Effect of Members of the Audit Committee on the Quality of Jordanian Banks in Jordan

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Abstract
The study aims to find the qualities of the size, efficiency, and independence of the Audit Committee, based on data provided in the annual financial reports of banks in Jordan. The results show that all Jordanian banks in the financial sector consist of audit committees. The members of the Audit Committee are graduate holders but a small percentage have professional degrees, and that the committee members numbers are not less than three members, also they receive bonuses and not salaries to enhance their independence. The researcher recommends providing a guide to the committee and providing members with professional certificates to enhance their mandatory role in auditing.

Key words: banks, audit committee, independence, efficiency, competency

1. Introduction

Many of international institutions, bank notes financial markets, and vocational organizations in several counties hurry to put a group of laws, moral regulation, acknowledgement, systems and moral principles of financial or non-financial control on the institution's administration because of the occurrence of the collapsing states and financial fall.

The laws and regulations aim to play with financial and corruption of the administration, also to enhance trust and credibility of accounting information which are included in the financial, announced lists with financial bank notes market. Those regulations and principles are named the governance control of institution.

So, the concept of the independent checking committees appears in organizational structure of international institution, financial market and vocational organizations which are considered one of the basic steps for the main institutional governance. In order to enable the councils of administrations to meet, their supervision and observational responsibilities effectively, the structure of the councils of the administration must consist a mixture executive and non-executive members. The audit committee is considered one of the committees which is formed by the administration's council which represent a link circle between and the executive administration and the administration's council, also among internal and external auditors and the administration's council that through the application of the rules of council that through the institutional governance. The audit committee plays main role to employ the external auditor as discussing the related affairs to nominate or re-employ or to dismiss the external auditor and to be sure of his qualifications and experiences and there is nothing to affect his independency or the effect of any other works that he does in behalf of the company on this independency.

The audit committee is formed by the company's council and its membership who are the non-executive members who have experience of accounts and audit. Its responsibility consists of revising accounting principles and policies to prepare the financial reports and revising to tell the spread financial reports and to be sure of its competency and suitability to its employees and to support the independency of the external auditor, discussing the results of auditing evaluating the external auditors, competency, supporting his independency, revising the application commitment of the governance rules and to be sure of the suitability of internal observable system and its competency in the company (Hammad, 2008).

Accounting to the application of reality and theorization the importance of finding out to what extent the audit committee is committed to the qualities of adapted texts.
1.1 Importance of Study

The audit committee is considered an instrument tool to observe and to adjust the accounting data which are imposed by law. According to its importance of revising and auditing of financial accounts and to support the trust of the financial data lists, therefore, the importance of qualities appeared, and how to judge the quality of the audit committee is considered a law in accordance with the law which limit the qualities, that can be achieved by any committee in order to achieve the aim of its work and to apply the law.

1.2 Aims of the Study

This study aims to find out the qualities of the audit committee in Jordanian banks, and to find to what extent the qualities are applied practically to:

1. Study the size of the audit committee in the Jordanian banks.
2. Study the independence of the audit committee in the Jordanian banks.
3. Study the competency of the audit committee in the Jordanian banks.

1.3 Study Problem

Because of the increase in the international interest of the audit committees in the listed companies, shedding light on their efficiency and their role of observation and supervision, also, because of the scarcity of studies and local researches especially of the banks, sector related to the new study of new regulations, registrations and local laws and to apply them enable these committees to do their tasks and duties effectively, and the administrations councils must take into consideration a group of regulations and laws while being formed choosing their members to secure their competency and independence taking their work out of written guide.

In Jordan the Jordanian financial committee of the bank notes (JSC) issued instructions accounting criteria number (1), 1998 to the listed companies of Amman financial bank notes market. It stated that, it is necessary for companies to form the audit committee of three members out of the administration council who are non-executive members, limiting the tasks and jobs of those committees. In (2002), the law of the financial bank notes (JSC, no. 76) points that, it is necessary to form the audit committees and clears that the administrations council must form a committee which is called the audit committee consists three non-executive members, informing the organization of this forming or any change may happen and limiting the tasks, jobs and time of its work. Therefore, this study seeks to realise of what extent of applying these special legislations of the audit committee by the Jordanian banks, shedding light on three main basic qualities of the size of the audit committee, the degree of the independence of the audit committee and to the extent of practical, scientific efficiency of the audit committee.

