

Research Article

Audit Quality and Firm Value: A Case of Pakistan

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Abstract: The present study intends to explore the influence of audit committee characteristics on a firm's financial performance. The corporate governance mechanisms are highly recognized in era of global financial crisis and current economic recession. Audit committee is one of the core mechanisms that ensure good corporate governance in the firms. Yet, very less evidence found on the impact of audit committee and its characteristics on firm's performance in the context of Pakistani literature. For that reason, four audit committee characteristics were identified namely audit committee size, independence, activity and quality of external audit to study their impact on firm financial performance while using ROA as accounting measure and Tobin's Q as market measure. The results of panel data showed that two audit committee characteristics namely audit committee size and external audit quality has strong and significant positive impact on ROA and Tobin's Q. Another two variables namely audit committee independence and AC activity remains insignificant, which is consistent with mostly previous studies carried in different countries. In short, present study provides an insight to all the regulators, policy makers and stakeholders while adopting certain audit committee characteristics in Pakistan; overall firm's financial performance can be improved. For further research audit committee expertise can be used to determine the improvement in corporate performance by getting data from the company's management.

Keywords: Activity, audit committee, external audit quality, independence, ROA, size, tobin's q

INTRODUCTION

Economies survive only with the growth of the industry and the growth depends upon the successful operations of the corporations. Shareholders the owners of these corporations and investors always want and seek for positive returns on their investments from their respective firm's operations and management. For keeping in line the interest of shareholders and management, board of directors are made for efficient and smooth operations which are of best interest for company owners. Moreover, the global financial crisis of 1997-98 shudder the confidence of shareholders and investors in the form of no returns from the corporations. Therefore, such a severe issue raised the need and importance of corporate governance in the organizations to restore the confidence of the investors, shareholders and firm's stakeholders. Corporate governance has become the most commonly used slogan in the global business environment. Corporate governance and its mechanism are highly discussed in the era of global financial crisis and current economic recession.

Corporate governance has immense importance not only due to it is compulsory in the legislation that all the listed organizations should compliant with code of corporate governance according to their countries rules

and regulation but it is also important as it enhances the firm's value. Mostly researchers generally agree that good and better corporate governance and it mechanisms enhances the firm's performance (Brickley and James, 1987; Lee *et al.*, 1992; Brickley *et al.*, 1994; Yermack, 1996; Hossain *et al.*, 2000). Several other authors studied the relationship between corporate governance and firm value. Their studies concluded that corporate governance has positive impact on firm performance while calculating the Tobin's Q, Return on Assets (ROA) and Return on Equity (ROE) etc. Corporate governance mechanisms help to monitor and control the agents in the absence of active monitoring by their principals. Therefore, governance mechanisms are used to keep in line the agents with the interest of their owners up to the best level (Hill and Jones, 2004).

Audit Committee (AC) is one of the important governance mechanisms whose major function is to improve the quality and performance of financial management and internal audit system. Internal audit and audit committee has the strong and close working connection which is considered as the sound corporate governance fundamental in firms (Treadway Commission, 1987). Objectivity and independence of internal audit system only be enhancing when they are directed to report their functions directly to the audit committee in its place of management. According to

Vicknair *et al.* (1993) lack of effective audit committees in the companies is the accurate factor behind their several financial problems. Public Oversight Board (1993) and Blue Ribbon Committee (1999) addressed the significance of effective AC in ensuring the integrity of the auditing and financial reporting process. Therefore, board of the corporations delegates all the responsibilities to audit committee regarding the financial reporting process.

For mitigating the risk of corporate financial failures and to enhance the confidence of public, efficient functioning of audit committee is required. Caplan (1999) identified that AC's often find the irregularities, fraudulent activities and detect errors in the organizations. In addition, Millichamp (2002) pointed out that generally audit committee has assigned the supervision responsibilities of the internal control system in the firms. Moreover, by the help of board along with the support from management and employees of the firms, audit committee can perform its all duties in a well manner (Haron *et al.*, 2005). Hence, Chambers (2005) explained the four core responsibilities of the audit committees. Firstly, AC advises the board on the trustworthiness and reliability of financial information. Secondly, AC provides assistance regarding internal control and risk management to the board. Thirdly, AC deals with the company's external auditors and lastly, AC oversees the functions of internal audit system.

