INTERNATIONAL STRATEGIC MANAGEMENT REVIEW 2 (2014) 39–45

HOSTED BY

ELSEVIER

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: http://www.elsevier.com/locate/ism

INTERNATIONAL STRATEGIC MANAGEMENT REVIEW

USEK | HOLY SPIRIT UNIVERSITY OF KASLIK

Audit Committee and Financial Distress in the Middle East Context: Evidence of the Lebanese Financial Institutions

Charbel Salloum[a], Georges Azzi[a], Elias Gebrayel[b]

[a]*USEK School of Business, Jounieh POBOX 446, Lebanon*
[b]*Sarooj Construction Company, Chatee Al Qurum, Muscat, POBOX 1413, Sultunate of Oman*

ARTICLE INFO

Article history:
Received 26 August 14
Received in revised form 9 September 14
Accepted 21 September 14

Keywords:
Audit committees
Financial distress
Financial performance
Financial institutions

ABSTRACT

The purpose of this paper is to detect the impact of audit committee characteristics on Lebanese financially distressed and non-distressed banks. Four characteristics of the audit committee are being examined; size, composition, frequency of meeting and financial expertise. The sample includes 54 Lebanese banks with fiscal years-end between 2009 and 2011. The financially distressed and non-distressed banks have been identified from bank profitability. Our Results show that the financial distress of banks has a significant negative relation with the meeting frequency of the audit committee. Hence, the evidence suggests that the meeting frequency of audit committee members is an important factor as it helps the audit committee to hinder the financial distress of the bank. Meeting frequency plays an important role to ensure audit committee effectiveness. In other words, the audit committee with frequent meetings is able to help audit committee members to ensure the integrity of financial reporting, to provide better monitoring and to review effectively the operations. The establishment decision of audit committee was adopted in 2008 and was modified in 2010 in Lebanese banks. Then, this study examines an actuality subject. Consequently, this paper represented an added value to the corporate governance in Lebanese banks and shows the importance of the audit committee impact on financial performance. Future studies concentrate on the impact of managerial dominance over the board (board composition, CEO duality and management ownership) on the independence of audit committee which may have an influence on bank performance.

1. Introduction

Recently, the world has witnessed dramatic financial scandals which put the public to the research in corporate governance systems. Consequently, governments were put new regulations to enhance boards' committees and to improve the efficiency of corporate governance systems. According to [1], the « corporate governance is not working the way it should… it is the failure by too many boards of directors to make the system work the way it should…». In this context, the boards of directors play a major role in management control through its committees in order to enhance corporate governance efficiency. According to [2], good corporate governance can enhance accountability relations between companies' participants in order to protect stakeholder's interests. Consequently, the board of directors

* *Corresponding author.* Tel.: +961 9 600 815; fax: + 961 9 600 801
E-mail address: salloum@usek.edu.lb

Peer review under responsibility of Holy Spirit University of Kaslik.

http://dx.doi.org/10.1016/j.ism.2014.09.001

delegates to the audit committee a scope of responsibilities, such as overseeing company's internal control process and company's financial reporting aiming to monitor the top management, to control the system and to enhance corporate performance [2]. In this context, audit committee should assist the board of directors in effective management monitoring [3] with the aim to protect the interest of the shareholders. Under corporate governance, audit committee is responsible for financial reporting process, internal control structure, internal audit functions and external audit activities [1].

Almost all the Middle East countries have a general corporate governance code. Hence, the establishment of an audit committee becomes mandatory in most of these countries. For example, Egyptian professional norms support global audit committee standards by surveying professional auditors' support for amendments to the current Code of Corporate Governance to align it with US and UK codes and regulations [4]. In Lebanon, corporate governance is not well developed but in the last few decades the government has taken some steps to make marginal improvements. Existing legal and regulatory requirements lack many important corporate governance protection codes, especially with respect to the composition and operation of boards' committees. Audit committee is present in 14% of the companies operating in the Lebanese market, related to overseas groups and local companies in Beirut and suburbs [5]. Besides, the efficiency evaluation of the board of directors and audit committee as corporate governance mechanism in Lebanese company shows that 18 % of this committee is efficient in order to review internal control regulations, to supervise the internal audit activities, to evaluate the independence of the external auditors and to minimize companies cost. The establishment of an audit committee has created an important subject in the bank sector since early 2008. Establishing an audit committee becomes mandatory in Lebanese banks as per basic circular no. 118 [1] issued by the Governor of BDL [2]. It plays a major role in controlling the efficiency of internal auditors and evaluating the independence of external auditors. Therefore, the aim of this establishment is to strengthen the corporate governance of all Lebanese banks. Likewise, banking control commission [3], which was established in 1967, plays an important role in monitoring and control to ensure the good governance in Lebanese banks.

