

## **Audit Committee Characteristics and Firm Performance: Evidence from the Insurance Sector in Bahrain**

Dr. Mohammed Helmy Qeshta<sup>1</sup>; Dr. Ghassan F. Abu Alsoud<sup>2</sup>; Dr. Abdulqawi A. Hezabr<sup>3</sup>; Basel J.A. Ali<sup>4</sup>;  
Mohammad Salem Oudat<sup>5</sup>

<sup>1</sup>Department of Accounting and Finance, Applied Science University, Bahrain.

<sup>1</sup>Mohammed.qeshta@asu.edu.bh

<sup>2</sup>Banking and Finance Program, Bahrain Polytechnic, Bahrain.

<sup>2</sup>Ghassan.alsoud@polytechnic.bh

<sup>3</sup>Department of Accounting and Finance, Applied Science University, Bahrain.

<sup>3</sup>Abdulqawi.hezabr@asu.edu.bh

<sup>4</sup>Assistant Professor, Accounting and Finance Department, Applied Science University, Kingdom of Bahrain, Bahrain.

<sup>4</sup>basel.ali@asu.edu.bh, basil8011@gmail.com

<sup>5</sup>Assistant Professor, Accounting and Finance Department, Applied Science University, Kingdom of Bahrain, Bahrain.

<sup>5</sup>mohammad.oudat@asu.edu.bh, mohammad.oudat@yahoo.com

### **Abstract**

*This study examines the impact of the Audit Committee's characteristics on the performance of the five insurance companies listed on the Bahrain Bourse over the period from 2012 to 2019. This study uses four board characteristics indicators; the size of the audit committee, independence of the audit committee, frequency of meetings of the audit committee, and expertise of the audit committee. Besides, this study takes into account two control variables, such as company size and firm age. Three-panel models used with a different dependent variable for each one were used in this study. The results of the study showed a statistically significant negative relationship between meetings of the audit committee and performance. The size of the audit committee, the independence of the audit committee and the experience of the audit committee have no significant association with the performance of the insurance companies listed on the Bahrain Stock Exchange. Alternatively, other AC features, different from those examined in this work, can be examined in future studies, such as the financial experience of its chair, the tenure of the committee and family ownership.*

**Key-words:** Audit Committee Characteristics, Firm Performance, Bahrain.

## 1. Introduction

This paper examines the influence of audit committee characteristics on the performance of the Bahrain insurance sector. The audit committee plays an imperative oversight role in monitoring corporate entities (Zraiq & Fadzil, 2018). They assist the board of directors in ensuring that the corporate managers' financial information is reliable, transparent, and meets the highest accountability level. Audit committees are an essential oversight system for corporate governance. Audit committee role flows directly from its oversight function. They are a critical corporate governance body because they support boards of directors in meeting their financial and fiduciary obligations to shareholders. An atmosphere of free and open access with proper organisational structure and transparency helps boards of directors to achieve their goals and policies (Abbott et al., 2003). Regulations in the Bahraini Corporate Governance Code mandate audit committees to ensure that auditing is performed transparently with due regard for risk and scope. Audit committees must meet with the external auditor regularly to assess financial reports, audit processes and internal control mechanisms. A free flow of information between internal and external agents of the company mitigates agency costs by monitoring the audit process and consequently reduces information asymmetries. In this regard, audit committees' role is to create an atmosphere where external auditors corroborate management information. Committees must ensure that auditors function independently and without prejudice. In this context, the audit committee prohibits management from indulging in fraudulent activities concerning the company's financial management so that there is no mistake in management reporting earnings. Audit committees as a supervisory body on behalf of all stakeholders are authorised to ensure financial information's trustworthiness by creating a management-free environment where external auditors can certify the company's accounts and financial statements. An audit committee must have the competence and be empowered to perform its role. The audit committee can be a catalyst for implementing, observing and maintaining acceptable corporate governance practices to benefit all stakeholders and management.

