

Chapter 2

Audit Committee Characteristics and Earnings Quality: Evidence From Bahrain Bourse

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ABSTRACT

This chapter investigates the relationship between the audit committee and earnings quality of listed companies in Bahrain Bourse and to examine whether those companies comply with the obligatory code of corporate governance. The sample of this study includes 40 companies listed in Bahrain Bourse for the period 2013-2017. The model of the study tested the relationship between the independent variables of audit committee characteristics and the dependent variable of earnings quality using pooled data regression. The findings of the study showed that the Bahraini listed companies comply and follow the code of corporate governance and some audit committee characteristics have an impact on earnings quality.

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INTRODUCTION

The advent of corporate governance has dramatically created some significant changes in business environments in general, and in the accounting and auditing works in specific. The organization for economic cooperation and development (OECD, 2015) stated, “Good corporate governance is not an end in itself. It is a means to create market confidence and business integrity, which in turn is essential for companies that need access to equity capital for long-term investment. Access to equity capital is particularly important for future oriented growth companies and to balance any increase in leveraging”.

In the Middle East countries, the rules and regulation of corporate governance got consideration for two decades. The organization for economic cooperation and development (OECD) gave a great deal of attention to the Middle East and North Africa (MENA) countries through the initiatives which basically aims to adopt the procedures and implication of corporate governance in order to enhance the investment environment and policies (Miteva, 2005).

In the last few years the way people look at the function of audit committees as a mechanism of corporate governance has increased significantly; the audit committee’s main goal is to increase the interrogative of the board of management and to increase the role of audit and its neutrality and independence (Hamdan et al, 2013). The organizational interest in the role of audit committee increased during the last years in preparing financial statements and reports (Martnez & Fuentes, 2007). Moreover, Martnez and Fuentes (2007) stated that the audit committee plays an important role in reducing and limiting the differences raised between external auditors and managers in addition to monitor financial statements; however, the chance of receiving a qualified opinion as a result of non- complying with the accounting standards and accounting errors is reduced.

As for Bahrain case, all listed companies in Bahrain Bourse (BHB) were operating in accordance to “Company Law”. In late 2013, Ministry of Industry and Commerce (MOIC) with the collaboration of Central Bank of Bahrain (CBB) have launched the National Steering Committee in order to move Bahrain forward in reaching its objectives. This committee represents stakeholders and it is consisting of government agencies, academics, the banking and accounting sectors, business associations, and other members of the business community. Later on, the National Steering Committee has worked to issue corporate governance as a guide to be used by the listed companies enrolled in Bahrain Bourse (BHB) in order to defend the interest of

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