Issuing circulars concerning the establishment of audit committee in the Lebanese bank sector in 2008, puts the Lebanese market on the first serious attempt to find out the role of these committees and their impact in corporate governance. Accordingly, the main focus of this establishment is to strengthen the internal control by fighting against money laundering and financial crimes, to review internal control regulation, policy and procedures and to ensure their efficiency and effectiveness [4]. Currently, audit committee supervises the internal audit activities and evaluates the performance and the independence of external audit. Based on the intermediate circular no. 253 [5], the audit committee should assist the board of directors to fulfill the supervision of regulation and recommendation issued by the BDL as well as the banking control commission. In the basic circular no. 118, the BDL puts the guidelines for the establishment of the audit committee according to certain characteristics (size, independence, frequency of meeting and financial literacy of members), thus ensuring the good practices of corporate governance. The audit committee effectiveness depends on the prosperity or financial distress of companies, such as financially literate audit committee members increase the company performance and prevent its financial distress [6], [7]. This evidence of competence between members enhances company performance and reduces the likelihood of financial problems. Moreover, it is expected that the domination of non-executive members, helps the company to enhance its performance and to avoid any financial distress. [8] found that effective audit committee could increase the financial statement credibility and objectivity. Therefore, good characteristics of audit committee are positively associated with financial performance.

The aim of this paper is to analyze the impact of audit committee characteristics on Lebanese financially distressed and non-distressed banks. Loss output is one of many criteria that affected Lebanese bank prosperity. The problem of financial distress, being an increasing phenomenon among Lebanese banks after the civil war between 1990 and 1993, contributes to an increase of loss output with 102 % [9]. During this period, four banks became insolvent and eleven had to resort to Central Bank lending [10]. Moreover, in this paper, audit committee performance is studied by showing the audit committee characteristic relation with financially and non-distressed banks. For the purpose of this paper, financially distressed banks consist of those under profitability problems. The financially non-distressed banks are the ones with a significant rate of profitability. It is expected that audit committee with good characteristics is negatively related to the financial distress of the bank. The performance of Lebanese bank sector has previously been examined in term of governance practices [11]. The paper used the impact of outside directors on bank performance without taking into consideration audit committee effectiveness. However, this paper goes beyond comparing the bank profitability among distressed and non-distressed banks. It examines the relationship between the characteristics of audit committee and the financial distress of these banks. In addition, it examines audit committee effectiveness taking into consideration their role, their objective and their responsibility to provide bank prosperity. This is essential to focus on evaluating committee effectiveness to avoid financial distress.

The establishment decision of audit committee was adopted in 2008 and was modified in 2010 in Lebanese banks. Hence, this paper examines an actuality subject. An active audit committee has a significant impact on the financial performance of the banks. The Results show that the financial distress of banks has a significant negative relation with the meeting frequency of the audit committee. The following section discusses the literature review and hypothesis development. Then, the next section defines the empirical study and analyzes findings and results. Last section concludes the study.

---

[1] Basic circular no. 118 was addressed to Lebanese banks from Banque Du Liban. It is a copy of the basic decision No. 9956 of July 21, 2008 related to the establishment of audit committee.

[2] BDL (Banque Du Liban) is the central bank of Lebanon. It was established in 1963 by the Code of Money and Credit. It is headed by the governor Riad Saleme.

[3] Banking Control Commission of Lebanon (BCCL) was established in 1967. The BCC's function is to supervise banks and financial institutions.

[4] Based on article 4 of Basic circular no. 118 (review note 2).

[5] Intermediary circular no. 253 was addressed to Lebanese banks from Banque Du Liban. It is a copy of the intermediate decision No. 10706, April 21, 2011, and the amending basic decision No. 9956, July 21, 2008, on the establishment of the audit committee.