Before the Sarbanes-Oxley Act's establishments in 2002, numerous firms across the United States were facing massive corporate scandals that led to the loss of billions of dollars. Some of the firms that faced massive corporate scandals and financial losses include the Nortel, Enron, eToy, and WorldCom. A large sum of money was misappropriated by corporate managers of the above mentioned entities. Most of the shareholders succumbed to poverty following widespread bankruptcy and liquidation (Darko, Aribi, & Uzonwanne, 2016). The Audit committee's establishment comes as a solution to the corporate scandal that was affecting numerous companies across the U.S.

Research indicates that most of the corporate scandals that happened after the establishment of the audit committee resulted from an audit committee failed to discharge their duties as expected (Kallamu, & Saat, 2015). The irregularities and criticism that have been facing corporate entities have been due to an audit committee failed to carry out effect financial oversight (Bin-Ghanem, & Ariff, 2016). Some audit committee members may also end up colluding with the corporate managers to carry out fraudulent schemes (Bansal, & Sharma, 2016). Therefore, audit committee members' independence and honesty are paramount for a financial oversight role. Audit committees have a significant impact on the financial performance of the firm because they act as watchdogs. They can prevent fraudulent financial reporting by ensuring that the financial statement reflects the actual state of affairs on the ground (Samoei, & Rono, 2016). To the best of our knowledge, the novelty of this study over other previous studies is that the impact of independence of the audit committee, the size of the audit committee, the meetings and expertise of the audit committee on the firm performance were not previously explored in the insurance industry in Bahrain. Moreover, most of the literature chose only two to four years to explain the impact, and there was no practical explanation. However, using a longer time and extending study reach by investigating insurance companies could provide a more in-depth interpretation that could lead to more reliable results. We expand the work that has alluded to the value of audit committee characteristics with many new but critical attributes embodied in audit committees and further theorise and test how these audit committee characteristics play a role in an emerging economy context. This is the void the analysis seeks to fill.

## **2. Theoretical Framework and Hypothesis Development**

### **2.1. Background**

The literature on the impact of audit committee features on firm output in an emerging economy like Bahrain is scarce. Also, the literature on insurance firms is scarce. It is, therefore, appropriate to conduct this study in the context of Bahraini insurance listed companies. The study will investigate the audit committee's position as it relates to the principle of interest, bearing in mind the current economic recession in Bahrain, where many quoted firms face cash crush challenges that adversely affect their operations. Even the few previous studies that examined the impact of audit committee characteristics on firm performance found mixed results and had inconsistent results. In strategic management analysis, the performance of the organization is an important construct throughout the world and is sometimes used as a dependent variable. Despite its importance, there is

hardly any consensus on its meaning, dimensionality and measurement, which restricts research advancement (Ali, & Oudat, 2020; Oudat, & Ali, 2020). In this research, the theoretical framework comprises independent variables, control and dependent variables. The independent variables include audit committee size, independence, expertise, and meetings, while the dependent variables include ROA, ROE, and EPS. The control variables include firm size, leverage, and age.

## **2.2. Audit Committee**

Research establishes that the audit committee plays a critical role in ensuring credibility in how financial reporting is carried out (Qeshtaa, & Ali, 2020; Subramaniam et al., 2011). The likelihood of the audit committee manipulating financial reports is unlikely. However, if such manipulation occurs, it can only be due to a lack of honesty and accountability among the committee members (Juhmani, 2017). It is imperative to ensure that the audit committee comprises independent, honest, trustworthy, and reliable (Ashfaq, & Rui, 2019). The characteristics and composition of the audit committee have a significant influence on corporate entities' financial performance.

The audit committee must comprise persons who have some background in finance and accounting to quickly understand and interpret figures presented in the financial statement (Weber, 2020; Qeshtaa, & Ali, 2020). They must assess the balance sheet's quality, statement of cash flow, and financial statement and detect some inconsistencies that may heighten audit risk. Over recent times there has been a conflict of interest that arises between corporate managers and shareholders. Such conflict of interest is attributed to the actions taken by corporate managers of pursuing their selfish interest at the expense of shareholders, which end up compromising the wealth maximisation goals (Naseem et al., 2017). Managers may undertake projects that are too risky contrary to shareholders' risk profile.

