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Research Article

A Conceptual Model For Firm Performance Through Audit Committee And Audit Quality

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ABSTRACT

It is evident through past literature that theoretical and conceptual gap exist in the Jordanian industrial sector regarding auditing characteristics. Therefore, the study aims to develop a conceptual model for firm performance base on audit committee and audit quality. Based on the agency theory a comprehensive framework was developed. Past literature was synthesised to conceptualize the relationship between audit committee characteristics, audit quality and firm performance. Dimensions of the audit characteristics and audit quality were elaborated accordingly. It is recommended that the ability of managers to manage reported earnings opportunistically is constrained by the effectiveness of internal monitoring such as audit committee. Activating audit committees leads to increased firm performance, because an activated audit committee will restrict the different methods of discrepancies in the firm's revenues. Thus, this study discusses one of the elements of corporate governance. The framework developed can be tested in the other settings and empirical findings in future will validate this framework.

Keywords: Audit Quality, Agency Theory, Firm Performance, Audit Committee

Introduction

Generally, corporate governance plays an essential role in the performance of companies in different fields. As far as corporate governance is concerned, the audit committee is considered one of its main elements (Abdullatif et al., 2015). Its inclusion has witnessed the perceived importance of the audit committee and increased roles are given to its members in numerous international regulations related to corporate governance. Several definitions have emerged in the literature for the concept of audit committee. In this context, Porter et al. (2014) stated that an audit committee is a corporate governance mechanism that started to appear significantly in the USA and Canada in the 1970s.

Furthermore, Rezaee (2009, p. 119) defines the concept as "a standing committee of the company's board of directors to liaison between management and the external auditor". In addition to the previous definitions, Arens et al. (2014, p. 135) define an audit committee as "a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management". This means that most of the audit committee members are from the board of directors who are not members of the company's executive management.

From the definitions above, it could be seen that the main function of the audit committee is to create suggestions for the modification and appointment of the external auditor; it includes broader fields (size, meeting, etc…), including manager surveillance and the internal control system of the company (Aldamen et al., 2012). In addition, audit committees have a significant role in supervising the company management to safeguard owners' interests. Furthermore, audit committees play an important role in overseeing and monitoring a company's management, with the aim of safe guarding the interests of the owners (Kallamu and Saat, 2015), and also can improve the quality of financial reporting and decrease audit risk (Contessotto & Moroney 2014; Abernathy et al. 2015). In addition, the effective audit committee focuses on enhancing the company performance and competitiveness, particularly in a changing business environment (Kallamu & Saat, 2015) which is beyond the control of the company (RamCharan, 1998; Cravens and Wallace, 2001; Herdjiono and Sari, 2017).

The concept of audit committee is a relatively new concept in Jordan whereby audit committees were first introduced into the Jordanian legislation in 1998, when the Jordan Securities Commission (JSC) instructions (JSC, 1998) required public listed companies to establish audit committees that consist of three-executive members of the board of directors. These committees were to meet at least four times annually. They were responsible for discussing the work of external and internal auditors and the annual and interim financial statements, and compliance with the required laws and regulations. Updated legislation with some more details was enacted in 2004 (JSC, 2004), but these did not add any new responsibilities for audit committees (Abdullatif & Ashraf, 2006). That said, this practice and legislation was not mandatory for the Jordanian companies until it became a response to the financial crises in 2008. After that and specifically in 2013, the establishment of audit committee law became mandatory for all companies listed on the Amman Stock Exchange (ASE) (Al-Qatamin & Esam, 2018).

Therefore, this study aims to develop a conceptual model for firm performance base on audit committee and audit quality. To the best of authors knowledge there is a theoretical and conceptual gap in the Jordanian industrial sector regarding auditing characteristics.