2. Literature review and hypothesis development

More than studies have examined the role of audit committee characteristics in agency relations [6], [12]. According to agency theory, a conflict exists between shareholders and managers. Therefore, the top management may take some decisions which are not for the best interest of shareholders [13]. In this context, there is an asymmetry of information between these two poles. The separation of decision management helps to control this asymmetry by limiting the power of the agent and preventing the deviation of shareholders interest [14]. Hence, the agency costs factors should influence the audit committee effectiveness [12]. This effectiveness is used to reduce such conflict [15]. Many studies examine the relationships between effectiveness of audit committee and entity performance. Mixed results were found between these two variables [6], [16]. Hence, [17] suggests that firms with effective audit committees have less earnings management. Prior studies have examined the role of audit committee characteristics in firm performance [18]. Results suggest that size of audit committee and financial experts of audit committee members are able to explain the behavioral practices of the voluntary disclosure of intellectual capital. This paper studies the relationships between audit committee characteristics (size, composition, frequency of meetings and financial literacy of members) and bank financial distress.

2.1. Size of audit committee

[19] indicates that large audit committees provide more monitoring resources of top management and quality of the financial reports. It may enhance the internal governance practice and improve the resources of internal monitoring. Prior studies found mixed results in the relationship between audit committee and company financial performance. Another research [20], finds that large audit committee improves financial reporting quality, as its effectiveness increases with the existence of experienced and knowledgeable members [21]. This is evidence that the right-sized committees can use their experience to help the committee in monitoring. On the other hand, it is found that a weak association between the size of audit committee and company performance [22], [23]. Therefore, the large audit committee loses concentration and becomes less participative than the smaller one. However, there is not any significant relationship between size of audit committee and financial distress [6]. In control perspective, result of prior study supports the monitoring function of the audit committee characteristics. [3] found that smaller boards monitor better than larger ones. The audit committee with small number of members tends to be more participative comparing to those of a larger size. However, larger audit committees are more efficient in monitoring financial reporting process [24]. This is due to the existence of experienced and expertise members. In Lebanon, basic circular no. 118 issued by BDL obliges to compose at least three members in audit committee of Lebanese bank. Thus, our first hypothesis is developed:

H1: There is a significant negative relationship between size of an audit committee and financial distress.

2.2. Composition of an audit committee

Audit committee composition focuses on independence aspect. It is defined by the ratio of non-executive and executive directors. The audit committee is considered independent when the domination of non-executive directors is considered. However, executive members can impair the effectiveness of audit committee by influencing the decision-making process of the board [25]. High presence of executive directors limits the amount of information held by board members. More than one method was found to reduce this information's asymmetry. Thus, a large proportion of independent directors enhances management monitoring [3], which evidences that more independent audit committee has a high level of audit coverage [26]. There is evidence that more independent audit committees are seeking to preserve the independence of the external audit process. The participation of non-executive members in large proportion improves the audit committee independence. This enhancement of audit committee independence should facilitate decision and assure information objectivity [27]. For this reason, the audit committee should maintain the monitoring role delegated by the board with aim to provide better reliability of information. Consequently, the presence of independent board committees increases the capacity of corporate boards to effectively advise, monitor and discipline top management [28].

Non-executive directors are considered to be an important mechanism in ensuring corporate accountability [29], [30]. Fully independent audit committee (non-executives members) is associated to outcomes, and expected to improve governance with more effective committee [31]. This clearly evidences that large proportion of independent members in audit committee ensures the effectiveness of strategic management decision-making. In the same way, [32] observe that an audit committee should comprise a higher proportion of non-executive directors. [31] observe that full-independent audit committee provides a better monitoring of management than the existence of executive members with objective decision. The presence of non-executive directors in audit committee reduces the likelihood of financial problem [7]. Hence, the presence of independent directors protects the best interests of shareholders.

Independent audit committee protects its reputation by ensuring high quality of financial statement [33]. Moreover, [32] find that a negative association between the audit committee independence and the going concern of financially distressed companies. In other words, they found that the greater the proportion of affiliated directors on the audit committee, the lower the likelihood the auditor will issue a going – concern reports. This argument provides a support of the basic circular no. 118 issued by the BDL. This circular requires the audit committee in Lebanese banks to be including not less than three members fully independent; i.e. non-executive directors. Thus, our second hypothesis is developed:

H2: There is a significant negative relationship between the composition of non-executive directors in audit committee and financial distress.

2.3. Frequency of meetings

Prior studies directly address to frequency of meetings and most of them measure audit committee activity [7], [34], [35]. Findings suggest that frequent meetings in audit committee provide a better monitoring of financial environment and reduce financial reporting problems. By meeting regularly, audit committee provides its effectiveness and ensures the integrity of financial reporting process [7]. High percentage of companies with non financial reporting problems held meeting four times a year. This finding provides that audit committees in companies with financial reporting problem, do not hold frequent meetings compared with audit committees in companies with no financial reporting problems. Hence, prior research found a positive relationship between frequency meetings and audit committee effectiveness [34], [36]. These results provide an evidence to support the BDL basic circular no. 118 which requires the audit committee of Lebanese banks to, at least, convene on a quarterly basis, or when necessary. As a result, it may request to meet with any of the bank's directors to enquire any work-related issue and shall directly submit reports, on its work results, to the board of directors.

