

## Reviewing The Relation Between Agility in Audit Committee and Financial Performance on Stock Price

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### Abstract:

The paper aims to review the relationship between Between Agility in Audit Committee and Financial Performance, we reviewed this variables and develop the framework as, first introduction, second background of the study (problem, objectives, Significance, scope and questions), third literature review (A) financial performance such as: return on assets, return on equity, earn per share and Value Ratio , (B) audit such as: audit committee independence, meeting, shareholdongs and Relationship with Internal Auditors (C) Compliance with Accounting Standards (D) audit and financaial performance (E) risk management and financial performance, finally we provide a comprehensive reviewing based on above variables.

**Keywords:** Agility - Audit Committee - Financial Performance - Risk Management

### 1. Introduction

Audit, Governance, Risk and Compliance (AGRC) are all known under the umbrella of the good governance framework practices. AGRC is also defined as the three lines of defense in any organization; each element of the framework has a different definition and has a bulk of procedure and methods to be applied in any kind of business even in public or private sector profitable or not for profit. AGRC works as the main nerve for governance in any organization that gives feedback in both directions, top to bottom and vice versa. It provides each organization with its primary identity and secures its reputation.

Because of the massive regulatory requirements and conditions that must be followed, it became exhausting for companies to maintain good governance and to adopt up-to-date initiatives to sustain in the long term. Nowadays, with Artificial Intelligence (AI) phenomena, which is the most remarkable event in the 4th industrial revolution, which every country or business is eager to adopt. Public companies are allocating budget to switch to AI. In the current world with the increasing trend in good governance practices the word agile becomes on the surface, asking every business to use it to move on without any complexity or difficulty in their work and sustain the public companies. Agility is a very comprehensive definition to work fast and flexible to changes. It is a challenging approach for AGRC, which requires caution and observation before addressing any result in their finding for the Top management to take any action or decision.

On the other hand, what do the AGRC people do to catch with other functions in the organization not to become an obstacle in this development? Can they still mandate their dozens of papers and documents and still insists on their routine to be followed? This research address the current issue of agility which is becoming necessary for the corporate sector and at the same time implementation of AGRC is becoming challenging.

## **2. Background of the study**

GRC, according to the Open Compliance and Ethics Group (OCEG), is an integrated set of skills that enables a business to operate honestly, deal with uncertainty, and achieve its goals (OCEG, 2021). In addition to merely the crucial tasks of governance, risk, and compliance are included in governance risk and compliance (GRC). The GRC includes the executive suites, market sectors, auditing, accountability, risks, legislation, treasury, and the boards themselves. In order to attain Principled Performance, a corporation needs the people, procedures, technologies, and data that make up GRC.

Stakeholder activism seems to be more prevalent and strong in the Internet age. In the past two decades, a considerable increase in social activists and non-governmental organizations (NGOs) has been observed (Agrawal & Cooper, 2015). Therefore, carelessness and inadequate risk management may have an impact on performance and swiftly lose competitive advantage. (Chaudhuri, Boer, & Taran, 2018; Shrouf, Al-Qudah, Khawaldeh, Obeidat, & Rawashdeh, 2020). The need for enhanced decision-making processes has increased, as seen by the rise in strategic errors in major organizations. The backdrop for decision-making has grown more complex, describing how businesses mismanage risks by limiting their search for possibilities, making hasty judgments, and improperly allocating resources (Calabrese, Costa, Levialdi, & Menichini, 2019).

Let's say a business doesn't promote a culture of compliance. Employees may decide not to follow the law in accordance with their personal standards or beliefs of the results and effects of their behavior. As a result, achieving compliance depends on understanding what drives employees to conform to compliance norms. Due to the high costs associated with complying with regulations, compliance may also not be achieved. The cost of compliance is rising as a result of an increase in laws and regulations, and businesses are becoming less

willing to comply, which is impacting performance (Almansour, Asad, & Shahzad, 2016; Tanjung, 2020).

Improving speed and adaptability in the midst of technological transformation is essential for every firm in the modern day. (Damer, Al-Znaimat, Asad, & Almansour, 2021). While earlier research has mostly concentrated on agility as a type of organization for startups based on information system development. Because of this, little is understood regarding the adoption of agile principles and structures within existing businesses, particularly in relation to governance processes. Agility is the ability to create and respond to change in order to survive and thrive in a random and chaotic environment. Agility is the capacity to adapt to change. (Doz & Kosonen, 2010). As a result, the current study's concept of agility is centered on auditing, accountability, security, and compliance, as well as how those factors affect financial performance (Almansour, Asad, & Shahzad, 2016; Busch & Friede, 2018).

## 2.1. Problem Statement

Audit activity performs crucial roles in establishing strong corporate governance since it is accountable for the correctness, transparency, and sufficiency of the financial reporting (Agarwal & Chadha, 2005; Gebrayel, Jarrar, Salloum, & Lefebvre, 2018; Alzeban, 2020). Merely the presence of it does not, however, imply that its job will always be as successful as it was intended to be. Additionally, some detractors believe an audit activity was created for "cosmetic purpose" (Bala, Amran, & Shaari, 2020; Jairoun, et al., 2022), and to fulfil the requirements.

