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Audit Committee Impact on Corporate Profitability in Oman Companies: an Auditing and Management Accounting Perspective

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ABSTRACT

This work investigates the impact of audit committees' features as predictor variables of corporate profitability with a sample of firms belong to non-financial sector in Muscat Securities Market (MSM). This work analyzed cross sectional data for 60 non-financial firms. It used annual reports for the year of 2019 to analyze the impact of audit committees' features on corporate profitability. The present work tested its hypotheses and utilized its variables via utilizing the Smart-PLS for data analysis. The findings revealed that a positive association between all the predictors and dependent variables are exist among the whole variables; audit committee, audit Independence, meeting of audit committee, and corporate profitability measured by management accounting's indicators represented by ROA and ROE. This work is a new in its kind to be applied in Oman context via examining the relation between its predictors of audit committees' features towards their impact on corporate profitability. The current study presents a theoretical and practical implications as a contribution relevant to practitioners working and academics in areas related to corporate profitability. In that, it furnishes empirical evidence for the policymakers, researchers and other interested parties.

INTRODUCTION

The main character of audit committee is to screen the integrity of financial statements delivered by management (Hashim, Ahmed, & Huey, 2019; Azubike, & Nweze, 2019; Alabdullah, Ahmed, & Nor, 2018; Eyenubo, Mohammed & Ali, 2017). As of late, this significant job has been extended past the annual financial statements to incorporate the quarterly financial reports (Hashim, Ahmed & Huey, 2019). Audit committees are getting more involved within the oversight of financial reporting matters as contrasted with financial statements (Fiolleau, Hoang, & Pomeroy, 2019). As reported by Owolabi and Dada (2011), considering the quantum of firm failure and collapses, it is essential that the audit committee is paid attention and more seriously in each corporate organization. The audit committee considers an integral part of control mechanisms feature because it leads to enhance good control mechanisms and enhance the integrity of financial reporting (Eyenubo, at el, 2017). Sarbanes-Oxley Act emphasized the significance of the financial experience of the audit committee to enhancing the quality of the financial reports. According to Azubike and Nweze (2019) the various stakeholders on internal control (corporate governance) notably audit committees, internal and external auditors, and institutional investors appear uncertain about their roles in enhancing and improving corporate profitability. It is being wrongly taught that the systems of control mechanisms are solely the problem of the management and board in the firm. So, audit committee is the most significant governance tool with regard to audit firm appointments because it is answerable for overseeing audit quality and for hiring the external auditor (Hashim, at el., 2019). Therefore, a properly performance audit committee is critical to guarantee the auditors independence and high-quality financial reporting. Poor performance audit committee leads to weak outputs in the firm's performance and might lead to potential fraud. There are few studies in the literature review towards audit committees features on Oman, (Ahmed, Alabdullah, Thottoli & Maryanti, 2020; Raweh, Kamardin & Malik, 2019; Al-Matari, Al-Dhaafri & Al-Swidi 2019) while there is a need for concentrate on business environment in Oman. With respect to Oman context of the current research, based on late literature, the firms

in Oman has faced some challenges and difficulties in different issues in various small, medium and large firms.

The set of problems and challenges above represents a call for scholars to research the economic environment in Omani firms and the necessity of exploring issues that help enhance the performance of Omani firms because enhancing the performance of the firms ultimately leads to improving the economic performance of the country as a whole. Thus, The present research is a response to what was investigated in previous works therefore it goal at testing the relation between audit committees' features and performance among the companies listed in Muscat Securities Market (MSM) in Oman.

LITERATURE REVIEW

The current research focused on the most current studies that related to audit committees' features and corporate profitability, generally it focused on the works that has been done on Oman context. Audit committee characterized among other control mechanisms is considered as an essential role in monitoring and overseeing the management and advising with regards to the usage of internal control systems and preparation of financial statement, as such importance for such control mechanisms and others are mentioned by several studies that done in the literature review (e.g. Hamdan, 2020; Ammar & Ahmad Zuluki, 2017; Alabdullah, 2019; Alabdullah, 2018; Alabdullah, 2017; Alabdullah, 2016; Alabdullah, 2016a; Alabdullah, 2016b; Alabdullah, Nor, & Ries, 2018). A study done by Ahmed et al. (2020) investigates the control mechanisms and firm profitability in Oman and found that a positive relationship between all the CG mechanisms is found: gender, ownership, audit committee and board size and firm profitability. Hamdan (2020) in his study examined characteristics of audit committee (audit committee size, in-dependency of audit committee, financial experience and audit committee diligence) and earnings conservatism. As a result, they found that as much as the audit committees are big with enhancement of in-dependency and with financial experience are likely to be connected with conservatism of earnings in financial institutions in Gulf Cooperation Council