Audit committee meeting frequency plays an essential role in audit committee effectiveness with respect to audit and control quality [37]. This finding suggests that audit committee works to increase audit quality and to use better the system of monitoring process. Hence, the meeting frequency reduces any perceived audit and controls risk [38]. Several audit committee meetings lead for more serious steps to monitor management by the chairman [34]. Regular meetings between audit committee and internal auditors enhance the effectiveness of internal audit function [39]. Internal audit is responsible to report problems to audit committee, who, in turn, discusses and assesses the overall control environment with management, so that proper actions are taken [40]. Thus, our third hypothesis is developed:

H3: There is a significant negative relationship between the frequency of audit committee meeting and financial distress.

2.4. Financial Literacy

Financially-literate audit committee consists of members who are able to read and understand fundamental financial statements [2] and to evaluate or analyze financial information. Expertise in auditing, accounting and internal control, form an important factor of audit committee effectiveness [7]. Hence, they show that presence of certificate members on the audit committee (CPA) is negatively related to the financial difficulties in the companies. Audit committee members must be knowledgeable and well-experienced to fulfill their responsibilities effectively with the aim to enhance audit committee effectiveness [41]. It is expected that audit committees that have financially-literate members, achieve their responsibilities efficiently, and optimize corporate financial performance.

The presence of financial expert in the audit committee is negatively associated with the probability of aggressive earning management [42]. This finding supports BRC recommendations in point of view presence of financial expertise member's. Consequently, the presence of financial expertise helps the audit committee to fulfill efficiently their responsibilities in internal control, internal external audit. In addition, the different experiences of audit committee members help to evaluate audit committee effectiveness [43].

Accordingly, audit committee with members financially literate can reduce the financial distress companies [6], [7]. From the perspective of internal audit; the presence of financial experts on the audit committee reduces the likelihood of internal control weaknesses [44], [45], [46]. Financial expertise in audit committees enhances its effectiveness by meeting financial oversight responsibilities [47]. These findings provide empirical evidence to support the BDL. basic circular No. 118 which requires to design of at least one member with financial literacy on an audit committee in Lebanese bank sector.

Hence, Lebanese bank audit committee must have at least one member who has modern and practical banking or financial experience in the accounting, the financial administration, or the auditing field. Based on the circular, it can be concluded that financial literacy was defined by the knowledge and expertise of accounting, finance and audit, with relevant years experience in these fields. The presence of financially-literate members on the audit committee would enhance and improve the internal control and monitoring role. They can assist the board of directors to complete this mission. Finally, our forth hypothesis is developed:

H4: There is a significant negative relationship between the financial literacy of audit committee members and financial distress.

3. Research Design and Methodology

This paper studies the impact of audit committee characteristics on Lebanese financially distressed and non-distressed banks. In order to achieve this aim, a cross-sectional approach was adopted to illustrate the association between the audit committee characteristics and the financial performance of the banks.

3.1. Sample

The sample consists of 149 firm year of data on the banks operating in various Lebanese territories during the period of 2009 to 2011, and comprising financially distressed and financially non-distressed banks. The banks were considered that the lonely homogeny systems which adapted audit committee in Lebanon. Since some banks entered and/or exited over the sample period, there is an unbalanced panel data. A financially distressed bank is defined by the inability of a Lebanese bank to generate income with negative profitability position. Hence, profitability was used as a measure of financial distress [6]. Return on assets (ROA) is an accounting criterion used in measuring banks performance [11], [48] to differentiate the financially distressed banks (i.e. negative return on assets) from financially non-distressed banks (i.e. positive return on assets). The bank performance is examined in a proper way to reflect the accurate position between banks having financial problems and banks with financial prosperity. Financial data was collected from the banks' financial statements (net income and total assets) during the period between 2009 and 2011, as well as the corporate governance guide. We conduct further investigation concerning the independence of audit committee members by phone meetings with the banks' management.

3.2 Operationalisation of variables

The study uses logistic regression analyses to test the hypothesis. The regression model is as follows (Table 1):

$$FD = ß1ACS + ß2ACC + ß3ACMF + ß4ACFL + \varepsilon t$$

Table 1 - Summary of operationalisation of variables.