Literature Review

Theoretical Framework Development

Agency theory is grounded on separating actual owners of a business and managers who manage the business, i.e. principal and agent. According to Jensen & Meckling (1976), the theory provides a basic connection between corporate governance practices and firm performance. Specifically, for a corporate governance to function properly there must be a balance between three important elements: The owners (principal), the managers and employees (agents) and the administrative council. Suppose the best practices of corporate governance are obtained within this balance of governance. In that case, companies are most likely to achieve optimum growth without incurring management problems, increasing wealth and generating greater economic activity that contributes development and the company's long-term survival. This is very important for the context of this study as it provides a strong justification why the agency theory was adopted to formulate the theoretical ground upon which the study is grounded. Specifically, the two independent variables in this study (audit committee and audit quality), which represent the agents in the theory, are responsible for carrying out several practices within the realm of the corporate governance and such practices are strongly associated and related to firm performance as suggested by Jensen & Meckling (1976). In other words, this suggestion reflects the conceptual framework upon which the study is grounded.

The agency theory illustrates the relationship between the principal and the agent, which in the context of this study, would be translated into the relationship between the owners and the managers (Jensen & Meckling, 1976). These two positions are different in the firms today and provide the background for the agency theory. Organizations currently involve ownership that is widely dispersed when it comes to the shareholders. These shareholders also have no say in the company’s daily management, and thus, an agent is appointed to oversee the company's management. As agents and principals are of two differing positions, conflict of interests can arise between them. This, as indicated by Jensen and Meckling (1976) and (Eisenhardt, 1989a), would necessitate some form of resolution that would incur costs.

The agency theory posits that management is always inclined to attain personal benefits and satisfy its interests while disregarding the interests and value of the shareholders. For example, management may attempt to obtain luxurious items whose cost is borne by the owners, such as lavish offices and expensive company cars. As such, the agency theory’s primary aim is to assure that the managers' efforts will satisfy both their interests and those of the shareholders.

Agency problems emerge following a conflict that occurs between the goals of the principal and those of the agents, and, on the principal’s part, presenting evidence on the activities performed by agents can be difficult or costly (Eisenhardt, 1989b). As Jensen and Meckling (1976) posited, principals cannot monitor the agents' performance, and this notion has sparked debates. The pursuit of self-satisfaction on the management's side is a cost to the firm. In particular, cost is incurred during contract formulation, decision-making of agents, and the agents monitoring and controlling a company. Such management behaviour will ultimately demonstrate the firm’s performance ((Bandiera et al., 2020)).

Some scholars, including Fama (1980), Fama and Jensen (1983), Shleifer and Vishny (1986) and Williamson (1988) believed that the mechanisms of corporate governance can govern the opportunistic behavior of management. These scholars further added that internal and external mechanisms can both reduce agency costs, and which Samad and Ibrahim (2011) also supported. As agency theory posits, a firm's governance is made possible through different internal and external mechanisms (Dharmastuti & Wahyudi, 2013).