Moreover, managers may reward themselves with huge salaries, which minimise shareholders' wealth. Also, managers may interest in projects with a longer time horizon than what shareholders expect. Such conflict of interest is attributed to information asymmetry (Koutoupis, & Bekiaris, 2019). The Audit committee's emergence helps to minimise such conflict of interest by ensuring accuracy and transparency. The audit committee acts as a mechanism for monitoring the quality of knowledge to ensure consistency and eliminate any fraudulent acts that may arise (Ghaemi, Moradi, & Alavi, 2020).

According to Person (2009), the performance of firms can be significantly influenced by the audit committee's effectiveness because of the audit committee. The audit committee size may

influence the performance of the Bahrain insurance sector (Qeshtaa, & Ali, 2020). If the size of the audit committee comprises of diverse members with appropriate financial and accounting skills, then the quality performance may be realised (Abdeljawad, Oweidat, & Saleh, 2020). If the size of audit committee members comprises members with vast experience in auditing and assurance then, it is more susceptible that firms' financial performance in the Bahrain insurance sector is likely to improve (Al Farooque, Buachoom, & Sun, 2019). The audit committee's size should incorporate an autonomous director who may act impartially and enhance accuracy and transparency on the firm's financial reports.

### **2.3. Development of Hypothesis**

There is an increasingly growing literature on the audit committee's characteristics, generally arguing that an independent, more expert, more vigilant, more involved and, with more members, appear to perform their duties more effectively (Mohiuddin and Karbhari, 2010). Accordingly, the paper presents four hypotheses as follow:

H1: Audit committee size has a significant positive relationship with the firm's performance.

The audit committee should have over three members because the audit committee's size is a crucial quality monitoring indicator. When the audit committee has fewer members, the possibility of conducting fraudulent activities is high because a few members can agree to collude and carry out the fraudulent transaction (Rahman et al., 2019). Also, if the audit committee size is considerably more expertise and diverse experience tends to be incorporated. The diverse skills, expertise, and experience tend to influence performance (Musallam, 2020) significantly. Higher financial performance can be achieved if the audit committee's size comprises persons with different backgrounds (Kallamu, & Saat, 2015). Such expertise and experience can improve the monitoring mechanism and the overall quality of financial reports (Salehi, Tahervafaei, & Tarighi, 2018). It may become possible to ensure that the users of financial information such as shareholders, investors, and the government do not receive misleading financial reports. It may also enhance the shareholders' quality of decisions and investments (Agyei-Mensah, 2018; Ali, & Wan 2016). Ali, & Oudat 2020). Therefore, based on the literature review, it is crystal clear that the audit committee's size is an essential factor. It improves the quality of the audit report and, at the same time, helps to enhance financial performance due to skills and expertise that are brought on board when it came to solving problems.

H2: Audit committee independence has a significant positive relationship with the firm's performance.

An audit committee's Independence is achieved when the members' monitoring mechanism is not interfered with by third parties (Al Farooque, Buachoom, & Sun, 2019). Audit committee members should be allowed to carry out their monitoring role without interference from the managers and auditors (Eyenubo, Mohammed, & Ali, 2017). Members of the audit committee should have ample time to carry out meetings and strengthen their internal control. They should not have other duties that may disrupt them or even interfere with their time to be readily available to attend audit team meetings (Ajili, & Bouri, 2018). The more frequent meeting may help the audit committee improve the quality of financial reports and enhance the level of disclosure (Al-Okaily, & Naueihed, 2019). Audit committee independence may not only help to eliminate fraudulent acts but may also improve the level of earning management in the Bahrain insurance sector.

H3: Audit committee meeting has a significant positive relationship with the firm's performance.