In a nutshell, audit committee improves the overall performance of corporations by keeping an eye on its internal and external audit functions. Such an importance of audit committees in the corporate sector tempted to investigate this issue in Pakistani corporations as very less evidence found on the impact of audit committee and its characteristics on firm performance in the context of Pakistani literature. Mostly researches are carried on impact of audit committee on financial disclosure, quality information, detecting frauds and errors etc. Therefore, the research objectives of the current study include to shed light on the empirical evidence that provide support to explore the association between audit committee size, independence, activity and external audit quality with firm's financial performance. This study will provide a useful base for future researchers in this area as well.

LITERATURE REVIEW AND HYPOTHESES

Previous literature showed that establishment of audit committee can play a significant role in the areas of internal auditing, deal with external auditing, risk management and financial reporting process. Thus an affective audit committee minimizes the agency conflicts, protect shareholder's right, safeguard stakeholders' issues and in this way maximize the firm value. There is growing number of studies that provide

evidence on the audit committee characteristics in improving the performance of the firm.

Audit committee size: Several researchers (Pincus *et al.*, 1989) reported that size of the audit committee is a most influential factor for its effective working in the organizations. However, empirical evidence on the size of audit committee is mixed. Qin (2007) found that larger audit committees are more associated with the improved earnings returns of the corporations. Moreover, Pucheta-Martinez and Fuentes (2007) study evidenced positive association between the audit committee size and quality of financial reporting and these findings are consistent with the study of Felo *et al.* (2003) who suggested that larger audit committees enhance the reporting quality. On the contrary, Lin and Wang (2010) found the inverse relation between audit committee size and earnings management, while Xie *et al.* (2003) found the weak association between earnings management and audit committee size in the organizations. In addition, Abbott *et al.* (2004) and Be'dard *et al.* (2004) studies evidenced no association between AC size and earnings restatements.

Although, mixed results are found on the size of audit committee, but the size of the audit committee has positive association with firms financial performance is supported by the resource dependence theory argument (Pierce and Zahra, 1992). According to this theory effectiveness of the audit committee improves when size of audit committee increases because more resources always devoted to resolve the issues which are faced by the companies. Thus on the basis of this supportive argument hypothesis is developed:

H₁: There is significant positive relationship between audit committee size and Firm performance.

Audit committee independence: Audit committee independence is the composition of more non-executive directors than executive directors in the audit committee. Existence of the AC independence is the true and fair picture of the firm's commitment for better corporate governance practices (Sommer, 1991). Several previous researches showed that audit committees that are independent are more likely to reduce frauds and misleading financial reporting process (Menon and Williams, 1994; Beasley, 1996). Lin and Wang (2010) found the negative association between independent audit committees and earnings management as similarly reported by Bradbury *et al.* (2006). Likewise, Abbott *et al.* (2004) found in their study that an inverse relationship exists between the presence of fully independent audit committees and the occurrence of earnings managements. In addition, Chan and Li (2008) explained that independent expert

members on the audit committee has significant role in enhancing the firm value.

On the other hand, many researchers reported that no evidence was found between the relationship of audit committee independence and discretionary accruals (Xie *et al.*, 2003; Be'dard *et al.*, 2004) or earnings management (Yang and Krishnan, 2005) and earning restatements (Lin *et al.*, 2006). Thus result on the audit committee independence are mixed, so on the basis of above arguments that AC independence reduce the frauds and misleading reporting process, decline the earning restatements and enhance the firm value the following hypothesis is developed:

H₂: There is significant positive relationship between audit committee independence and Firm performance.

Audit committee activity: Prior researches used the audit committee meetings frequency to measure its integrity and activeness (Menon and Williams, 1994). Like other variables of audit committee, the AC activity also shown mixed results. Xie *et al.* (2003) suggested that audit committees those meet on frequent basis improve the corporate earnings transparency thus enhance the quality of earnings. Likewise, Lin and Wang (2010) found negative association between the occurrence of the earnings management and audit committee activity. However, some studies did not find any association between meeting frequency and earnings managements (Be'dard *et al.*, 2004; Yang and Krishnan, 2005). Similarly, Abbott *et al.* (2004) found no evidence of association between the AC meetings and reduction in frauds. The Corporate Governance Code (2002) prescribed that audit committee should meet at least once in every quarter or 4 times a year and on the basis of the above discussion the following hypothesis is developed:

H₃: There is significant positive relationship between audit committee activity and firm performance.

