general measures of size, independence, financial expertise (Krishnan, 2005) and the frequency of AC meetings (Krishnagopal and Williams, 1994). In this sense, Krishnan (2005) measured the effectiveness of the AC in terms of size, independence, and expertise. However, several other studies in the accounting literature have focused on other research centers. They analyzed the effect of the presence of an active AC on the discretionary and arbitrary managers' behavior. They viewed that the accounting expertise and independence of auditors as fundamental features of the AC (Xie et al., 2003; Bedard et al., 2004; Carcello et al., 2006).

The setting up of ACs has found their theoretical foundations in the contributions of agency theory. For this reason, Abbott et al. (2000b) developed the Beasley (1996) study, who explained the AC effect only by his presence without taking account of its characteristics. As signs of theoretical improvement, Abbott et al. (2000b) replaced the dichotomous variable with measures related to AC determinants. The AC quality would be an explanatory determinant to solve agency problems, ensure the credibility of financial statements and pay attention to financial information. In other words, it reflects the quality of governance mechanism.

Nevertheless, although there are several studies analyzing this impact within conventional banks and with a less significant level within Islamic banks, we have seen that this gap can be a research topic that can bring theoretical and empirical value to the banking governance literature. This was a greenfield and a narrow field to invest in the deep comparison between the impacts of the audit committee on the financial performance of conventional banks and those of Islamic banks in a framework of conflicts of interest and agency theory.

The first aim of this study is to provide new evidence of a fine comparison to remove the ambiguity of the results of previous studies on this topic and find a clear definitive answer, clear, precise and useful to stakeholders. Second, this study tends to help stakeholders to plan the control, monitoring, evaluation and detection of fraud, afterward ensure the correction of actions, manipulations and control errors to correct the shortcomings of opportunistic management, misconducts, and behavioral conflicts.

This study makes several important contributions to the literature. First, although the crisis periods are very specific and characterized by non-stable factors, the target study period for carrying out the differential analysis between the impacts assuming the permanent existence of agency relationships constitutes a contribution to the literature of governance. Second, although the current regulatory framework and requirements for corporate governance practices, AC quality and FP based only on the theoretical concept to interpret comparative studies and differential analyzes, our findings show that this approach is unlikely to improve FP of conventional and Islamic banks. Our findings support the ability of the external auditor/ customer's bank to redetermine potential conflicts of interest and identify agency relationships among stakeholders via FP and the ability of the shareholders to align the individual interests of each part in the bank to bring them closer to strategic goals planned in advance. Our third added value is to optimize of the governance system through the constitution of a qualified CA established within the bank on behalf of the institution helps to mitigate the risk management to avoid and to reduce the agency costs. Therefore, different actors will have the advantage of maximizing FP.

The remainder of our research is presented as follows. Section 2 discusses the background of the study and reviews the existing literature and develops hypotheses. The research design is presented in Section 3 and the empirical results are discussed in Section 4. Section 5 presents our conclusions.

2. Conceptual Framework of the Audit Committee's Determinants

We have expected that the respect of the AC characteristics (size, independence, expertise, and number of meetings) will serve as a good combination of governance structure favoring the stimulation of FP. Therefore, our study is an exceptional attempt in the literature to understand the impacts of the AC quality on the IBs' FP in order to compare this effect with the impact of the AC determinants on the CBs' FP.

2.1. Audit Committee Size

Referring to the literature review, the AC size is known as a determinant of a governance mechanism (Sarbanes-Oxley Act, 2002; SEC, 2003). But this does not prevent this characteristic from being a control mechanism in itself if it directly influences the quality, value, and capacity of the mechanism. Based on previous research, we have noted that previous studies address the AC size in a variety of financial and non-financial institutions, particularly banks (Chandrasegaram et al., 2013; Soliman and Ragab, 2014; Amer et al., 2014; Bala and Kumai, 2015; Habbash, 2015; Miko and Kamardin, 2015; Bilal et al., 2018). Nevertheless, several previous studies highlighted the effect of the AC size on FP (Vafeas and Waegelien, 2007; Goh, 2009). However, as with other variables, the results on which this variable has been focused have had mixed results. They are sometimes similar and sometimes contradictory, but no study can generalize them, all depend on the exogenous factors namely the economic situation of the sample tested, the nature of the institutions, the depth of the theme studied and the class of the context consulted. The size and structure of committees vary from country to country (Tarek and Mohamed, 2016).

However, some studies have found a negative association between the presence of governance issues and the number of members in the AC (Krishnan, 2005). Based on agency theory, a large AC generates more delegations of power among members. Nevertheless, this habit creates neglect of duty, which causes more opportunistic behavior within the committee. Such is the case of Anderson et al. (2004), they revealed that the AC size and the number of AC meetings are negatively correlated and associated with the performance gaps. From another angle, other studies have found that the AC size systematically influences the downward management of revenues (Cornett et al., 2009).

Nevertheless, banks are characterized by a much more complicated accounting process than that practiced in other institutions. Many of the directors give a complete autonomy of engagement in the control procedure. The presence of many responsibilities ensures better oversight of the audit process and reduces the cost of debt. The larger the AC size, the less adjusted will be the results (Lin et al., 2006).

A large AC allows members to use their experiences and expertise in controlling financial statements to the profit of stakeholders. The number of directors reinforces the virtuality, power, and ability of committees to minimize information asymmetry and conflicts of interest (Kalbers and Fogarty, 1993), whereas, a small AC marginalizes a large number of skills. In this sense, they head for the collection of resources on behalf of some parties (Pincus et al., 1989). Besides, Wan et al. (2010) analyzed the impact of some determinants of the quality of governance on the voluntary disclosure of governance information within IBs. They revealed that the composite index of governance is positively related to the voluntary disclosure of corporate governance information. In conclusion, in this respect, a large AC acts against the retention of information, all sources could expose banks to the risks of asymmetric information and accounting manipulations.

The presence of a large AC provides strong oversight, improves the governance quality and promotes the level of disclosure of financial information and transparency (Anderson et al., 2004; Krishnan and Lee, 2009). In this topic, Anderson et al. (2003) found that the larger the ACs, the more information about the governance quality will be available to the users of the financial statements. Therefore, this positively and directly influences the benefits. Indeed, Al-Matari et al., (2014) examined the association between the characteristics of the committees of a sample of non-financial firms in Oman and the FP between 2011 and 2012. They revealed that there is a positive relationship between the AC size and the FP of Omani companies.

Studies interested in the search for implicit interactions exist between the increase in the AC size and the other variables of the conventional and Islamic banks accentuate the presence of a positive linear relationship. To perform its role effectively, the AC should have the necessary resources and the necessary authority in terms of numbers and skills to properly fulfill their increasing responsibilities (De-Fond and Francis, 2005; Mangena and Pike, 2005).

Furthermore, Felo et al. (2003) analyzed the correlation between the AC size and the financial information quality. The empirical results revealed the existence of a positive relationship between the two variables. Similarly, Poudel and Hovey (2013) studied the impact of corporate governance on the efficiency of Nepali commercial banks during the period (2005-2011). The analysis showed that the large AC size led to a better efficiency of the commercial banks. In the same thread of sequence and consistency of ideas, Thu et al. (2016) revealed that the AC size is positively correlated with the FP of banks in Vietnam. Even more, Aminul et al. (2018) investigated the effect of the AC characteristics on the

earnings' quality, moderated by the audit quality and the ownership concentration. The analysis of the moderating regression on sub-samples as a function of the concentration level of the property showed that the AC size has a positive effect on the results' quality. Indeed, Haider et al. (2015) discussed the influence of the AC size on FP in Pakistan's Islamic banking sector during the period (2008-2012). They concluded that the AC size helps improve the IBs' FP.

An increase in human resources injects additional efficiency more likely into a large committee rather than into a small committee. This led us to formulate our hypothesis as follows:

H1: There is a positive correlation between the AC size and the FP of Islamic and conventional banks.

