

The Role of Audit Committee in Corporate Financial Performance in UK's Oil Sector

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Abstract

The aim of the study was to evaluate the role of the audit committee in the corporate financial performance of firms in the oil and gas sector of UK. The specific objectives of the study include examining the role of audit committee independence, audit committee size and audit committee meeting frequency on the corporate financial performance of firms operating in oil and gas sector of UK. The sample size of the study was 10 firms listed in London Stock Exchange and time period for data collection was from the year 2012 to 2015. Secondary data was collected and research design is quantitative where correlation and regression analysis through SPSS are applied to test results. Results from the study show that there is no association between characteristics of the audit committee and corporate financial performance. Moreover, there is no impact of characteristics on firm's financial performance in oil and gas sector of UK. Therefore, it is recommended to the Audit Committee of the respective organisation to improve by setting agendas and mapping the key points necessary for the achievement of objectives.

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Chapter 1: Introduction and Background to the Research

1.1 Introduction

Audit committee is a part and parcel of main board of the company. The committee possesses a significant role in the corporate governance as well as success of corporations with the help of offerings of effective oversight, which maintains the wealth of shareholder as well as protects the interest of shareholders. The audit committee basically relies on the size, independence, and frequency of meeting for the purpose of enhancing the financial performance of companies. Nevertheless, latest scandals of corporations and downfall of many companies has negatively affected the trusted general public in performance of companies. Corporate scandals have eroded the trust of general public in twenty first century as well as the confidence of investors in financial reports. Hence, considerable emphasize has been put during recent years on the significance of audit committees in achieving an operational role in the enhancement of users confidence and corporate governance (Sikka, 2015).

As a consequence, numerous efforts are put and regulations are established in United Kingdom and United States for the purpose of promoting the confidence of users of financial information of companies. In United States, such efforts include recommendations provided by Blue Ribbon Report published in 1991 and Sarbanes-Oxley Act, 2002. The Cadbury Report of United Kingdom (1992) has formed the basis of development of audit committees. Later, the Corporate Governance Code of United Kingdom has made it mandatory for all the companies listed in UK to identify their audit committees on the basis of the rule of comply or explain (Cadbury, 1992). The main aim of the study is to identify and explore the impact of characteristics of audit committees (size, independence, and frequency of meetings) on financial performance of listed companies of UK.

1.2 Background

The concept of audit committees are found earlier in United States and then it emerged in United Kingdom. This dates back to the financial scandals of Robbins and McKesson in 1930s and the inability of functions of audit to realise fraud in the information provided in financial reports. This action has shown the need for independent committees which comprises of non-executive directors for the purpose of safeguarding the true and fair view of financial reporting. Since then,

corporations are required to develop audit committees for the purpose of supporting corporate governance by enhancement in the responsibilities of external auditors in order to protect the investors. Nevertheless, corporate scandals of the period of 1970s and 1980s have created a need for regulatory bodies to adopt such frameworks most of which were inclined towards composition and formation of audit committees of non-executive independent directors. As compared to United States, actual implementation of audit committees was not adopted by companies of United Kingdom till 1980s.

According to (Allegrini, & Greco, 2013) audit committee formation is not an entirely new concept but in United Kingdom, a vast number of audit committees have been in existence since 1980. These initiatives of United Kingdom for the development of audit committees were conducted by institution like Bank of England and Confederation of British Industry according to which companies of UK should develop audit committees. In United Kingdom, the formation of audit committees actually began in 1982 when PRO-NED (Promotion of Non-Executive Directors) tried to improve directors' practices with the introduction of new code of conduct for them. PRO-NED issued these recommendations in the year 1987 which included that listed companies should develop audit committees comprising of non-executive independent directors (Council, 2012).

However, during the period 1985-1991, audit committees in United Kingdom showed great growth. Scandals of corporations and failure of audit during the period 1980-1990 has led to development of Cadbury Committee in the year 1992. The committee required companies to set up audit committees comprising of non-executive independent directors. Nevertheless, by 1994 about 84% of listed companies in United Kingdom have succeeded in launching audit committees. Responding to recommendations of Cadbury Report, the LSE (London Stock Exchange) required listed companies of United Kingdom to comply and develop audit committees comprising of non-executive and independent directors (Ghafran, & O'Sullivan, 2013).

With the help of this process, recommendations of Cadbury were directed towards improving the practices of corporate governance. In 1992, listed companies of United Kingdom were required

to develop audit committees charter of reference in black and white. Such companies were also obligated to conduct private meetings with external auditors of the company. Nevertheless, the main responsibilities of audit committee included assisting the board of directors in the appointment of external auditors for the company, reviewing the annual reports of companies and evaluating the program of internal audit (Turley, & Zaman, 2014). The development of audit committee was also strengthened by recommendations provided by Smith Report in the year 2003 that focused on the significance of non-executive independent directors along with frequency of meetings for effective contribution of audit committees.

However, it has been noticed that recommendations of Cadbury Report of 1992, main efforts in improving performance of audit committee have been focused because of importance of features of audit committee in the accomplishment of better oversight functions. In this respect, an effective contribution of audit committee in the supervision of non-executive and independent directors who have controlled the operations for a long period of time by remaining in the board, and developed enough experience of operations of the company, and have arranged meetings frequently (Cadbury, 1992). However, regardless of the efforts that were made to progress the performance of audit committees and the protection of interests of shareholders, the fiasco of corporations did not stop. Early 2000s have experienced a range of corporate and accounting scandals, resulting in the downfall of a number of companies, such as WorldCom and Enron. Consequently, investors and shareholders lost the money invested due to such decline in stock price of companies, which resultantly destroyed the confidence of general public in stock markets. Hence, corporate scandals have raised many questions on functions of audit as well as on the role of audit committees.

Preceding studies enforce that effective audit committees contribute to a number of public interests in several aspects like improvement in the content of financial information, and reduction in fraud and corporate scandals. Nevertheless, numerous studies have emphasized on the composition and characteristics of audit committee for the purpose of improving the effectiveness of audit committees. It has been observed by various authors that corporations having independent audit committees are linked with effective internal controls and their reporting of financial information is less probable to include fraud. In addition to this, studies of

the past have shown that effectiveness of audit committees can be influenced by the carefulness of audit committee members. For the purpose of evaluating diligence of audit committee members, researchers of the past have emphasized on the frequency of meetings of audit committee in the year (Amba, 2014). These researched indicated that corporations with less meetings of audit committee are more exposed to fraud and corporate scandals. Furthermore, size, independence, and several other features of audit committees and its members assist in improving the performance and corporate value.

Keeping in mind the outcomes of researches of the past, it will be explored that how the characteristics of audit committee can have an impact on corporate financial performance on the basis of three features of audit committees i.e. size, independence, and frequency of meetings. The proxies used for the measurement of corporate financial performance are ROE (return on equity) and ROA (return on assets). Same approach has been used by Hamdan et al., (2013) in his study in which 15 companies of FTSE100 were selected and the data collected was of three years.

1.3 Research Objectives and Questions

1.3.1 Research Objectives

The main purpose of the study is to examine the role of Audit committee on CFP of the UK oil sector, which involves:

1. Examine the role of Audit committee independence on CFP.
2. Examine the role of Audit committee size on CFP.
3. Examine the role of Audit committee meetings frequency on CFP.

1.3.2 Research Questions

To achieve the research objectives, the researcher addresses the key question for this study which is:

Do AC characteristics have role on CFP in the UK oil sector? And to answer this question the researcher forms the following sub questions:

1. Does Audit committee independence have an effect on CFP in the UK oil sector?
2. Does Audit committee size have an effect on CFP in the UK oil sector?

