Impact of the Presence of an Audit Committee on the Stock Market Performance of Tunisian Banks
Ammar Sammout, Nejia Nekâa

To cite this version:

HAL Id: halshs-01347656
https://halshs.archives-ouvertes.fr/halshs-01347656
Submitted on 21 Jul 2016

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L’archive ouverte pluridisciplinaire HAL, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d’enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.
Impact of the Presence of an Audit Committee on the Stock Market Performance of Tunisian Banks

Ammar Sammout¹, Nejia Nekāa²

¹PhD in accounting and financial approach to the Faculty of Economics and Management of Sfax - ammarbanq@yahoo.fr

²PhD in accounting and financial approach to the Faculty of Economics and Management of Sfax - nekaa.nejia@yahoo.fr

Abstract

The question of performance is located in the heart of the issue of the governance of the banks. The purpose of this issue is whether the governance mechanisms significantly explain the performance level. This paper aims to study the impact of the presence of an audit committee on the stock market performance of Tunisian banks.

Key words:

Audit Committee, governance, performance, stocks market, banks, Tunisian

1. Introduction

The performance has always been a subject discussed and criticized as each individual interested in it (scientist, officer, customer, shareholder, etc.) approached the angle of its own. This explains, without doubt, the number of important conceptual models proposed in the literature concerning this concept. In effect, the concept of governance has been the subject of several disputes between the researchers who seek to properly assess the existing relationship between a system of governance within the firm and the
performance of the latter, i.e. to check if a good governance can ensure a proper functioning of the enterprise and, therefore, improve the performance.

As well as a banking system which effectively uses the available resources to productive uses is an essential mechanism for a healthy economy and vigorous (economic growth) responding to the needs of key economic actors (Levine 1997). It is in order to promote the performance of financial systems that policies of governance have been put.

In this framework, a central question which arises is to assess the impact of the presence of the Audit Committee, as a mechanism for the system of governance, on the stock market performance of Tunisian banks saw that the financial sector has an important role in the process of economic development.

To answer this question our study will be structured as follows: a first part which deals with the theoretical framework of the study. Then, it is necessary to present the research methodology, the model and the variables. And finally, the discussion of the results.

2. Theoretical Framework

Governance is a theme to which interested researchers from various fields including the social sciences, science policies, the legislators and the international institutions (the World Bank and the IMF). In effect, the adoption of a system of governance will enrich the activity of any company, that is to say that it occupies a prominent place within the firm, and it has become a strategic variable that he must know mastering and which is essential to the proper functioning of the firm. It is in this context that we are interested in this research to appreciate the vital role of an audit committee within a company. As well, an Audit Committee is judged according to various variable including:

- **The size of the Audit Committee:** the audit committee plays a key role in supporting the interests of shareholders and other stakeholders. In addition, its effectiveness is subject to its specificities which are essentially on the independence of its members, the size, the frequency of meetings and the expertise of the members of the audit committee especially at the accounting level and financial.

  As regards the size of an audit committee, Anderson et al (2004) have shown that the audit committees of large size can better protect and better monitor the accounting process and financial report by the committees of small size in introducing greater transparency to shareholders and creditors which positively affects, therefore, the financial performance of the company. This idea
is confirmed by Bedard et al (2004), which stipulate the importance of the large size of the Audit Committee to ensure a more effective control of the accounting process and financial.

And therefore, our hypothesis is:

**H1:** The size of an audit committee positively affects the financial performance.

- **The frequency of meeting of the Audit Committee:** Beasley et al (2000) exposed that audit committees of companies who have not committed deception have retained more meetings than those where fraud have been revealed. They expose, again, that audit committees of companies having deceived met only once a year with three to four times for the other committees. In the same framework, Abbott et al (2000) have advocated that the companies whose audit committees have met at least two times per year have a lesser probability of being punished by "Securities and Exchange Commission" for problems of exposure of the accounting and financial information. Yet, Vafeas (1999) has shown that the number of meetings of an audit committee may be advantageous for the company if the functions learned Excess amount the costs incurred. Where our hypothesis:

**H2:** The frequency of meeting of the Audit Committee positively affects the financial performance.

- **The expertise of the members of the Board of Directors:** In this context, Dezoort et al (2002) seek that audit committees must be assigned at least three independent members, with a financial culture, in more than one of them has a high expertise in the area of accounting and financial. Yang et al (2005) and Carcello et al (2006) stipulate that the members of the audit committee must have the expertise essential particularly at the level of the accounting plan and financial assistance in order to design their mission for the monitoring of internal control and the financial report. And therefore our hypothesis will be:

**H3:** The expertise of the members of the Board of Directors positively affects the financial performance.

- **The composition of the Audit Committee:** the results concerning the relationship Audit Committee-performance are mixed. In effect, Charreaux (1997), Yeoh and Jubb (2001) announce that the audit thus cooperates to weaken the asymmetry of information underlying the report between the various collaborators, to resolve conflicts of agency examined as significant
impediment to development and to the continuity of firms and, to reduce the costs relating thereto. Thus, Marrakchi et al (2001) and Bradbury et al (2006) guessing that audit committees be composed in majority or exclusively by external directors are more independent than the other committees. On their part, Bryan et al (2004) noted that the independence of the Audit Committee positively affects the quality of the profits. While, Klein (2002) enters a negative relationship between the management of results and the independence of the Audit Committee. Similarly, Brown and Caylor (2004) outline that the independence of audit committees is not positively related to the performance of the Organization. They discover again that the audit fees are negatively attached to the measures of the performance.

Of this fact, our hypothesis to check is:

| H4: the independence of the members of the Audit Committee has a positive impact on financial performance. |

3. Research Methodology

We make in this framework the methodological choices undertaken to be able to inspect the assumptions of the research. First of all, we express our study sample. And then, we stallions variables and the model of research.

3.1. Framework of the study

The collection of data has been carried out by referring to the report of the basis of the banks listed (Amen Bank, ATB, Attijari Bank, BH, BIAT, BNA, BT, BTE, STB, UBCI, and UIB) published by the Council of the financial market (CMF), the Bourse of securities (Tunisian BVMT) and the professional association of banks of Tunisia (APBT). As well, the interval of study is 10 years covering the period from 2005 to 2014 saw that the number of banks is relatively small. This gives a panel of 110 observations. Concerning the stock market indications and the information of the audit committee are collected from the annual activity reports of the banks, of the annual reports of the APTBEF, guides of the BVMT and documents of the Council of the financial market (FJA).
3.2. Presentation of the model and research variables

In what follows, it presents the variables used as well to assess the impact of the presence of the Audit Committee on the performance of banking. Of this fact, our model is as follows:

$$\text{PER}_{i,t} = \beta_0 + \beta_1 \text{TAI-AUD}_{i,t} + \beta_2 \text{REU-AUD}_{i,t} + \beta_3 \text{CC2}_{i,t} + \beta_4 \text{big4}_{i,t} + \beta_5 \text{End} + \epsilon_{i,T}$$ (1)

With:

- **PER**: price earning ratio which defines the stock market performance. It is measured by the report Market Capitalization/net result.
- **TAI-aud**: the size of the Audit Committee which is measured by the number of administrators who sit there.
- **REU-aud**: Frequency of meetings which is measured by the number of meetings of the audit committee by year.
- **CC2**: It designates expertise of the members of the committee. It is a binary variable equal to 1 if the bank is audited by two auditors, 0 otherwise.
- **BIG4**: it refers to the independence of the members of the Council. It is a binary variable that takes 1 if the Commissioner of accounts belongs to the big 4 and 0 otherwise.
- **END**: indicates rate of indebtedness of the Bank. C is the total report debts / total assets. Thus, this variable represents a tool for the control of leaders and, subsequently, an indicator to evaluate the performance given that it requires the leaders to be powerful and motivate them to create value. Therefore, the leaders will need to be reasonable and effective in the use of Bank funds. Yet, the obligation to fix the deadline for repayment of the debt reduces the autonomy and independence of the Leader by report to the shareholders. In the literature, Stulz (1990), Jensen (1986, 1993) believes that the debt discourages and demotivates the leader to overinvest for its own interest. While Altman (1968, 1984) suggests that the company which performs a low performance is the one that is the most indebted.
4. Discussion and Interpretation of the results