2.2. Presence of an Accountant, a Finance expert or an Auditor in the Audit Committee

Various studies have been conducted on the effect of the existence of financial / accounting experts and / or auditors on FP (Mustafa and Youssef, 2010; Tanyi and Smith, 2015; Bala and Kumai, 2015; Bilal et al., 2018), as well as the effect of the existence of financial / accounting experts and / or auditors on profit and loss management (Krishnan et al., 2011; Soliman and Ragab, 2014; Amer et al., 2014; Badolato et al., 2014; Habbash, 2015; Surbakti et al., 2017). However, few studies have dealt with this theme at the level of IBs in so far as other mechanisms of governance are substitutable for the AC, leading to the regression of its importance within the banks. As shown in Table 1, the requirements and the proportion of choice of experts varied from one study to another:

Table 1: Literature Review of the Proportion / Proposed Proportion of Expert Directors in the AC

Reference	Instructions
Vienot (1995)	Members must have financial or accounting skills.
Blue Ribbon Committee (1999) ^{1,2}	All members with financial skills with the presence of at least one expert in accounting or finance.
Loi SOX ³ (2002)	Obligation to disclose the presence or reasons for the absence of a chartered accountant or financial officer (407)
Gadbury (2002)	Not required
Saucier (2001)	All members with financial skills with the presence of at least one expert in accounting or finance.
Bouton (2002)	Members must have financial or accounting expertise (P.12)
The 8 th European Directive	At least one member must be competent in accounting and / or

¹Blue Ribbon Committee (BRC). (1999). Report and recommendations of the blue ribbon committee on improving the effectiveness of corporate audit committee. New York stock exchange and national association of securities dealers.

²Millstein, I.M. (1999). Report of the blue ribbon committee on improving the effectiveness of corporate audit committees. Business Lawyer, 54(3), 1057–1066.

³SOX : Sarbanes-Oxley Act.

(2006)	auditing (Art.41-1)
Malaysian Code of Corporate Governance	AC must be at least a member of the Malaysian Institute of Accountants or have at least 3 years of professional experience as a member of the Malaysian Institute of Accountants
Corporate Governance Code of Saudi Arabia (2006)	At least one member is a specialist in the field of auditing, financial, and accounting affairs (Al-Nodel and Hussainey, 2010; Al-Moataz and Hussainey, 2013).

More deeply, Adelopo (2010) found that in a theoretical agency context, a large proportion of independent directors on the board strengthen its activities. The financial expertise of the AC members was not statistically significant in the explanation of its activities. However, Tanyi and Smith (2015) examined the effect of the financial expertise of AC members and directors on their ability to oversee the financial reporting process. They concluded that the excessive engagement of AC members has a negative and significant impact on the supervision quality and the financial information quality. Companies whose directors or members of the financial experts on their ACs are busy have experienced abnormally high-profit accumulation levels which are significantly higher and more likely to exceed performance benchmarks. In the same vein, Krishnan (2005) discovered the presence of four factors indirectly associated with the AC that may have an impact on internal control: managers' work experience, the tendency of management to commit fraud, the permanence of auditors, and financial stress. To minimize these effects, they monitored the influence of other governance bodies to influence the internal control quality and the AC quality, including the internal audit function, the external audit function, the board of directors and the management quality. AC members also have the right to act on a number of imbalances and changes in the financial situation, namely financial stress, and financial growth. The results revealed that the characteristics of the AC are associated with internal control only after the control of other governance bodies. As a result, they concluded that the AC contribution to internal control extends beyond other organizations.

In CBs, the role of the board of directors is implicitly dominated by the ACs, whose role of control is almost a complement to the main decisions taken by the board of directors. Most of the previous studies are based on simple accounting and financial measures to reveal the fictitious quality of the AC. The most used measures are the accounting result and the improvement or the deterioration of the accounting results. Practically, Agrawal and Chadha (2005) have shown that companies with ACs in which there are independent directors with degrees in accounting or finance are negatively and significantly associated with lower returns and lower profits.

However, an in-depth look at the existing governance literature shows that an AC with an accountant is likely to be more effective than one that does not include an expert in the field. The experienced members have basic knowledge in accounting, control or audit are the most competent to manage the financial institution in the case of conflict of interests and to detect significant anomalies (De-Fond et al., 2005; Krishnan and Visvanathan, 2008). Indeed, Bedard et al. (2004) have revealed that there is a negative relationship between the expertise of AC members and the propensity to manage the result. Besides, AC's directors with financial expertise can also perform their role as an auditor in the control process more effectively and at the same time ensure the mission of detecting material misstatements. In

this perspective, (Kalbers and Fogarty, 1993; Abbott et al., 2004; Farber, 2005) found that this financial expertise helps members to cope with fraud, reduce the occurrence of financial information restatements, and protect the quality of financial information. Also, AC members interact effectively with their key partners. Whoever is involved, a director, an internal auditor or an external auditor, it contributes to their performance and keeps their sustainability within a governance framework (Wong, 2012). Also, Lublin and MacDonald (1998) indicated that the AC made up of competent members encourages the auditors to communicate its technical results. However, Abbott and Parker (2002) indicated that ACs, whose members have no experience in finance and risk management, are significantly associated with a high probability of financial errors.

Referring to the literature on corporate governance and financial institutions, several standardizations, regulatory and supervisory bodies discussed the composition of the AC. Given the priority of the qualification of the AC members and to perform well in accordance with its role, committee members must have some accounting and related skills. In December 1999, the (BRC⁴, 1999; NYSE⁵; NASD⁶) published new standards on the independence of ACs in which they demanded listed US companies a minimum of three directors. Besides, the Sarbanes Oxley Act in its Section 407 Act also proclaimed that at least one member of the AC must have expertise in accounting or finance. The majority of researchers saw that the best combination should contain a majority of independent directors and have at least one member with expertise in finance or accounting. A series of regulations has been implemented to enhance the competence of ACs and to minimize the risks to directors: Commonwealth of Australia, 2002; European Commission, 2002; and Financial Reporting Council, 2003. Moreover, in 2003, the SEC also adopted rules that require companies to disclose in their annual reports whether a financial expert sits on the AC of a company. Otherwise, if it does not exist, the issuer must indicate the necessary explanatory reasons.

Following the promulgation of the Sarbanes-Oxley Act, Zhang et al. (2007) investigated the relationship between the ACs quality, the independence of auditors and weaknesses in internal control in a sample of US companies that suffered from internal control weaknesses in their governance systems. Based on the empirical results, they revealed that while ACs have members with accounting or financial expertise and directors are independent, the likelihood of detecting weaknesses in internal control is high.

In the same line of research, Abbott et al. (2004) revealed the presence of a negative relationship between AC expertise and errors detected in the financial statements. This role of ACs has provided a new venue of research on the relationship between the AC and internal control. Confirming the same idea with the Malaysian perspective, Sori et al. (2007) affirmed the presence of a negative association between the degree of expertise of members of the AC and the detection of discretionary accruals. The AC expertise has a negative and significant impact on non-audit fees (Chaudhry, 2013).

Mastery of accounting and / or financial practices and techniques as a factor in improving the quality of governance affects FP. As a case study, Jeffrey et al. (2007) found that the majority of previous and recent empirical studies have involved the presence of a positive impact of AC members' expertise on the FP of companies. However, a good selection of qualified directors within the AC generates direct profits through the minimization of results management, the optimization of expenses and losses. In this regard, McMullen and

⁴BRC : Blue Ribbon Committee.

⁵NYSE : New York Stock Exchange.

⁶NASD : National Association of Securities Dealers.

Raghunandan (1996) stated that in large firms, the expertise of the AC can immediately correct weaknesses in internal control. Similarly, Krishnan and Visvanathan (2008) argued that ACs that include certified public accountants among their members reduce weaknesses in internal control. They testified that the members of the AC should understand, not only the generally accepted principles, but also, they should master the methods used by directors, since they will face additional costs in the case of fraud. Indeed, Farber (2005) tested a heterogeneous sample of fraudulent and other non-fraudulent companies. He found that fraudulent companies always have fewer financial experts in their ACs compared to non-fraudulent companies. On light of the above, De-Fond et al. (2005) stated that the change in the proportion of abnormal profitability is directly related to the presence of an expert among the independent directors of the AC. Besides, they have proven that the appointment of a new financial expert on the AC significantly facilitates the detection of abnormal profitability falsified by managers. This explains why the assiduity of experts in accounting, finance, or audit improves the quality of corporate governance. Indeed, Krishnan (2005) confirmed that there is a negative association between the presence of internal control problems and the independence of the AC. Independent ACs, whose members have a financial expertise are more likely to be exposed to the impacts of internal control problems. From the empirical results, they noted the concentration of internal control problems at the levels of two centers of gravity, working conditions, and material weaknesses. They concluded that after the change of auditors, there are companies that have disclosed all the internal control problems, however, they have intentionally kept other problems.