3. Does Audit committee meetings frequency have an effect on CFP in the UK oil sector?

1.4 Rationale of Study

Any study is always conducted for a reason. The exploration of effectiveness of audit committee helps the accountants as well as managers in understanding the latest auditing and accounting best practices. On the basis of such considerations, it has been decided to evaluate the characteristics of audit committee and its implications on corporate financial performance. Since the composition of audit committees should possess some influence on the financial performance of companies, the study is conducted in order to examine whether the attributes of audit committee do have an influence on corporate financial performance or not.

According to Mishra, & Mohanty (2014), although audit committees possess very much significance in the improvement of corporate governance of firms, less emphasis has been put to sub-committees of board as compared to the main board of firms. It has been noticed that researches of the past have evaluated the relationship between characteristics of audit committees and areas like earnings management, restatement of financial reporting, and earnings quality. Nevertheless, not many studies are available which have examined the impact of characteristics of audit committees on the corporate financial performance of public listed companies.

1.5 Significance of Study

The income of companies as reported in their financial statements comes under the joint responsibility of managers and auditors as the auditors have a responsibility of monitoring the functions of management while the management is left with some discretion. Investors of public listed companies heavily rely on the information provided in annual reports that are prepared by the managers and reviewed by auditors. However, it is broadly assumed that managers of listed companies tend to manipulate financial information with the intention of presenting such figures that attract potential investors (Aldamen et al., 2012). The findings of this study will contribute in the provision of a contribution in understanding the role of audit committees and their practices in UK and specifically in oil industry.

The study will contribute in understanding these issues for the regulators, policy makers,

academicians, and wider community. In addition to this, the study will also be helpful for the companies listed in London Stock Exchange which can analyse the corporate governance structure of other companies and assess their performances. The study can also be beneficial for the authors who want to investigate the implications of formation and management of audit committees in the improvement of financial performance of companies. Hence, the study provides interesting and new primary evidence from United Kingdom in the context of audit committees and management of financial performance specifically in the oil industry.

1.6 Structure of the Study

The study is conducted in the following manner:

1. The first chapter of the study is the introduction of whole study which provides a detailed background of study along with the aims and objectives of study. The rationale of the study is discussed in detail along with the significance of research and its implications.
2. The second chapter is the literature review which a review of the characteristic of audit committee and their association with corporate financial performance of companies. This review of literature is properly evidenced with the researches of past.
3. The third chapter is methodology which includes the process of data collection, sampling technique and sample size, and data analysis techniques.
4. Chapter four of the study deals with the analysis of data collected along with its interpretation. The outcomes of the study are triangulated with the outcomes of past researches in order to conclude the results with appropriate evidence.
5. The last chapter of the study includes the conclusion of whole research along with recommendations and future implications.

Chapter 2: Literature Review

2.1 Introduction

This chapter of the study pertains to the research that focuses on the literature present on the audit committee and its characteristics that allow the audit committee to play their part in the corporate financial performance of the company. With the passage of time the interest in the audit committee has been on the rise since the rules and regulations were put forward by the NYSE in 1991-1992. This chapter of the study incorporates the reports present and the secondary literature that is available that highlights the importance of the sub committees of the board of directors. This part of study also sheds its light on the corporate financial performance, and the different aspects of the audit committee and corporate financial performance.

The latter part of the study puts the independence, size and the meeting of the audit committee into consideration to the extent of their contribution in the corporate financial performance of a company. This has been taken into consideration as there have been increasing reports and scandals based on the high-profile companies such as Enron and WorldCom. On the contrary this chapter acts as an academic support to the research objectives set to conduct the study.

2.2 Audit Committee Role and Responsibilities

Audit committee is an important part of corporate governance and significantly impact corporate by monitoring any wrongdoing. Badolato, Donelson & Ege, (2014) argued that the preliminary purpose of audit committee is responsibility for checking errors in financial reporting process, audit process and monitor internal system of control and agreements under laws and regulation. However, researcher (Albring, Robinson & Robinson, (2014) stated that the audit committee checks the result of audit under generally accepted audited principles (GAAP). Different roles of audit committee discussed below:

2.2.1 Role of audit committee in internal audit

Audit committee expected to perform certain duties in internal audit area, which includes appointing chief auditing executive who is responsible to report management. Role of audit committee significantly help internal auditor to check any misconducts in financial statements and reporting system. Further, (García, Barbadillo & Perez, (2012) stated that audit committee

plays a significant role in approving internal audit charter who is responsible to authorize any internal audit program. However, Yasin & Nelson, (2012) argued that audit committee analyze important findings of audit and take actions on important findings of audit and conveyed it to external and internal auditor of an organization.

2.2.2 Role of audit committee and external auditor's performance

It is the most important responsibility of audit committee to hire high quality external auditor by observing financial budget and audit plan (Cohen et al., 2013). However, (Bierstaker et al., (2012) stated that audit committee and external auditor are interlinked in monitoring the errors in financial statements and reporting system.

2.2.3 Role of audit committee in financial reporting

Audit committee plays an important role in delivering reliable financial statements. However, Income & Sheet, (2012) stated that audit committee ensures the integrity of financial statement. Further, researcher Hall, (2012) proposed that audit committee analysis internal and external financial statements before sending it to board of directors for approval. Audit committee reviews all policies of accounting to ensure any kind of positive or negative effect on financial statement. Further, Knechel et al., (2012) argues that audit committee check and monitor every kind of transaction in order to, avoid any unlawful, doubtful or corrupt transaction.

2.2.4 Role of audit committee in standard procedure areas

According to the SOx rule all kind of dealing related to financial statements are under the roles of audit committee (Dhaliwal et al., 2015). Further, Badolato, Donelson and Ege (2014) argued that audit committee plays a significant role in formatting and implementing a code of conduct for the whole organization. Audit committee is responsible to monitor that senior officer and all the staff should outline the standards for proper conduct. However, audit committee must revise the summary and feedback regarding code of conduct annually.

2.2.5 Responsibility of auditing committee

Besides, various researcher proposed research about the role and responsibility of audit committee Okpala, (2012) stated that apart from its primary responsibility that is to help the

board of directors to review the financial statements it also observes the reliability of the organization's financial statement and reporting process. Nevertheless, bernathy et al.,(2013) stated that it is the duty of auditor to observes organization is authorized and controlling requirements. Auditing committee is also responsible to observe the activity of internal as well as external auditor. However, Chamber, (2014) stated four main responsibilities of audit committee that includes monitor the integrity of financial information and give suggestions to board, suggestions to board in order to deal with risk management, check and balance of auditor within the organization and monitor performance of external auditor. Further, audit committee is responsible to ensure that the process of risk management must be understandable and continuous rather than interrupted and intermittent.

Nevertheless, Bobek, Daugherty & Radtke, (2012) stated that audit committee is responsible to be linked with senior management and observes any change in policy or any issues in financial statements. Audit committee closely monitor internal auditor to avoid occurrence of any fraud in an organization. On the other hand, researcher investigated that responsibilities of AC are still strong in various areas of accounting but still not made effective corporate governance. However, it is an important duty of AC to detect and report any kind of fraud observed in an organization. It is a responsibility of AC (Audit Committee) to implement a code of ethics for all in organization.

2.3 Rules for audit committee

During the late 1990's NYSE and NASDAQ have been involved in studying the dynamics of an audit committee of a company due to increasing reports of failure of companies, for which the two mentioned institutions have been known to modify their requirements and rules for the audit committee of any company. UK has been known to be a corporate hub that needs to follow the international standards set by international accounting and reporting bodies. Oil sector of a country is known to be a core sector has its ties with all the other sectors of the country. This presents the reason for companies and governments to be actively involved in the well-being of the company.