4.1. Descriptive Statistics

Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>Max</th>
<th>Min</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurto sis</th>
<th>Jarque-Bera</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>PER</td>
<td>0.144</td>
<td>0.1314</td>
<td>0.3265</td>
<td>0.0230</td>
<td>0.0703</td>
<td>0.6402</td>
<td>2.7935</td>
<td>7.7095</td>
<td>0.0211</td>
</tr>
<tr>
<td>TAI_Aud_int</td>
<td>3.627</td>
<td>4.0000</td>
<td>6.0000</td>
<td>3.0000</td>
<td>0.6884</td>
<td>0.8044</td>
<td>3.1377</td>
<td>11.9499</td>
<td>0.0025</td>
</tr>
<tr>
<td>REU_AUD</td>
<td>4.181</td>
<td>4.0000</td>
<td>6.0000</td>
<td>3.0000</td>
<td>0.6370</td>
<td>0.8928</td>
<td>4.5157</td>
<td>25.1285</td>
<td>0.000003</td>
</tr>
<tr>
<td>CC2</td>
<td>0.890</td>
<td>1.0000</td>
<td>1.0000</td>
<td>0.0000</td>
<td>0.3131</td>
<td>-2.5078</td>
<td>7.289</td>
<td>199.6178</td>
<td>0.000</td>
</tr>
<tr>
<td>BIG4</td>
<td>0.654</td>
<td>1.0000</td>
<td>1.0000</td>
<td>0.0000</td>
<td>0.47769</td>
<td>-0.6501</td>
<td>1.4225</td>
<td>19.151</td>
<td>0.000069</td>
</tr>
<tr>
<td>TACTIF</td>
<td>14.97</td>
<td>15.156</td>
<td>15.9842</td>
<td>12.490</td>
<td>0.75439</td>
<td>-1.2830</td>
<td>4.5782</td>
<td>41.597</td>
<td>0.000</td>
</tr>
</tbody>
</table>

According to this table, the average size of the audit committee is 3 Members and the number of average meeting is four per year. In addition, the coefficient of skewness is different from 0. This indicates the presence of asymmetry, which may be an indicator of non-linearity, since that the linear models are Gaussian necessarily symmetrical. This asymmetry is explained by the fact that the volatility is lower after an increase that after a decrease of profitability. Yet, a coefficient of negative skewness shows that the distribution is extended to the left that is to say that the variables to explain are resistant to benefit to a negative shock rather than a positive shock. And therefore, the assumption of normality is not inspected and the test Jarque-Bera authenticates well this outcome and rejects significantly the normal distribution of the different variables in the sample; this symbolizes a normal characteristic of financial series for the majority of the variables to explain.
4.2. Correlation Test

Table 2: Test of correlation of Pearson

<table>
<thead>
<tr>
<th>PER</th>
<th>TAI_Aud_int</th>
<th>REU_AUD</th>
<th>CC2</th>
<th>BIG4</th>
<th>TACTIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation</td>
<td>0.424637</td>
<td>-0.049389</td>
<td>0.137353</td>
<td>0.003829</td>
<td>-0.343754</td>
</tr>
<tr>
<td>Prob</td>
<td>0.0000</td>
<td>0.6084</td>
<td>0.1525</td>
<td>0.9683</td>
<td>0.0002</td>
</tr>
</tbody>
</table>

Has the basis of the results of this table, it is to be noted that the variable size of the internal audit positively affects the stock market performance of Tunisian banks saw that she has a coefficient of correlation positive and a probability which does not exceed the threshold. Whereas for the other variables meeting of audit, the auditors and the Big4 have no relation with the stock market performance of Tunisian banks saw that they present a probability greater than the threshold (5% and 10%).

4.3. Test of homogeneity

Table 3: test of homogeneity

<table>
<thead>
<tr>
<th>Redundant fixed effects tests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equation: EQ01</td>
</tr>
<tr>
<td>Test cross-section fixed effects</td>
</tr>
<tr>
<td>Effects Test</td>
</tr>
<tr>
<td>Cross-section F</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
</tr>
</tbody>
</table>

H0: All $\alpha_i$ are constant, where the model is homogeneous, and therefore, it is necessary to choose the model estimated by the OLS method.

H1: The $\alpha_i$ are different, where the model is heterogeneous, and therefore, it is necessary to perform the test of Hausman.

The decision rule is to accept the hypothesis H0 if and only if F calculated does not exceed f tabulated (according to the Statistics Table of Fisher), and defer H0 in the reverse case.
We note here that $F$ calculated exceeds tabulated $F$, and therefore the model is heterogeneous, therefore it is necessary to pass the test of Hausman, authorizing to decide if this effect is fixed or random. Our model presents individual effect (the statistics of Fisher is significant at the threshold of 1% ($pro<0.01$). The banks are not homogeneous according to our model.