Within the same line of research, the consequences of the AC expertise and the parameters affected by this factor, it leads us to indicate that the AC has two main concerns: Reliable oversight of the internal control system and adjustment of the executive power of internal auditors to ensure hierarchical independence (De-Zoort, 1997). In this framework of analysis, Dhaliwal et al. (2006) studied the association between corporate governance, the AC expertise and the Discretionary Accruals. Based on the empirical results, they revealed that the AC expertise has a positive effect on improving the effectiveness of governance mechanisms. Moreover, De-Zoort (1998) showed that AC auditors with experience have positive effects on improving the quality of internal control mechanisms. A high quality of governance gives them the ability to target errors in the financial statements, facilitates fraud detection procedures and more efficient performance of internal control tasks (Scarborough et al., 1998).

Going further, the expertise and training of AC members is a strategic resource for banks. On this theme, (De-Fond et al., 2005; Davidson et al., 2004) have proven that when the AC is composed, auditors gain previous experience in the field of accounting and auditing. Audit committee members with financial and banking skills contribute to the improvement of internal regulations and the development of business processes. This provides a positive signal in the bank market. Moreover, experts also use their professional network to recruit talent and master the operational aspects of product management and customer relationship management. Indeed, Krishnan (2005) noted that the expertise of the ACs reduces weaknesses in internal control. Also, from the perspective of the same approach, (Xie et al., 2003; Bedard et al., 2004) investigated the relationship between the effectiveness of ACs and the discretionary behaviors of managers. The analysis of correlation has shown that the AC is a device of corporate governance essential to curbing the opportunistic behavior of leaders.

Still in the context of agency theory, Carcello et al. (2006) tested the relationship between the financial audience of AC members and the results management in the US

context. They revealed that the AC had limited expertise and that its behavior was discretionary. Also, from their part, McMullen and Raghunandan (1996) have shown that the characteristics of ACs determine the effectiveness of other oversight mechanisms. They argued that institutions which had not included accountants in their ACs faced many problems of management results and falsifications of their financial statements. Indeed, Turley and Zaman (2007) found that a well-experienced AC chairman plays an essential and beneficial role in improving the governance quality hoped for. Organizations whose AC chairmen have business knowledge and experience positively influence the preparation of financial reports, risk management, internal and external control, and audit assignments. In the same perspective, in the Omani context, Baatwah et al. (2016) were transformed into financial authority of the AC chairman of the financial information quality in Oman. They concluded that the presence of an expert of finance on the AC positively influenced the timelines of financial reporting and improved the timeliness of disclosure of the annual report.

In the same vein, Anderson et al. (2003); Bryan et al. (2004); and Aminul et al. (2018) testified that companies including in their ACs one or more accountants and / or in its composition make it possible to increase the relevance of the profits made. Furthermore, Chaudhry (2013) assessed the effect of the AC on the quality of financial reporting in UK firms over the period (2007-2010). He revealed that the financial expertise of the AC members had a positive and significant impact on the audit fees and the profits' quality. Similarly, Bilal et al. (2018) examined the effect of financial experts in monitoring ACs on the quality of financial results after the implementation of the SOX. They showed that the financial expertise of AC has a positive impact on the profits' quality. The interpretation also revealed that financial accountants have a significant influence on the profits' quality more than financial experts-non-accountants. As a result, the majority of corporate governance systems, IFRS⁷ and SOX have moderated the relationship between the financial expertise of AC members and the earnings' quality.

All previous studies have shown inconclusive results, but we have tried to inspire the most mainstream direction in the governance literature. The hypothesis can be stated as:

H2: There is a positive correlation between the number of experts within the AC and the FP of Islamic and conventional banks.

2.3. Presence of Independent External Directors in the Audit Committee

Several previous studies have focused on the relationship between the existence of independent directors on the AC and all factors of work interacting with each other (Saleh et al., 2007; Pomeroy and Thornton, 2008; Baxter and Cotter, 2009; Chandrasegaram et al., 2013; Shab, 2013; Sun et al., 2014; Soliman and Ragab, 2014; Miko and Kamardin, 2015; Habbash, 2015; Bala and Kumai, 2015). In this sense, Bilal et al. (2018) considered that the independence of the AC members is a moderator of the benefits quality, similar to the financial expertise of the AC, the role of the external auditor and the financial statements' quality.

In the same vein, the independence of the AC must be a paramount quality within banks to ensure the transparency of financial information and to minimize conflicts of interest between the committee and other stakeholders. However, emerging agency problems among committee members may, in turn, affect the sustainability of the bank operational activity, especially in cases where the problem is directly related to the decision-making process. In

⁷IFRS : International Financial Reporting Standards.

this case, the role of the independent auditor is to mitigate this type of conflict within the committee. No one has any interest in providing accounting information that is understandable, precise and impartial. In addition, no person shall be willing to disclose information about the AC or publish information about the FP of conventional or Islamic banks, whether members of the AC, or the external auditor. Qualified auditors with real independence are generally associated with transparency that reduces agency costs.

The governance literature has shown mixed and, above all, contradictory results on the impact of the independence of the AC members on FP. Some authors have found that there is no significant relationship between the AC and FP. For example, Beasley (1996) found that there is no significant association between the composition of the AC and financial manipulations. Moreover, Kajola (2008) concluded the absence of a statistically significant relationship between the existence of an AC within banks and FP. Similarly, Durgavanshi (2014) did not signal any significant association with the independence of the AC.

According to the governance principles, the independent members of the AC exercise their responsibilities by applying the standards of good internal control practices. They systematically face asymmetries of information. In the case of manipulation, falsification or financial challenge, the AC is held responsible for minimizing the asymmetry of information (Bhagat and Jefferis, 2002; Heenetigala and Armstrong, 2011). In practical and Islamic contexts, the Malaysian model appears as a copy illustrating the efficient selection process of independent auditors within the AC. The study of Samad and Hassan (2000) revealed that the lack of auditors' knowledge is the main reason for slowing the pace of loan growth under the incentive. Despite this finding, the IB has recorded higher liquidity and a lower level of risk compared to its conventional counterparts. In 1998, the Malaysian government appointed a high-level finance committee to ensure better corporate governance. The MCCG⁸ has required listed companies to have ACs with at least three members, the chair of the committee must be independent. Furthermore, the same situation of the AC in Saudi Arabia, it was formally institutionalized by the Saudi Corporate Governance Code of 2006. This code requires each firm to set up a subsidiary AC of the board of directors. Article 14 of this code clarified the specific characteristics to ensure its effectiveness in terms of composition and structure. Regarding independence, the guidelines stipulate that AC members must be non-executive auditors. They should not have a direct or indirect interest, and they should not be involved in transactions at the with companies or engage in technical consulting and management work (Al-Nodel and Hussainey, 2010; Al-Moataz and Hussainey, 2013). Regarding the effect of the ACs' independence on the FP, Al-Matari et al. (2014) showed that there is a positive relationship between the AC independence and the FP.

However, the diversity of previous findings confirms that the independence of the AC is a double-edged knife. Numerous studies proved the existence of an unfavorable association between the AC independence and several other characteristics of the financial institutions, the effect of independence being essentially matched with the quality of governance (Beasley, 1996; Abbott et al., 2000b; Xie et al., 2003) and FP (Dar et al., 2011; Ghabayen, 2012; Al-Matari et al., 2012b; Amer et al., 2014).

Thus, institutions, where the AC is independent, are more likely to deviate from their oversight responsibilities by leveraging the information collected for their benefit. Informal interactions between the AC and other stakeholders may occur while deteriorating FP. In this way, Beasley (1996) and Abbott et al. (2000a) found a negative correlation between the

⁸MCCG : Malaysian Code of Corporate Governance.

probability of fraud and the proportion of independent auditors who are members of the AC. Indeed, Adelopo (2010) analyzed the relationship between ACs and the external auditors' fees in the United Kingdom during the period (2005-2006). He found that there is a positive and significant relationship between the economic measures and the ACs' activities. This finding is well established that the ACs are in close contact with the auditors to prepare satisfactory reports. However, there is no association between the ACs' independence and the governance quality. Unlike some previous research, Xie et al. (2003) did not detect any impact of the auditors' independence on the discretionary behavior of executives. Also, Wu (2012) revealed that the performance of the AC duties is an intended intentional process. For this reason, the evaluation of the intentional decision-making processes of the AC members is considered as a tool for verifying its effectiveness. As a result, he confirmed that the AC acts as a complementary instrument on behalf of the board of directors, which calls into question the independence of its members.