As per the standards set by these international bodies a firm needs to maintain an audit committee with minimum of three directors of the company, given that each of the directors has no relationship or direct interest attached with the company, which has the tendency to create conflicts with the efficient working of these committees. These requirements set by the international entities are looked after by the Security and Exchange Commission of the country, which along with other responsibilities looks after the improvement of the corporate audit committees and their role in the corporate financial performance of a company. Similarly the international entities such as NASDAQ and NYSE have commissioned a separate entity that looks after the problems and the issues and is known as Blue Ribbon Commission. This commissioned and separate entity addresses the concerns related to improving the effectiveness and the role of audit committee and was formed for the purpose of the mentioned responsibility and to strengthen the audit committee.

The amendments made in the framework of the audit committee exempted current employees, former employees to be excluded from the audit committee. NASDAQ has also incorporated rules that exempt any director who gets compensation for more than or at least \$200,000 is to be exempted from an audit committee. The rules set by these international bodies are however not steadfast as these bodies allow special consideration of situations where the company can allow its employees and directors to be part of the committee.

2.4 Corporate Financial Performance

Aebi, Sabato & Schmid, (2012) suggested that corporate governance is a system which provides better relationship between management and the stakeholders. However, corporate governance significantly affects financial performance of an organization. Whereas, many researchers proposed a study, that financial performance observed only because of its ability to attain profits. Ameer & Othman, (2012) argued that now financial performance perceived from the user's viewpoint of financial statements. Prior researches categorized a corporate as global performance if it gratifies the demands of all shareholders.

However, Barnett & Salomon,(2012) posited that management of an organization use financial statements to review, analyze and evaluate the corporate financial performance. Further,

corporate financial performance assists in evaluation business performance. Many other studies Oikonomou, Brooks and Pavelin, (2012) speculated that information in financial statement is enough for shareholders to evaluate the financial performance of a company. However, Bharath, Jayaraman and Nagar, (2013) debated that corporate market position directly affects corporate financial performance. Profitability of a company directly influenced by net turn over and net profit margin. On the contrary, development and threats are two important factors, which affect corporate financial performance. Further, Council, (2016) suggest that a large size of an organization can positively influence company's financial performance. Whereas, larger the size of organization will eventually increases the risk of insolvency and have a negative effect on corporate financial performance.

2.5 Corporate financial performance measurements

Performance measurement by financial statement generally considered an effective way, which adopted by many organizations. It is an efficient pointer, which points an organization's profitability. Return of asset (ROA) and return of equity (ROE) are the main indicators, which measures the corporate financial performance. However, accountant with the help of standard accounting principles can measure the profit rate (Goto, 2016). Further, ROA is also an accounting measurement, which measures corporate operating and financial performance. ROA measured in such a way that, the use of assets directly related to the financial interest of shareholders.

Many researchers Kaplan & Atkinson, (2015) proposed that the higher ROA returns higher financial interest of its stakeholders. However, corporate who successful showed higher ROA considered having positive corporate performance. ROA needed to measure at the end of every year; it can easily calculated by dividing net income over total asset. However, various researchers suggested that return of equity ROE can measured simply by dividing profit after sales over total issued equity shares. Therefore, corporate has to monitor and revise its financial performance time to time for leveraging over competitive advantage.

2.6 Aspects of CFP and Effectiveness of audit committee

The present literature emphasizes those characteristics of AC that are AC size, frequency of meetings and individuality supports efficiency of AC in many phases. AC plays an important role in different activities of company and assists to increase corporate productivity. AC is responsible to monitor internal and external auditor, integrity of financial statements, reporting process and risk management. The important parts of AC effectiveness are regular annual meetings and size of AC. whereas; various researchers suggested that AC's influence corporate financial performance by ensuring integrity of financial statements. However, AC does not rely on management and it is an independent operating body in an organization. Further, governing bodies of financial markets have proposed the value of AC characteristics. In order to, focus that member of AC must be free from management, as it enhance the effectiveness of AC in providing error free financial statements.

Nevertheless, corporate financial performance relies on efficient AC forecasting and regulating within the organization. Further, Christensen et al., (2015) stated that ACs are more efficient and accomplish their goals until them having good resources, independent and regular annual meetings. Various researchers Oktorina & Wedari, (2015) argued that ACs plays an important role in improving corporate financial performance; fundamentally, it supports the board of directors to analyze management of an organization. In reference to the perspective, researchers reported that effective corporate financial performance linked with efficient AC. Further, ACs improves the relation of interest between management and shareholders.

Huang, Chen, & Lu (2016) which examined the effect of AC on integrity of financial statements have proposed different researches. On the other hand, there are several researches conducted to emphasize on problems faced by external auditor due to the presence of AC. However, Ac size, frequent meetings and independence positively affects the corporate financial performance that presented to management and board of directors annually to evaluate the business performance. On the contrary, researcher suggested that there are certain important accounting based measurements which includes ROA, ROE, ROS, ROI, PM, OCF, EPS,OP, GRO and ETS. These variables are used to measure different characteristics of AC, it significantly impacts the credibility of financial markets such as stock exchange.

Moreover, a current study in UK done by Okaily, Dixon & Salama, (2015) reported the impact of AC on an organization in global financial crisis. The report included the time duration from 2008 to 2009. The report existed on data collected from UK companies that were using (ROA) an accounting based measurement method to measure corporate financial performance. Prior researches suggested that a negative relation between the AC and management could have a negative impact on AC. Further, many researchers investigated that there is a closed link between AC independence increases corporate financial performance. While on the contrary, various researches reported that, AC independence dose not positively affects corporate financial expertise. However, there are findings that ensure that AC size which include human resource; relational resource and structural resource have positive influence on financial performance of an organization.

Whereas, in context with the above studies, reports and findings researchers agrees that audit committee AC show strong impact on corporate financial performance. Further, researchers also believe that effective working of AC can improve the productivity of an organization by enhancing corporate financial performance. On the other hand, many researcher Ahmed Haji et al., (2016) stated that an organization does not need audit committee AC to operate within organization. Further, management can evaluate and analysis the business performance without having AC.

2.7 Agency Theory

In order to understand the rules and regulations set by NASDAQ and NYSE to exempt employees and directors who are actively involved in the company's operations can be supported by the agency theory. The main aspect of this theory presents the conflict of interest between the owners of the company and the management (Ballwieser, Bamberg, et al 2012). This theory takes the owners of the company as the active participants of the business, and differentiates management as being the agent. The conflict of interest as per this theory arises due to a situation where the owners of the company are not able to validate the actions that have been taken by the management, and in appropriate terminology is referred to as Asymmetric information.

Hence, the assets of the company and the resources are diverted to fulfil personal interest rather than maximizing the company's performance. As per this theory the audit committee is made responsible to overlook such matters and take actions to rectify them.

Secondary literature available on audit committee which was presented by (Cohen et al., 2013) shows that an audit committee can effectively contribute by solving the existing agency problem within the business framework, as it ensures good governance and management. These audit committees are known to create a bridge between the shareholders of the company and the management and are considered to work as non-executive directors of the company that eliminates the menace known as the agency problem. Upon these grounds the audit committee presents unswerving reporting of the financial statements, and has been observed that the proper functioning of the audit committee is positively related to the corporate financial performance of the company which undertakes the role of corporate governance as well.

2.8 Independence of audit committee and corporate financial performance

Previous research paradigms present views relating to the audit committee which lays the importance of corporate financial performance on the independence of audit committee. These studies put forward the independence of audit committee to be the most important element in efficient governance of the company that has its impact on the financial performance of the company. Independence of the audit committee was first incorporated by the report represented by UK Cadbury and presented with the importance independence of the audit committee. The report presented by UK Cadbury suggests that the audit committee needs to have at least two members who should be independent in the context of their interest being affiliated with the business.