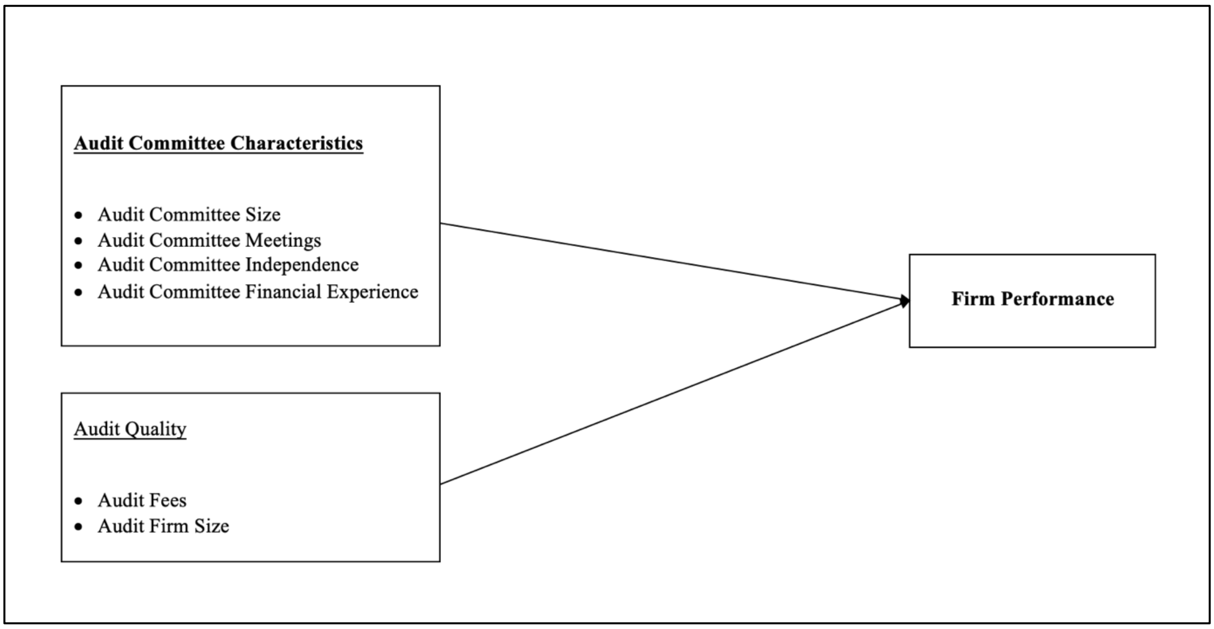

Figure 1 Conceptual Framework

Firm Performance

The subject of firm performance has been a fundamental issue surrounding the business environment. This makes sense given that firm performance is the key means of growth in many nations worldwide.
In general terms, firm performance refers to the ability of various organisations to generate financial returns to their stakeholders in profit-oriented companies (Audretsch & Belitski, 2021). The construct refers to the ability of various organisation to meet their goals and achieve their set objectives. The researchers further elaborate that such objectives may include different things such as high profit or securing a good market share and competitive advantage. In support of this view, Harrison and Wicks (2013) defined firm performance as a subjective measure of how well a firm uses assets from its primary mode of business to generate revenues.

Firm performance remains the best avenue for a firm's survival and growth, which is true for all firms (Audretsch, 2012). As Hansen and Mowen (2005) indicated, firm performance is crucial to management because it encompasses the outcomes that individuals have achieved. These individuals are the ones responsible for achieving the goals of a firm. Firm performance is ascertained by measuring the company's achievement in a specified period to obtain instrumental information on funds regarding their flows, uses, effectiveness, and efficiency (Almajali et al., 2012).
The primary goal of this research is to examine the impact of audit committee characteristics (Audit Committee Size, Audit Committee Meetings, Audit Committee Independence, and Audit Committee Financial Experience and audit quality as second dimension which includes (Audit Fees and Audit Firm Size) and their effect on firm performance among the listed industrial companies in Jordan.

Audit committee

Normally, an audit committee simply refers to a constituted body that gives authority and responsibility to oversee the financial reporting and report their finding to the top management for decision making (Ghabayen, 2012). The committee is expected to provide invaluable information and communicates to the firm's board of directors. Also, the committee is responsible for mediating between the external and internal auditors and assist the board to ensure all the related issues on audit are covers and treated diligently (Al-Matari et al., 2012; Badhabi, 2016). Furthermore, the audit committee validates the adequacy and integrity of the information provided to shareholders and stakeholders by management to reduce information asymmetry and reduce conflicts of interest (Agyemang-Mintah & Schadewitz, 2018).