Dependent Variable	
Financial Distressed	0 = Financially non-distressed banks 1 = Financially distressed banks
Independent Variables	
Audit committee size	The number of audit committee members
Audit committee composition	The ratio of non-executives members
Meeting frequency	The number of meeting held per year
Financial literacy	The number of members who have a financial knowledge
Control variables	
Bank size	Natural logarithm of assets
Quality	0 = Non big 4 audit firm 1 = Big 4 audit firm

Where FD, financial distress; ACS, size of audit committee; ACC, audit committee composition (non-executive directors); ACMF, meetings frequency of audit committee members; ACFL, financial literacy of audit committee members; BS, bank size (Natural logarithm of assets per year); QUALITY, audit quality (Big 4 or non-big 4).

4. Results

4.1. Descriptive statistics

Table 2 illustrates descriptive statistics of the variables in a sample. On average, an audit committee consists of four members with non-executive ones as a majority and at least one financially literate member. The audit committee members hold four meetings per year. In terms of audit committee size, meeting frequency and financial literacy, Lebanese banks comply with the minimum requirement specified by the BDL. On the other side, the average number of audit committee composition is less than required by the BDL regulation.

In details and without any exception, all banks form the audit committee with a minimum of three members. Furthermore, 43 out of 149 bank year of data show that audit committees do not totally include non-executive members. The other sample shows that the audit committee members are totally independent. 43 banks do not comply with the requirement of BDL to have totally independent members in the audit committee. They, on the contrary, comply with the international regulation [2] by insuring the majority of the members to be non-executive. In term of meeting frequency, the financially distressed banks do not meet the minimum frequency required by the regulation. On the other hand, non-distressed banks have an average of four meetings per financial year.

Table 2 - Comparison of means and BDL requirements.

Sample		ACS	ACC	ACFM	ACFL
Non - FD	N	139	139	139	139
	Mean	3.580	0.903	4.470	1.040
	Median	3.000	1.000	4.000	1.000
	SD	0.833	0.201	1.874	0.473
FD	N	10	10	10	10
	Mean	3.300	0.850	2.400	1.000
	Median	3.000	0.750	2.000	1.000
	SD	0.483	0.120	0.843	0.471
Total	N	149	149	149	149
	Mean	3.560	0.899	4.330	1.030
	Median	3.000	1.000	4.000	1.000
	SD	0.816	0.197	1.894	0.471
Chi-Square		0.136	0.370***	0.640***	0.068
BDL Circular		Minimum 3	1	4 times	At least 1 member

[a] Significant at *0.100, **0.050, ***0.010, respectively.

A lack of independence in two variables, audit committee size and audit committee financial literacy (Chi-Square), leads the study to exclude these two variables from the regression equation. Non-Parametric test (Chi-Square), confirm that audit committee size is statistically independent with distressed and non-distressed banks (Sig. > 0.05). In plus, we conclude there is significant independence in audit committee financial literacy with distressed and non-distressed banks since Sig. > 0.05 (Table 2). Hence, H1 and H4 are not supported.

4.2. Results of logistic regression analysis

The study uses logistic regression method to test the hypotheses. According to Chi-Square, the coefficient associated to the audit committee size and financial literacy is not significantly related to the financial distress in the Lebanese banks. This implies that these variables (size, composition and financial literacy) should be removed from the regression equation. Hence, H1 and H4 are not supported.

Table 3 shows the results of the analysis. The table indicates logistic regression between audit committee characteristics in term of financial distress. In terms of control variables, bank size is included in the regression equation (The audit quality is removed from the equation and is found to have no significant relationship with financial distress). There is evidence that, larger companies have greater incentive to heighten audit committee effectiveness [49]. Hence, the bank financial performance was strongly influenced by the bank size [50].

In Table 3, the meeting frequency of an audit committee has a negative and significant relationship with the bank financial distress (Sig. < 0.05). Therefore, H3 is supported. In addition, findings suggest that financial distress is not significantly related to bank size. This result shows that audit committees in financially non-distressed banks are more active than audit committees in financially-distressed banks. This result supports [7] who found that by meeting regularly, audit committee provides its effectiveness and ensures the integrity of financial reporting process.

Audit committee composition is insignificantly related with financial distress. This result supports [6] who find that audit committee composition is not negatively related to the probability of financial distress. Hence, H2 is not supported. The result (Table 3) indicates that financial distress is not significantly related to the bank size, suggesting that no effect of bank size on the probability of financial distress.