In UAE, the audit effectiveness has been questioned because of the corporate frauds (Alkhuzai & Asad, 2018). The institute observes with worry that some listed corporations are averse towards an audit committee that is independent in both form and substance, despite legislative support for its creation. Generally speaking, the empirical findings of (Temesgen & Estifanos, 2018; Gurzhii, Deshko, Gurzhii, Berlach, & Radyshevskaya, 2019; Axmedjanov, 2020; Dobrowolski, 2020; Lenz, Sarens, & Jeppesen, 2018; Gebrayel, Jarrar, Salloum, & Lefebvre, 2018; Ghaleb, 2021), have demonstrated that the audit activities' failure to effectively perform their tasks. Evidently, the aforementioned remarks, objections, and actual findings have significantly increased concerns about the efficiency of audit and needs changes in it on urgent basis.

Previous studies on effectiveness of audit activities have examined audit committee effectiveness based on perception approach, (Asiriwa, Aronmwan, Uwuigbe, & Uwuigbe, 2018; Abdullah, Ismail, & Smith, 2018; Appuhami, 2018; Mertzanis, Balntas, & Pantazopoulos, 2019; Eulerich, Kremin, & Wood, 2019; Nowak, 2019). It has been suggested that the effectiveness of the audit should consider the audit characteristics (Buallay, 2018; Adegboye, Ojeka, Alabi, Alo, & Aina, 2020). Briefly said, recognising the features is crucial to determining the efficiency of the audit (Abdillah, Mardijuwono, & Habiburrochman, 2019). Furthermore, in UAE, hardly any study has been conducted over audit agility. Therefore, it is important to empirically examine whether agility in audit of UAE public listed companies is likely to contribute to the audit effectiveness and hence its outcomes.

According to earlier surveys, some businesses claim to be in compliance with accounting standards but have not actually done so. The actual degree of conformity among each applicable accounting standard must therefore be documented. By doing this, authorities can quickly spot locations with low compliance and respond accordingly (Suarez, V, Schellart, & Shucksmith, 2019). Furthermore, there is also a need for agility in the compliance because of lack of material over substance issue. Hence, the current study aims to offer the notion of agility while adhering to the accounting standards' disclosure requirements, this may close the gap.

In order to carry out their normal responsibilities of making sure financial reports have complete necessary knowledge useful to all stakeholders, standard setters must be able to point out the attributes determining compliance with obligatory disclosure. Most people feel that corporate governance practises and a company's financial situation effect the transparency of a company and how well it complies with established rules (Rosa, Fabio, Caserio, & Bernini, 2019). Considering this, this study examined the relationship between corporate governance and firm financial results and agility.

Finally, risk is a key consideration for all corporate governance literature. Previous research has obvious implications for risk management to improve productivity. (Kalu, Shieler, & Amu, 2018; Annamalah, Raman, Marthandan, & Logeswaran, 2018; Munir, Jajja, Chatha, & Farooq, 2020). There is a research gap in financial performance due to distinct features of GCC, which restrict application of the end-results of established countries to the developing countries. Multiple research mostly on alliance among distinct sorts of risk is conducted on developed countries, while developing economies grabbed less attention.

Hence from the above-mentioned discussion, it remains apparent that literature over audit, corporate governance, risk, as well as compliance has certain controversies and is not conclusive. The main reason behind corporate collapse and performance related issues is because the strategies regarding audit, corporate governance, risk, and compliance are made considering the issues that have been faced in the past. But now the things are changing on regular basis and there is a need to change audit, corporate governance, risk, and compliance on regular basis and timely basis. Therefore, the concept of agility need to be introduced in audit, corporate governance, risk, and compliance. Hence, central purpose of the research is identifying role of agility in audit, corporate governance, risk, and compliance on financial performance in public organizations of UAE.

## **2.2. Research Objectives**

The study has four objectives which are as follows:

- Determining the effects of agility in audit on financial performance of public organizations of UAE.
- Determining the effects of agility in compliance on financial performance of public organizations of UAE.

### 2.3. Research Questions

In order to meet the research objectives the study has the following research questions:

- Does agility in auditing has an impact over financial performance of public organizations of UAE?
- Does agility in compliance has an impact over financial performance of public organizations of UAE?

### 2.4. Significance of the Study

There are different frameworks that have been developed with reference to developed countries, developing countries, as well as GCC, however, most of the theoretical frameworks for successful governance have, regrettably, not been consistently attained in practice because the scenario kept on changing on regular basis. This is demonstrated by the wave of company failures that have happened in the previous 20 years as a result of the breakdown of these controls and their violations by dishonest, self-serving employees.

Furthermore, the studies identified the impact of current prevailing practices over the financial performance mostly (Busch & Friede, 2018; Kaplan, 2001). The current research is a bid to understand influence by agility in audit, corporate governance, risk, as well as compliance collectively over financial performance. Thus, this particular study is going to explore the impact of agility in four elements of corporate governance with a final aim to improve the overall financial performance in the public organizations of UAE.

### 2.5. Scope of the study

The scope of the current study is that it will concentrate only on public organizations in UAE because of the recent corporate frauds and imprisonment and punishment by the courts of UAE. The population of the study is all employees who are working at strategic level in any public organization in UAE. The basic goal is to evaluate the financial performance of public organizations of UAE. Hence the study will focus on agility in audit, corporate governance, risk and compliance.