External audit quality: External audit quality in the form of big auditors is another important facet of audit committee. Previous researches provide evidence that big auditors spend more time on company audits, charge higher rate of their fees and resultantly have lesser lawsuits as compare to non-big audit firms, which shows that big auditors provide high quality of audit than non-big auditors (DeAngelo, 1981; Palmrose, 1988). Becker *et al.* (1998), Francis *et al.* (1999) and Francis (2004) studies found that the earnings of big 4 affiliate are more than the earnings of non-big 4 affiliates. Such type of affiliation with big four audit companies enhances the company's reputation in the capital markets. Reason is that investors feel more reliable and authentic information and financial disclosures of such companies that are affiliated with

big auditing firms. Conversely, Kabir *et al.* (2010) found no evidence between the quality of earnings of big 4 affiliates and non-big 4 affiliates in Bangladesh. Similar results were found by Jeong and Rho (2004) in Korea, their findings revealed that big 6 auditors have no influence on the accruals quality when compared with the accruals of non-big 6 auditing firms. On the whole, the study findings on the big auditors and earnings are mixed, but on the basis of studies of Becker *et al.* (1998), Francis *et al.* (1999) and Francis (2004) the following hypothesis is developed:

H₄: There is significant positive relationship between external audit quality and Firm performance.

RESEARCH METHODOLOGY

The sample of the study consists of 124 companies. Sample selection was consisted upon two phases. In the first phase, 75 non-financial companies were selected from the KSE-100 index having largest market capitalization. For the purpose of sample selection the list of the companies included in KSE-100 index was downloaded on 31st December 2011 from the website of the KSE. In the second phase of the sample selection for the more representation of market capitalization, all Shariah compliant companies are also incorporated into the sample as per the screening criteria given by Meezan Bank on the website of KSE. These Shariah compliant firms were comprised of total 100 firms. Out of which 44 companies were those that was already included in the 75 selected companies from the KSE-100 index. From the remaining 56 Shariah compliant firms two were financial institutions which was not included in the decided sample criteria, whereas last 54 firms were representing the non-financial sector so it was added in the 75 already selected firms which make the whole sample up to 129 firms. Data of 5 companies was missing therefore excluded from the sample which made the final sample of 124 companies.

Data of the study is gathered through secondary source. Companies' annual reports are used to extract the data related to study variables. Audit committee relevant information is gathered from the compliance of corporate governance code. Moreover, accounting and market related information is collected from the financial statements of the annual reports of all companies. The model on the basis of aforementioned literature and hypotheses is:

$$\begin{aligned} ROA_{it} = & \alpha + \beta_1 AC\ Size_{it} + \beta_2 AC\ Ind_{it} \\ & + \beta_3 AC\ Activity_{it} + \beta_4 EAQ_{it} + \beta_5 \\ & Firm\ Size_{it} + \beta_6 Lev_{it} + \varepsilon \end{aligned} \quad (1)$$

$$\begin{aligned} Q\ Ratio_{it} = & \alpha + \beta_1 AC\ Size_{it} + \beta_2 AC\ Ind_{it} \\ & + \beta_3 AC\ Activity_{it} + \beta_4 EAQ_{it} + \beta_5 \\ & Firm\ Size_{it} + \beta_6 Lev_{it} + \varepsilon \end{aligned} \quad (2)$$

where,

- ROA_{it} = Return on Assets of the *i*th company for the time period *t* calculated by the ratio of net profits to the total assets of the firm
- Q Ratio_{it} = Tobin's Q of the *i*th company for the time period *t* calculated by the ratio of market value of firm divided by the book value of its assets
- AC Size_{it} = Audit Committee Size of the *i*th company for the time period *t* measured by total number of Audit Committee members/directors
- AC Ind_{it} = Audit Committee independence of the *i*th company for the time period *t* measured by the ratio of non-executive directors in audit committee to total members
- C Activity_{it} = Audit Committee activity of the *i*th company for time period *t* measured by the frequency of audit committee meeting in the financial year
- EAQ_{it} = External Audit Quality (Big 4 Auditors) of the *i*th company for the time period *t* measured by the value of "1" if audited by Big 4 and "0" otherwise
- Firm Size_{it} = Firm Size of the *i*th company for the time period *t* measured by the natural log of the book value of the total assets
- Lev_{it} = Leverage of the *i*th company during the time period *t* measured by book value of total debt divided by book value of the total assets

Moreover, data, which is used in this study, was consisted upon 8 years from the period of 2004 to 2011, thus making the 992 observations of 124 sample companies. Panel data is used to analyze the audit committee characteristics and firm's performance. The computations and the analysis have been done with the help of statistical software, namely, SPSS.