The treatment of the independence in the framework of agency theory has concretized a completely different current of analysis. Another point of view has been pointed out by several studies. The AC members having more seniority can create social, family, friendships or other links allowing to alter reversals and decisive oscillations (Wade et al., 1990; Boeker and Goodstein, 1993; Sharma and Iselin, 2006). The main problem at this level is not the fictitious independence of the administrator, but rather the assurance of their real independence. For this reason, in what follows, we are interested only in the analysis of the effect of real independence, pure and perfect, while the renewal of the mandate of a former auditor or the change of the status of an independent auditor to other independent questions their total independence.

Taking another direction of reflection, the research attached to the ACs examined the hypothesis of the ACs' independence on the discretionary behavior of the auditors. In line with this proposition, Klein (2002b) and Bedard et al. (2004) found a negative relationship between the presence of independent auditors on ACs and the results' management. Also, Fanta et al. (2013) revealed that the presence of an independent AC has a negative and statistically significant effect on the FP of banks in Ethiopia.

Our predictions are as follows:

H3: There is a negative correlation between the percentage of independent directors within the AC and the FP of Islamic and conventional banks.

2.4. Number of Meetings Held by the Audit Committee

According to the literature, the number of meetings improves the quality of the financial report and the ability to publish financial information (Beasley, 1996; Xie et al., 2003; Bryan et al., 2004; Madawaki and Amran, 2013; Soliman and Ragab, 2014). Other studies related the number of meetings held by the AC during a year and the proportion of management of the accounting result, the modification of the financial information or the manipulation of results carried out in the same period (Beasley et al., 2000; Abbott et al., 2000a; Khanchel, 2007; Saleh et al., 2007; Mohd et al., 2009; Sharma et al., 2009; Chandrasegaram et al., 2013; Rickling, 2014; Ormin et al., 2015; Bala and Kumai, 2015; Tanyi and Smith, 2015; Tarek and Mohamed, 2016; Osarumwense and Aderemi, 2016; Surbakti et al., 2017). However, there is a third trend that has focused on the effect of the number of meetings on performance (Coleman and Biekpe, 2007; Hsu and Petchsakulwong, 2010; Amer et al., 2014).

Like the previously mentioned governance variables, studies of the impacts of governance mechanisms on the governance quality or FP have shown paradoxical or mixed

results. In the literature, research that found no association between the frequency of meetings held by the AC and FP (Mohd et al., 2009; Mohd, 2011; Al-Matari et al., 2012b).

Conversely, other authors have revealed that a small number of AC meetings means that its members do not have sufficient time to discuss and resolve critical issues. This helps fuel the breadth of results management within financial institutions. Monitoring, addressing asymmetric information and meeting the AC information needs lead auditors to engage in informal interactions (Gendron and Bedard, 2006). According to the traditional method of organizing regular meetings of the AC and according to the usual discussion of informational content in a meeting, the official program should be discussed in face-to-face meetings. Unlike the traditional program of an AC, informal meetings tend to be unplanned as information remains a secret between a limited number of people. In this case, the accounting information is often exchanged interactively only between two parties. AC members and non-executive directors exert a profound influence on the governance process through unplanned meetings and informal contacts. These practices are conducted outside formal meetings and the routine interactions of the AC with the management team and board members (Turley and Zaman, 2007).

However, through the discussion of the same association, other studies have examined the correspondence between the number of the AC meetings as a control mechanism and its effect on other accounting, financial, and economic variables. Previous research has confirmed the regularity of a positive correlation between the number of frequent meetings and FP (Lipton and Lorsch, 1992; Khanchel, 2007; Coleman, 2007; Jackling and Johl, 2009; Kang and Kim, 2011), without fixing the optimum meetings. Other research has insisted that meetings should be organized at least three or four times a year. In this way the directors of the different departments find the necessary time to explain the problems that may have arisen (Hughes, 1999). Even more, some researchers have found that ACs that have held frequent meetings reduce the likelihood of agency problems. In return, they increase the probability of detecting fraud and manipulation (Beasley et al., 2000; Karamanou and Vafeas, 2005). More specifically, the usual meeting of auditors implies that the AC plays an operational role of management rather than a supervisory force. The effectiveness of the AC in the process of preparing financial statements and monitoring the process of presenting financial information requires regular processing, evaluation, and analysis that need regular meetings (Vafeas, 2005). In addition, a frequent number of AC meetings facilitate the assessment of the financial situation, the regular prosecution, and resolution of all problems faced by employees (Pfeffer, 1987; Pearce and Zahra, 1992), inform management about the actions' status (McMullen and Raghunandan, 1996) and ensure the institution against the explosion of opportunistic behavior and conflicts of interest. Indeed, the AC should prepare a well-planned meeting schedule that ensures the speed of decision-making as well as the publication of financial statements.

According to the survey conducted by KPMG's international network of audit firms in 2002, experts found that 40% of ACs in the tested sample expected to meet eight or more times (KPMG, 2002). Even more, in 2008, the FRC⁹ assumed that ACs should hold a minimum of three or four meetings a year, regardless of the sector of origin they are part of. In addition to the efforts of standard setters, Chaudhry (2013) showed that the ACs, which met three or more times a year, had a positive and significant impact on the audit fees and the reported results' quality.

⁹FRC : Financial Reporting Council.

Among the studies closest to our research theme in a banking environment, Beasley et al. (2000) found that the number of AC meetings in financial institutions plays a crucial role in improving FP. Based on the empirical finding, they explained these findings by the fact that sufficient time allows the AC to better scrutinize the financial statements of a bank. The AC members found the time needed to interpret the results found and the control of the accounting documents. Indeed, Menon and Williams (1994) concluded the presence of a consistent positive association between the frequency of AC meetings and agency variables. From their part, Xie et al. (2003) concluded that the more meetings held by ACs, the fewer auditors would detect performance management indices.

The treatment of asymmetric information by the AC could lead auditors to hold often informal private meetings with internal auditors. These undisclosed meetings can enhance the overall exchange of relevant and reliable information (Zain and Subramaniam, 2007). Moreover, increasing the frequency of AC meetings reduces agency problems and decreases the resignation of auditors (Lee et al., 2004). A high meeting rate generally provides auditors with a broader time span to more effectively coordinate, analyze and evaluate financial statements. This flexibility allows them to exercise a deep critical vision that can lead to an increase in perceived credibility and improve the financial information quality and financial statements of conventional and Islamic banks.

We have therefore retained the most appropriate hypothesis:

H4: Meetings' number held by the AC has a positive impact on the FP of Islamic and conventional and banks.

3. Methodology of the Research

The first returned to the difficulties of collecting data on FP and CA especially since these two variables are very secret. This prevents analysts from deepening their theoretical visions and generalizing their results and empirical interpretations. Then, the reasons for the birth of governance and performance problems come from different banking models and different governance systems. Finally, the impacts linked to the governance mechanisms are subject not only to internal factors within banks but also to several contingency factors and other vulnerable economic events, which makes almost all analyzes proportional in that they are based on proportional foundations. To overcome this problem, we chose the demonstrative approach in our research methodology.

3.1. Research Design

In this study, we preferred the application of the demonstrative analysis method while comparing between the established models. Our analysis focused on the association of the AC determinants with those of FP in each type of bank and between the two banks' types. We also looked at the relationships between stakeholders and their individual behaviors. To reach our objective, the plan to follow began presenting the data, then we moved on to defining the variables, ending with the exposure of the models.

3.1.1. Data

Two samples were taken from two reference populations whose are made up of 2,974 conventional financial institutions and 683 Islamic financial institutions collected from 30 countries between 2010 and 2019. However, we have excluded all specific financial institutions subject to particular regulations. The tested samples include only purely conventional or Islamic banks. This restriction reduced our samples' size to 112 banks each. Samples are located in: USA (2), France (2), Singapore (4), Algeria (3), Thailand (1), India

(2), Egypt (4), Bangladesh (4), Indonesia (4), Pakistan (8), Tunisia (2), Malaysia (7), Canada (1), Sudan (5), Turkey (5), United Kingdom (5), Luxembourg (2), Bahrain (6), Jordan (4), Kuwait (6), Oman (3), Qatar (6), Saudi Arabia (9), United Arab Emirates (5), South Africa (1), Senegal (3), Nigeria (2), Sri Lanka (1), Kazakhstan (3), and Lebanon (2).

3.1.2. Variables to be Tested

3.1.2.1. Variables to Explain

In this sub-section, we presented the FP measures. The main variable to explain was represented by four dependent variables: profitability, efficiency, liquidity, and solvency. Table 2 shows the parameters we worked on, the symbols and the relative reports.