In 2009, the corporate governance code for the listed companies in Jordan provided more detail to the nature of the audit committees duties. It stated that the committee is to be answerable to the board of directors and comprises three non-executive members of the board of directors. They must have knowledge and experience in finance and accounting. At least one of them must have worked previously in accounting or finance fields, or that person must have an academic or professional certificate in accounting, finance or related fields. The code also required audit committees to meet at least four times in a year, and to meet with the external auditor independently from the company's management at least once in a year. They have an authority to seek information and advice from any internal or external source. According to these regulations, the audit committee is responsible for studying and discussing company's annual and interim financial statements, the work of the internal and external auditors (Abdullatif & Ashraf, 2006).
Audit committee manages the company's financial reporting to evade any irregularities in the financial statements (Madawaki & Amran, 2013). The audit committee's essential role is to ensure the independence and objectivity of external auditors and monitor the firm management and the integrity of the company financial statement while reviewing the internal control system. Additionally, the duties of audit committee as per MCCG 2012 includes reviewing the quarterly yearend financial statements, working closely with internal audit Page 36 of 141 function, discussing the scope of audit with external auditors on matters arising from interim and final audit, review the external auditor's management letter and management response.

Audit committee size

The audit committee size is considered as one of the elements of audit committee characteristics. AC size refers to the number of members included in the committee and their characteristics such as experience, knowledge, skills, and educational background (Al-Matari et al., 2012). In Jordan, listed companies have been required to adopt audit committee size of at least three members from different backgrounds. The audit committee capable of effectively overseeing the management activities is measured by the number of members included in the committee that work together for the efficient firm performance (Al-Matari et al., 2014a).

Similarly, the size of the committee concerns in determining the success of their services and how relevant they are in increasing the firm value (Al-Matari et al., 2014a). Moreover, the bigger the committee size and comprises the members with different characteristics, the better it would be to the firm performance (Al-Matari et al., 2014b). However, small size committees lack the merit of skills, knowledge, and background diversity largely enjoyed in the big size and ineffective (Al-Matari et al., 2014a). Agency theory supports that the bigger the committee size the better the anticipated firm performance would increase and the vice versa.

Archambeault and DeZoort (2001) suggested that greater numbers of people partaking in a specific activity significantly decline the potentiality for wrongdoing because conspiracy in such a situation is difficult. Furthermore, Haniffa et al. (2006) acknowledged that larger audit committees are capable of improving financial reporting quality. Similarly, large audit size is likely to effectively reduce debt financing costs (Anderson et al., 2004). Kajola (2008) contended that an increased number of AC members shows that more experts would be available to oversee firm internal controls and financial reporting.

Previous studies that examine the association between AC size and firm performance conclude that there is relationship between the variables (Ghabayen, 2012). But, Chan and Li (2008) show a negative relationship between firm performance (Tobin's Q) and audit committee size.

Audit Committee Independence

Audit committee independent is also an important element of audit committee and crucial in corporate governance. Bansal and Sharma (2016) postulates that independent of the audit committee could through differently monitoring processes, keep on checking and evaluating the faulty conduct of managers as they are independent from the management. Cohen (2011) argued that AC independence is a significant part of the audit committee effectiveness of a firm. Accordingly, an independent AC could support the credibility of the financial reporting process by maintaining an effective check on the management distorting of data's and managers self-centred undertakings.

Equally, corporate governance codes need firms to fix up audit committees and ensure their independence accordingly. Bansal and Sharma (2016) and Beasley (1996) submit that companies with many independent members in their ACs composition have a slighter possibility of becoming a misappropriation victim. Bukit and Iskandar (2009) recommended that management of earnings would be turned-down by effective independent ACs. When the AC is independent, the committee's work would be fairer and fraud occurring in the companies would be restricted efficiently (Mohamed Yunos et al., 2014). Because, the committee independent members would fairly study into the firm financial statements and notice all its components such as: total assets, net income, equity and sale which signify the financial position and performance of the company (Sarkar, 2013).

Arslan et al. (2014), Bouaziz and Triki (2012), and Yasser et al. (2011) stated that independent ACs would improve the audit reports value and boost firms' performance. This is because the more independent the audit committee, the higher it adds value and help in monitoring and improving the committee ability (Bansal & Sharma, 2016).