(GCC). Raweh, Kamardin and Malik, (2019) study the association between characteristics of audit committee and audit report lag. They show audit committee size has a positive link with audit report and financial expertise of audit committee will lead to reduces audit lag. Al-Matari, Al-Dhaafri and Al-Swidi (2019) examined the relationship between the direct structure of the ownership (foreign, government ownership and institutional ownership) and non-financial performance companies in Oman. Further, investigated the moderator role of audit quality on the link between the ownership structure and companies' performance. This work indicates the significant evidence of the moderating role of audit quality on the link between the ownership structure and companies' performance. Amrah, and Obaid (2019) in their study emphasis to test the link between effectiveness of control mechanisms and quality of financial reporting among family and also the non-family owned enterprises in Omani context and they found that the link between effectiveness of control mechanisms and its quality of financial reporting is significant and positive for both. Rehman and Hashim (2020) investigates the link between fraud risk assessment and good control mechanisms of firms listed in Oman and argued that fraud risk assessment have an significant effect on good control mechanisms. In line with new trends in that Islamic industrial consider to be as remedy for preventing the declining that might face the companies in normal circumstances and also in the extraordinary circumstances, such as what have faced the world recently from pandemic represented by Coronavirus disease (COVID-19) and that what have been mentioned by several studies (e.g., Ahmed et al., 2018; Ahmed, Islam, & Alabdullah, 2018; Ahmed, Islam, Zuqibeh, & Alabdullah, 2014; Ahmed, Alabdullah, Amran, & Yahya, 2018; Ahmed, Islam, Alabdullah, & Amran, 2019; Ahmed, Abdul, Alabdullah, & Thottoli, 2019)

RESEARCH METHODOLOGY

This work is quantitative and population of the current study is 117 firms belong to Muscat Securities Market (MSM) in Oman. The sample size is 60 selected listed firms in the non-financial sector used annual financial reports. The current work used the Smart-PLS technique' regression method to analyze secondary data for non-financial firms in MSM for the fiscal year 2019.

Measurements of Variables

In this work, corporate profitability is the dependent variable and the performance information is achieved via the firms' annual reports for companies listed in Oman. The measurement for audit committees' features used in this work show Table 1 this information was collected from the financial reports of the firms.

Table 1: Measurements of variables

Variables	Acronym	Measurement
Return on Assets	ROA	It is measured as percentage of net income divided by total assets
Return on Equity	ROE	It is measured as a percentage of net income divided by common equity
Audit Committee Size (number)	AUD-Z	The number of auditors on the audit's committees
Audit Committee Independence	AUD-IND	Number of Independent Board of Audit Member
Audit Committee Meeting	AUD-M	Number of Meetings in the committee

RESULTS

This work tested the effect of audit committees' features as a predictor on corporate profitability in a sample of firms belong to non financial sector in Oman. In past literature, this work determine three major variables for firm profitability: size of the audit committee, independency of audit committee and audit committee meeting with influencing the firm profitability relationship.

Correlation Analysis

In Smart-PLS for examine the discriminant validity, there are some standards applied. The square root of all AVE for every variable necessary be more than the correlations' level including the other variables. Table 2. showed the correlation of independent variables IVs (audit committee dimensions) with dependent variable (corporate profitability). Results of analysis showed audit committee size, audit committee Independence and audit committee meeting which is the features of independent variable had a positive relationship with corporate profitability (ROA and ROE). As illustrated in Table 2, AVE's square root overtops the inter-correlations in the model which then ensures sufficient discriminant validity. It is significant at the 0.01 level (2 – tailed).