## 3. Literature Review

In the part the prior literature has been reviewed in depth. Initially the performance of companies has been addressed that up to what extent, the concerned variables influence financial performance of the companies. Afterwards the underpinning theories have been mentioned. Finally the relationships have been built with reference to the two dependent variables and four independent variables.

### 3.1 Financial Performance

Financial performance is an organization's capacity to acquire and manage resources in a variety of methods to generate competitive advantage (Baah & Jin, 2019). Pressure major categories of performance exist, including organisational effectiveness and financial performance (Busch & Friede, 2018; Kaplan, 2001; Kareem, 2019). The two main ways to



increase operational effectiveness and customer satisfaction in public organisations is to increase financial performance. It is believed that a company's management style and the effectiveness of its governance structure will reflect its financial performance (Bhagat & Bolton, 2008). Similar to this, if the board fulfils its obligations well, the firm's value should rise and shareholders' assets should improve due to the fact that the firm's performance is a result of the directors' prior deeds and other elements that affect the selection of new management.

Performance measures are seen as forward-looking measurements and have been frequently utilised to assess a company's worth at a specific moment, making them appear more pertinent with others (Guo, Wang, & Wei, 2018; Eker & Eker, 2019). Merendino and Melville (2019) aimed of Italian listed firms from 2003 to 2015, an evolving broad moments approach is applied to examine the relationship between the board structure and firm performance as well as the potency and practicability of agency theory in the setting of Italian corporate governance practices. Furthermore, independent directors possess a non-linear impact on performance, whereas directors chosen by minority shareholders are powerless to affect it. Low ranks of board structure beneficially effects the business performance. Shareholder contracts and ownership structure alone have no impact on a company's performance.

Currently, it appears that several industry-specific rules regulate how financial performance might be monitored (Lela & Nuryakin, 2020). Baah, Opoku-Agyeman, et al. (2021) explored that for suitability of predictive research models, (PLS-SEM) technique has been used for interpretation of data for firm performance through environmental power generation proposals. Survey qualitative research, quantitative approach, and PLS-SEM technique have all been adopted. whereas, Process, environmental, and financial success are all positively and strongly correlated with reactive environmental production techniques.

Performance metrics are considered better than financial performance measurements because they are less susceptible to differing accounting systems, procedures, and assessments of a company's potential to produce economic earnings in the future. Investor expectations significantly effect performance assessments (Lee, Cho, Kwon, & Sohn, 2019). They stated that even while there is a large association between performance and governance, if investors expected corporate governance to have an impact on performance, a prominent relationship between long-term stock returns and governance will not exist. As a result, additional financial performance measurements may be employed to offer a more thorough knowledge of the connection between particular variables and performance. Following is a discussion of some of the most popular financial performance metrics. As a result, an entity's financial performance is important and calls for accurate measurement. The financial performance metrics used to assess performance are listed below.

### **3.1.1 Return on Assets**

Return on Assets (ROA) measures the profitability of assets of the company in terms of generation of revenues (Purba, Sinurat, Djailani, & Farera, 2020). Companies with high initial

investment requirements typically acquire low ROA. Net income is divided by total assets to determine ROA. A greater ROA demonstrates that assets are utilised wisely to serve stakeholders' financial interests. ROA measures how well assets are used and has a wide range (Purba, Sinurat, Djailani, & Farera, 2020). Additionally, it evaluates operational and financial performance (Kamaruddin, Ishak, Hamzah, Halim, & Rasedee, 2021).

(Pointer & Khoi, 2019) apply a quantitative technique to evaluate determinants of both ROA and ROE across insurance companies and banks registered on Vietnamese stock market. The study's internal variables, encompassing company size, valuation, equity return, time in operation, and per-share earnings are significant predictors of both ROA and ROE. ROE was significantly and negatively impacted by capital structure. Compared to insurance firms, banks had a lower return on assets and a higher equity return.

### 3.1.2 Return on Equity

Return on Equity (ROE) indicates rate of equity return that gives helpful data on production of indebtedness in the capital system and aids managers in understanding how much financial leverage is beneficial or detrimental (Rialdy, 2019).

### 3.1.3 Earnings Per Share

The most popular approaches employed in stock exchange ratios or market performance indicators is earnings per share (EPS) (Arsal, 2021). EPS is a required ratio that is used on stock exchanges all around the world as a measure of the importance of the ratio.

### 3.1.4 Value Ratio

Black (2000) claimed that the value ratio may be used to calculate a company's value. This could be calculated by dividing the market capitalization's actual value by its potential value. The cost of the shares determines the real market valuation, whereas the resources' actual value determines the potential market valuation (Kuvshinov & Zimmermann, 2022; Barney, 2018).

## 3.2 Audit

A thorough study or inspection of an existing system, report, or institution, such as financial records, is referred to as an audit (Roszkowska, 2020). There are many types of audits that may be performed inside a business or by an outside agency. Auditors examine and report on a company's department, process, policy, or function (Alzabari, Talab, & Flayyih, 2019). Some audits aim to discover inefficiencies and offer remedial suggestions, while others may serve as a checklist for noncompliance or misconduct.