Audit Committee Meetings

Another important characteristic and factor in determining firm performance in this study is audit committee (AC) meeting. Al-Matari et al., (2014a) describe the audit committee meeting as the degree or frequency at which the committee meets together to digest the firm's issues and how the problems identified would correct through the corporate governance process. It is anticipated that a proactive AC is a committee that meets often to deliberate on the firm performance and how to improve the firm effectiveness in terms of monitoring and management (Bansal & Sharma, 2016) . Any audit committee that is not often meet or rarely meet is considered inactive and is less likely to effectively monitor and oversee the firm management activities (Amer et al., 2014). According to the Jordanian corporate governance regulations, the audit committee must meet 3 times a year with the majority of independent directors present in all the meeting.

Bansal and Sharma (2016) state that frequent AC meetings would improve the firm performance and serve as a CG mechanism. This would be due to the need for timely uncovering of financial statement fraud and misappropriation and to present the actual financial status to the board of directors. Menon and Williams (1994) explained that the number of AC meetings would determines the degree and level of AC activity and their commitment to the firm performance. Abbott et al. (2003) added that the regular meetings of AC would lead to the enhancement of the financial accounting methods which on the other way leads to overall firm performance. Al-Mamun et al. (2014) documented that frequent audit committee meetings could help in reducing information asymmetry and agency problems of a firm by providing timely and fair information to shareholders and investors.

Audit Committee Financial Expertise

The Blue-Ribbon Panel (1998) investigated the proficiency and financial knowledge of audit committee which is important for committee efficiency. According to Panel (1998), there should be experts' members in the audit committee. Then they can monitor the management in better way and decrease the scam or fraud ratio in the company. The diverse and pressurized firms have reflection of financial literacy in their audit committees. Moreover, mostly the term financial literacy means financial academic background despite the expert abilities in financials.

McDaniel et al. (2002) contend that financial reporting quality improves with the high financial literal member audit committee members. Additionally, Xie et al. (2003) stated that if the audit committee has high-level financial experts, the company does not need to control and monitor the firm's financial system. Davidson III et al. (2004) findings reveal that the firms' financial performance has positive relationship with audit committee high level financially literate. This finding is confirmed by consequent studies (El Mir & Seboui, 2008). This could be clarified by the circumstance when the company has strong corporate governance due to high level financial expertise, shareholder wealth increases, and has strong accounting policies for management control.

DeFond and Francis (2005) indicated that strong corporate governance with audit committee enhances shareholders' worth. Jaime and Micheal (2013) described a vital role of financial expertise in audit committee because it enhances the financial reporting accountability. Furthermore, they proclaimed that financial experts in audit committees can deal with a client better and for the mistakes detection financial knowledge is more important.

Audit Quality

Audit quality is defined as the quality of a systematic examination carried out by an external quality auditor or an internal audit team. In this case, auditors use technics to recognize misstatements in a client's accounting system and report the misstatements (Soltani, 2014). External financial statement users, including current and potential investors, creditors and other interested parties require reliable financial information to base their resource-allocation decisions. When financiers have confidence and trust in the audited financial reports of an organization, they are more likely to provide additional funds to that trustworthy organization, resulting in increased firm financial performance. By promulgating rules and regulations that help ensure that audits improve financial information quality, regulators and standard setters can increase the effectiveness of quoted companies. The users of internal financial statements users such as management, audit committees and the board of directors are interested in high-quality audits to help reduce the cost of capital (Aledwan et al., 2015; Miettinen, 2011).

Audit quality is a critical part of the regulatory and supervisory infrastructure, and thus is the subject of significant public interest. Audit quality is one of the most critical issues in audit practice today. Both internal and external individuals and groups share a common interest in the quality of audited financial information (Heil, 2012). External audits performed following high-quality auditing standards help promote the successful implementation of accounting standards that reporting entities have issued and help ensure that financial statements are reliable, transparent and useful. Sound audits can help reinforce strong corporate governance, internal control of firms, and risk management, thus contributing to sound firm financial performance (Schmidt & Wilkins, 2013).