Table 2, Correlation test

	AUD-M	AUD-IND	AUD -Z	ROA	ROE
AUD-M	1.000				
AUD-IND	0.089	1.000			
AUD -Z	0.323	0.148	1.000		
ROA	0.122	0.151	0.080	1.000	
ROE	0.243	0.187	0.091	0.631	1.000

From table 3. It shows that audit committee dimensions of the size of audit committee, also audit committee Independence with audit committee meeting shows significant effect on performance. An investigation of the determination coefficient (R^2) is done. In this work, a variable which is endogenous show to have R^2 value 0.22 (ROA), 0.25 (ROE) (substantial) suggesting that 22%, 25% of the variance in profitability (ROA and ROE) can be explained by the predictors: audit committee size, audit committee Independence and audit committee meeting.

Table 3: R^2 values (Variance)

Endogenous Construct	(R^2)
Exogenous Variables -> Endogenous (ROA)	0.223
Exogenous Variables -> Endogenous (ROE)	0.252

Hypotheses Testing

Table 4, reveals the findings related to model and its hypotheses via utilizing Smart-PLS. T-values of each path with re-samples of 5000. According to Table 4, hypothesis 1 is shown to be significant with value of ($\beta = 0.425$, $p < 0.01$) and that means the link between audit committee size and corporate profitability (ROA) is positively related. The determination of the coefficient of the research is significant with value of ($p < 0.01$). Hypothesis 2 showed insignificant findings with ($\beta = 0.003$, $p > 0.05$) and that reflects that the link between audit committee Independence and corporate profitability (ROA) is not related. The determination of coefficient of the work is insignificant with value of ($p > 0.05$). Hypothesis 3 was not significant too ($\beta = -0.083$, $p < 0.05$) that shows the link between audit committee meetings and corporate profitability (ROA) is related. The determination of coefficient of the work is significant with value of ($p < 0.05$). Hypothesis 4 revealed to be significant with value of ($\beta = 0.241$, $p < 0.05$) and that reveals the link between audit committee size and corporate

profitability (ROE) is related. The determination of the coefficient of the work was significant ($p < 0.05$). Hypothesis 5 reveals to be significant with value of ($\beta = 0.134$, $p < 0.05$) and this leads to the link between audit committee Independence and corporate profitability (ROA E) is related. The determination of the coefficient of the work was significant with the value of ($p < 0.05$). Hypothesis 6 reflected to be insignificant with value of ($\beta = 0.031$, $p > 0.05$) and that reflects that the link between audit committee meetings and corporate profitability (ROE) is not related. The determination of the coefficient of the work is insignificant with value of ($p > 0.05$).

Table 4, Summary of the Model

	Path Coefficient	S.Deviation (STDEV)	P-Value
AUD -Z ->ROA	0.425	0.088	5.394**
AUD-IND - <ROA	0.003	0.011	0.479
AUD-M - <ROA	-0.083	0.047	1.984*
AUD -Z - <ROE	0.241	0.085	2.426*
AUD-IND ->ROE	0.143	0.046	1.324*
AUD-M- <ROE	0.031	0.032	0.983

Note: t-value * > 1.65 ($p < 0.05$); t-value** > 2.58 ($p < 0.01$)

IMPACT OF AUDIT COMMITTEES' FEATURES ON CORPORATE PROFITABILITY

This work tested the impacts of audit committees' features on corporate profitability relationship in some of firms in Muscat Securities Market in Oman. In previous literature review, this work choose three major features for corporate profitability such as the size of audit committee, independency of audit committee and audit committee meeting with influencing the corporate profitability relationship. Accordingly, from all components of variables that are identified, hypotheses were formed to inquire the goals.

The current research used secondary data to be obtained from the companies' websites of listed firms in Muscat Securities Market for the fiscal

year, 2019. A total of 60 out from 117 firms were successfully collected in this work.