Table 2: Variables to explain's description

Setting of FP determinants	CBs' rating	IBs' rating	Measurement	Previous studies
Liquidity ratio	Liqtc	Liqti	Net Loans / Total Assets	Bougatef (2011); Norhidayah et al. (2011)
Profitability ratio	Protc	Proti	Marginal Profit / Total Revenues	Sujan et al. (2013); Atyeh et al. (2015)
Solvency ratio	Soltc	Solti	Total Loans / Total Deposits	Tandelilin et al. (2007); Ola and Suzanna (2015)
Efficiency ratio	Efftc	Effti	Operating result / Average Total Assets	Emilia and Judit (2012); Ola and Suzanna (2015)

3.1.2.2. Explanatory Variables

Throughout the remaining part of this work, banks' FP is explained by four determinants of the AC. Referring to the review of the previous literature, the predominantly independent variables have been described in Table 3 as follows:

Table 3: Explanatory variables' description

CBs' rating	IBs' rating	Measurement	Previous studies
Size of CB's Audit Committee (TCOMc)	Size of IB's Audit Committee (TCOMi)	Directors / auditors' number in the audit committee	Poudel and Hovey (2013); Chandrasegaram et al. (2013); Bala and Kumai (2015)
Competence of the CB's Audit Committee	Competence of the IB's Audit Committee	Binary variable: 1: if there is an expert of (accounting, finance or audit on the audit committee	De-Fond et al. (2005); Agrawal and Chadha, 2005); Krishnan and Visvanathan (2008);

(PRESEXP _c)	(PRESEXP _i)	0: if not	Bala and Kumai (2015)
Independence of the CB's Audit Committee (INDCOM _c)	Independence of the IB's Audit Committee (INDCOM _i)	Independent directors' number in the audit committee	Fanta et al. (2013); Chandrasegaram et al. (2013); Durgavanshi (2014); Bala and Kumai (2015)
Number of Audit Committee meetings (REUCOM _c)	Number of Audit Committee meetings (REUCOM _i)	Meetings held by the audit committee during a year	Saleh et al. (2007); Chandrasegaram et al. (2013); Bala and Kumai, 2015); Surbakti et al. (2017)

3.1.2.3. Control Variables

Table 4 displays the list of control variables supported by some previous studies that employed the same variables and their measures.

Table 4: Control variables' description

Control variable	CBs' rating	IBs' rating	Measurement	Previous studies
Bank Size	TAc	TAi	Logarithm of the annual book value of total assets of conventional / Islamic bank	Ben-Amar and Boujenoui (2007); Fanta et al. (2013); Berger et al. (2014)
Bank Age	AGc	AGi	Conventional / Islamic bank age for each year	Jemric and Vujcic (2002); Jeff et al. (2010a); Aysan et al. (2017)
Bank Type	TYc	TYi	Variable can take 3 modes: 1: Means the bank is commercial 2: Means the bank is investment 3: Means the bank is universal	Kim and Rasiah (2010); Farazi et al. (2011); Kim et al. (2012)
Inflation	INFc	INFi	The inflation rate in the country to which the bank is affiliated	Ramadan (2011); Rashwan and Ehab (2016); Ferhi (2017)

3.2. Multivariate Analysis

3.2.1. Model Specification Test (Ramsey RESET Test)

The regression error specification test (Ramsey RESET Test) is a verification test of simple and generalized linear regression models (Sapra, 2005). It tests the influence of nonlinear combinations on the significance of the explanatory variables in relation to the effect of the linear combination in order to know if the model is incorrectly specified or erroneous because of the absence, the bad choice or the forgetfulness of the relevant variables or due to heteroscedasticity enigmas or structural difficulties of autocorrelation (Hackl, 2004).

In this section, we have presented the overall quality of the measurement models of the impact of the quality of banking governance on the performance of CBs to specify. The assessment of the specification test in our study of the performance of CBs highlights linear models each. If the p-value of the Fisher test is greater than 10% (> 0.1), we accept the hypothesis of good specification of the model and vice versa. If the null hypothesis is accepted, we draw the conclusion of the correct specification of the model.

The results of the model specification test of two samples are presented together in the table below:

Table 5: Results of the Ramsey Reset Test of Two Samples by Model

CBs				IBs			
Model	F	Prob > F	Decision	Model	F	Prob > F	Decision
Liqtc	1.33	0.2651	P>10% The model does not contain omitted variables	Liqti	3.74	0.0122	P<10% Possibility of specification errors
LnProtc	2.76	0.0434	P<10% Possibility of specification errors	LnProti	4.57	0.0043	P<10% Possibility of specification errors
LnSoltc	3.40	0.0186	P<10% Possibility of specification errors	LnSolti	3.44	0.0181	P<10% Possibility of specification errors
Efftc	66.06	0.0000	P<10% Possibility of specification errors	Effti	3.59	0.0148	P<10% Possibility of specification errors

The regression specification test statistical analysis showed a cross-check between the results. The models specific to the profitability, the efficiency and the solvency of the conventional banks as the regressions corresponding to the profitability, the efficiency and the solvency of the IBs celebrate a zero risk, that led us to unravel the hypothesis of the good one. specification of models. Therefore, the regression linear regression coefficients in the nonlinear model differ significantly from the estimated coefficients in the linear model. The abandonment of omitted variables in these models is scientifically logical and explicable. Taking into account the specific effects of different countries simultaneously to estimate the parameters of different FP models of conventional and Islamic banks implies the presence of other relevant determinants that may influence the specific quality of internal and external governance other than traditional governance mechanisms.

On the contrary, the models specific to the liquidity of the conventional and Islamic banks are globally in unison, they raise a risk rate largely high, their equivalent p-value of its rejection rates of the null hypothesis are higher than 10% are shown respectively (0.45) and (0.25), this indicates that the probability of integration of the new governance variables is low. Overall, they are considered little missing obreptic variables, it is also an indication of a good specification. In sum, these models are of good quality.

3.2.2. Distinction Between Fixed and Random Effects (Hausman Test)

The next step is to specify the effects of the linear models. The most common test for solving this kind of problem is the Hausman test. This test makes it possible to identify the sources of heterogeneity, to stabilize these effects, to specify the model to be tested and to decide on the best method of estimation. This test revealed the type of effect wavers the correlation between variables measuring bank performance and explanatory variables. The Hausman test assumes the independence between the errors and the explanatory variables so that the two estimators are unbiased; this allows us to discriminate between the coefficients of a fixed estimate and that of a random estimate of the same model from a statistical difference test between the estimators (Hausman, 1978).

The hypotheses of the test are as follows:

H0: There is no systematic difference in coefficients (random effect)

H1: There is a difference between the coefficients (fixed effect)

As revealed in Table 6, the Hausman tests relative to the CBs' models showed a low relative risk of the profitability, the efficiency and the solvency. Likewise, according to Table 7, among the models explaining the IBs' FP, we recorded two models that displayed tolerable risks, these models are efficiency and solvency. The cited models recorded p-values below the threshold limit (5%), which means that they are qualified by fixed effects. In this case, the hypothesis of no systematic difference between the coefficients of the two models' type is rejected. Otherwise, based on the CBs' Hausman test, we found that the CBs' liquidity is a purely random model (Table 6). Even more, from Table 7, we concluded that the models equivalent to the profitability and liquidity of IBs are characterized by random effects. Because heir probabilities exceed the possible threshold (5%).

Table 6: Hausman test of the CBs/Model

Model type	χ^2	Prob> χ^2	Effect type
Liqtc	11.92	0.1032>5%	Random effect model

LnProtc	20.59	0.0044<5%	Fixed effect model
LnSoltc	21.75	0.0028<5%	Fixed effect model
Efftc	19.91	0.0058<5%	Fixed effect model

Table 7: Hausman test of the IBs/Model

Model type	χ^2	Prob> χ^2	Effect type
Liqli	8.21	0.3141>5%	Random effect model
LnProti	2.73	0.9089>5%	Random effect model
LnSolti	46.57	0.0000<5%	Fixed effect model
Effti	25.60	0.0006<5%	Fixed effect model

4. Interpretation of the Comparative Results of the Audit Committee Determinants' Impacts on the Financial Performance Measures of the Conventional and Islamic Banks

4.1. Inter-Models and Inter-Banks Analysis

Before judging the impacts of the AC quality, we should estimate the separate impacts provided by the AC determinants and the effects generated by the other control variables on the FP measures. To do this, we have established multiple linear models.