In the support of this report the UK governance Code revised in the year 2012 requires companies to incorporate three non-executive directors in order to effectively manage the company without conflict of interest. Previous studies pertaining to the audit committee depict that the independence of audit committee enhances the performance of the companies by continual supervision and management without any restrictions or limitations. The same study also contributes to the literature by shedding light on the fact that independence facilitates the

company by eliminating the agency problems and conflicts. This helps the audit committee to effectively control the management and the operations of the company. (Yang and Krishnan, 2005) in their research present the association or the relation between audit committee and the financial performance of the company. The results of their study show that there is positive relationship between audit committee's independence and financial performance of the company.

On the contrary many studies also present the readers with the negatives of audit committees. Independence of the audit committee is known to have risk associated with it when the audit committee is completely independent of the management of the company. These risks are known to be related to the decision making and the effective utilization of the resources of the company pertaining to its competencies. This means that whenever an independent audit committee of a company makes a decision it will be independent of what the managers and the board of directors have to say. This downside is also associated with less involvement, providing lesser intervention, and lesser meetings which has negative impacts on the effective governance of the company. Keeping in view the previous literature it can be safely said that the independence of the audit committee is considered to be effective in terms of overcoming the conflicts of the company.

An audit committee is known to be responsible for the corporate governance. The oil sector of UK and its structure considers high level of commitment from the audit committee in order to have independent members which allow a smooth flow of operations and no unexplained factors to disrupt the operations. Oil companies are subjected to frequent changes and depend on the effective management of the audit committee. Oil companies expect their audit committees to prevent manipulation as unfair pricing and unethical hording can be taken into brought into unfair operations powered by the unethical interest of the directors of the company. The importance of audit committee's independence is driven by the fact that the company puts an end to the agency problems and helps in micro management of company's operations. The findings of (Tiras, 2004) shows that independence of the audit committee is important as it looks into efficient monitoring of the business and which allows the company to have effective management and leads to improve financial performance of the company.

2.9 Size of audit committee

The size of the auditing committee has been also known to be of immense importance, as the size of the auditing committee affects the functionality of the company and more importantly the auditing committee itself. The Blue Ribbon commission puts forward a regulation that allows at least 3 non-executive members. The instillation of at least three members has been addressed as the size of the audit committee has been known to affect the committee's independence. Many companies especially the oil companies have been known to limit the number of members in the audit committee to negate any conflict of interest and limit the powers within the stated number of committee members.

But this limitation of the committee members cannot fit all as stated by (Klien, 2002, p. 434) that one size does not necessarily fit every other company. The literature present in the same context provides findings that prove that the size of the committee has a positive relation with the efficient financial performance of the company. The variation in the size of the committee members have an effect on the governance and the reporting as well. The more members there are in a committee it offers variations in context of the member's experience and helps in performing in a more efficient manner, and to allot members to various areas for the purpose of monitoring.

On the contrary the size of the committee has been affiliated with ineffectiveness of the committee. Greater the size of the committee means that more intervention by the members that can negatively affect the management of the company and decision making. The downside to greater size is conflicts between the members in terms of how to micro manage the company. Similarly, when taking decision lesser the members of the committee allow quick decisions to be made without any lag. Opposite is the case when the size of the committee increases, much time and conflicts are known to be faced. This affects the corporate financial performance of the company by creating difficulties in planning making decision and communicating.

2.10 Audit committee meetings

Audit committee meetings refer to the meetings held by the committee in order to access and evaluate the decisions that have already been taken into consideration. As per the Governance

Act of UK all the directors of the company are required to allocate enough time to discharge their duties. This shows that the governance act of UK lays importance on the availability of the directors whether be it executive or non-executive. The availability of the directors refer to the meetings that are conducted in order to enhance the performance of the company, or to devise a plan that leads to increased corporate performance of the company. The clause of the Governance Act also lays emphasis on enough time which refers to the frequency of these meetings which should be sufficient; however number of meetings to be held is not mentioned by the code set by international bodies.

The importance of these meetings can be deduced from the previous studies that highlight its impotence and how it has been known to prevent or reduce the amount of problems that are faced by a company. Conducting a meeting allows the directors and the involved personals to have a broad view on how the company is being managed and what are the problems that are creating inefficiencies and are subjected to reduced financial performance. In this regard the financial reports of the company are also discussed which provides a brief insight into the company which sets out the number of meetings that can be conducted. Literature pertaining to the study conducted by (Bedard, 2004) show that there is no link or connection between audit committee and corporate financial performance. However, the study conducted by (Yang and Krishnan, 2005) show different results. It elaborates the effects of the meetings in such a way that meeting calls for solutions for the company, question any unfair policy pertaining to the financial reporting such as frauds.

2.11 Conclusion

This chapter of the study has provided insights into the literature that supports audit committee and its operations. As per our study this chapter provides literature on the characteristics of audit committee that goes hand in hand with the corporate financial performance of the company. The main areas to measure the effect of audit committee in terms of corporate financial responsibility is return on assets and re4sutn on equity, which are considered to be one of the prominent ones amongst the whole lot of performance measures.

The study provides a detailed study on the corporate financial performance of the company that puts forwards the different aspects of audit committee that undertakes the task of corporate governance, along with micro managing the company. In relation to the previous studies conducted with the aim to measure the effectiveness of audit committee in terms of corporate financial performance, the following study provides different aspects such as size of the committee, independence and meetings that allow the audit committee to undertake its responsibilities based on the guide lines set by international accounting and reporting bodies and commissions made.

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Chapter 3: Research Methodology

3.1. Introduction

The term research methodology can be defined as the systematic process of solving the research problem (Kumar & Phrommathed, 2005). In this regards, it has been indicated that research methodology focuses on highlighting the scientific process for conducting the research, while illustrating the availability of different process for addressing the research problem (Kothari, 2004). Likewise, research methodology focuses on describing the most appropriate methods and techniques that can be used for the study, while indicating their relevance and significance with respect to the predefined problem. According to Kothari (2004), research methodology focuses on explaining the feasibility of certain techniques over others, and has further indicated the assumptions and criteria for the application of the techniques in most appropriate manner.

Similarly, Creswell (2013) argued that research methodology provides guidance for conducting the research, which can be elaborated by focusing extensively upon research philosophy, research design, and research approach, followed by other important constituents of the study. In light of the literature, research methodology is a blue-print or a comprehensive plan of action that the researcher uses to formulate the research process in accordance with the predefined aims and objectives of the research study (Bryman & Bell, 2015). With respect to the aims and objectives of the study, the research methodology chapter has presented an understanding on the data collection methods, followed by how the data will be analysed for reaching a valid and reliable conclusion (Marczyk, DeMatteo, & Festinger, 2005).

3.2. Research Paradigm

The most commonly used philosophies in a research study include; positivism, interpretivism, and realism. With respect to the nature of the study, positivism philosophy has been used in this research study, which focuses extensively upon factual knowledge that results in the quantifiable and observable research findings (Collins, 2010). In this research philosophy, the researcher's role in terms of collecting and interpreting the data is limited. Furthermore, positivism philosophy has continually been associated with deductive approach, which the researcher has explained and discussed in the following section.

3.3. Research Design

Qualitative, quantitative, and mixed methods are not just selected by researchers to conduct the study, but also help in deciding the type of study within the three broad categories (Creswell, 2013). In this regards, it has been argued that the aforementioned methods offer specific direction to conduct the research study, which has been termed as strategies for inquiry (Denzin & Lincoln, 2011). A variety of designs are available to the researchers due to the significant growth in the technologically advanced era, which has provided authors and researchers with an ability to analyse complex models with ease.