The first feature of audit committee examined in current work is the size of audit committee. The audit committee, as a representative group of the firm directors board, is answerable for the shareholders' interests. Audit committee is considered as one of the important instrument of corporate government that control behavior of management with a view to be guaranteed that the auditors' action is towards increasing the enhancement of the shareholders' interests and the firm's business is appropriately conducted by the auditors' of the firm. Since the primary duty of the audit committee is to review and assess the financial content and control the management behavior in current affairs, it is known as a controlling tool to reduce the data information asymmetry among the members of internal and external committee. Scholars assert and focus on the primary function and the effect of the audit committee size on firm profitability and its success (Alabdullah, et al., 2014a; Alabdullah, Ahmed, & Nor, 2019; Alabdullah, & Ahmed, 2018). The findings of the research revealed in Table 4 that detected a positively and significantly relation between the size of the audit committee and corporate profitability (ROA: $P < 0.01$, $t = 0.425$), (ROE: $p < 0.05$, $t = 0.241$). This findings are in line with some previous works that showed the audit committee size is considered as a key essential factors in audit committees' features (Ahmed, at el., 2020; Hamdan, 2020; Alabdullah, Laadjal, Ries, & Al-Asadi, 2018; Alabdullah, Ahmed, & Muneerali, 2019). This shows that the larger the audit committee size, the higher corporate profitability of listed firms in Omani. This explains that audit committee used good control that makes the auditors use to tend to higher performance which lead to high profitability.

The second audit committees' features used in the current work is audit committee Independence. The result found there is no relation between audit committee independence and profitability (ROA). Thus, the findings of the work did not support the hypotheses and it was unsupported. The result found there is a positive link between audit committee independence and profitability (ROE). Similar finding was reported by other empirical research (Hamdan, 2020) found that a big audit committees and auditors in-dependency and financial experience are probably to be connected with earnings conservatism in financial institutions

in Gulf Cooperation Council (GCC). One probable cause for such result is the audit committee in Muscat Securities Market simply matters due to as argued by Al-Matari et al. (2012); Alabdullah, Nor, & Ahmed, (2018b); Alabdullah, (2018); Al-Matar, at el., (2014) independence of audit committee is that it may be important to appoint individuals with experience to assure the creation of value.

Regarding the third dimension of audit committees' features examined in the current work, it is the members' meetings in the audit committee. The finding reveals a significant link between the members' meetings in the audit committee and corporate profitability (ROA & ROE). However, a possible reason for important finding of members' meetings in the audit committee on corporate profitability is that meetings of audit committees members in Oman is considered as significant compared to as in other countries. This finding lines the significant findings on audit committee indicating that the role of certain specific board practices aspects in non-developed countries of corporate profitability is appear in the case of Oman. Therefore, in terms of accounting, the establishment of an audit committee will improve the accuracy and quality of financial data and will ensure the investors that the disclosure and reporting of officials are under more surveillance and control.

THEORETICAL AND EMPIRICAL IMPLICATIONS

The present study contributes and fills the gap found in the prior work via providing theoretical and empirical implications. A theoretical contribution based on control mechanisms (CM) by proposing a number of elements (namely, Audit Committee Size, Audit Committee Independence, and Audit Committee Meeting) as essential predictors of the control mechanisms. In that, we utilized in the present work as a theoretical foundation for the suggested conceptual model of the present work. Besides its theoretical contribution, the current study presents more practical understanding about the key elements that should be considered in applying control mechanisms. For example, considerable attention should be given to the role of audit committee, audit Independence, meeting of audit committee regarding their positive impact of performance.

CONCLUSION

The goal of the current work is to exam the impact of audit committees' features represented by size of the audit committee, idependency of the audit committee and audit committee meeting on the corporate profitability via both ROA and ROE as indicators of management accounting to measure corporate profitability. It is surely useful for companies in Muscat Securities Market in Oman. The findings of this work indicated that the size of the audit committee and meetings of audit committee members were significant to the corporate profitability. The work also revealed that audit committee independence has positive impact on and firm profitability (ROE). The current work reveal insignificant link between idependency of audit committee and firm profitability (ROA). Due to the existence of a gap in the literature and a lack in examine some audit committees' features in Oman, the present research contributes by adding knowledge and thoughts to the existent literature in

Oman. This work suggest that firms and their audit committees to focus on such audit committee features for enhancing corporate profitability in Omani companies. Therefore, The current research adds to the understanding of audit committee features that impact the profitability of the firm, Particularly Oman dimension by its distinct environment and culture. This work will give investors and users of financial statements aware of impacts of audit committees' features' on the profitability, Thus, that they can make a better evaluation and assessment of financially indigent firms. The overall findings reveal that Omani companies are performance well as indicated by the profitability. Since this work found that audit committees' features' significantly impact the profitability of the firms, this research implies that when audit committees' features' are properly implemented, the corporate profitability will be improved. Thus, this improved profitability will positively improve country economy in the long-running.

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