To correctly decide the individual significance of the variables, we referred to the Student statistics. When the estimated statistics' probability is less than one of the reference significance thresholds, we have selected the variable, otherwise, it is considered insignificant. Table 8 presents the models' lists of each bank type as following.

Table 8 : Models to compare

	Conventional multiple regressions	Islamic multiple regressions
Association between banks' liquidity and AC quality	$Liqli = \alpha_0 + \alpha_1 LnTCOMc + \alpha_2 LnPRESEXPc + \alpha_3 LnINDCOMc + \alpha_4 LnREUCOMc + \alpha_5 LnTAc + \alpha_6 LnAG + \alpha_7 TYc + \alpha_8 LnINF + \epsilon_t$	$Liqli = \beta_0 + \beta_1 LnTCOMi + \beta_2 LnPRESEXPi + \beta_3 LnINDCOMi + \beta_4 LnREUCOMi + \beta_5 LnTAi + \beta_6 LnAGi + \beta_7 TYi + \beta_8 LnINFi + \epsilon_t$
Association between banks' profitability and AC	$LnProtc = \alpha_0 + \alpha_1 LnTCOMc + \alpha_2 LnPRESEXPc + \alpha_3 LnINDCOMc + \alpha_4 LnREUCOMc + \alpha_5 LnTAc + \alpha_6 LnAG + \alpha_7 TYc + \alpha_8 LnINF + \epsilon_t$	$LnProti = \beta_0 + \beta_1 LnTCOMi + \beta_2 LnPRESEXPi + \beta_3 LnINDCOMi + \beta_4 LnREUCOMi + \beta_5 LnTAi + \beta_6 LnAGi + \beta_7 TYi + \beta_8 LnINFi + \epsilon_t$

quality		
Association between banks' solvency and AC quality	$\text{LnSoltc} = \alpha_0 + \alpha_1 \text{LnTCOMc} + \alpha_2 \text{LnPRESEXPc} + \alpha_3 \text{LnINDCOMc} + \alpha_4 \text{LnREUCOMc} + \alpha_5 \text{LnTAc} + \alpha_6 \text{LnAG} + \alpha_7 \text{TYc} + \alpha_8 \text{LnINF} + \varepsilon_t$	$\text{LnSolti} = \beta_0 + \beta_1 \text{LnTCOMi} + \beta_2 \text{LnPRESEXPi} + \beta_3 \text{LnINDCOMi} + \beta_4 \text{LnREUCOMi} + \beta_5 \text{LnTAi} + \beta_6 \text{LnAGi} + \beta_7 \text{TYi} + \beta_8 \text{LnINFi} + \varepsilon_t$
Association between banks' efficiency and AC quality	$\text{Efftc} = \alpha_0 + \alpha_1 \text{LnTCOMc} + \alpha_2 \text{LnPRESEXPc} + \alpha_3 \text{LnINDCOMc} + \alpha_4 \text{LnREUCOMc} + \alpha_5 \text{LnTAc} + \alpha_6 \text{LnAG} + \alpha_7 \text{TYc} + \alpha_8 \text{LnINF} + \varepsilon_t$	$\text{Effti} = \beta_0 + \beta_1 \text{LnTCOMi} + \beta_2 \text{LnPRESEXPi} + \beta_3 \text{LnINDCOMi} + \beta_4 \text{LnREUCOMi} + \beta_5 \text{LnTAi} + \beta_6 \text{LnAGi} + \beta_7 \text{TYi} + \beta_8 \text{LnINFi} + \varepsilon_t$

The AC can have a positive or negative influence on the FP of banks depending on the situations encountered. So far, we have checked the significant variables that explain the quality of the ownership in each model. As revealed in Tables 9 to 16 illustrated in the appendix, in the next step, we have established a comparative study of the impact between similar models. This proposition allows to highlighting their importance in their existence. Finally, we made a comparison between the pre-established signs (expected) and the signs already found.

From the foregoing, the mono-analysis already carried out showed an ambiguity of confirmation or assertion of the hypotheses from a single FP measure. Moreover, not all tested variables revealed significant impacts on performance measures. The resolution of the incompatibility of the signs led us to establish a state of reconciliation between the determinants' impacts specific to each bank type. This approach consists in focusing on the significant partial impacts and then to determine the definitively significant impacts. The objective is to compare the cumulative and significant impacts of the banks' types.

4.2. Two-Dimensional Differential Analysis of Audit Committee Impacts on the Financial Performance of Islamic and Conventional Banks

From the foregoing, the mono-analysis already carried out has shown an ambiguity of confirmation or assertion of the hypotheses from a single determinant of the performance. Besides, not all governance mechanisms have revealed significant effects on performance measures. The resolution of the incompatibility of the signs has led us to establish a state of reconciliation between the effects specific to the determinants specific to each type of bank.

To better understand the depth of the difference between AC effects on the FP of each type of bank, we collected individual AC specific effects on each measure of FP to obtain combined effects for each bank model. We then proceeded to the comparative analysis between the impacts of the combined AC effects on each FP measure corresponding to the CBs' group apart from the combined effects of AC on each measure of the FP relative to the IBs' group.

4.2.1. Audit Committee Size

Returning to Table 17, we noted that the association between AC size and the CBs' FP is negative. This effect appeared clear especially on the solvency, which implies that the more the AC size increases, the more its authority will develop and the more its expansion will improve. The provision of unlimited and uncontrolled decision-making opens up more freedom for AC members to commit more mistakes and wrongful corruptions. The errors arise mainly from opportunistic behavior, the consequence of mutual conflicts of interest between the many members of the AC or because of the poor communication with / between board directors. Furthermore, the greater the AC size in the CBs, the more friendships are established over time between the different AC members and supervisors or also with the administrators of the other mechanisms of governance. This all the more indirectly affects the process of achieving profitability and liquidity. The opportunistic behavior of the members aims at gaining the maximum of the personal interests and gives the priority of investment, sharing of the dividends and the gains to the team of committee which is reflected directly and systematically on the bank's solvency.

Table 17: Summary of the AC size impacts on the FP of conventional and Islamic banks

Variable	Liqtc/Liqti	LnProtc/LnPr oti	LnSoltc/LnS olti	Efftc/Effti	Cumulative effect	Decision
LnTCOMc	+	-*	-*	+	-	H1 rejected
LnTCOMi	-	+*	+*	-*	+	H1 accepted

Whereas, as shown in Table 17, the assembly of cumulative effects of AC size on the IBs' FP has brought a positive collective effect. This impact is in fact due to the AC adjustment power exerted on the members of the board of directors against all types of opportunistic behavior, especially as regards the choices and decisions related to the profitability of the projects. But that does not prevent this invisible deterrent power from creating intense tension between board members and committee members. This means that this power can create tension between the committee and the board that will be reflected on the effectiveness and use of monetary resources, on the unpredictable quality of work within the committee and the operating efficiency of human and financial capital. Besides, the AC in IBs is a security barrier against the parallel decisions and conflicts of interest between board members. In this context, the more members of the committee, the more it encourages the vigilance of the other mechanisms of governance in the case of manipulation or overtaking Fikh Al-Muamalat.

4.2.2. Presence of an Expert in Accounting, Finance or Audit within the Audit Committee

Referring to Table 18, we concluded that there is a positive correlation between the combined effect of the presence of experts on ACs and the CBs' FP. The presence of an expert in accounting, finance or auditing offers two types of effects. On the one hand, experts tend to exercise active and disciplinary control over the activities of executives. In this case, they form an assurance of the quality of preparation and control of financial statements and defend the interests of shareholders against all types of opportunistic behavior. On the other

hand, an expert generates quality accounting and financial information on profitability and solvency on which the AC can base its decisions. Moreover, the presence of a qualified executive facilitates the monitoring of senior management personnel during their audits of accounting and financial information generally related to the overall banks' situation and particularly to the banks' liquidity.