Considering the fact that both the variables (i.e. dependent and independent) in the study are quantitative in nature; therefore quantitative research design has been adopted for this study. The use of quantitative research design has helped in measuring the financial performance of the company, followed by the characteristics of audit committee, which has eventually led to the evaluation of the association and relationship between both. In this regards, the selection of quantitative research design has proved to be beneficial over qualitative research design as it focuses on investigating the effect of audit committee's characteristics (i.e. independence, size, and frequency of meetings) on the overall financial performance (i.e. ROA and ROE) of oil and gas companies operating within United Kingdom.

Quantitative research design has been argued to be the most appropriate and relevant design, when it comes to numeric data (Saunders, 2011). In this regards, it has been argued that quantitative research design is frequently used to evaluate and investigate the relationship between independent and dependent variables through the use of variety of statistical techniques (Mertens, 2014). This implies that quantitative research design is most appropriate for the study.

3.4. Research Approach

Over the years, researchers and authors have continually relied upon deductive and inductive reasoning to reach a valid and reliable conclusion (Fereday & Muir-Cochrane, 2006). At one end, deductive research focuses on moving from general to specific information, where the research develops an understanding of the underlying concepts and association between variables (Eisenhardt & Graebner, 2007). As a result, the researcher is provided with an opportunity to

develop and tests the hypothesis against the valid observations and experiments. On the other hand, inductive research moves from specific to general information. In this approach, the researcher formulates a new theory based on the findings of the research (Eisenhardt & Graebner, 2007).

Since deductive research has frequently been associated with quantitative research design, the study has followed deductive approach to test an existing theory rather than formulating a new theory based on the findings of the study. According to Ojulari (2012), deductive approach focuses on the application of the theory, which eventually results in the collection of the data for testing the effectiveness of the selected theory or theories to reach valid and reliable outcomes. In this study, the focus is on evaluating and testing the relationship between independent (audit committee's characteristics) and dependent variables (corporate financial performance). In particular, the study has investigated whether the characteristics of audit committee have any effect on the financial performance of oil and gas companies in the United Kingdom.

3.5. Type of Investigation

The purpose of this study is to evaluate and determine the relationship between audit committee and corporate financial performance of companies operating in the oil and gas sector in United Kingdom. In particular, the study has focused on investigating the influence of audit committee's characteristics on the corporate financial performance of companies; therefore the study has focused on examining the extent of audit committee's characteristics for enhancing the corporate financial performance of oil and gas companies.

With the latter into consideration, experimental study has been selected for the study, which Saunders, Lewis, and Thornhill (2012) defined as a process that focuses on investigating the change in the independent variable and its impact on the dependent variable. In this regards, hypothesis are formulated to anticipate the existence of relationship between the selected variables. The use of experimental study has helped in measuring the impact of audit committee's characteristics on the corporate financial performance (ROA and ROE).

3.6. Sampling and Sample Size

According to Saunders et al. (2012), sampling is an important element in a research study, but it is determined considering the budget and time constraints of the researcher. In this regards, oil and gas companies were selected that were listed on London Stock Exchange, which implies that the companies have optimally complied with corporate governance requirements. Under this code, companies are required to disclose all the essential information about its audit committee as well as their characteristics. In this regards, the UK Corporate Governance Code (2012), as cited in Financial Reporting Council (2012), has enforced all the companies, listed on LSE, to provide and disclose its financial position and performance in the annual report for the general public, while ensuring that accurate and reliable data is being presented within the annual reports.

The study has focused extensively on the financial performance of 10 oil and gas companies operating in the United Kingdom, where the selected time period was 2012 – 2015. The time period was selected considering the fact that the researcher would be offered with updated information about the financial performance. More importantly, the researcher avoided considering 2008-2011 due to the financial crisis and economic downturn, followed by its impact on the financial performance of companies (Fayyad & Daly, 2011), which might have affected the reliability and validity of the findings. Furthermore, Yahoo Finance indicated that companies have recovered from the economic and financial downturn in 2011, which suggests that the selection of 2012 to 2015 is most appropriate for the research study. With this into consideration, a total of 10 oil and gas companies operating in the United Kingdom have been selected for the study. Therefore, the sample size for the study is 10 oil and gas companies.

3.7. Data Collection Method

The collection of data is an essential aspect of a research study. Data can be classified into either primary or secondary data (Neuman, 2002). Primary data, as the name suggests, focuses on the collection of first-hand novel data, which is not part of the literature. This implies that the data has never been collected by authors and researchers. The most commonly used sources for the collection of primary data includes; observations, focus groups, questionnaires, surveys. On the contrary, secondary data focuses on the collection of data that is already part of the literature and

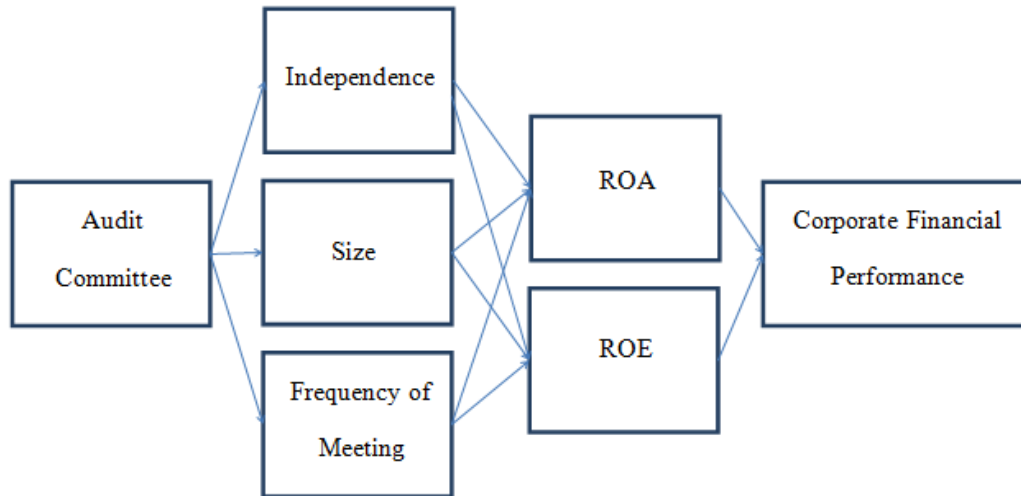
can be easily retrieved from sources like internet, journal articles, books, magazines, annual reports etc.

For this research study, secondary data has been considered for addressing the predefined research questions. This data collection method was preferred based on the associated benefits of time-saving and cost-effectiveness, which Saunders et al. (2012) even acknowledged in the research study. The use of secondary data presented an opportunity to complete the research study within the specified time-period. Moreover, secondary data was used considering the nature and scope of the study. Since the focus of the study was to evaluate the role of the audit committee on the financial performance of oil and gas companies, secondary data presented the researcher with reliable information as it was extracted from the annual reports of the companies listed on London Stock Exchange.

Reliability of secondary data is often a major concern for researchers and authors. Therefore, the data has only been collected from authentic sources like Morning Star, Google Scholar, JStor, and Yahoo Finance. Moreover, the secondary data was also collected from the websites of the selected companies to evaluate and understand the financial performance of companies with respect to their ROA and ROE. The annual reports ranging from 2012 to 2015 were only considered for the study. The most recent annual reports are easily available over the internet, which would help in determining the impact of audit committee's characteristics (i.e. independence, size, and frequency of meetings) with respect to their corporate financial performance.