According to research that was done by Al-mamun (2014), there is a greater need for a regular audit committee meeting. Such meetings could help ensure that the agency's problem is reduced and eliminate asymmetric information (Garas & ElMassah, 2018; Qeshtaa, & Ali, 2020). The meeting may ensure that shareholders and all investors can get accurate and timely data to make informed financial decisions (Bhuiyan & D'Costa, 2020). The interest of shareholders can be protected by firms that ensure that a regular audit meeting is carried out. Besides, the level of efficiency and accountability tends to be enhanced (Juhmani, 2017a). Therefore, regular Audit committee meetings are an imperative factor that can significantly influence the Bahrain insurance sector's financial performance, and hence, it should be taken into consideration.

H4: Audit committee expertise has a significant positive relationship with the firm's performance.

The levels of expertise among the audit committee members may also help influence the financial performance of financial institutions (Alqatamin, 2018; Qeshtaa, & Ali, 2020) which insurance firms are one of those institutions. Some of the expertise that may positively influence financial performance include proficiency in finance, industry expertise, management, Information technology, and accounting expertise (Buallay, Hamdan, & Zureigat, 2017; Salameh, et.al 2020; Hasan, & Ali, 2019). Such expertise may not only determine the quality of the financial report but may also affect the earning management of the firm (Puni, & Anlesinya, 2020). Having the right people with the required expertise levels may significantly improve the firm's financial performance

(Gurusamy, 2017). Audit committee expertise helps to ensure that the auditing tasks are carried out effectively, leading to higher financial performance (Mardnly, Mouselli, & Abdulraouf, 2018). The improved performance may be measured by computing the return on assets, earning per share, and return on equity (Al-ahdal, Alsamhi, Tabash, & Farhan, 2020). When such measures have shown a rise compared to the previous period, it is an indication that the auditing function was carried out with a high level of expertise and diligence.

### 3. Methodology

This research was ex-post-facto in nature as it searched after the event to explore the impact of independent variables on the dependent variable. Ex post-facto research architecture was used to explain the impact of audit committee features on firm results.

This analysis used secondary data as the primary source of information came from the 2012-2019 annual report of Five listed insurance companies in Bahrain

The study hypothesises tested with a panel regression analysis. The panel regression is ideal for analysis when dealing with pool type data (Gujarati, 2003). Three Panels Models used with a different dependent variable for each one. Below are the three panel models.

$$ROA_{ij} = \alpha + \beta_1AUDSIZE_{ij} + \beta_2AUDIND_{ij} + \beta_3AUDMET_{ij} + \beta_4AUDEXP_{ij} + \beta_5logFSIZE_{ij} + \beta_6LVRGE_{ij} + \beta_7FAGE_{ij} + \varepsilon_{ij}$$

$$ROE_{ij} = \alpha + \beta_1AUDSIZE_{ij} + \beta_2AUDIND_{ij} + \beta_3AUDMET_{ij} + \beta_4AUDEXP_{ij} + \beta_5logFSIZE_{ij} + \beta_6LVRGE_{ij} + \beta_7FAGE_{ij} + \varepsilon_{ij}$$

$$EPS_{ij} = \alpha + \beta_1AUDSIZE_{ij} + \beta_2AUDIND_{ij} + \beta_3AUDMET_{ij} + \beta_4AUDEXP_{ij} + \beta_5logFSIZE_{ij} + \beta_6LVRGE_{ij} + \beta_7FAGE_{ij} + \varepsilon_{ij}$$