Results suggest that the financial distress of banks is significantly related to the meeting frequency of audit committee members. Audit committees that do not hold frequent meetings, may lead the banks to lower performance. In case of absence of regular meetings, audit committees may not be able to monitor effectively and to follow the operations and financial matters. Hence, audit committees are not able to fulfill their responsibilities. The frequency of meetings is expected to enhance audit committee effectiveness. In corporate governance perspective, financially distressed banks may ensure their compliance with BDL regulation in terms of size, composition, frequency of meeting and members' financial literacy.

Table 3 - Result of logistic regression.

Variables (n=149)	Coefficient			
	1	2	3	4
Constant	3.562	1.912	3.873	1.264
Size	0.498			
Composition	0.163	1.728		
Meeting frequency	-1.222**	-1.199**	-0.949***	-0.162***
Financial literacy	-0.881			
Bank size	-0.223	-0.156	-0.251	
Audit quality	-0.150			
Cox and Snell R^2	0.143	0.133	0.130	0.121

[a] Significant at *0.100, **0.050, ***0.010, respectively.

5. Discussions and conclusion

Audit committee establishment decision is an important determinant of good corporate governance in Lebanese banks. An active audit committee has a significant impact on the financial performance of the banks. Hence, audit committee effectiveness optimizes banks level performance being important keys in corporate governance. The effective audit committee helps management to enhance bank performance. This paper examines audit committee characteristics of Lebanese bank sector in relation to financial distress.

Findings of this paper show that financial distress is significantly related with the meeting frequency of audit committee members. Results show that frequent meetings of the audit committee are able to enhance banks performance. Hence, the audit committee with frequent meetings is able to help audit committee members to fulfill their responsibilities. In other words, audit committee is able to ensure the integrity of financial reporting, to provide better monitoring and to review effectively the operations. However, the unavailability of individuals to hold high frequency of meeting poses a problem to the audit committee in order to fulfill their responsibility. In Lebanese banks, our finding suggests that audit committees in 22 of 149 bank year of data do not hold regular meetings per year. As a result, the rule of the BDL is approximately implemented and the availability of time is a critical condition on the appointment of audit committee members. To comply with the BDL requirement, the audit committee members should be available minimum once a quarter.

Results indicate that there is no significant relationship between financial distress and the other three independent variables; size, composition and financial literacy of an audit committee. Hence, on average, the Lebanese banks meet the minimum requirements of BDL in terms of size, composition and financial literacy. This is clear evidence that Lebanese banks comply with regulation to prevent any punitive action taken by the BDL and BCCL. However, complying with these requirements is not enough to enhance banks performance. Other qualitative factors have influence on audit committee performance [6] such as quality of discussion during meetings, level of commitment of audit committee members and organizational work environment.

Hence, our findings support the previous studies which have examined the relation between audit committee characteristics and financial distress particularly size, independence, meeting frequency and financial literacy [6], [7]. Prior studies have examined the role of audit committee in limiting the power of management and protecting shareholders' interests [14], [25]. Hence, the board of directors is responsible to establish an effective audit committee with standard characteristics with aim to guarantee their independence from management. In this way, the audit committee can fulfill their responsibilities without any pressure from management and enhance corporate governance practices. Any lack of audit committee characteristics can hinder the banks to overcome their financial difficulties. Findings of this paper show a non significant relationship between the banks size and their financial distress. This suggests that non importance of bank size to enhance bank financial performance. In general, this research studies the corporate governance with respect to audit committee characteristics and other factors such as audit quality and bank size. Findings suggest that audit committee has a significant role in enhancing bank performance and hindering the financial distress. Overall, meeting frequency plays an important role to ensure audit committee effectiveness. The banks should promote the effectiveness of audit committee meeting by putting these significant issues in their agenda.

This study has a number of limitations. First, this paper studies only Lebanese banks on financially distressed or non-distressed situation. The result may not be generalized to other companies (financially distressed or non-financially distressed) which used audit committee. Moreover, in Lebanon, there is a small number of banks and this may affect the results analysis of statistic data. The implication of this study is this paper does not take into consideration the determinants of audit committee characteristics which may have an influence on bank performance. In other word, the degree of control exercised by management may affect the independence of audit committee over the board of directors and limit the audit committee to fulfill its responsibilities such as reliability of financial statement and efficiency of external and internal audit. In this way, the determinants of audit committee independence may have an influence on bank performance. Hence, the audit committee should tries to limit itself from being an instrument of management. Future studies concentrate on the impact of managerial dominance over the board (board composition, CEO duality and management ownership) on the independence of audit committee.