3.8. Research Variables and Hypothesis

The independent variable for the study is the characteristics of the audit committee, where the moderating variables are independence, size, and frequency of meeting. On the other hand, the dependent variable for the study was the corporate financial performance, which was evaluated based on the ROE and ROA of selected oil and gas companies in the UK. The graphical representation of the model is as follows:



Based on the aforementioned figure, the main hypothesis for the research study is as follows:

H_{1o}: There is a positive impact of audit committee on the corporate financial performance of oil and gas companies in the UK

H_{1a}: There is no impact of audit committee on the corporate financial performance of oil and gas companies in the UK

3.9. Data Analysis Plan

In order to achieve the predefined research objectives, the focus would remain on investigating the association between the selected variables. This implies that statistical tests have been applied to the characteristics of the audit committee (i.e. independence, size, and frequency of meeting) to evaluate their influence on the corporate financial performance of oil and gas companies in the United Kingdom. On the other hand, the concept of financial performance has been measured through the return-on-assets (ROA) and return-on-equity (ROE).

In this regards, correlation and regression tests have been conducted to evaluate the strength of the relationship between the independent and dependent variable. A similar approach has been used in a number of previous studies that investigate the impact of the audit committee on the financial performance of companies.

More importantly, linear regression model has been used to determine and evaluate the influence of audit committee on the financial performance (i.e. ROA and ROE) of oil and gas companies. The test has helped in determining the nature of effect between the selected variables. With this

into consideration, two models for ROE and ROA have been considered for the study, which is as follows:

$$ROA = \beta_0 + \beta_1 AC \text{ Independence} + \beta_2 AC \text{ size} + \beta_3 AC \text{ Meet} + \varepsilon$$

$$ROE = \beta_0 + \beta_1 AC \text{ Independence} + \beta_2 AC \text{ size} + \beta_3 AC \text{ Meet} + \varepsilon$$

Where:

ROA is a return on assets.

ROE is a return on equity.

β_0 is constant.

$\beta_{1,2,3}$ are the slopes of control variables.

AC Independence is audit committee independence.

AC size is the number of members of the audit committee.

AC Meet is audit committee meetings frequency.

ε is random error.

Both of the aforementioned models have been adopted from the Hamdan et al. (2013) to reach a valid and reliable conclusion.

Chapter 4: Results and Discussion

4.1 Introduction

The following chapter of study is related to the presentation of results and findings from the study. The chapter also presents the related discussion to the topic. The aim of the study was to evaluate the role of the audit committee in the corporate financial performance of firms. The region selected for study is the United Kingdom and sector specifically chosen for analysis is the oil and gas sector. The study is based upon secondary data collection. A sample size of 10 companies in the oil sector of UK has been chosen. The companies chosen for study are listed in London Stock Exchange (LSE) all share index. All the companies selected are public limited companies. The companies selected for study include British Petroleum, Royal Dutch Shell, Amerisur, Tullow Oil, Ophir Energy, Sound Energy, Cairn Energy, Enquest Energy, Nostrum Oil and Gas and Soco International. The variables upon which the study is based include two indicators of financial performance and 3 characteristics of the audit committee. The financial performance is measured by return on equity (ROE) and return on assets (ROA) while audit committee characteristics are analysed through size, independence and meeting frequency of audit committee.

Data from companies was collected for 4 year period that is from 2012 to 2015. Years prior to 2012 were not considered due to the economic downturn. Correlation and regression tests were applied to analyse results from the study. The correlation test is applied to test the relationship between variables of study, more precisely in this case; the relationship is studied separately of all five variables in the study. At first, the relationship of ROE with all three characteristics of the audit committee and the interrelationship between them is analysed. Secondly, the relationship of ROA is examined with all three discussed characteristics of the audit committee. Finally, the impact of the independent variable on the dependent variable is analysed through linear correlation. The study has been broken down into two variables where audit committee act as the independent variable and corporate financial performance acts as the dependent variable for this study.

This chapter discusses the findings related to above applied statistical techniques on study presenting the findings in table form as interpreted and relating them to relevant literature to

solidify the findings of the study. Furthermore, the study conducts a discussion on the objectives described at beginning of study and relates it to findings to evaluate whether the objectives of study have been met or not.

4.2 Correlation Analysis

The correlation analysis is a statistical technique applied through statistical software for examining relationship or interdependence between two or more variables in the study. The correlation technique is usually applied through SPSS software for analysis as it is most commonly used the tool in social sciences due to its validity and generalizability. According to Kinnear and Gray (2006), correlation is a statistical technique used by the researcher to analyse the relationship between independent and dependent variables of the study. The correlation analysis has certain values that are required to be interpreted accordingly in order to completely understand the results of the analysis. The values present in correlation table include Pearson correlation coefficient represented as 'r' that shows the strength and direction of the relationship. The range of 'r' can be from +1 to -1 that shows the strength of relation. A positive or negative sign shows the direction of relationship which is interpreted as a direct or inverse relationship.

The strength of the relationship is determined by the value that is generated from analysis. If the 'r' value is 0 for Pearson correlation, it shows that there is no correlation between the variables of the study. A value from 0.1 to 0.39 shows that variables are weakly correlated. A value ranging from 0.4 to 0.69 shows a moderate relationship between variables while a value from 7 onwards shows a strong relationship between variables. The relationship can be either positive or negative. Another value important to consider is the significance value that represents the significance of the relationship between variables. The sig value shows the confidence level in a relationship and must be 95% or above for the relationship to be significant. This means that error value or chances of error that is represented by Alpha should be 0.05 or less than that to affirm that relationship is significant. The sig value in correlation table shows the Alpha value and should be less than 0.05 or 5%.

For this study, the correlation analysis is used to attain the main of study that is to identify the role of the audit committee in firm's financial performance. The corporate financial performance

of firm has been evaluated through two variables that return on equity (ROE) and return on assets (ROA). The other variable that is audit committee has been broken down to three characteristics of the audit committee that is the independence of audit committee, the number of members in audit committee or size of the audit committee and the last one is the frequency of meetings by audit committee with the board of the company to represent findings. The first part of correlation that illustrates interrelation between all three characteristics of the audit committee and return on equity is shown below.

4.2.1 Relationship between AC Independence, Size, Meeting Frequency and Return on Equity

Table 1 Correlation Analysis (ROE)

		Correlations			
		Audit Committee Independence	Return on Equity in %	Audit Committee Members	Audit Committee's Meeting Frequency
Audit Committee Independence	Pearson Correlation	1	-.050	-.787	-.333
	Sig. (2-tailed)		.950	.213	.667
	N	4	4	4	4
Return on Equity in %	Pearson Correlation	-.050	1	-.568	-.394
	Sig. (2-tailed)	.950		.432	.606
	N	4	4	4	4
Audit Committee Members	Pearson Correlation	-.787	-.568	1	.424
	Sig. (2-tailed)	.213	.432		.576
	N	4	4	4	4
Audit Committee's Meeting Frequency	Pearson Correlation	-.333	-.394	.424	1
	Sig. (2-tailed)	.667	.606	.576	
	N	4	4	4	4

The above table shows correlation analysis between return on equity, audit committee independence, audit committee size or members and audit committee's meeting frequency. The table is to be observed diagonally as the Pearson correlation value 1 shows the perfect correlation between variables and every variable has a perfect correlation with itself so we consider values above the diagonals or below diagonals that are in form of mirror image. The results from SPSS correlation technique show that relationship of return on equity is insignificant and negative with all the characteristics of the audit committee that is its independence, its size and its meeting frequency. Return on equity is an indicator of corporate financial performance and shows that

relationship between characteristics of the audit committee and return on equity is insignificant means that there is no change in return on equity due to characteristics of the audit committee.

The relationship is said to be insignificant as the value of sig in all characteristics with relation to ROE is above 5% or 0.05 indicating insignificant relationship. From above table, ‘N’ shows the number of observations in the study. The study has collected data for 4 years that is from the year 2012 to 2015 thus, the number of observations is 4. The findings of this study indicate that role of the audit committee in the corporate financial performance of firms in the oil sector of UK is insignificant. The findings are contrary to study conducted by Tiras (2004) and Klien (2002) stating that audit committee independence and its size is in relation to the corporate financial performance of firms. However, the study conducted by Bedard (2004) show that there is no link between the number of times audit committee meets and financial performance of UK. These findings are similar to this study.