RESULTS AND DISCUSSION

Descriptive statistics (panel data): Descriptive statistics of the study variables that are used in the

regression model to analyze the relationship between audit committee characteristics and variables of firm's performance are illustrated in Table 1.

Table demonstrates that size of audit committee ranges from 3 to 8 members, showing an average size of 3.37 with a standard deviation of 0.723. It shows that sample companies mostly comprise of 3 to 4 members in their audit committees. For the non-executive directors on audit committee there is a range of 0 to 8 members, on average 2.73 members with a standard deviation of 0.963 on audit committees, which shows that 80% of the non-executive directors present in the audit committees of Pakistani corporations. The audit committees of sample firms meet 3 to 8 times during a year with an average of approximately 4 meetings/year. For the quality of external audit, descriptive shows that on average 61% companies audit their financial accounts with big 4 auditors as per the ratings of the Institute of Chartered Accountants of Pakistan which are on the top.

The statistics revealed that most of the firms in Pakistan are fulfilling the criteria, which are mentioned by the code of Pakistani corporate governance (2002). As table statistics showed that on average audit committees comprises of 3 members, meet at least 4 times a year, majority having independent directors and examine their accounts from big auditors. Moreover, sample firms revealed that on average their Return on assets is 7.22% with a deviation of 0.100. Furthermore, average Tobin's Q of sample firms is 1.3173 which is greater than one, shows that investor are more willing to pay for the firm's total assets than their book values. In addition, firms have total assets on average are 13898 million and the net profits of the sample firms are ranges from-16072 million to 62527 million, with an average of 1213 million.

Correlation matrix: The correlation analysis of the independent, dependent and control variables are shown in the Table 2. The AC size is positively associated with the AC independence with a correlation of 0.149, which is statistically significant at 1%. This relation shows that independence of audit committee increases with the increase in size of audit committee. AC activity is also significant with AC size and AC

Table 1: Descriptive statistics

Variables	Min.	Max.	Mean	S.D.
AC size	3	8	3.3700	0.7230
AC non-Ex	0	8	2.7300	0.9630
AC Indp	0	1	0.8000	0.1930
AC activity	3	8	4.1100	0.5050
Big 4 auditor	0	1	0.6100	0.4870
ROA	-1.2139	0.7836	0.0722	0.1004
Tobin's Q	0.1000	7.1053	1.3173	0.7996
Assets	31.1860	262673.4060	13898.1240	29914.4620
Total debt	0	171223.6320	1552.3110	6930.0310
Net profit	-16071.7070	63527.2700	1212.8630	5163.5490

N for all variables is 992
Min.: Minimum; Max.: Maximum; S.D.: Standard deviation

Table 2: Pearson correlation

Variables	Ac size	Ac Indp	Ac activity	Big 4 auditor	ROA	ROE	Tobin's Q	Size	Leverage
Ac size	1								
Ac Indp	0.149**	1							
Ac activity	0.285**	0.064*	1						
Big 4 auditor	0.287**	0.212**	0.152**	1					
ROA	0.122**	0.037	0.068*	0.213**	1				
Tobin's Q	0.186**	0.083**	0.092**	0.251**	0.465**	0.204**	1		
Size	0.381**	0.144**	0.193**	0.397**	0.092**	0.053	0.063*	1	
Leverage	-0.032	-0.058	-0.012	-0.012	-0.086**	-0.033	-0.023	0.019	1

** : Correlation is significant at 1%; * : Correlation is significant at 5%

independence with a value of 0.285 and 0.064, respectively. It depicted that when size of audit committee increases, independence increases and overall these two characteristics positively improved the audit committee activity in the corporations. This increase in AC activity and size of AC is argued that it provide more effective monitoring in the companies thus enhance the firm performance (Ragunandan and Rama, 2007).

Similarly these three characteristics of audit committee are positively and significantly correlated with the quality of external audit which revealed that if audit committee size, independence and activity are in accordance with code then quality of external audit will ultimately enhanced. This correlation is statistically significant at 1% level. The accounting measure ROA is also positively correlated with the Ac size and quality of external audit which are significant at 1% level. It shows that with the increase in audit committee size and quality of external audit, financial performance of the companies improves if measured by using ROA. The Tobin's Q of the companies is positively and statistically significant with all variables of audit committee, which shows that if audit committees fulfill all their requirements in accordance with corporate governance code then investors give more value to the company's assets because it entails a high-quality impression of the company in the market.