Table I- Below Describes all the Variables Used in the Three Models above

Table I- Labels and Variable Measurement

Labels	Variables	Definition and Measurement
<b>Firm performance variables (dependent variables)</b>		
ROA	Return on assets	It is an indication of the profitability of an organisation and is expressed as a percentage of total assets.
ROE	Return on Equity	It is a computation representing the profits made by a company as a percentage of its total equity [value].
EPS	Earnings per share	The net profit after all taxes is deducted divided by the outstanding equity shares.
<b>Audit Committee' variables (Independent variables)</b>		
AUDSIZE	Audit committee size	Committee size determined by the number of members.
AUDIND	Audit committee independence	Independent audit committee members represented by independent committee members divided by total audit committee members.
AUDMET	Audit committee meeting frequency	The number of meetings throughout the year.
AUDEXP	Audit committee expertise	The proportion of Subcommittee Directors with accounting or finance sector expertise. The variable represents those with the mentioned expertise divided by the number of people on the Audit Committee.
<b>Control variables</b>		
logFSIZ	Firm size	The logarithm of a firm's total assets.
FAGE	Firm age	The number of years a company has been in operation from the date of incorporation until the end of 2019.

## 4. Results and Discussions

### 4.1 Descriptive Statistics

The descriptive statistics presented in Table II revealed that average for the audit committee size in the insurance listed companies in Bahrain is 3.28, with a minimum number of 2 and a maximum number of 4. This is consistent with the Bahraini (CGC) Corporate governance code which states in principle that “at least three members of which the majority should be independent, including the Chairman” (Bahrain CGC, 2010). The average for Audit committee independence is 0.57, which is consistent with the above article but still, there are companies with independent members that are less than the majority. Regarding the audit committee meeting frequency, it was found that it is inconsistent with the CGC as it is mentioned in Appendix B that the committee shall meet at least four times a year. The mean for the audit expertise variable is around 0.53, meaning that on average around half the committee has an accounting and finance expertise. The number of audit committee members with prior executive experience range from a maximum of 75% of the total audit committee to 0%. This is consistent with the requirements of the CGC, which states that the majority of the audit members should have this kind of expertise. The CGC mentioned in Appendix B under title Committee Membership and Qualifications that “the board must satisfy itself that at least a majority of the committee has recent and relevant financial ability and experience”, which includes:

- “An ability to read and understand corporate financial statements including a company’s balance sheet, income statement and cash flow statement and changes in shareholders’ equity,
- An understanding of the accounting principles which apply to the company’s financial statements,
- Experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the company’s business” (Bahrain CGC, 2010).

Regarding the financial performance of the insurance sector, the data shows lousy performance as the average for ROE is 3.8%, and ROA is equal to 1.8% and EPS of 1.8%.

Table II- Descriptive Statistics (n = 40)

Variable	Obs	Mean	Median	Min	Max	Std. Dev.
ROE	40	0.038	0.075	-0.294	0.155	0.105
ROA	40	0.018	0.017	-0.052	0.082	0.028
EPS	40	0.018	0.021	-0.105	0.059	0.028
AUDSIZE	40	3.28	3	2	4	0.679
AUDIND	40	0.57	0.583	0.25	1	0.21
AUDMET	40	4.075	4	2	8	0.971
AUDEXP	40	0.53	0.667	0	0.75	0.24
FSIZE	40	142771.92	84930.5	26167	420134	140882.73
FAGE	40	31.9	35.5	14	44	9.142

Note: variables, independent and dependent are described in Table 1.

## 4.2. Bivariate Correlations

The findings of the Bivariate correlations can be found in Table III, which indicate no multicollinearity between the explanatory variables since the bivariate correlation between them does not exceed 0.7. Besides, the variables that have a significant correlation are only four variables.

Table III- Correlations

Variables	AUDSIZE	AUDIND	AUDMET	AUDEXP	logFSIZ	FAGE
AUDSIZE	1.000					
AUDIND	-0.548*	1.000				
AUDMET	0.085	-0.174	1.000			
AUDEXP	-0.208	0.405*	0.137	1.000		
logFSIZ	0.260	-0.193	0.492*	-0.127	1.000	
FAGE	-0.062	0.086	0.050	-0.529*	0.235	1.000
*** p<0.01, ** p<0.05, * p<0.1						

Because of multicollinearity, we conduct the variance inflation factor (VIF) calculations to estimate the effect of each independent variable. The results confirm the lack of critical multicollinearity in the three models.