Table 18: Summary of the presence of an expert on the FP of conventional and Islamic banks

Variable	Liqtc/Liqti	LnProtc/LnProti	LnSoltc/LnSolti	Efftc/Effti	Cumulative effect	Decision
LnPRESEXPc	-	+*	+*	-*	+	H2 accepted
LnPRESEXPi	+	-*	-*	+*	-	H2 rejected

However, Table 18 shows that the effect identified during the analysis of the presence of an expert within the AC of the IBs is associated with a bad overall FP. This result is a sign that reflects the spread of agency problems between the administrative branches of banks in our study sample and more particularly between directors and shareholders. The existence of a qualified expert in accounting or conventional finance within an AC may not have sufficient competence in Islamic finance. The lack of knowledge of the necessary scientific training limits AC since the shortage has caused a contrast in data processing. In IBs, the lack of oriented and specified qualification has provoked a paradox of interpretation and analysis of accounting, financial or governance information. A similar situation is easily evolving to become a disagreement between the interests of the AC and the interests of other stakeholders namely, the board of directors, the Charia committee, shareholders, and even depositors and potential investors. As a solution to overcome the obstacle of the shortage of experts in the Islamic banking sector, it is possible to create training institutions for specialists in the field of Islamic finance. Specialized auditors in Islamic finance who are well versed in the methods of control and operation of IBs. This solution is useful, effective and feasible in countries whose banking systems are entirely Islamic or countries that adopt the Islamic banking system as an alternative to the existing system.

4.2.3. Presence of Independent Directors in the Audit Committee

Returning to the results in Table 19, the cumulative effect of AC independence on the CBs' FP has revealed a negative association resulting mainly from profitability and efficiency. We found that independent outside directors negatively and directly affected the overall level of CBs' FP. On the one hand, foreign administrators can not understand the complexity of the bank in detail. They are less informed about the history of the institution than the internal administrators. Furthermore, they are not sufficiently familiar with the details of the bank financial situation. They are not in harmony with its operations and do not have sufficient knowledge of the quality of relations between managers and observers. As a result, they are unable to perform their oversight and monitoring role ideally in accordance with auditing performance standards and with financial reporting standards due to the lack of necessary information. On the other hand, the traditional AC procedure is based on a post-activity restriction after a high margin of choice and free decisions by other governance

mechanisms. This explanation was confirmed by the similar effect of the presence of independent directors in the board of IBs on FP.

Table 19: Summary of the AC independence impacts on FP of conventional and Islamic banks

Variable	Liqtc/Liqti	LnProtc/LnPr oti	LnSoltc/LnS olti	Efftc/Effti	Cumulative effect	Decision
LnINDCOMc	-	-*	-	-*	-	H3 accepted
LnINDCOMi	-*	-*	-*	-*	-	H3 accepted

Also, the findings in Table 19 indicate that there is a poor cumulative association between the percentage of independent directors in the Islamic Banking AC and the measures of FP. On the one hand, foreign administrators of IBs reacted according to their divergent interests either with each other or with the internal administrators of other committees. This created conflicts of interest between the AC and the board of directors and between the AC and the Charia committee. On the other hand, in most cases, the independent directors appointed to ACs have taken academic training in conventional economics and conventional management. So, they suffered from a poor knowledge of Fikh Al-Moamalat and Islamic Charia. Besides, the independent directors perform their tasks subjectively. In particular, their needs to maintain a good reputation within the IB encourage them to perform their tasks in a close and convergent manner with the other AC executive directors as far as possible. They are obliged to accept the same decisions and to give similar advice to the internal directors in order to guarantee their positions as independent directors.

4.2.4. Number of Audit Committee Meetings

From Table 20, the number of AC meetings revealed that a unanimous impact is not clear on the FP. The lack of precision and accuracy raised several questions of the utility, existence, and feasibility of accreditation of this committee determinant. This effect in turn directly affects the overall quality of the AC as a traditional mechanism of governance. This ambiguity is interpreted by the lack of sufficient accountability shown by AC members to complete their responsibilities in accordance with good governance standards. Besides, such an observation indicates that members of the CBs' ACs conducted the minimum number of meetings to discuss the obstacles, shortcomings, and challenges acting against the improvement of the FP. Furthermore, this also implies that directors have missed attendance at scheduled meetings, while these meetings are devoted to discussing the activities and specific tasks that are delegated by the board of directors. If this impact remains the same with several measures of performance, it becomes a bad sign that needs to be corrected and rectified as much as possible through two methods. In the event that the defect arises from an agency problem, the change of committee members has become a priority. However, if the detected problem causes numerable errors related to an accounting record, a results management, the swelling of loads or a manipulation of the products, an increase of the number of the meetings becomes essential.

Table 20: Summary of the AC meetings impacts on FP of conventional and Islamic banks

Variable	Liqt/Liqt _i	LnProt/LnPr oti	LnSolt/LnS olti	Efftc/Eff ti	Cumulative effect	Decision
LnREUCOM _c	+*	-*	+*	-*	Neutral effect	Blurred effect
LnREUCOM _i	+*	-	-	+*	+	H4 accepted

Nevertheless, contrary to what is thought in the governance literature in which we searched; Table 20 reveals that the number of AC meetings has a positive effect on the IBs' FP. This implies that as the number of meetings increases, so does the advantage that drives the IBs' FP to improve. This asserts that ACs play their usual role as an adjunct to other governance mechanisms. This determinant has shown that it is a source of strength to correct board weaknesses especially since the rate of board meetings has shown a negative effect from board members. In this case, the intensive and multiple meetings of committee auditors have reduced the subjectivity and opportunistic behaviors coming from the board of directors. And because member independence is a success factor for an AC, the more AC auditors meet, the more they promote their ability to deter oversights, to detect conflicts of interest in a proactive way in dealing with contradictions in Fikh Al-Muamalat and minimizing the number and pace of agency relations.

5. Conclusion and Implication

Evidently, the effect of governance mechanisms contributes to improving the FP of conventional and Islamic banks. However, reality has demonstrated the opposite. The degree of partial impact varies from one AC determinant to another and from one performance variable to another for the same control variable. In addition, the results vary from one performance measure to another for the same AC characteristic, depending on the study context, the accounting standards applied and the governance approach followed.

To distinguish between the two models, we used the method of matching / assembling effects in order to choose the bank type characterized by the best qualified committee and can further improve the FP. We have discovered that within CBs, the AC negatively influences FP, this explicitly indicates the presence of conflicting relationships either between the members of the ACs, or between the ACs and the other stakeholders on the FP. The other side, within IBs, the ACs showed an incomprehensible impact on the FP, which explained that the FP is almost sensitive of the AC quality and confirmed presence of implicit conflicts of interest and agency relationships on the FP. For this reason, the development of accounting and auditing aspects has become a necessity.

The global unification of standards makes it possible to adjust and arrange AC. However, respecting the particularities of each banking model makes it easier to oversee and monitor the AC set up within the various banks regardless of their types. On the basis of this proposal, the creation of a unified and independent international institute is possible. This non-profit organization must be responsible for monitoring the CAs and endowed with the power of compulsory application of the organizational standards of the CAs improving their

working qualities. Such an organization is more feasible than optional standardization and more efficient than the plurality of organisms.

The purpose of the new approach is to forecast the opportunistic behaviors of the different stakeholders, to simultaneously evaluate activities, returns, operations and behaviors, to solve the conflicts, to verify the overruns related to the management, to detect the corruptions, to maximize profits, to control accounting records and FP and to facilitate the achievement of planned objectives. The entry into systemic and dynamic movement of control forms a detection mechanism that forces directors and administrators to move away from stable, identical, opportunistic, and rooting behaviors as well from all agency relationships by focusing always with provisions geared towards pre-established objectives. This procedure motivates controllers within any governance mechanisms, especially that it includes reciprocal feedback nodes and rectification stations and re-evaluation centers for previous activities, documents and informations. The vision of our approach considers the concept of governance indissociable with that of FP. To improve the governance quality, it is necessary to design an innovative structure and to implement new control instruments, in particular, FP must be assessed.

The main goals of dynamic governance by objective are:

* Mutual control between behavioral governance and traditional governance of AC; each governance mechanism completes the other.

* Minimize agency costs due to own-account business by aligning perceived and implicit leadership behaviors with key incentives.

This governance system protects the public and individual interests of each internal and external stakeholder separately by requiring owners, administrators, and managers to obey pre-defined governance rules. Its main role is to ensure a regular harmonization in real-time, in the department, in space and by activity, and operation between the various organizations of conventional and Islamic banks and between internal and external governance mechanisms. The reinforcement is done within the bank by force of sanctions always attached to the achievement of the objectives such as the improvement of the FP in our work.