2. Theoretical Frame

2.1 Introduction

The previous studies show that the relation which connects the audit committees the public shareholding companies, the administration councils and internal and external audit is very important, so the audit committees are considered the link between the administration council and the internal and external auditor through the role of their tasks and responsibilities to those parties, this affair makes those committees as a mater of interest of those local and international parts and researchers, it is important to mention that the audit committee are claims of the institutional governance which of it role shows its content, basics, tasks and jobs of the audit committees, and it shows the qualities of the members of committees and its position in the organizational structure of the general shareholding companies, and then how to form those committees, therefore, the governments put the laws and legislation which state to form the audit committees in the public shareholding participated companies through stated formal organizations of this topic, according to the importance of these committees to supervise on the accounting policies, financial reports of companies and the commitment of its instruction, limiting its problem.

Which those companies are exposed to as an example of the cause that big international companies collapsed because of cheating, manipulating and neglecting of external auditor, or internal parties such as administration or both.

So it is important and beneficial to find serious regulation, criteria and specific laws of form and contain to select the audit committees which contain criteria to limit forming those committees with its jobs and tasks, to apply those locally internationally under the shade of the international local crises in the beginning of the third millennium and its effect of the collapsing not only on banks but also on states and big states.
Some studies related to the audit committees criticized themselves and it shows conservation of how to form the audit committees and the available condition of those committees to secure its competence and independence to get positive results through its role to observe and supervise objectively.

2.2 The Definition of the Audit Committees

There are different definitions of the concept of the audit committees whether it is official bodies or international audit institutes or studies related to audit committees. So, it concentrates on many affairs which relates to those committees of its nature or entity, tasks and jobs. By its nature there is no unified form to define the audit committee which suits the possibility being applied in different environments with the same efficiency and competence because of the difference in the environment, activity and the size of companies, at last the difference of duties, and responsibilities which are limited, so those definitions are:

(Thmapat 2007) define it: It is the committee which usually consists of the non-executive administrators (masters) in the company, and the main aim of forming the audit committee is to increase the efficiency, job of audit and the questioning of the administration council.

As the American Institute of Certified Public Accountants discribed it (AICPA, 1990): it is the instrument that it reforms the illegal mistakes of high administration of the companies.

And the update concept of the audit committee in the Jordanian environment is what issued by the Jordanian (JSC) origination. (The guide of the governance listed companies in Amman financial market 2008), which points that the audit committee consists of non-executive members of the administration council, less than three members, two of them must be of independent members, one of them leads the committee, and all members of the committee must have knowledge and information of the financial accounting affairs, so the committee must take its decisions and recommendation through absolute majority of members, also it must put written job procedures to arrange its job and limits its commitments with the agreement of the administration council, and it has the right to ask for the legal, financial, administrative and vocational consultation of any external advisor.

According to what is mentioned previously, the researcher sees that the audit committee is a committee that consists of non-executive independent members of the administration council, who are chosen on the base of experience and scientific qualifications, to enable them to have the ability to take the financial decisions and to do their tasks towards the administration council and the internal and external auditors according to the size and the activity of the company less than three members.

2.3 Factors Which Lead to the Audit Committees

The main cause of forming the audit committees in the Jordanian banks and companies is there a collapse of grate international banks and companies as a result of the weakness and the failure of the internal observation, and the states of cheat and cunning and manipulation with jobs by the administrations of those banks, also grate jobs which have been carried out by the administration council and their variety are the main causes which lead to find the audit committees, giving it the responsibility to supervise and observe to prepare the financial lists, according to these factors:

1. Because the audit committee consists non-executive and independent members who have the financial accounting skills, having the suitable time which gives the preference of having the rols of supervision of preparing the reports.

2. The different interests between the members of the executive members of the administration council, and the efficiency of the financial lists, and there are non-executive and independent members.

3. There is no enough time between the financial periods to prepare the financial reports and to show them in a suitable time. Some companies prepare them monthly, others prepare them every quarter of year beside the annual reports with accounting and financial experiences, which need big effort (Sulayman,2006, page 143).

2.4 The Importance of the Audit Committees

The importance of the audit committees in the Jordanian banks is considered the expected benefits which connects all the related parties as the administration council of the company, the internal and external auditor, sharers, and the owners of the interest, as follow:

1. The importance of the audit committee to the administration council to help the executive members to carry out the financial and accounting affairs through the role of audit committees' tasks, and responsibilities specially to improve the communication between the council and the internal and external auditors also to supervise and observe to prepare the financial lists.
2. Its importance according to the external auditor. So, it is the means of supporting the independency of the external auditor, increasing his efficiency if the career of audit is subjected to criticism because of neglecting the audit committee and the collapsing of the international audit companies.

3. Its importance to internal auditor. It is to solve the problems between it and the administration of the company and to increase the independency and efficiency of the internal auditor through the direct communication, sending its reports to the audit committee considering that the audit committee is the link circle between the internal auditor and the company's administration also with the external auditor and the administration council.

