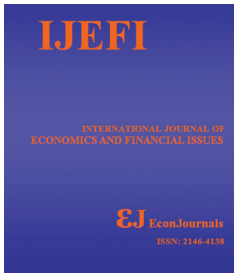

International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2018, 8(2), 85-93.

Audit Committee and Discretionary Loan Loss Provisions in Tunisian Commercial Banks

Amina Zgarni[1]*, Hassouna Fedhila[2], Moez El Gaied[3]

[1]Doctor in finance, Faculty of Economic Sciences and Management of Tunis, University of Tunis El Manar,Tunisia, [2]Professor of University in Accounting, Higher Institute of Accounting and Business Administration, University of Manouba, Tunisia. [3]Assistant in Accounting, Higher Institute of Finance and Taxation of Sousse, University of Sousse, Tunisia, *Email: amina2302@yahoo.fr

ABSTRACT

The purpose of this paper is to study the effect of the audit committee (presence, expertise, independence, size and activity) on earnings management of Tunisian commercial banks. We selected a sample of ten Tunisian commercial banks examined over the 2001–2014 period. The regression models are estimated using the "Panel corrected standard errors" method of Beck and Katz (1995). Our empirical results highlight the effective role of the audit committee's expertise in mitigating discretionary practices. However, the number of meetings, which is less than the standard required by regulatory authorities, does not have a significant disciplinary effect on earnings management practices. Results also report that Audit committee's independence and size have positive effects on earnings management in our sample.

Keywords: Audit Committee, Earnings Management, Discretionary Loan Loss Provisions.
JEL Classifications: G14, M4, M41

1. INTRODUCTION

The early 2000s financial scandals questioned the efficiency of internal governance mechanisms. Professional reports and regulatory commissions have grown in number internationally (Treadway in the United States, 1987, Cadbury in the United Kingdom, 1992, Viénot in France, Toronto Stock Exchange Report in Canada) to recommend the introduction of specialized committees (including the audit committee) within any corporate organism (Piot and Kermiche, 2009). According to Wirtz (2005), the purpose of these recommendations was to ensure a more adequate control of managers for the benefit of shareholders. Such a control would reduce earnings management and reassure users of financial information.

Such measures found their ground in governance theory, which supports the idea that to discipline managers, who are by nature opportunistic, firms may use internal and external disciplinary mechanisms. Accordingly, the Sarbanes-Oxley Act (2002) and the 8th European Directive have valued the role of the Audit Committee. Indeed, they called for setting up an audit committee and lay down strict rules on its structure, powers and functioning. According to these provisions, this committee is responsible for facilitating the supervision of managers' control.

Kalbers and Fogarty (1998) indicate that the regulatory creation of the audit committee, in several contexts, has been an opportunity for researchers to test this governance mechanism's contribution and efficiency in mitigating the problem of earnings management. Other authors, like Menon and Williams (1994), have gone further in their reasoning and argue that the mere existence of the audit committee is not a guarantee of the Board's efficiency in improving its control function. At this level, Piot and Kermich (2009) conclude that efficiency of the audit committee depends on its own characteristics. However, exploring even further the literature, we found countless perspectives on the issue. According to Habbash (2011), Agrawal and Chadha (2005), Dhaliwal et al. (2010) and Johnstone and Rupley (2011), independence of the audit committee does not always limit discretionary managers. More over, Felo et al. (2003), Abbott et al. (2004), Bédard et al. (2004), Liu et al. (2011), Moses (2016) and Lin et al. (2006) show that expertise, size and number of committee meetings do not

always minimize banks' fraudulent practices. Such differences, theoretical and empirical, led us to question the role of setting up audit committees (independent, competent, active, large size) within Tunisian commercial banks in mitigating earnings management.

Like Ben Othman and Mersni (2016) , we will try to examine the effect of the audit committee's characteristics on mitigating earnings management of a sample of Tunisian commercial banks. We believe that our contribution touches on the choice of the Tunisian context, which remains an almost unexplored context.