Appendix

Table 9: Regression results of the AC impacts on the CBs' liquidity

Liqtc	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMc	0.0407939	0.0305873	1.33	0.182	-0.0191562	0.1007439
LnPRESEXPc	-0.001588	0.0191016	-0.08	0.934	-0.0390264	0.0358503
LnINDCOMc	-0.0037231	0.0122365	-0.30	0.761	-0.0277062	0.0202601
LnREUCOMc	0.0624931	0.0127129	4.92	0.000***	0.0375763	0.0874099
LnTAc	-0.0996069	0.034553	-2.88	0.004***	-0.1677184	-0.0314955
LnAGc	0.0267973	0.0104894	2.55	0.011***	0.0062384	0.0473562

TYc	-0.0053628	0.0108147	-0.50	0.620	-0.0265592	0.0158336
LnINFc	-0.0798724	0.0179172	-4.46	0.000***	-0.1151912	-0.0445537
Constant	0.7640561	0.119199	6.41	0.000	0.5290891	0.9990231

Note: *** Correlation is significant at the 0.01 level

Table 10: Regression results of the AC impacts on the IBs' liquidity

Liqti	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMi	-0.0057693	0.0326311	-0.18	0.860	-0.069725	0.0581864
LnPRESEXPi	0.0284774	0.0188779	1.51	0.131	-0.0085226	0.0654775
LnINDCOMi	-0.0420951	0.0147208	-2.86	0.004***	-0.0709473	-0.0132428
LnREUCOMi	0.0005586	0.0176526	0.03	0.000***	-0.0340399	0.0351571
LnTAi	0.2153424	0.029951	7.19	0.000***	0.1566395	0.2740452
LnAGi	0.012708	0.0088786	1.43	0.152	-0.0046937	0.0301097
TYi	-0.0068875	0.0131885	-0.52	0.602	-0.0327366	0.0189615
LnINFi	-0.0487003	0.0128372	-3.79	0.000***	-0.0738607	-0.0235399
Constant	0.1704658	0.0729324	2.34	0.019	0.027521	0.3134106

Note: *** Correlation is significant at the 0.01 level

Table 11: Regression results of the AC impacts on the CBs' profitability

LnProtc	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMc	-0.2884626	0.1385541	-2.08	0.037**	-0.5600237	-0.0169015
LnPRESEXPc	0.1485048	0.0842326	1.76	0.078*	-0.016588	0.3135976
LnINDCOMc	-0.130113	0.062384	-2.09	0.037**	-0.2523834	-0.0078426
LnREUCOMc	-0.5164572	0.0655936	-7.87	0.000***	-0.6450183	-0.3878962
LnTAc	0.2524949	0.0999133	2.53	0.011***	0.0566684	0.4483214
LnAGc	0.349092	0.0379538	9.20	0.000***	0.274704	0.42348
TYc	-0.0439415	0.0631759	-0.70	0.487	-0.167764	0.079881
LnINFc	-0.2996068	0.0446147	-6.72	0.000***	-0.38705	-0.2121636

Constant	3.124168	0.3007567	10.39	0.000	2.534696	3.71364
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Note: * Correlation is significant at the 0.10 level; ** Correlation is significant at the 0.01 level; *** Correlation is significant at the 0.01 level

Table 12: Regression results of the AC impacts on the IBs' profitability

LnProti	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMi	0.338175	0.1714386	1.97	0.049**	0.0021615	0.6741886
LnPRESEXPi	-0.1161638	0.0983416	-1.18	0.008***	-0.3089099	0.0765822
LnINDCOMi	-0.1668709	0.0858663	-1.94	0.052**	-0.3351657	0.001424
LnREUCOMi	-0.0165186	0.0798473	-0.21	0.836	-0.1730164	0.1399791
LnTAi	-0.458652	0.2286733	-2.01	0.005***	-0.9068434	-0.0104605
LnAGi	0.2282107	0.0562607	4.06	0.000***	0.1179418	0.3384796
TYi	0.277875	0.0608873	4.56	0.000***	0.1585381	0.3972119
LnINFi	-0.5574054	.0692124	-8.05	0.000***	-0.6930591	-0.4217516
Constant	3.296777	0.4729002	6.97	0.000	2.369909	4.223644

Note: ** Correlation is significant at the 0.01 level; *** Correlation is significant at the 0.01 level

Table 13: Regression results of the AC impacts on the CBs' solvency

LnSoltc	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMc	-0.1126285	0.0401797	-2.80	0.005***	-0.1913793	-0.0338777
LnPRESEXPc	0.0680754	0.0256075	2.66	0.008***	0.0178857	0.1182651
LnINDCOMc	-0.0032208	0.0155482	-0.21	0.836	-0.0336947	0.0272531
LnREUCOMc	0.1482072	0.0108302	13.68	0.000***	0.1269804	0.169434
LnTAc	-0.0860686	0.0201646	-4.27	0.000***	-0.1255905	-0.0465468
LnAGc	-0.0211443	0.0168668	-1.25	0.210	-0.0542025	0.011914
TYc	-0.0631805	0.0190408	-3.32	0.001***	-0.1004998	-0.0258613
LnINFc	-0.1564712	0.0101927	-15.35	0.000***	-0.1764486	-0.1364938
Constant	0.3116139	0.0715872	4.35	0.000	0.1713055	0.4519223

Note: *** Correlation is significant at the 0.01 level

Table 14: Regression results of AC impacts on the IBs' solvency

LnSolti	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMi	0.5169722	0.2066796	2.50	0.010***	0.1118876	0.9220568
LnPRESEXPi	-0.2514594	0.1281717	-1.96	0.050**	-0.5026713	-0.0002475
LnINDCOMi	-0.1548508	0.0788215	-1.96	0.049**	-0.3093381	-0.0003635
LnREUCOMi	-0.0791946	0.1009228	-0.78	0.433	-0.2769997	0.1186105
LnTAi	0.1497085	0.1736595	0.86	0.389	-0.1906578	0.4900748
LnAGi	-0.066258	0.0490521	-1.35	0.177	-0.1623983	0.0298823
TYi	0.1083092	0.0609483	1.78	0.076*	-0.0111474	0.2277657
LnINFi	-0.2519149	0.0514612	-4.90	0.000***	-0.352777	-0.1510528
Constant	-0.3627539	0.3897955	-0.93	0.352	-1.126739	0.4012311

Note: * Correlation is significant at the 0.10 level; ** Correlation is significant at the 0.01 level; *** Correlation is significant at the 0.01 level

Table 15: Regression results of the AC impacts on the CBs' efficiency

EfftC	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMc	0.1805766	0.1467547	1.23	0.219	-0.1070573	0.4682105
LnPRESEXPc	-0.2710849	0.0840667	-3.22	0.001***	-0.4358525	-0.1063173
LnINDCOMc	-0.2604529	0.0578989	-4.50	0.000***	-0.3739326	-0.1469732
LnREUCOMc	-0.2112201	0.0578205	-3.65	0.000***	-0.3245462	-0.097894
LnTAc	-0.6003957	0.1064388	-5.64	0.000***	-0.809012	-0.3917794
LnAGc	0.0875454	0.0616019	1.42	0.155	-0.0331921	0.2082829
TYc	0.0066128	0.0608151	0.11	0.913	-0.1125827	0.1258082
LnINFc	0.3480745	0.048776	7.14	0.000***	0.2524753	0.4436738
Constant	-2.804403	0.3749235	-7.48	0.000	-3.539239	-2.069566

Note: *** Correlation is significant at the 0.01 level

Table 16: Regression results of the AC impacts on the IBs' efficiency

Effti	Coefficient	Std. Err.	Z	P> z	[95% Conf. Interval]	
LnTCOMi	-0.0087805	0.0029422	-2.98	0.003***	-0.0145472	-0.0030139
LnPRESEXPi	0.0029218	0.0012644	2.31	0.021**	0.0004436	0.0054
LnINDCOMi	-0.0028771	0.0012041	-2.39	0.017**	-0.005237	-0.0005171
LnREUCOMi	0.0017898	0.0013903	1.29	0.008***	-0.0009352	0.0045147
LnTAi	0.0181709	0.0041075	4.42	0.000***	0.0101203	0.0262215
LnAGi	0.0074394	0.0007447	9.99	0.000***	0.0059797	0.008899
TYi	0.0016197	0.0008741	1.85	0.064*	-0.0000935	0.0033329
LnINFi	0.0019965	0.0009756	2.05	0.041**	0.0000843	0.0039087
Constant	-0.0432931	0.0082555	-5.24	0.000	-0.0594737	-0.0271126

Note: * Correlation is significant at the 0.10 level; ** Correlation is significant at the 0.01 level; *** Correlation is significant at the 0.01 level

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