### 3.2.1 Audit Committee

The audit committee, which is a component of the full board, is crucial to the audit process (Buallay, Audit committee characteristics: An empirical investigation of the contribution to intellectual capital efficiency, 2018). Communication between the entire board, internal auditor, external auditor, executive officers, and finance directors is facilitated

by the audit committee. According to Vitolla, Raimo, and Rubino's (2020) justification for the audit committee's existence, agency expenses rise when managers seize the chance to act counter to the interests of stakeholders. Agency costs are decreased via contractual ties between managers and stakeholders (Freeman, Harrison, & Zyglidopoulos, 2018). However, these contracts must then be followed up on. The requirement to oversee these contracts has led to the creation of an audit committee.

The implications of corporate board, auditor's report, and institutional ownership on the market-based financial performance of enlisted corporations in Thailand were examined by Farooque, Buachoom, and Sun in 2020. On a sample of 452 companies enlisted on the Thai Stock Exchange between years 2000 and 2016, system GMM (generalised method of moments) is used as the baseline estimator methodology, and conventional least squares and fixed effects are used for robustness checks. Findings indicate that management ownership has a beneficial impact on performance but ownership patterns, specifically shareholding and family possession, seem to have little effect on market-based business performance (Alqatamin, 2018). Additionally, as anticipated, variables related to board structure, such as board independence, size, meetings with a dual role, and audit committee meetings, exhibit considerable evidential support on market-based firms' performance in Thai enterprises.

(Oussii & Taktak, 2018) conducted empirical tests on 162 firm-year observations taken from Tunisian listed companies between 2011 and 2013 to determine whether there is any correlation between an audit committee's effectiveness and the timely submission of financial reports by Tunisian listed companies, as measured by external audit delay (AD). Findings demonstrate that multivariate analyses demonstrate a strong association between shorter AD and audit committees with representatives having financial expertise.

(Deslandes, Fortin, & Landry, 2020) used archives from 289 Canadian listed companies for the 2011-2015 period to analyze correlation among companies' utilization of tax planning and a number of audit committee members' features, including liberation, expert knowledge, dedication, and gender balance. The researchers discovered a strong correlation between tax aggression and measures of knowledge and diligence. The audit committee's size, financial knowledge, and longevity all contribute significantly to limiting tax-aggressive behavior.

Regular meetings between internal and external auditors and audit committees are held to assess income reports and internal control systems (Endrawes, Feng, Lu, & Shan, 2020; Ud Din, et al., 2021). By reducing the information gap between insiders and outsiders, an auditor's report as a governing tool mitigates agency issues. Through its oversight function, a competent audit committee ensures dependability upon revenue recognition, internal control systems, and risk mitigation by recruiting talented staff with the power and resources to safeguard shareholders (Annamalah, Raman, Marthandan, & Logeswaran, 2018; Erasmus & Coetzee, 2018; Eker & Eker, 2019; Ependi & Dalesna, 2021). An investigation looked at the connection between the establishments of audit committees with calibre of financial performance (Mahmod & ALkabbji, 2020). By comparison of standard of management prior



to and following the introduction of audit committees, the researchers assessed the efficacy of audit committees.

### **3.2.1.1 Audit Committee Independence**

The efficacy of audit committees is mostly dependent on isolation from administration (Mardjono & Chen, 2020). The independent aspect suggests it as disconnected from corporation that could have hampered the efficacy of the audit committee on management (Mohammad & Wasiuzzaman, 2020; Mardjono & Chen, 2020). The percentage of non-executive directors on an audit committee is used as a measure of independence. In the instances listed below, directors are not supposed to be thought of as independent:

- 1) If a director/member of their close family has worked for the business or one of its subsidiaries in previous five years.
- 2) If the director was paid for services performed outside of their duties as a board member.
- 3) If the director has partnership, the only shareholder, or an executive of a company with whom the company conducts a sizable amount of business.

In addition, SOX (2002) mandates that an audit committee reviews the recordkeeping procedures including audits of the financial statements, and that all members of the committee be independent of the company's performance. Most studies examining the link among both audit committee independence and company performance found a favourable connection (Zraiq & Fadzil, 2018; Mohammed A. M., 2018). In their 2018 analysis of the connection between audit committee independence and corporate value, Agyemang-Mintah and Schadewitz discovered a link among audit committee's independence and business performance (Zraiq & Fadzil, 2018). Additionally, an independent audit committee can lessen agency issues.

### **3.2.1.2 Audit Committee Meetings**

A representative of meetings of audit committees is provided by the number of meetings (Fauzyyah & Rachmawati, 2018). The listed companies' audit committees convene once every three months. As a result, the frequency of audit committee meetings is thought to be a key factor in how effectively they monitor (Bananuka, Kadaali, Mukyala, Muramuzi, & Namusobya, 2019). The makeup and the number of meetings of audit committee are among its supervisory duties. Audit committees are used by boards to keep an eye on administration (Khudhair, Al-Zubaidi, & Raji, 2019). They also discovered that audit committee meetings are probably more frequent at larger companies.

Alqatamin (2018) used a sample size of 165 non-financial businesses listed on the Amman Stock Exchange (ASE) throughout the period of 2014–2016 to explore the impact of audit committee characteristics on the company's performance.

Their research demonstrates a significant positive association between audit committee size, independence, and gender diversity and business performance, but a weaker relationship between experience and meeting frequency.