Table IV- Variance Inflation Factor Testing

<i>Variable</i>	<i>VIF</i>	<i>1/VIF</i>
<i>AUDIND</i>	2.63	0.380145
<i>FAGE</i>	2.53	0.395736
<i>AUDEXP</i>	2.24	0.445452
<i>AVERAGE</i>	2.07	0.483504
<i>AUDSIZE</i>	1.65	0.606216
<i>AUDMET</i>	1.53	0.654144
<i>FSIZE</i>	1.48	0.673714
<i>Mean VIF</i>	2.02	

## 4.3. Panel Regression Results

Panel Regression analysis is used to investigate the relationship between corporate governance measures and other control variables and insurance companies' performance in Bahrain. Several assumptions had to be met in the multiple regression analysis. We decided to use the Hausman test for deciding whether to use fixed or random effects (Naseem et al., 2017). According to Makhdoom and Malik (2016), the null hypothesis says the model is the fixed effect model when the p-value is <0.05. When the said value is >0.05 (i.e. insignificant), the model suggests that the random

effect model should be used. For our models, we used fixed-effects because the p-value was <0.05. The results of the panel regression are presented in Table V. The three models were significant, as indicated by the Wald's  $\chi^2$  tests. For these models, the R<sup>2</sup> values were respectively 0.0414, 0.313, and 0.3753. Audit Committee interpreted 41, 31, and 37.5 per cent of performance variability in both Characteristics and control variables.

To start analysing the data using the fixed-effect model, we tested the normality of the data. We found that it is not normal, according to Doornik Hansen multivariate test of normality. The P-value was less than 5%. To solve the issue of normality, we transformed all the model variables to the log value as suggested by (Gissane, 2015).

Table V- Selecting between Fixed Effects and Random Effects

	<i>GLS regression</i>					
	Fixed Effects Coefficient (p-value)			Random Effects Coefficient (p-value)		
DV Variables	logROE	logROA	logEPS	logROE	logROA	logEPS
IV Variables						
logAUDSIZ	- 0.565 (0.662)	- 0.060 (0.274)	0.0941 (0.767)	0.576 (0.460)	0.0312 (0.396)	0.170 (0.362)
logAUDIND	0.393 (0.531)	0.0065 (0.808)	-0.079 (0.608)	0.597 (0.272)	0.0222 (0.386)	- 0.031 (0.809)
logAUDMET	- 0.929** (0.0267)	- 0.0773** (0.034)	- 0.447** (0.035)	- 1.164** (0.0137)	-0.0941** (0.011)	- 0.490** (0.009)
logAUDEXP	- 0.656 (0.300)	- 0.0475 (0.082)	- 0.132 (0.399)	- 0.473 (0.177)	- 0.028 (0.093)	- 0.116 (0.169)
logage	1.340 (0.611)	0.125 (0.267)	- 0.270 (0.677)	- 0.371 (0.483)	-0.0485 (0.052)	-0.177 (0.162)
logsize	1.457 (0.396)	-0.774 (0.290)	0.400 (0.345)	-0.478 (0.279)	-0.0223 (0.283)	0.949 (0.370)
cons	- 11.284 (0.287)	-1.140 (0.015)	-2.493 (0.388)	-1.347 (0.556)	- 0.3364 (0.002)	- 1.283 (0.019)
R <sup>2</sup>	0.0414	0.313	0.3753			
Prob > F	0.0313	0.0499	0.033			
Wald chi2	15.75	15.05	19.99			
Prob > chi2	0.0275	0.0199	0.0056			
Hausman fixed random/ Prob>chi2	0.0080	0.0014	0.0097			
**indicate a level of significance at 5%.						
<b>Notes:</b> ROA is Return on Assets, ROE is Return on Equity, EPS is Earnings Per Shares, AUDSIZ is Audit Committee Size, AUDIND is Audit Committee Independence, AUDMET is Audit Committee Meeting Frequency, AUDEXP Audit Committee Expertise, FSIZ is Firm Size, FAGE is Firm Age.						