4.2.2 Relationship between AC Independence, Size, Meeting Frequency and Return on Assets

The second part of correlation analysis replaced the variable of return on equity or ROE with return on asset or ROA and found its relationship with the other variable of study that is audit committee features. The correlation test applied has generated a table showing the results which are illustrated below and interpreted accordingly.

Table 2 Correlation Analysis (ROA)

Correlations					
		Audit Committee Independence	Audit Committee Members	Audit Committee's Meeting Frequency	Return on Assets in %
Audit Committee Independence	Pearson Correlation	1	-.787	-.333	-.112
	Sig. (2-tailed)		.213	.667	.888
	N	4	4	4	4
Audit Committee Members	Pearson Correlation	-.787	1	.424	-.519
	Sig. (2-tailed)	.213		.576	.481
	N	4	4	4	4
Audit Committee's Meeting Frequency	Pearson Correlation	-.333	.424	1	-.345
	Sig. (2-tailed)	.667	.576		.655
	N	4	4	4	4
Return on Assets in %	Pearson Correlation	-.112	-.519	-.345	1
	Sig. (2-tailed)	.888	.481	.655	
	N	4	4	4	4

The above demonstrated table shows relationship between three characteristics of the audit committee that is independence, the number of members and frequency of their meeting per year with the financial performance indicator of return on assets (ROA). Again, as similar to return on equity we look at values above diagonals 1 or below it to understand results. All of the variables show an insignificant relationship between characteristics of the audit committee and return on assets. Likewise, return on assets is an indicator of financial performance and relationship between audit committee features and ROA is insignificant showing that there is no change in return on assets that is to be accredited to audit committee's independence, audit committee's size and audit committee's meeting frequency. This has been indicated through the sig value in above table that shows the significance of the relationship. All the values related to the significance of the relationship between variables are above the acceptance of criteria of 0.05 or 5% and thus insignificance relationship is shown. According to Yang and Krishnan (2005), the role of the audit committee and financial performance of corporation have an association, however, the findings of this study contradict the statement showing that insignificant relationship exists between return on assets and characteristics of the audit committee.

All and all, the findings from the study show that both the indicators of corporate financial performance for firms in the oil sector of UK that is a return on assets and return on equity are not related to the characteristics of the audit committee of the corporation. This shows that companies operating in the oil sector of UK do not have an effect on their financial performance due to changes or alterations in audit committee characteristics. More specifically, the role of audit committee independence, audit committee size and audit committee meeting frequency has an insignificant role and contribution to the corporate financial performance of firms operating in the oil sector of UK.

4.3 Regression Analysis

The aim of the study was to analyse the role of the audit committee in the corporate financial performance of companies in the oil sector of UK. For further clarity, the regression test has been applied to identify the impact of the independent variable on the dependent variable. In this study, all the characteristics of the audit committee that is independence, size and meeting frequency are treated as independent variables while the return on assets and return on equity

that are indicators of corporate financial performance are treated as dependent variables. The impact of the audit committee is analysed on corporate financial performance in oil and gas sector of UK. The results from regression analysis are discussed below with relevant information presented in tabular form.

Table 3 Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.731 ^a	.535	.303	9.59340

a. Predictors: (Constant), Audit_Committee

The above-illustrated table is a model summary table which shows some critical information. Firstly, the 'R' value shows the interrelation or relationship among all the variables selected in a study that is all three characteristics of the committee for audit in corporations and financial performance indicators of corporations including return on assets ROA and returns on equity ROE. Moreover, the next value 'R Square' shows the extent to which independent variables are able to predict dependent variables. From above table, it is interpreted that 'R' value that is 0.731 shows that there is 73.1% relationship between all the variables selected in the study. The other value that 0.535 or 53.5% shows that characteristics of audit committee predict 53.5% of the corporate financial performance for firms in oil and gas sector of UK.

Table 4 ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	211.811	1	211.811	2.301	.269 ^b
	Residual	184.067	2	92.033		
	Total	395.877	3			

a. Dependent Variable: Corporate_Financial_Performance

b. Predictors: (Constant), Audit_Committee

The ANOVA table is used to represent the significance of the impact of the independent variable on the dependent variable. The value to consider from above table is sig value that should be less than the value of Alpha that is 0.05 or 5% to be acceptable. The sig column shows a value of .269 or 26.9 which is greater than alpha value of 5% showing that the impact of auditor committee characteristics on corporate financial performance is insignificant.

Table 5 Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	190.539	128.388		1.484	.276
	Audit_Committee	-70.139	46.234	-.731	-1.517	.269

a. Dependent Variable: Corporate_Financial_Performance

The coefficient table is used to determine the influence of audit committee size, audit committee independence and audit committee meeting frequency on return on assets and return on equity that are both indicators of corporate financial performance. Moreover, this table is helpful in regression model where the value of beta (B) from unstandardized coefficients is taken to determine the value of dependent variable. The sig value shows the significance of the impact of the independent variable on the dependent variable. Here, the sig value is more than 0.05 or 5% showing that impact of qualities of auditor committee has an insignificant impact on corporate financial performance. The findings of this study are in associated with findings revealed by a study of Bedard (2004) stating that there is no connection between the characteristics of the audit committee and corporate financial performance.

4.4 Discussion

Objective 1: Examine Role of Audit Committee Independence on Corporate Financial Performance

The first objective of the study was to examine the role of audit committee independence on the corporate financial performance of firms operating in oil and gas sector of UK. 10 companies have been selected for study that is part of London Stock Exchange and their data for 4 years is taken from 2012 to 2015. The findings from this study suggest that audit committee independence does not play a significant role in the corporate financial performance of firms operations in oil and gas sector of UK. This shows that if the auditors are independent of the company, the does not have any effect on the financial performance of corporations in the UK. The findings of this study are contra to the findings of Tiras (2004) showing that audit committee independence and corporation financial performance have an association.

Objective 2: Examine Role of Audit Committee Size on Corporate Financial Performance

Similarly, the role of audit committee size that is members in audit committee is examined on the corporate financial performance of companies operating in the UK. The results from the study show that no matter what the number of audit committee members is there, the corporate financial performance will act independently of it. This shows that size of audit committee does not have any role in the determination of corporate financial performance for firms in oil and gas sector of UK. The findings are opposite of what Klien (2002) found who stated that size of the committee is positively related to corporate financial performance.

Objective 3: Examine Role of Audit Committee Meeting Frequency on Corporate Financial Performance

The third objective of the study was to examine the role of times audit committee met during the year on corporate financial performance for firms in oil and gas sector of UK. The findings from the study show that impact of meeting frequency on the financial performance of firms is insignificant and this does not tend to impact the financials of the company in any way no matter how many times committee meets during a single calendar year. The findings of this are contrary to findings stated by Yang and Krishnan (2005) showing an association between audit committee meeting frequency on financial performance.

4.5 Hypothesis Assessment Summary

S. No.	Hypothesis	Significance Value	Comments
1	There is no impact of audit committee on the corporate financial performance of oil and gas companies in the UK	.269	Accept

Chapter 5: Conclusion and Recommendations

5.1 Introduction

This chapter pertains towards the conclusions and recommendations of the research which are entirely focused towards the analysis and data results generated in the previous chapter. This chapter provides comprehensions on the findings of the study conducted in the previous section by the researcher. The main aim of this research was based on the examination of the role of the Audit Committee on firm's performance in the oil and gas industry of the UK. However, in order to fulfil the objective of the research, the researcher has selected 10 companies of the UK belonging to oil and gas sector for the analysis. The companies selected by the researcher were listed on the stock exchange of London and also they have a strong capitalization within oil and gas industry of the UK market. This research also provides the readers with a brief conclusion of the overall study.