Like this, it is yet unclear how audit committee traits and firm performance are related (Cassell, Hansen, Myers, & Seidel, Does the timing of auditor changes affect audit quality? Evidence from the initial year of the audit engagement, 2020). The relationship between new audit committee characteristics, audit committee member attendance at meetings, and member changes was investigated by Qamhan et al. in 2018. The annual reports of 74 companies listed on the Muscat Securities Market provided 370 observations for the study sample. Additionally, the results indicate a bad correlation between earning management and audit committee member attendance. Moreover, a strong correlation exists between effective profit management and member appointments.

Zraiq and Fadzil (2018) investigated the relationship between the performance of Jordanian company audit committees and business performance. In this study, 228 industrial and service firms' data were utilized to investigate the link between independent and dependent variables using OLS regression. Similarly, the results showed a slight but favorable link between audit committee size with ROA. Additionally, findings suggest that audit committee meetings with ROA are considerable and making progress, while audit committee meetings with EPS are moving in the right direction but not significantly.

Challenges faced by audit quality and committee draw significant attention of auditing profession, broader population, and government controllers, particularly in the wake of well-known corporate scandals at companies like Enron, Global Crossing, Tyco, and WorldCom. Khudhair, Al-Zubaidi, and Raji (2019) analysed these issues. The study is conducted on a sample of non-financial enterprises in Iraq. The findings show a correlation between audit quality and proportion of non-executive directors on the audit committee that was favorable.

### ***3.2.1.3 Audit Committee Shareholdings***

Higher equity ownership by committee members based on audit committees has the potential to diminish issues related to directors conspiring with management to manipulate earnings to their interests or inflated executive pay, that eventually hampers their interest too (Zhou, Owusu-Ansah, & Maggina, 2018). Companies frequently give outside directors' equity to align their interests with those of stakeholders and outside directors, that play role of shareholders' agents as well (Erasmus & Coetzee, 2018). Director equity rewards are given out consistently with agency theory's projections (Poletti-Hughes & Briano-Turrent, 2019). Additionally, outside directors with higher equity frequently protect the interests of shareholders by more effectively reducing fraud litigation.

Erasmus and Coetzee (2018) examined how senior management and the audit committee saw the specified measures differently in regard to the determinants of internal audit effectiveness. The South African public sector's senior management, audit committee chairs, and heads of internal audit departments provided responses to a survey regarding the use of multivariate multiple regression analysis. Additionally, no statistical parallels according to their degree of perspectives could be observed in this investigation.

Audit expectation gap presence and the effect imposed by it on stakeholder confidence were highlighted by Akther and Xu (2020). This study employed the partial least squares

structural equation model (PLS-SEM), with 174 respondents representing regulatory organizations, investors, investors, and credit analysts in Bangladesh. Additionally, the results imply that the audit expectation gap is inversely correlated with stakeholders' trust in the audit, and that stakeholder trust in the audit decreases as the audit expectation gap increases.

By gathering the opinions of significant players in the audit and assurance services market, Nguyen and Kend (2021) proposed the study to investigate the way in which new reforms linked to important audit topics disclosures in Australia may have affected audit quality. New Institutional Sociology and a qualitative methodology are employed in the study. Surveys involving 20 people who represented various stakeholder groups in the Australian market for audit and assurance services were also undertaken. Secondly, based on the perceptions expressed, it appears that there is limited agreement among some stakeholder groups as to whether the KAM reforms may have enhanced audit quality.

Jwaifel (2019) noted how the audit committee helped Jordanian industrial public shareholding enterprises listed on ASE avoid financial bankruptcy. According to the directory of firms from the ASE's official website, the sample used in the research contains industrial joint stock companies registered on the Amman Stock Exchange (ASE), which, as of the end of 2017, were up to (67) industrial enterprises spread throughout (10) industrial sectors. According to the analytical descriptive technique, the research sample included (49) companies for which the criteria of sample selection applied. The study's results also show that major industrial enterprises are able to avoid going bankrupt.

In their 2018 study, Mohammed, Che, Ahmad, and Malek looked into the impact of shareholders on audit committee members and two aspects of audit quality in connection to a lag in financial reporting (FRL). Information was gathered from companies listed on the Nigerian Stock Exchange (NSE) for the fiscal years 2011 through 2015. Quantile regression and panel corrected standard errors (PCSEs) are used in the study. Results show a weak and substantial negative correlation between SFEX, SACR, BLKH, ROA, GWTH and (FRL). The study shows evidence that while Big4 audit firms can complete audit work more quickly, shareholders can improve reporting timeliness. Results provide a view of the degree of regulatory non-compliance.

#### ***3.2.1.4 Audit Committee's Relationship with Internal Auditors***

The Sarbanes-Oxley Act of 2002 states that a positive work relation with internal auditor can help the committee carry out its obligations towards board of directors and stakeholders. Additionally, there is a greater chance that the audit committee will be well-informed and vigilant in carrying out its duties if there is a higher level of interaction between the audit committee and the chief internal auditor, including frequent interactions between the chief internal auditor and audit committee (Gebrayel, Jarrar, Salloum, & Lefebvre, 2018; Alzoubi, 2019; Khalid, 2020).