Many researchers attempted to examine the effect of audit quality on firm performance. Some of these studies used audit firm size, auditor experience, audit fees, and auditor rotation as proxies or dimensions for audit quality (e.g., Woodland and Reynolds 2003; Farouk and Hassan (2014); Miettinen (2011); Bouaziz (2012); Anderson and Farouk and Hassan (2014); Farouk and Hassan (2014); Van den Brink et al. (2016); Matoke and Omwenga (2016). Nam (2018) examined the association between audit fees to measure firms' auditor independence and audit quality. The study discovered that the condition of non-audit services by the firm's auditors compromises the auditor's independence.

Audit Firm Size

As decision makers, investors, shareholders, and other stakeholders seek accurate, reliable and relevant financial information. The task of auditors is to provide such kind of information through audited financial statements Ilaboya and Okoye (2015). The belief is that high-quality auditors and audit firms add significant value to financial information, and, therefore, the demand for quality will increase.

Of the factors affecting the perceived auditor autonomy, the size of the audit firm has remained the most highly referenced (Al-Ajmi & Saudagaran, 2011). According to them, audit firm size is considered a key element related to perceived auditor autonomy and the quality of audit activities. They also found that a Big4 audit firm is a key factor related to auditor independence, corroborating the perception of the negative influence on auditor independence when an auditor is not a Big4 firm (Sarwal et al., 1989). Because the major outcome of an audit is the standardised audit report, studies employed several proxies to enhance audit quality and determine differential in audit quality. A specific stream of audit differentiation literature addresses the quality of the client's financial statements, where discretionary accrual is frequently utilized as audit quality proxy, as they represent the auditor's limited control of the reporting decisions of management (Foroghi & Shahshahani, 2012; Lawrence et al., 2011).

The literature indicates that satisfactory audit quality levels are usually more evident in large audit firms than in small ones, one reason being that the larger the firm (Dehkordi & Makarem, 2011). And despite the high-profile lawsuits that some big auditing firms have faced in recent years, it is argued by Francis (2004) that these firms do, nonetheless, provide audits of a higher quality than their smaller counterparts. Additionally, large firms have more resources and can take steps to publicise their services and develop a reputation. As a result of this, they are usually considered as providing a high-quality service, and the size of the audit firm has, therefore, been used as a surrogate for audit quality (DeAngelo, 1981; Dehkordi & Makarem, 2011; Francis, 2004; Jeong & Rho, 2004; Krishnan, 2005)). Large audit firms (the Big Four for example) can devote much investment to the provision of training courses and other resources necessary to ensure their staff are competent, able to audit to a high standard, and are less likely to be compromised by actions of clients ((Behn et al., 2008; Dodd et al., 1984; Francis & Yu, 2009; Lawrence et al., 2011; Rusmin, 2010; Wilson & Grimlund, 1990).

Audit Fees

For decades, regulators, financial users, researchers and legislators have debated the connection between auditor independence and the ability of auditors to conduct a high-audit quality (Sayyar et al., 2015). Most of these debates were for accounting service and concern that auditors received higher audit fees from their clients. Most previous studies believed that fees paid to auditors can affect audit quality (Hamid & Abdullah, 2012). There are some arguments for using audit fees as a proxy for audit quality. Most previous studies suggest that higher audit fees are associated with higher audit quality than more audit efforts.

Researchers choose to focus on the different aspects of connection between audit quality and audit fees, and thus adopt dissimilar proxies in the process. In general, auditor efforts are more likely reflected by audit fees because the audit market is closely regulated and opportunities to earn rents are limited (Kanagaretnam et al., 2011) . It is generally believed that larger audit firms can have higher audit fees due to monopolistic power or greater audit monitoring effort. Therefore, a high audit fee is expected to increase audit process efforts and lead to higher audit quality.