Acknowledgement

Allow us to convey our sincere thanks to the Superior Research Center of the Holy Spirit University of Kaslik for its financial allocation that enabled us to conduct the below scientific research paper.

REFERENCES

[1] Rezaee Z. Olibe K. & Mimmier G. Improving corporate governance: the role of audit committee disclosures. Managerial Auditing Journal, 18(6); 2003. p. 530-537.

[2] Blue Ribbon Committee (BRC). Report and Recommendations of the Blue Ribbon Committee in Improving the Effectiveness of Corporate Audit Committee. New York, NY: New York Stock Exchange, 1999.

[3] Xie B. Davidson W. & DaDalt P. Earnings management and corporate governance: the role of the board and the audit committee. Journal of Corporate Finance, 9; 2003. p. 295-316.

[4] Bremer J. Hegazy M. & Sabri A. Improving audit committee performance in the Middle East: do Egyptian audit profession norms support international standards? International Journal of Business Governance and Ethics, 6(3); 2011. p. 225-248.

[5] Chehaita B. & Bakkour D. The role of the external audit in the corporate governance of Lebanon. The Certified Accountant, Lebanese Association of Certified Public Accountants, 44; 2011. p. 86-98.

[6] Rahmat M. & Iskandar T. Audit committee characteristics in financially distressed and non-distressed companies. Managerial Auditing Journal, 24(7); 2009. p. 624-638.

[7] McMullen D-A. & Raghunandan K. Enhancing audit committee effectiveness. Journal of Accountancy, 182(2); 1996. p. 79-81.

[8] Adams M. Determinants of audit committee formation in the life insurance industry: New Zealand evidence. Journal of Business Research, 38(2); 1997. p. 123-129.

[9] Laeven L. & Valencia F. Resolution of banking crisis: the good, the bad, and the ugly. International Monetary Fund: IMF Working Papers: 10/146; 2010.

[10] Caprio G. & Klingebiel D. Episodes of systemic and borderline financial crises. World Bank Dataset, 1999.

[11] Chahine S. & Safiedinne A. Is corporate governance different for the Lebanese banking system? J Manag Gov, 15; 2011. p. 207 - 226.

[12] Kalbers L. & Forgaty T. Organizational and economic explanations of audit committee oversight. Journal of Managerial issues, 10(2); 1998. p. 129-150.

[13] Jensen M-C. & Meckling W-H. Theory of the firm: managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3; 1976. p. 305-360.

[14] Fama E-F. & Jensen M-C. Separation of ownership and control. Journal of Law & Economics, 26; 1983. p. 301-325.

[15] Klein A. Audit committee, board of director characteristics and earning management. Journal of Accounting and Economics, 33; 2002. p. 375-400.

[16] Dalton D-R. Daily C-M. Johnson J-L. & Ellstrand A-E. Number of directors and financial performance: a meta-analysis. Academy of Management Journal, 42; 1999. p. 674-686.

[17] Habbash M. Earnings management, audit committee effectiveness and the role of blockholders ownership: evidence from UK large firms. International Journal of Business Governance and Ethics, 8(2); 2013. p. 155-180.

[18] Gan K. Saleh Z. Abessi M. & Huang C-C. Intellectual capital disclosure in the context of corporate governance. International Journal of Learning and Intellectual Capital, 10(1); 2013. p. 52-70.

[19] Al- Najjar B. The determinants of audit committee independence and activity: evidence from the U.K. International Journal of Auditing, 2011. p. 191-203.

[20] Anderson K-L. Deli D-N. & Gillan S-L. Boards of directors, audit committees, and the information content of earnings. Delaware: University of Delaware Weinberg Center for Corporate Governance, 2003.

[21] Beasley M-S. & Salterio S-E. The relationship between board characteristics and voluntary improvements in audit committee composition and experience. Contemporary Accounting Research, 18(4); 2001. p. 539-570.

[22] Pincus K. Rusbarsky M. & Wong J. Voluntary formation of corporate audit committees Among Nasdaq Firms. Journal of Accounting and Public Policy, 8; 1989. p. 239-265.

[23] Eichenseher J. & Shields, D. Corporate director liability and monitoring preferences. Journal of Accounting and Public Policy, 4; 1985. p. 13-31.

[24] Ghosh A. Marra A. & Moon D. Corporate boards, audit committees, and earnings management: Pre- and Post- SOX evidence. Journal of Business Finance & Accounting, 37(9); 2010. p. 1145-1176.