The board also gains from the audit committee's monitoring role in two other ways. These are board effectiveness and independence. The audit committee's report from both the

internal and external auditors establishes independence from management (Alzoubi, Audit committee, internal audit function and earnings management: Evidence from Jordan, 2019; Masulis, 2019). Second, the committee specifically overseeing finance report procedures and management performance can support the board more effectively, increasing the effectiveness of the board (Buallay, 2018; Al Farooque, Buachoom, & Sun, 2020). Audit committees' supervision responsibilities include examining the audit plans for both internal and external audits, internal auditor (IA) programmes, procedures, or inquiries, and making sure the IA function's range, responsibilities, and finances are adequate (Alzeban, 2020). These are supported by regulatory agencies as well as advisory groups, such as numerous stock exchange organisations and corporate governance advisory groups.

In the UAE, all publicly traded firms are required to establish an audit committee with a minimum of three members that is independent of non-executive directors. Additionally, the audit committee ought to include least one member with experience in finance and accounting (Alabdullah & Ahmed, 2020). Another internal governance instrument that helps management understand its financial reporting obligations is the role played by internal auditor (Gebayel, Jarrar, Salloum, & Lefebvre, 2018). Internal auditors analyse and evaluate various organisational activities as part of their supervision responsibilities, as well as providing the required recommendations to improve internal controls and effectiveness (Yusuf & Kanji, 2020; Chen, Lin, Lu, & Zhou, 2020). A typical annual event is the creation of the internal auditor's plan. The head internal auditor discloses the results and offers suggestions and post-audit follow-ups. As a result, internal auditors play a crucial role in monitoring an entity's budgetary management and report setting (Gamayuni, 2018).

The role of the internal auditor is distinct from that of the audit committee in that the internal audit is endorsed by the audit committee in many ways, including through the evaluation of the internal auditor's competence, scope, and function, the provision of adequate resources, and the facilitation of interaction with management. As a result, audit committees could enhance the internal audit's entire standing and increase its efficiency and independence (Mardjono & Chen, 2020). In other words, the audit committee's assistance directly affects the efficiency of the internal audit.

Khalid (2020) used a two-stage strategy, i.e. data collection and analysis, to identify the function of the audit and governance committee (agc) for the efficiency of internal shariah auditing in Bahrain's Islamic banks. Since such responders are essential to Islamic banks, questionnaires, and a review of the literature on AGC and internal Shariah auditor were undertaken. Additionally, it was advised that the governance committees and auditors of the Islamic bank might improve the efficiency of the internal Shariah auditors.

Alzeban (2020) investigated the function of audit committees (ACs), particularly observing if AC mediates the relationship between internal audit (IA) and firm performance, in shedding light on the efficiency of internal audit (IA) as a facilitator of the accomplishment of organizational objectives. Ordinary least squares (OLS) regression and mediation tests are used to evaluate the study's assumptions. Data are collected through survey questionnaires

sent to chief internal auditors (CIAs) and from annual reports of 119 listed firms in Saudi Arabia (SA) and the United Arab Emirates (UAE). Additionally, results show that the impacts of IA independence and size on FP are mediated by the AC's independence and the presence of members with expertise in accounting and auditing. With regard to IA competency and FP, there isn't any evidence of this type of mediation. Additionally, AC meetings don't operate as a buffer between FP and IA characteristics.

The degree of connections among audit committees and IA is yet another crucial aspect anticipated to lead to higher performance, in addition to independence and audit committee meetings (Alzeban, 2020). Strong working relationships between the audit committee and the IA function are crucial for avoiding issues with financial reporting, according to corporate governance principles (Akther & Xu, 2020). The IA and the audit committee must have constant contact for the organisation to prosper at its full possible extent.

### **3.3 Compliance with Accounting Standards**

IAS/IFRS compliance measures how well a reporting unit complies with the many requirements outlined in the IAS/IFRS published by IASC/IASB. Along with several different accounting standards, IFRS outlined a guideline on the minimal amount of pertinent and reliable information that a company must include in its financial reports. Institutional isomorphisms that are coercive, normative, and imitational are some of the main drivers behind national adoption of IFRS. This is due to the fact that companies who violate disclosure requirements omit some important information that may have an impact on the functioning of the financial markets. The financial report may be prejudiced and deceptive if standards are intentionally broken. Conversely, some businesses who freely or involuntarily take This approach as a reporting standard make claims of compliance while in fact falling short of the requirements.

Globally, the results of studies about extent of IFRS compliance are not conclusive. Numerous studies show an upsurge in IAS/IFRS compliance. Several of the scholars also advocate for lowering the level of conformity well with accounting standard. Even if there has been considerable improvement in overall compliance, most of the IFRS-mandated disclosures are not made public.

The application of IFRS as reporting standards by a nation is influenced by a variety of factors. The internal audit function (IAF), according to Chang et al. (2019), helps management enhance internal control systems regarding production, reports, and compliance. This study explores the relationship between IAF quality and internal control weaknesses in operations and compliance using a special database from Taiwan More importantly, the findings imply that broader internal audit teams can improve internal audit performance both for operations and compliance, while internal auditor competency shows positive association to efficiency of internal control over compliance but not operations.

Direct and indirect expenses associated with disclosure can be distinguished. Information production, processing, publication, and distribution expenses are considered



direct cost (Blankespoor, deHaan, & Marinovic, 2020; Armougum, Gaston-Bellegarde, Marle, & Piolino, 2020; Zhang, Liang, Gao, & Zhang, 2018). In contrast, indirect costs cover things like proprietary costs. Hu, et al. (2021) conducted a thorough investigation on how businesses might support staff members' complete adherence to these protocols. This study used an experimental research methodology and archived data from a small-to-medium-sized restaurant in China along with data from multiple levels of interviews. Additionally, data show that a key psychological procedure (four step) that is supported by both management safety practises, and organisational crisis management techniques is involved in employees' deep compliance with security measures.