Numerous studies have investigated the relationship audit fees and firm performance. For example, Moutinho et al. (2012) investigated the relationship between audit fees and firm performance, using a sample of United States public companies from 2000 to 2008. This study used empirical data to examine

the relationship between audit fees and firm performance using a fixed effects model. The results showed a negative relationship between the fees paid to auditors and firm performance. On the other hand, Moutinho et al. (2012) examined the relationship between audit fees and firm performance, using a sample of non-financial firms in S&P 500 covering 2002 to 2014. They concluded that there is no relationship between audit fees and firm performance measured by Tobin’s Q.
According to Bell et al. (2008), “the risk-based approach of audit planning and subsequent pricing means that clients perceived by the auditor as risky are typically assigned more efforts, which in turn results in higher audit fees” (p. 753.) So, audit fees are estimated to be a signal of current and future performance (Stanley, 2011). Martinez and da Jesus Moraes (2014) examined the relationship between fees paid to auditors and the performance of Brazilian listed companies from 2009 to 2011. They argued that higher audit fees companies served as a signal to the market as to which companies have a high audit quality, leading to enhanced firm value. However, they used Tobin’s Q as a measure of firm performance and did not examine other measures of firm performance. Their result showed a positive relationship between audit fees and firm value. In the Jordan context, (Aledwan et al., 2015) concluded that there is a positive relationship between audit fees and firm performance.

Audit Committee Characteristics and Firm’s Performance

Accordingly, the suggestion of Cadbury Commission, that the number of the audit committee members shall be at least three in determining a firm performance. (Kajola, 2008) argue that increasing the number of members in the committee suggested that more professionals are accessible immediately to perform and overseeing the internal financial activities and controls reporting. Braiotta Jr et al. (2010) argued that the bigger committee the greater organizational status would be and the committee has a wider knowledge base.
However, (El Mir & Seboui, 2008; Saleh et al., 2007) have suggest that the larger audit committee’s member the more it leads to inefficient governance. Because of their frequent meetings would lead to the increase in expenses, and therefore negatively affect the firm performance. Hence, large AC board is more likely to find low firm performance (Darko et al., 2016). Also, Anderson et al. (2004) confirm that large AC size can monitor and defend the accounting and finance procedures by upholding greater accountability and transparency in the company.
The independent ACs manage and monitor better because they have no personal or economic relationship with company business. Additionally, there are decision experts and good decision control (Abbott et al., 2004). Audit committee independence agrees with external and internal auditors to accurately examine audit financial information, thus consolidating the internal control function.

Mohammed et al. (2019) indicate that the relationship between company performance as measured by ROA is positively related to audit committee independence. Similarly, Dakhlallh et al. (2020) and Yasser et al. (2011) findings show that a positive relationship exists between AC independence and companies’ performance. Moreover, Al-Mamun et al. (2014) used a sample of 75 public listed firms in Bursa Malaysia from 2008 to 2010 to evaluate the link between audit committee independence and performance of firms. The result shows that the association between AC independence and firm performance is positive. Furthermore, the study of Ojeka et al. (2014) conducted in a sample of 25 firms listed on the Nigerian Stock Exchange from the year 2004 to 2011 shows a positive significant relationship between AC independence and firm performance.
Some scholars have examined the affiliation between AC meeting and performance of firms from developed and developing nations (Khanchel, 2007). Various studies show a positive relationship between the frequent AC meetings and companies’ performance (Chechet et al., 2013; Kang & Kim, 2011; Saibaba & Ansari, 2013). Bansal and Sharma (2016) also indicate positive and significant relationship between AC meetings and firm performance measured by Tobi’n Q. In addition, Hermesch

et al. (2014) similarly show substantial proof to support the fact that audit committee frequent meetings positively impact the performance of firms. Moreover, Al Farooque et al. (2019) in their study indicated that audit committee meeting show significant explanatory power on market-based firm performance in Thai firms. Additionally, Muslih (2020) conducted a study on twenty SOEs registered on Indonesia Stock Exchange Market between the years 2013 to 2018 found positive relationship between audit committee meeting and firm performance.