4. Its importance to investors and external parties: The role of the audit committee of the operation of supervision and observation on preparing the financial reports and the operation of the financial inform, lead to its accuracy and subjectivity, also it supports the independency of the internal auditor, and reassure the owners of the interest as investors, sharers and lenders increasing their trust. (Suleiman, 2006, page 144).

2.5 The Tasks of the Audit Committees

The tasks of the audit committee have according to rule (32) of the Jordanian banks' law:

− Observing the comprehensive extent of external audit of the bank works realising to put in order the jobs of the external calculation auditors when there is more than one auditor.
− Revising the notes which are in the central bank reports and the external auditors of searching and the external reports and following the procedures that have been taken towards it.
− Studying the annual internal audit plan, also revising the notes of searching reports and the internal audit reports, and following the procedures that have been taken towards it.
− Revising the financial data of the bank before showing it to the administration council, especially to realise the orders of the central bank with condition of the sufficiency the allowances taken to meet the suspected debts to get them and the allowances of financial bank notes and give opinion of the bank's debts which are unworkable or it is considered lost debts.
− Being sure of the accuracy of accounting and observable procedures, being safe and sticking with.
− Being sure of the complete stick of laws, disciplines and orders which the works of the bank follow them.
− Studying any question which is shown by the council of the bank administration or any question that the committee sees it very necessary to discuss or to give opinion about it.

2.6 The Development Application Concept of the Audit Committee in Jordan

The application states of the audit committees developed because it is imposed according to laws and the efficiency of application passed through different degrees.

There are studies that followed the subject of the application's efficiency as follow:

(Juma'a, 1999) had Studied the competence of the audit committee considering it as a mean of carrying out the strategy of the public, sharing Jordan companies. He found incapability to caring out the suggested form of the audit committee; also it can't limit the extent limit of the audit committee an executive or consultative committee. It takes its authority out of the administration council, and it doesn't own direct authority.

(Farah, 2001) Studied the subject of the efficiency, and the found that there is need for committee in order to realise its efficiency as it is required, such as owning the knowledge of financial accounting, and there was a guide to limit the duties of the committee.

(Warred and Helalee, 2001) Found that there is delay of the scientific complexes and the vocational organizations in the accounting thought, to describe and limit the concept of the institutional control which has relation with the audit committee.

As (Wardat, 2003) Compared between the reality of the application of the audit committee and the ambitions related to its application, and he revealed the incapability of the committee as expected.

(Sweiti, 2006) had Studied the extent capability of developing form to apply the audit committee practically in order to be in harmony with the efficiency and the independence of the external auditor.

As (Abdallatif,2006) found in his research the importance the availability of specialized committee to supervise the audit committee.

(Al-Momani, 2010) studied the evaluating controls of forming audit committee and work mechanisms and he
found that there is need to the commitment of the administration's council of the sharing companies informing the public corporation of investors to form the audit committee and its efficiency. (Hamdan, et al., 2013) studied the effect of the qualities of the audit committee on the sharing companies in Jordan concluding despite its effect in the financial lists, and it doesn't have an effect to achieve the operations. It is noticed that in that in studies, the application of the qualities of the audit committee effectively, so it took a period of time in spite of the law imposed the availability of the committee in the sharing companies and banks. The study investigates and follows to the extent of the availability of the qualities of the audit committee practically and to be announced in the annual lists and reports of banks in Jordan.

3. The study Methodology
The descriptive method is only used to achieve the aims of the study; it is to show the size of the audit committee in the Jordanian banks showing the independence and the capability of its members. The study is descriptive analysis used the reports of Jordanian banks.

3.1 Measuring the Variables of the Study
3.1.1 The Size of the Audit Committee
The size is measured through the number, and this procedure is followed by the previous studies to measure the size of the audit committee.

3.1.2 The Independence of the Audit Committee
The independent member of the audit committee must not have any financial and abstract interest which leads to affect his decisions or to use his post in the company and can not be joined with any of high executive administrations employees or other companies and the financial interest the company's auditor.

− If he worked or is working in the company or in another alied company through the last previous three years up to the date of nomination him to the membership of the council.
− If one of his relatives worked or is working in the executive administration of the company or another alied company through the last previous three years up to the date of nominating him to the membership of the council.
− If there was direct or indirect interest to one of his relatives in the contracts, projects and connections which are held with the company or any alied company which equals or its increased value of 50000 J.D.
− If the member or one of his relatives apartner to the external accounting auditor of the company or an employee, if he is apartner or employee through the previous three years up to the date of nominating him to the membership of the council.
− If the member has a control on the company through the ownership of 10% of the capital of the company.