Moreover, company size is positively correlated with all the audit committee variables and statistically significant at 1% level. Firm size is also positively related with the ROA, by representing a correlation of 0.092 (p-value = 1%). Leverage is negatively correlated with all audit committee variables and ROA that is not statistically significant but it has significant negative correlation with ROA (Pearson correlation = -0.086, p-value = 1%). Overall, none of the pair wise correlation between audit committee variables is above 0.62, which indicating that probability of multicollinearity among all the independent variables using in the regression analysis is quite low.

Regression analysis: The present research uses the Regression analysis to test the study hypotheses, which are summarized in the subsequent Table 3. Regression analysis is used to analyze the impact of audit committee characteristics on firm performance which is measured by calculating ROA and Tobin's Q. Control

Table 3: Regression analysis of AC characteristics and firm's performance

Variables	ROA	Tobin's Q
Big 4 auditors	0.194 (5.994)**	0.243 (7.125)**
AC size	0.064 (1.976)*	0.150 (4.474)**
Leverage	-0.082 (-2.463)*	-0.013 (-0.437)
Firm size	-0.010 (-0.277)	-0.089 (-2.549)*
Adj. R ²	0.053	0.080
F	19.492**	29.528**
D-W	1.104	1.700
AC activity	0.021 (0.649)	0.033 (0.021)
AC Indp	-0.019 (-0.588)	0.022 (0.707)

Insignificant audit committee variables that are excluded from the regression model; t-values are given in parenthesis; **: Significant at 1%; * : Significant at 5%

variables, firm size and leverage are included in the regression model as controlling these variables are important factor to analyze the impact of audit variables on firm performance accurately. Table 3 shows the adjusted R square value is 0.053 for ROA and 0.080 for Tobin's Q which is statistically significant at 1% as shown by the F-value of 19.492 and 29.528, respectively with a p-value of 0.000. It revealed that independent variables predict the 5.3% variance in ROA and 8% variance in Tobin's Q when AC size and Big 4 auditors are used in the model by controlling the firm size. These values of adjusted R square are moderately low but it is common in the mostly studies of corporate governance related variables (Rahmat and Iskandar, 2009). In addition, Durbin-Watson test is implied to check the auto correlation among the study variables. For ROA, DW is 1.104 and 1.700 for Tobin's Q which provides an evidence of no auto-correlation among the variables.

Results illustrated that quality of external audit has positive and significant impact on both performance measures with a beta coefficient of 0.194 for ROA and 0.243 for Tobin's Q which are statistically significant at 1%. These beta coefficients revealed that if quality of external audit increases, it means if company examine its accounts with big 4 auditors then the firm accounting performance increases by 19.4% in the form of ROA and market performance is positively increased by 24.3% in the form of Tobin's Q. These results are same with the studies of Becker *et al.* (1998), Francis *et al.* (1999) and Francis (2004) where they found the

earnings of big 4 affiliates are more than the earnings of non-big 4 affiliates. Such type of affiliation with big four audit firms enhances the companies' reputation in the capital markets. Quality of external audit revealed that investors perceive company have high-quality reporting and fair disclosure of its financial information, which entails them to keep that company into their good books. Therefore, investors are willing to pay more for the company's assets as compare to its book value. Similarly, Rahmat and Iskandar (2009) found in their study that quality of external audit has negative relation with the financial distress of companies and therefore, it enhances the overall firm performance which is consistent with the regression results.

Furthermore, the size of audit committee has also positive impact on both performance measures with a beta coefficient of 0.064 for ROA and 0.150 for Tobin's Q which is significant at 5 and 1%, respectively. Results show that if one member increases in the audit committee then the ROA improved by 6.4% and Tobin's Q improved by 15%. These findings are consistent with the study of Felo *et al.* (2003) and Pucheta-Martinez and Fuentes (2007) who reported that larger audit committees improved the financial reporting and quality, which is measured by analyst's scores thus improving the firm's performance. Moreover, the positive relationship of firm performance and audit committee size is also supported by the arguments presented in the resource dependence theory (Pierce and Zahra, 1992). The resource dependence theory argues that the overall effectiveness of the audit committee increases when the number of members increases because more resources always devoted to resolve the issues, which are faced by the companies. It can be explained more precisely that when number of AC member increases then market perceive that company's audit committee has more qualified and expert resources to resolve the accounting and finance issues. Additionally, Kalbers and Fogarty (1993) proposed that larger audit committees are considered only an evocative designation from the BOD's; as a result it is more apt to perceive an authoritative body by the internal and external auditors.