To this end, using panel data, we examined a sample of 10 Tunisian commercial banks over a 14-year period stretching from 2001 to 2014. To test the effect of the audit committee on earnings management of Tunisian commercial banks, we proceed in two steps. The first step examines the determinants of loan loss provisions (LLP). For this purpose, we test a first model inspired by Ben and Mersni (2016). Once we determine total provisions, we move on to the second step, which seeks to test the effect of the audit committee's characteristics on earnings management of the banks under study. Then, we will test a second model inspired by Ben and Mersni (2016), where the dependent variable is the amount of discretionary loan loss provisions (DLLP) calculated through the first regression.

This paper is then structured as follows: In the second section, we present the theoretical foundations on the need to set up an audit committee in banks and our research hypotheses. The third section presents the research methodology. In the fourth section, we present the results and the last section concludes the paper.

2. REVIEW OF THE LITERATURE AND THE RESEARCH HYPOTHESES

According to Kalbers and Fogarty (1993), an audit committee is said to be efficient if it has the skills enabling it to perform the supervision of internal audit and control, external audit and financial statements. However, according to the review of the literature, studies on the effect of the audit committee's efficiency on earnings management are inconclusive. The first aspect that has been the subject of a strong theoretical and empirical controversy is the independence of the audit committee. Reviewing previous studies testing the relationship between independence of the audit committee and earnings management, we found mixed results. Indeed, some studies, like those of Klein (2002) and Ben (2014), highlight the negative effect of committee independence on earnings management, while others like those of Piot and Janin (2007) and Baccouch et al. (2013) rather confirm the positive relationship. Finally, another research trend, Habbash (2011) in particular, rejects this positive relationship.

In this study, like in McMullen (1996) and Abbott et al. (2004), we expect a negative relationship between independence of audit committee members and earnings management of Tunisian commercial banks. We believe that such a negative relationship would offer some efficiency to the audit committee's control mission. Hence we formulate our first hypothesis:

H1: Independence of audit committee members has a negative effect on DLLP of Tunisian commercial banks.

In addition to this first relationship, other studies have instead focused on a second aspect of the audit committee, namely the expertise of its members. Reviewing previous research, we found mixed results on the nature of the contribution of the expertise of audit committee members in mitigating earnings management. Badolato et al. (2014) found that the audit committee's expertise correlates with a low managerial discretion. Liu et al. (2011) also found a negative and a significant relationship between audit committee's expertise and earnings management. Bédard et al. (2004) and Carcello et al. (2006), operationalizing financial expertise by the existence of at least one financial expert in line with the RBC provisions, found a negative effect of financial expertise on earnings management. In the same vein, Lin and Hwang (2010) and Ghosh et al. (2010), also argued for the positive role of audit committee's expertise in mitigating earnings management. Similarly, Abernathy et al. (2015) found a positive and a significant relationship between accounting expertise of audit committee members and the timeliness of financial reporting. Qin (2007) shows that the presence of Type I experts (accountants, expert accountants, auditors, CFOs and supervisors) in the audit committee is highly important because it generates a high return-to-earnings relationship and thus leads to improving accounting earnings quality. Nevertheless, the same author shows that the presence of Type II experts (the Chief Executive Officer, financial analysts and bankers) has no impact on financial information relevance.

Some authors, however, found no relationship between expertise and earnings management. For instance, Abernathy et al. (2013) did not find a significant relationship between non-accounting financial expertise (i.e. monitoring expertise) and of forecasts accuracy or dispersion. Similarly, Lin et al. (2006) found no relationship between audit committee's expertise and accounting manipulation.

In this study, like Bédard et al. (2004) and Lin and Hwang (2010), we expect a negative relationship between audit committee's expertise and earnings management of Tunisian commercial banks. We believe that the extent of accounting expertise or even an expertise in related areas can be a factor behind the committee's efficiency, allowing it to be more rigorous and accurate. Hence, we formulate our second hypothesis:

H2: Expertise of audit committee members has a negative effect on the DLLP of Tunisian commercial banks.