3.1.3 The Competence of the Auditor Committee
The scientific qualification: consisting M.A and PHD. Vocational certificates: they are CPA, CMA, CIA and another. The scientific experiences: experiences in the scale of auditing and financial accounting.

3.1.4 Collecting Date
The society of this study is the Jordanian work banks in Jordan whether it is listed in Amman financial market or not. The sector of the banks was chosen because it is the grate sector in Jordan. There are 16 bonks in Jordan. Three of them are Islamic also, there are 15 banks in Jordan listed in the Amman financial market on there is are bank is not listed but it is owned to a listed organization to a bank.

The independence of the head of the administration council is through the period of 2010-2017.

3.2.2.1 Methods of Collecting Data
The data of this study is collected the secondary spread financial reports of the financial market site (www.ase.com)
4. The Data Analysis

Table 1. The competency of the investigation: Committee in the Jordanian banks

<table>
<thead>
<tr>
<th>statements</th>
<th>number</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total members who obtained M. A</td>
<td>143</td>
<td>31.35964912%</td>
</tr>
<tr>
<td>Total members who obtained PHD</td>
<td>63</td>
<td>13.81578947%</td>
</tr>
<tr>
<td>Total members who obtained high studies</td>
<td>206</td>
<td>45.1754386%</td>
</tr>
<tr>
<td>Total members who obtained vocational certificates</td>
<td>9</td>
<td>1.9737%</td>
</tr>
<tr>
<td>The mean of members who obtained scientific sciences</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 2. Size of the investigation committee in the Jordanian banks

<table>
<thead>
<tr>
<th>statements</th>
<th>value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of investigation committee</td>
<td>3.6</td>
</tr>
<tr>
<td>Big value</td>
<td>6</td>
</tr>
<tr>
<td>Low value</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 3. The indepedency of the investigating committee in the Jordanian committee

<table>
<thead>
<tr>
<th>Statements</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence of the investigating committee</td>
<td>64%</td>
</tr>
<tr>
<td>High percent</td>
<td>75%</td>
</tr>
<tr>
<td>Low percent</td>
<td>50%</td>
</tr>
<tr>
<td>Who have benefits not salaries (100%)</td>
<td></td>
</tr>
</tbody>
</table>

We found that the percent of independence of the audit size is 64%, and the high value that we had got of the audit committee is six persons or less value of three persons of the audit committee.

We found that all Jordanian banks use the Jordanian bank law for the audit committee and it is shown that the audit committee doesn’t have the percent of three members which is the percent of the audit committee and the percent of the independence doesn’t go down of the percent 2 to 3 members or less percent of independence 50% and high percent of 75% and the mean of the independent persons number 3.669, and the percent of the audit committee must go down to the percent to get correct financial lists.

4.1 Discussion the Qualities of the Audit Committee in the Jordanian Banks

The task of the enternal and it unit must be completely indepen dent of the external auditor and other units in the company. Independency is considered one of the most important conditions that must be available in the members of the audit committee, and the audit committee must work in complete independence of other administrations and other units in the company. This independence is one cause of its strength and source of its competence, so it is responsible directly in front of the administration council, also the audit committee must prepare its schedule of work freely and absolutely for a way of the executive administrations, therefore this is one of the appearances of the and it indepence in the contributing companies this was assured by James w been. He said, that the and it committees must prepare its schedule of works and subjects, which is see in the periodic meetings, that is an indicator showing the size of independence that the audit committee have, hence the independence the committee helps in the coordination of its schedule of work and the special executive list without the interference of the executive administration or the administration council to limit the specialization of the audit committee and limiting the subjects which must be taken through committees.

4.2 The Results of the Study and Discussion

The results of the study that had been done by the researcher the competence of the and its committees which is formed in the Jordanian banks as follow:

1- Jordanian banks form its and its committee of a size that can't be less than three members.

2- All Jordanian banks in the financial sector are formed of audit committees which have practical experiences of (100%) percent and high certificates or members of (31.30%) and members who have PHD certificates ranging percent (13.82%). As the study points that there is low percent equals (1.97) of members who have accounting, financial and vocational certificates.
3- Audit committees get benefits but he cannot get salaries which strengthen in dependency.

4.3 Recommendations

1) There is legal commitment of the Jordanian banks to save scientific and vocational certificates in the audit scale of the audit committee members suites the importance and the committee's duties.

2) There are an encouragement benefits to the members of the committee reflects the extent of the exploited tasks to develop the competence of the audit committee.

3) There is a guide of it and it committee's job to limit its responsibilities, its tasks and its terms of reference committing the committee to develop the competence of the committee.

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