[25] Ruiz-Barbadillo E. Biedma-Lopez E. & Gomez-Aguilar N. Managerial dominance and audit committee independence in Spanish corporate governance. J Manage Governance, 2007. p. 311-352.

[26] Ghafran Ch. & O'Sullivan N. The governance role of audit committees: reviewing a decade of evidence. International Journal of Management Reviews, 2012.

[27] Vinteen G. & Lee C. Audit committees and corporate control. Managerial Auditing Journal, 8(3); 1993. p. 11-24.

[28] Ntim C-G. Monitoring board committee structure and market valuation in large publicly listed South African corporations. International Journal of Managerial and Financial Accounting, 5(3); 2013. p. 310-325.

[29] Daily C. Dalton D. & Cannella A. Corporate governance: decades of dialogues and data. Academy of Management Review, 28(3); 2003. p. 371-382.

[30] Dalton D-R. Daily C-M. Ellstrand A-E. & Johnson J-L. Meta-analytic reviews of board composition, leadership structure, and financial performance. Strategic Management Journal, 19; 1998. p. 260-290.

[31] Defond M-L. & Francis J-R. Audit research after Sarbanes-Oxley. Auditing: A Journal of Practice and Theory, 24; 2006. p. 5-30.

[32] Carcello J-V. & Neal T-L. Audit committee composition and auditor reporting. Accounting Review, 75(4); 2000. p. 453-467.

[33] Sharma, V-D. & Iselin E-R. Reputation, tenure and compensation of independent audit committee members and financial restatements. Washington D.C.: The American Accounting Association Conference, 2006.

[34] Menon K. & Williams J-D. The use of audit committee for monitoring. Journal of Accounting & Public Policy, 13; 1994. p. 121-139.

[35] Abbott L. Parker S. & Peters G. Audit committee characteristics and restatements. Auditing: A Journal of Practise & Theory, 23(1); 2004. p. 69-87.

[36] Collier P. & Gregory A. Audit Committee in Large UK Companies. London: The Institute of Chartered Accountants, 1999.

[37] Goodwin-Stewart J. & Kent P. Relation between external audit fees, audit committee characteristics and internal audit. Accounting and Finance, 46; 2006. p. 387-404.

[38] Stewart J. & Munro L. The impact of audit committee existence and audit committee meeting frequency on the external audit: perceptions of Australian auditors. International Journal of Auditing, 2007. p. 51-69.

[39] Zain M. Subramaniam N. & Stewart J. Internal audit assessment of their contribution to financial statement audits: the relation with audit committee and internal audit function characteristics. International Journal of Auditing, 10; 2006. p. 1-18.

[40] Kalbers L. Audit committees and internal auditors. The Internal Auditor, 49(6); 1992. p. 37- 44.

[41] Institute of Internal Auditors (IIA). Audit committees: A guide to best practices, an executive preview of a major research report prepared by Price Waterhouse. Altamonte Springs, FL: Institute of Internal Auditors, 1993.

[42] Bedard J. Marrakchi S. & Courteau L. The effect of audit committee expertise, independence, and activity on aggressive earnings management. Auditing: a Journal of Practise & Theory, 23(2); 2004. p. 13-35.

[43] Kalbers L. An examination of the relationship between audit committees and external auditors. Ohio CPA Journal, 51(6); 1992. p. 19-27.

[44] Zhang Y. Zhou J. & Zhou N. Audit committee quality, auditor independence, and internal control weaknesses. Journal of Accounting and Public Policy, 26(3); 2007. p. 300-327.

[45] Hotaish U. Hotaish R. & Bedard J. Corporate governance and internal control over financial reporting: a comparison of regulatory regimes. The Accounting Review, 84(3); 2009. p. 839-867.

[46] Naiker V. & Sharma D-S. Former audit partners on the audit committee and internal control deficiencies. The Accounting Review, 84(2); 2009. p. 559-587.

[47] Securities and Exchange Commission (SEC). Amex rulemaking: order approving proposed rule change amending the audit committee requirements and notice of filing and order granting accelerated approval of amendments no. 1 and no. 2 thereto. 1999c.

[48] Çatikkaş Ö. Dumlu T. & Sariçam Y. Effectiveness of audit committee in the Turkish banking sector. MÖDAV, 2010. p. 145-182.

[49] Klein, A. Economics and determinants of audit committee composition and activity. New York: NYU Law and Economics Working paper, 1998.

[50] Al- Taleb G. & Al Shubiri F. A comparison of financial performance in the Jordanian commercial banks. Interdisciplinary Journal of Contemporary Research in Business, 2(5); 2010. p. 258 – 280.