Some studies like Hamdan and Mushtaha (2011) reported a positive and significant connection between the financial expertise of the audit committee members and firm performance measured by ROE among 106 firms listed on the Amman Stock Exchange from the period 2008 to 2009. In support of this view, (Kallamu & Saat, 2015) found out that there is a favourable and substantial relationship between the audit committee's economic knowledge and company results using a sample of companies in the post-MCCG in Malaysia.

In same contacts, Hamdan et al. (2013) found a positive significant connection between the financial expertise of the audit committee with ROE in the financial sector for 106 firms listed on Amman Stock Exchange between 2008 and 2009.

P1: There is a positive relationship between audit committee size and firm performance

P2: Independence of audit committee members has a positive relationship with firm performance.

P3: There is a positive influence of audit committee meeting and firm performance.

P4: There is a positive influence of audit committee financial expertise and firm performance.

Audit Quality and Firm Performance

Since Simunic (1980) developed a model to determine how the audit fees are determined ,other research has arisen in the context of how audit fees are determined . The attributes of audit clients that might influence the level of work and thus the respective fee, which the literature has investigated, include the dimensions of the client, audit complexity, risk, profitability, governance, internal controls and leverage (Choi et al., 2010; Hay, 2013). Empirical studies concerning audit fees have shown that characteristics of auditors ,the dimensions of a company and the complexity of the sector in which a company does business have positive influences on audit fees) (Choi et al., 2010). One argument is that, because large companies possess more data that needs to be examined, the result fees charged to large companies are higher than those of small companies (Choi et al., 2010). Hay (2013) meta-analysis on audit fees confirmed the positive association of the size of a company, as measured by total assets and complexity, with fees. These results indicate that size is a critical explanatory variable for any model of audit fees. Little empirical evidence exists about the relationship between audit fees and corporate performance. Moutinho et al. (2012) demonstrated the significant influence of spending on audit services and firm performance.

Watts and Zimmerman (1990) stated that an auditor plays a significant role in monitoring the behavior of management, which, as a result, reduced agency costs. Similarly, Xiao et al. (2004) noted that agency theory postulates that an audit can mitigate conflicts of interest between the contracted parties. They added that management is more likely to hire big audit firms because of greater potential gains from external monitoring. Chen et al. (2018) asserted that, because large audit firms have superior technology and more talented employees, these resources enable them to issue higher quality reports than small audit firms can issue.

Agency theory proposes that ,because a big audit firm has a reputation that needs to be maintained ,they will exhibit better performance. Naser (1998) found that hiring a big auditor decreases firm performance. Francis and Yu (2009) found that big audit firms provide high-quality reports that produce fewer errors than smaller audit firms.

P5: There is a positive relationship between audit fees and firm performance.
P6: There is a positive relationship between audit firm size and firm performance.

Recommendations and Conclusions

The audit committee is one of the corporate governance tools that consist of a group of persons selected from members of the board of directors, has oversight responsibility for the firm's financial reporting process and provides a formal communication channel between the board, the internal monitoring system, and the external auditor. The ability of managers to manage reported earnings opportunistically is constrained by the effectiveness of internal monitoring such as audit committee. Activating audit committees leads to increased firm performance, because an activated audit committee will restrict the different methods of discrepancies in the firm's revenues. Thus, this study discusses one of the elements of corporate governance which is audit committee characteristics.

Specifically, this paper intends to investigate the role of audit committee characteristics and audit quality on earnings management among Jordanian industrial sector. The role of audit committees in ensuring the quality of corporate financial reporting has come under considerable consideration due to the issues in the financial reporting that may leads to the low firm performance. Four audit committee characteristics are proposed to achieve this: independence, size, meetings, and financial experience. In turn four hypotheses are developed to validate the hypothesis survey research will be undertaken. Additionally, audit quality is also proposed as the antecedent of firm performance leading to preposition 5 and preposition 6.

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