Overall, findings provide evidence that AC size and quality of external audit has strong and positive impact on firm performance. Therefore, H1 and H4 are substantiated. Proposed Regression models included two more audit committee related variables namely Ac activity and Ac independence (See Regression Model 1 and 2). These two variables removed from the model as these are insignificant and predicts no affect on both performance measures. The possible reason of insignificant AC activity is that about 91% of the sample companies are held at least 4 meetings/year and only 9% companies are those who meet more or less than 4 times a year, thus such a low variation make the variable stagnant. That's why it has shown insignificant impact and excluded from the model.

Table 4: Summary results for AC characteristics and firm's performance

Independent variables	Expected sign	Actual sign	Hypothesis accepted/rejected
AC size	+	+	Accepted
AC Indp	+	?	Rejected
AC activity	+	?	Rejected
EA quality	+	+	Accepted

*: Represents significant positive relationship

These results are consistent with Abbott *et al.* (2004) who found insignificant relation between Ac activity and fraudulent activities or earning management. Similar results were found in Australia by Davidson *et al.* (2005) and Baxter and Cotter (2009). They found no evidence between meeting frequency and earnings management as a consequence does not enhance the firm's performance.

In addition, AC independence also remains insignificant with firm performance in present research, which is consistent with the study of Bhagat and Black (2002) who found no association between independent board members and firm's performance. Similarly, researchers found no evidence that AC independent has impact on earnings management and restatements (Yang and Krishnan, 2005; Lin *et al.*, 2006). Another possible reason behind insignificant AC independence is that management dominance has influence over the board matters (Rahman and Ali, 2006) that prevent them to fully discharge their monitoring responsibilities to the audit committees in Pakistan. That's why independence of the AC has no impact on the firm's performance. So, H2 and H3 are not supported by the empirical findings and are rejected. It can be further explained that audit committee activity and independence has no association with accounting measure (ROA) and market measure that is Tobin's Q. Table 4 summarize the results of the current study. Two of four hypotheses are accepted that the size of audit committee and quality of external auditor are positively and significantly associated with the firm performance. However, the current study is unable to build a relationship between firm performance with audit committee independence and activity.

CONCLUSION

Corporate governance has become the most commonly used slogan in the global business environment. Corporate governance is an important pillar for keeping in line the interest of shareholders and management, board of directors are made for efficient and smooth operations which are of best interest for company owners. Corporate governance mechanisms are tools that help to monitor and control the agents in the absence of active monitoring by their principals. One of corporate governance significant mechanism that ensures good corporate governance in the firms is audit committee. While keeping in view the importance of audit committees in the corporations, the present study is the pioneering effort to analyze the impact of

audit committee characteristics on firm's performance in Pakistan by taking the sample of 124 firms selected from the KSE-100 index. Descriptive statistics revealed that most of the firms in Pakistan are fulfilling the criteria, which are mentioned by the code of Pakistani corporate governance (2002). Results showed that on average audit committees comprises of 3 members, majority of which are independent directors (80%), meet at least 4 times during a year and 61% companies examine their accounts from big 4 auditors. Pearson correlation showed that all independent variables are positively correlated but no multicollinearity was found among the variables.

Regression results showed that AC size and Big 4 Auditor has positive impact on both performance measures (ROA and Tobin's Q). Findings provide evidence that AC size and quality of external audit has strong and positive impact on firm performance. These findings revealed that increase in size of audit committee provide opportunity to the company with more skilled and expert resources that resolve company's issues and problems very effectively which is argued in the resource dependence theory. Quality of external audit improve the firm's value because investors perceive that companies who are affiliated with big auditing firms disclose proper, reliable and authentic financial information which as a result enhance the overall investor confidence. Another two variables of audit committee namely independence and activity has shown no influence on firm's performance. These results are consistent with the prior studies that were carried out in different countries like US and Australia etc.

In a nutshell, present research provided the constructive information and knowledge for the corporations and accounting professions on the valuable practices of audit committees that should be implement in the corporations where these are not yet implemented. Study findings also upgraded the literature on audit committee characteristics and its impact on firm performance in Pakistan. For further research audit committee expertise can be used to determine the improvement in corporate performance by getting data from the company's management.

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