According to Wu, et al(2022) .'s research, family business compliance measures for sustainability responsibility entail significant response and impression control. In this study, a sample of 2977 Chinese companies is used to assess the compliance practises of family businesses. According to the findings, family firms employ combined impression management and significant response. Additionally, the employment of impression management is positively moderated by public pressure. What's more intriguing is that business-government interactions adversely correlate the usage of substantial response and favorably correlate the application of impression management.

Previous studies support the advantages of information sharing in addition to the costs involved (Ren, Deng, Hong, & Zhang, 2019; Chin, Chai, Chong, & Yusof, 2018). Absolutely believable disclosures, in any way, are not optimal due to its high cost. Ismail (2021) used unprocessed data that was gathered using structured questionnaires sent via email to examine the implications of auditee satisfaction on compliance audit and business image in Malaysia. Descriptive statistics and correlation analysis were both used to analyse the given data. According to the report's results, compliance and corporate image are significantly correlated with auditee satisfaction.

In a developing nation, Saad, Farouk, and Kadir (2020) looked at the variables affecting people's intentions to observe commercial zakat. Random sampling approach was used, a sample of 700 small and medium-sized businessmen was selected, and a total of 524 responses were evaluated using the partial least square structural equation modelling (PLS-SEM) method. Results show that zakat obfuscation behaviors, moral judgment attitudes, peer pressure, zakat awareness, zakat allocation, and presumed zakat board capital substantially and favorably influence intention to pay zakat, whereas implementation of zakat law was noticed to substantially but adversely influence intention.

Mnif and Znazen (2020) looked into how the characteristics of two corporate governance mechanisms—the board of directors and audit committee (hereinafter AC)—affected the degree of conformity with the "Financial instruments: Disclosures" International Financial Reporting Standard (hereafter FID) This study examines the compliance with IFRS 7 of 63 Canadian financial firms enlisted on the Toronto Stock Exchange during a three-year period using a self-made checklist of 128 items (2014-2016). Additionally, the size and independence of the board are positively correlated with compliance. The dependent variable

of the authors is also found to be favorably impacted by the AC's independence and financial accounting knowledge. However, the degree of IFRS compliance is not strongly connected with the CEO/chairman duality, AC size, or meeting frequency.

However, businesses may occasionally elect to disclose more information than is required by law (Ousama, Al-Mutairi, & Fatima, 2019). This choice is linked to the advantages the company stands to gain from information disclosure, including lower contracting costs, diminished lawsuit risk, cheap capital cost, and lower agency costs. Relying on the foregoing, variability in extent of disclosure made by enterprises under the mandatory and voluntary scheme should be ascribed to the consideration of the costs and advantages of information disclosure. Numerous studies have discovered various elements that affect how businesses behave concerning voluntary information disclosure (Wang, Wang, Wang, & Yang, 2020; Enache & Hussainey, 2020; Radhouane, Nekhili, Nagati, & Paché, 2019). On the contrary, researchers focused less or entirely ignored publications on the factors that influence obligatory disclosure.

The following variables have an impact on how well the RPT accounting standard's disclosure obligations are followed, like how the voluntary regime does. Corporate governance systems and firm financial features are separated among the variables (Kafidipe, Uwalomwa, Dahunsi, Okeme, & Ntim, 2021). Corporate governance practises include board diversity, board size, audit committee diversity, audit committee financial expertise, CEO diversity, CEO ownerships, family ownerships, managerial ownerships, and foreign ownerships (Al Farooque, Buachoom, & Sun, 2020; Baysinger & Butler, 2019; Mohammad & Wasiuzzaman, 2020). Tunnelling, supporting, profit, firm progress, and firm dividend policy are examples of a company's financial qualities.

### **3.4 Audit and Financial Performance**

The financial success of publicly traded corporations is crucial; the capital market is also seen as a medium for attracting capital and lowering a company's cost of capital. A corporation with really strong financial performance will gain a positive reputation among investors. In order to assess a company's business effectiveness, the capital market, managers, and investors all depend upon audited financial reports (Alzaban, 2019; Akther & Xu, 2020). Consequently, the financial performance of the organization will benefit from better financial reports.

Financial performance is described as being a complex idea (Busch & Friede, 2018). There are numerous methods that researchers have used to gauge financial performance. According to the company's profitability, financial performance would be evaluated in this study. The ratio of pre-tax income to shareholder equity is always used to determine profitability (Brulhart, Gherra, & Quelin, 2019). Different metrics are used to assess profitability, including Return on Assets (ROA), Price Earnings Ratio (PER), and Return on Equity (ROE). ROA was used in this study as the primary indicator of financial performance.

Addressing the topic of audit pricing is the subject of a significant body of literature. Simunic created a demonstration model of the procedure for specifying the fees paid for audit services in the year 1980, and since that period, numerous scholars have diligently followed through on observations that show the consequences correlate to the right assignment of audit fees. The quantity of audit services charged for by the customer to the audit firm mirrors the scope of audit services that latter must complete inside the auditing circle.