The results of the regression analysis show that there exists a statistically significant negative relationship between audit Committee meetings and performance. The Negative relationship suggests that relatively more AC meeting will reduce performance measured by ROE, ROA, and EPS. This result is consistent with Rahman et al. (2019), which found that the relationship between firm performance and audit committee meeting is negative. It is also consistent with Hsu & Petchsakulwong (2010), who found that the number of committee members and the frequency of meeting was negatively correlated with revenue efficiency. This may be because of the less efficacy of the meetings due to only doing the meetings just to avoid being less in numbers and to avoid being non-compliance with the Bahraini CGC. It is also can be explained by being less transparent about the number of meetings in the audit committee report, or audit committee tendency just to comply with the requirements to meet regardless of the increase of the firm results.

As shown in Table V, there is no statistically significant relation between other AC characteristics and financial performance, as measured by ROA and ROE and EPS. This would imply that audit committee size, audit committee independence, audit committee experience does not have any significant association with high performance in the insurance companies listed in Bahrain Bourse. This finding is consistent with previous findings that AC characteristics and financial performance are insignificantly related (Al-Tamimi, 2012; Price et al., 2011). Besides, this result is in line with the findings of Akbar et al. (2016) that AC characteristics do not affect the firm's performance. Regarding audit committee independence insignificant impact, it can be explained by lack of knowledge and skills of the independent directors. This result is in line with previous studies conducted by Al Mamun et al. (2013). They have found that including more executive directors in the governance committee could lead to greater committee effectiveness and more outstanding results than the independent board of directors. This finding is not in line with agency theory which argues that an independent board and committees decrease costs. The insignificant impact of Audit Expertise implies that the extent to which members of the audit committee have financial and accounting experience cannot influence firms' financial performance. If we relate this result with the descriptive analysis of the variable Audit committee expertise which shows that only 53% of the committee on average has a financial or accounting expertise and the existence of companies with 0 percentage may explain why the variable was insignificant. Lacks financial and accounting skills and knowledge makes them ineffective. There are not enough accountants and finance professionals in the insurance sector in Bahrain. This scarcity causes problems for companies when trying to get the best people to their audit committees. The insignificant impact of committee size on performance means that the effect of size was not proven. This result is consistent with the insignificant impact of audit

committee expertise on performance because if their knowledge does not affect performance, the size will not affect performance.

Control variables, firm size and firm age shows an insignificant association with corporate performance, suggesting the lifetime of the firm and its size might not have much influence on the firm's profitability.

## 5. Conclusion

It can be concluded from the insignificant effect of the three AC characteristics on firm's profitability and the significant negative effect of the fourth one that insurance listed companies in Bahrain may comply with the CGC requirements merely to avoid any possible disciplinary actions. Meeting just the basic minimum standards of effectiveness does not ensure audit committees' efficiency in enhancing financial performance. Other factors such as the quality of discussions during meetings, the commitment of audit committee members, and the organisational environment might have a significant influence on the audit committee's performance. These issues have not been addressed as they require a different research design.

The limitations of the research include the scope and time frame. The study only examines insurance companies listed on the Bahrain stock exchange over the years 2012 and 2019. This period was selected because companies in Bahrain Started to comply with CGC in 2011. The scope explained could limit the results' general applicability. Research can be done by expanding the industry's scope, year and region of study to a larger region to increase study results' generalizability. Another limitation of this research is the difficulty in measuring the audit committee's characteristics as an individual proxy. The lack of comprehensively reviewed aspects of the audit committee will result in a preliminary examination of their impact. Alternatively, the future studies can examine other AC characteristics, different from examined in this work, such as the financial experience of its chair, Committee tenure and family ownership. Furthermore, future studies can consider all the companies classified as financial services and banks by Bahrain Bourse to get a more significant sample. Another suggestion would be to incorporate different firm performance metrics, such as Tobin Q.

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