4.4. Test of Hausman

<table>
<thead>
<tr>
<th>Correlated random effects - Hausman Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equation: EQ01</td>
</tr>
<tr>
<td>Test cross-section random effects</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. D.F.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>18.662324</td>
<td>5</td>
<td>0.0022</td>
</tr>
</tbody>
</table>

This test is operated in the case where the model is heterogeneous. It allows you to choose between the model estimated by the OLS method with fixed effect and the random effect.

H0: The individual effect is random
H1: The individual effect is fixed

The decision rule is to reject the null hypothesis (H0) if $Q_H$ is greater than the fractile of the Act of KHI-two at the threshold of 5%, and accept H0 in the opposite case.

We note here that $Q_h$ exceeds the fractile of the Act of KHI-two, and therefore, it leads to prefer the estimate to fixed effect, therefore reject H0.

The statistics of KHI-two of Hausman is significant at the 5% threshold ($pro<0.05$). So we accept that the individual effect is deterministic (fixed)
4.5. Estimation of the model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAI_Aud_int</td>
<td>0.031615</td>
<td>0.010467</td>
<td>3.020443</td>
<td>0.0033</td>
</tr>
<tr>
<td>REU_AUD</td>
<td>0.008586</td>
<td>0.007932</td>
<td>1.082407</td>
<td>0.2818</td>
</tr>
<tr>
<td>CC2</td>
<td>0.021771</td>
<td>0.014548</td>
<td>1.496510</td>
<td>0.1379</td>
</tr>
<tr>
<td>BIG4</td>
<td>-0.072580</td>
<td>0.016849</td>
<td>-4.307641</td>
<td>0.0000</td>
</tr>
<tr>
<td>END</td>
<td>0.291042</td>
<td>0.201282</td>
<td>1.445945</td>
<td>0.1515</td>
</tr>
<tr>
<td>C</td>
<td>-0.240300</td>
<td>0.187743</td>
<td>-1.279940</td>
<td>0.2037</td>
</tr>
</tbody>
</table>

According to these data, only the variable size of the audit presents a positive coefficient with a probability less than the threshold. Of this fact, the size of the audit committee a positive impact on the stock market performance of Tunisian banks. This idea is certified by Bedard et al (2004) which express the importance of the large size of the Audit Committee to ensure a more effective control of the accounting process and financial.

Thus, the variable BIG4 admits a probability less than the threshold but with a negative coefficient, which means that the membership of the Commissioners to the counts in the BIG4 negatively affects the stock market performance. This conclusion is identical to that of Klein (2002) and brown and Caylor (2004) which introduce a negative relationship between the management of results and the independence of the
Audit Committee. Yet for the other variables, number of auditors and number of meeting of the Audit Committee have no impact on the stock market performance of Tunisian banks.

According to the regression, we can say that our model is equipped with a good explanatory power since it explains 64% ($r^2 = 0.646326$) of the variation of the banking performance (measured by the ratio per) and also seen that $R^2$ is superior to $R^2$ adjusted ($R^2$ adjusted $= 0.589889$).

In addition, it is to be noted that $F$-statistic $= 11.45211$ exceeds tabulated $F = 2,854$; this encloses that the model is significant overall. In other words, the variables of the Audit Committee (the size, the frequency of meeting, the number of auditors, belonging to BIG4) spread the overall efficiency of Tunisian banks. As well, the value of the Durbin Watson tends toward 2, it is therefore expected that there is no problem of auto correlation of errors.

5. Conclusion:

The performance is a topical subject; however its moderation is proving to be delicate. In effect, to verify the impact of the system of governance on the performance of banks, several surveys and models have been implemented. Throughout this work, we have tried to provide answers to the question on the impact of the existence of an audit committee on the performance of banking. To do this, we began our theoretical exploration by the analysis of the relationship between performance and individuals of an audit committee. We have led to the theoretical result that an audit committee affects the performance of the firm. To check these results empirically, we conducted a survey of 11 banks listed on several years (10 years: 2005 to 2014) using the method of panel. We have noticed that the majority of our basic assumptions are not confirmed.

As well, the result leads us to focus on the following points:

- The size of the Audit Committee positively affects the stock market performance of Tunisian banks, and therefore, this variable cooperates in the development of the banking sector.

- Concerning the variables relating to the frequency of the committee meeting, the number of Commissioners to the account and the belonging to BIG4, they have a negative impact on the stock market performance of Tunisian banks.

- The variable indebtedness of the Bank has a negative effect on the banking performance: the more the bank is indebted, the more the banking performance deteriorates.
Bibliography

- Carcello et al. (2006), "CEO involvement in selecting board members and Audit Committee Effectiveness".