The connection between profitability and observed auditor compensation is examined by Hoang, Jamal, and Tan (2019) using information gathered through engagements with US public listed companies. The outcome shows a misaligned relationship between the audit price and clients' work output, and overall audit quality is compromised. A higher amount paid in audit fees suggests that the auditors provide their clients with more expert auditing services than a lower amount paid in audit fees.

Anyhow, given that audit quality is invisible, much research employ audit fees as a stand-in for gauging audit quality (MohammadRezaei, Mohd-Saleh, & Ahmed, 2018). As a final measure of audit quality, this study uses staff audit fees, which is also consistent with the research conducted by (MohammadRezaei, Mohd-Saleh, & Ahmed, 2018; Beardsley, Lassila, & Omer, 2019; Xiao, Geng, & Yuan, 2020; Rajgopal, Srinivasan, & Zheng, 2021).

Throughout all times when carrying out their audit duty, auditors are assumed to be independent. This is crucial to guarantee that the stakeholders' interests will be adequately safeguarded, (Akther & Xu, 2020). The impartiality of a qualified auditor ensures fairness and instils confidence and trust in the final consumers of the financial reports. According to Habib et al. (2018), an auditor's independence is defined as the provisional likelihood that the auditor would uncover any major misstatement in financial reporting, given that the misstatement has been previously identified. According to Antoniuk, et al. (2021), the auditors' ability to provide unbiased auditing services is challenged by the fact that objectivity fears are frequently of particular significance.

By ensuring that there are effective risk, control, and governance in place, internal auditing delivers value to the company. A major factor in timely disclosures that considerably cuts down on audit report delays and enhances performance is audit quality (Ado, Rashid, Mustapha, & Ademola, 2020; Shrouf, Al-Qudah, Khawaldeh, Obeidat, & Rawashdeh, 2020). A negative correlation exists between anomalous accruals in the reporting and audit quality. Accurate reporting is essential to a company's worth since it portrays the firm's success and fosters investor trust in the company (Bansal & Sharma, 2016; Shrouf, Al-Qudah, Khawaldeh, Obeidat, & Rawashdeh, 2020).

In Jordan, Alzoubi (2018) looked into the connections among debt financing, audit quality, and earnings management. Generalized least squares regression was used with a total sample of 72 industrial enterprises throughout the chosen period of 2006 to 2012, and the results showed that audit quality and debt financing reduced the potential for earnings management and increased the quality of financial reporting. Additionally, Ado, et al. (2020) investigate the relationship between audit quality and the financial performance of Nigerian

listed cement companies. According to the findings of their analysis, a positive figure suggests that as the proportion of firms audited by the Big 4 increases, so will financial performance (ROA), while auditor independence is also seen to be positively and statistically substantially connected to ROA.

### 3.5 Risk Management and Financial Performance

A link between risk management and a company's financial performance has been found to exist if viewed from a theoretical perspective. First, due to the fact that holistic management enables businesses to withstand a larger degree of risk, to gain from diversity, and to lessen the redundancies brought on by the distribution of risks across other departments or areas. Decision-making can be improved through improved internal communication and decrease of asymmetric information. By preventing redundant hedges and concentrating just on risk level, risk management lowers the cost of hedging risks (Durst, Hinteregger, & Zieba, 2019).

According to Huy, et al. (2021), the appointment of risk managers typically has no discernible impact on the stock market index prices (CROs). Their research focuses on immediate responses to risk management hiring announcements because it is impossible to predict the effects of decisions that will be made in future (Nasrallah & Khoury, 2022). Different studies have examined the influence that a risk management system exerts upon performance of a company from an empirical point of view, with varying outcomes, however the majority of scholars stress on creation of favorable impact.

Risk management enables natural hedging between various business operations and lowers expenses associated with the implementation of specific risk treatments (Shad, Lai, Fatt, Klemeš, & Bokhari, 2019). With a total of 680 firm-years of observations, Chairani and Siregar (2021) investigate the impact of enterprise risk management (ERM) on financial performance and firm value for listed companies in the ASEAN 5 (Indonesia, Malaysia, Philippines, Singapore, and Thailand) between the years of 2014 and 2018. According to the findings, ERM positively and significantly affects both financial performance and corporate value. According to Tahir and Razali (2011), there is a slight but favorable correlation between ERM and company value. Therefore, taking into account the concerns, there is adequate reason to study the topic deeper

### 4. Conclusion:

In this paper, previously existing literature has been reviewed in the context of financial performance, and audit committee. Financial Performance measures have been considered forward-looking measurements and are frequently being utilised to assess a company's worth to make them appear more pertinent with others, the scope of this performance is dependable on variables like asset return or earnings per share. Other scholars' work on the concept of corporate governance indicated the significance of same position duality at firms. We can observe from the literature that corporations are more valued and develop increase in performance when the CEO and the Chairman of company are two distinct people instead of

position duality. The audit committee being a crucial component of the full board provides risk management by conducting empirical investigation. In the above stated literature view, we observed the correlations of Corporate governance, Risk Management, and Audit with Financial Performance.

Furthermore, the paper's conceptual framework has been discussed, which demonstrates the board of directors and audit committee attributes selected for the research that may have an impact on the ROA and TQ of companies enlisted on the UAE Stock Exchange. These board and audit committee features are speculated to affect the financial results of UAE non-financial enterprises enlisted on the UAE Stock Exchange.

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