This research also includes briefly summarised findings which have highlighted the key findings of the research in the association of the literature review conducted for this research. Moreover, the following chapter is also composed of recommendations of the research which are provided to the senior management of the companies selected for the analysis of the research. The recommendations provided to the senior management of the selected companies can enhance their governance and corporate structure along with the improvement in the financial performance of the organisation. It is significant for the organisation to conduct on the yearly basis in order to enhance the financial performance of the company. In addition to the above statement, this research has also facilitated the readers with future implications for this research which is necessary to be mentioned for the support of future researchers.

5.2 Summarised Findings

The objectives of the research were clear and apparent to the readers as they were focused towards an examination of the role of Audit committee independence on CFP, examination of the role of Audit committee size on CFP and examination of the role of Audit committee meetings frequency on CFP. The variables which were taken by the researcher were Audit committee size, the frequency of meetings of the audit committee and the independence of audit on external auditors. Moreover, the variables identified were measured with the firm's

performance which includes the variables ROA and ROE of the respective companies listed on the stock exchange in London. In addition to the above statement, four years were taken for the analysis starting from 2012 and ending at 2015.

The study was motivated with the existing gap found by the researcher in the literature review and the research conducted by previous researchers in relation to the oil and gas companies of the UK. The study, therefore, adds value to the understanding of governance and corporate structure employed by the organisation and their attributes which impact the performance of the firms, particularly within the UK. The study conducted by the researcher further adds value to the previous researches by focusing on 10 more companies in the UK and extend the explanation of the selected variables of the study.

The findings of the study are quite different from the research conducted previously by the researchers and practitioners in the field of corporate governance. According to the researcher's expectation, the research suggested that some of the characteristics of the audit committee are not relevant to the performance of the firm as it were analysed from the research results. The results were also not in line with the literature findings as in the study of Garcia, Barbadillo & Perez (2012) which stated that, AC plays an important role in different activities of company and assists to increase the organization in enhancing their productivity which is not true in the case of this research as the data results are insignificant in this research.

As previously identified by the researcher, the Agency theory takes the owners of the organisation as the active participants in the business and differentiates the management being an agent (Oktorina & Wedari, 2015). The results are also not in favour of the agency theory which explains that the increased number of members in the Audit committee will result in poor results of the organisation. In this study, no relation was found between the Audit committee and the performance of the company which eventually rejects the theory of Agency in the context of the organisations selected for the analysis.

In addition to the previous statement, the hypotheses statement was also rejected based on the findings of the study which stated that there is no significant impact of Audit committee

characteristics on the performance of the organisation. The results presented a negative relationship between the size of the AC and performance of the firm which is measured by ROE. Consequently, the results of the regression were also not consistent with the studies identified from the previous literature. The findings from this study further suggest that the independence of audit committee does not play a significant role in the corporate financial performance of firms operations in oil and gas sector of UK.

5.3 Recommendations

Following are the recommendations presented to senior management and board members of the companies in order to enhance the effectiveness of the Audit Committee:

- It is recommended to the senior management and board members of the companies to employ an effective chairperson for the AC in order to increase the overall effectiveness. Moreover, there should be a comprehensive description of the position which should be equivalent to the chairperson of the AC tailoring to the circumstances. Furthermore, the position description for the chairperson should include best practices and requirement of the regulations of the respective country in order to enhance the effectiveness of AC.
- It is also recommended to the senior management and board members that the members of the Audit Committee should understand the reason for choices of the management and their implications for the manipulation in the financial statements. This implies that the directors are required to understand the need for generating profits in the organisation for which the implementation of critical accounting policies is necessary and estimation for the potential manipulation of financials is also necessary. However, a clear agreement between the members and directors is necessary for an appropriate accounting treatment which must be opened for the interpretations and judgements of company accounts.
- It is further recommended to the audit committee staff members to ensure the independence which should be real along with the perceived. It is significant for the AC that the members not only possess independence according to the pre-set criteria but also have the independence of actions, judgements and thoughts so that the independence is perceived but is applied and real. Moreover, the members of AC should also provide their opinions in order to allow trust and maintain a relationship with the management and compromise on their impartiality display and objectivity.

- It is also recommended to the senior management and board members to have a rigorous process of succession planning which should be taken in a place with all the members of the AC. This signifies that the committee for nominations should have a transparent and formal process of succession planning and identify the gaps between competencies of the existing members and skills. Moreover, they have a pool of directors which possess desirable qualities and qualifications for chairing the committee and the organisation should strategize themselves for retaining such directors. Therefore, it is evident that the members of the AC should have a formal and tailored induction process which should include past agendas, minutes of meetings, key standards of accounting, internal control and other assurances along with the previous auditor's report.
- It is further recommended to the senior management and board members of the organisations related to oil and gas sector to have a mapped agenda along with an effective documentation of the committee. There should be a sufficient time between the board meetings and AC meeting to enable the work to be carried out before reporting to the immediate board members, for instance, reviewing minutes, action follow-ups, and timeframes designed for financial reporting, meeting schedules and information regarding the audit. In addition, the AC's chairperson should report to the comprehensive, meaningful and in a focused manner. Moreover, the minutes of the meetings should be clear, accurate, complete, timely and appropriate provided with all supporting materials and recommendations given to the board members.
- It is recommended to make use of cameras during the sessions of the audit committee and formulate private sessions which must be dealt with the head of internal audit and the external auditor which is equally important. For the private meetings, the major issues related to the organisation should be discussed thoroughly. Moreover, private sessions should further be held with the external auditor in order to discuss all major issues which result in disagreements with the management. Likewise, there should be an open, honest and transparent dialogue between the management and the audit committee.

5.4 Conclusion

This study was focused towards the discussion of mechanisms of the corporate governance with respect to the explanation of audit committee and its characteristics. The characteristics identify

for the research were the size of the meetings, frequencies of the meetings, independence of the audit committee and for the financial performance, ROE and ROA were taken for examining the relationship between the variables. The study was found to be insignificant as no relationship was found between the financial performance of the organisations and characteristics of the audit committee.

The researcher has selected 10 companies related to the oil and gas industry of the UK which helps the researcher in identifying the relationship between the dependent and independent variable. The previous researches have provided a significant relationship between the characteristics of the AC and financial performance; however, the results of this study remained controversial as the results appear to be obtained from the measures of financial performance indicators which do not have a direct link with the Audit Committee.

Some researchers were of the opinion to include more directors on the committee for the higher effectiveness of the meetings held within the organisation rather than increasing the efficiency of the financial performance of the organisation. Therefore, in order to increase the effectiveness of the Audit Committee, the researcher has proposed a set of recommendations which can improve their processes regarding Audit Committee. The recommendations once employed in the organisation can lead to a successful process of auditing throughout the organisation.

5.5 Future Implications

The future implications of this study are based on the recommendations provided to the future researchers which are limited in the scope. There are larger areas of published articles and reputable journals available to widen the scope of the research and perhaps discloses interesting facts and figures regarding audit committee and their characteristics employed by the organisation. Moreover, the researcher can find comparable findings in the AC committee size, independence and frequency from the organisations selected for the analysis of the data.

Moreover, this study contains an international context of identifying and assessing the context of the AC which can also be evaluated for the other countries and the results can be compared in this regard. The assessment tool which is constructed for the study is based on the analysis of regression and correlation which can further incorporate changes in the methodology by

selecting interview analysis as it can further enhance the research results. The interviews can be taken from the managers and senior members of the audit committee of one or two organisations which can enhance the results of the study. This enhancement in the study can be beneficial for the researcher and future practitioners. Finally, the research can further incorporate more characteristics of the audit committee in order to improve the findings of the research.

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