A third aspect that has been subject of scrutiny is how the audit committee functions in terms of the number of meetings held. Referring to Abbott et al. (2004), who examined a sample of 176 US firms over the 1991–1999 period, we expect that the number of audit committee meetings, a measure of member diligence, positively affects financial reporting quality. Similarly, Vafeas

(2005) confirms the positive relationship between the numbers of audit committee meetings and disclosed financial information quality. Moreover, Xie et al. (2003) found that the higher the number of meetings, the more limited accounting manipulation.

However, Liu et al. (2011) found a positive and a significant relationship between the number of audit committee meetings and earnings management. However, Lin et al. (2006), they found no significant relationship between audit committee's meetings frequency and disclosed financial information quality.

In conclusion, like Abbott et al. (2004) and Lin and Hwang (2010), we expected the sign of the relationship between audit committee's meetings frequency and earnings management of Tunisian commercial banks to be negative as strong diligence allows for a highly active control and an efficient financial reporting process. Hence, we formulate our third hypothesis:

H3: Audit committee meetings frequency has a negative effect on the DLLP of Tunisian commercial banks.

The last aspect of the audit committee is its size. A review of the literature on the impact of audit committee size on earnings management enabled us to distinguish three research trends: One that affirms the positive effect of audit committee size on earnings management, one that attests to its negative effect, while the last one shows no effect.

Yang and Krishnan (2005) confirmed the negative effect of committee size on accounting manipulation. This amounts to saying that the higher the size, the lower manipulation. Carcello et al. (2006) also showed that the effect of committee size on reducing accounting irregularities or manipulating earnings is significant.

However, Xie et al. (2003) found no correlation between audit committee size and discretionary accruals. Davidson et al. (2005) found a positive but a non-significant relationship between audit committee size and discretionary accruals.

Like Yang and Krishnan (2005) and Carcello et al. (2006), we expected the sign of the relationship between audit committee size and earnings management of Tunisian commercial banks to be negative. Hence, we formulate the following hypothesis:

H4: Audit committee size has a negative effect on the DLPP of Tunisian commercial banks.:

3. RESEARCH METHODOLOGY

3.1. The Sample

In order to test the effect of the audit committee on earnings management of banks, we examine a sample of ten Tunisian listed commercial banks. In fact, these banks hold most of the assets of Tunisian banks (more than 80% of the total assets of commercial banks) and they account for 88% of the granted total loans[1]. The study period stretches from 2001 to 2014, totaling 140 observations.

1 According to the report 2009 of the MAC intermediary.

In fact, in Tunisia, the regulatory authorities have put in place several measures to strengthen internal control mechanisms, in particular the accounting organization standard and the internal control system for banks (accounting standard no. 22). The purpose of this standard was to recommend the establishment of audit committees in Tunisian credit institutions, to be affiliated with the board of directors. Later, Act 2001-65, put into effect this recommendation. In fact, this provision is the first - in the Tunisian context –to set up the audit committee, which remains little known and neglected. Article 34 of Law 2001-65 on credit institutions in Tunisia stipulates that the audit committee should be entrusted with "reviewing and giving its opinion on the annual report including the financial statements of the institution before being sent to the Board of Directors or the Supervisory Board for approval."

In addition, by implementing Article L.823-19 of the Trade Code, the Board of Directors will determine the structure of the Audit Committee, where the number of members is not defined. However, according to the Financial Markets Authority, a minimum of three members is required. The latter should be members of the board, but do not perform executive functions. Such provisions clearly established a degree of independence for the audit committee's members. In addition, two requirements have been put forward for at least one of the audit committee' members: To have special accounting and financial expertise and to be independent.

3.2. Regression Models

McNichols and Wilson (1988) were the first to emphasize the notion of specific accruals that best adapts to specific industries such as banks and insurance companies. Kanagaretnam (2004), Cornett et al. (2008, 2009), Kim et al. (2015) and Liu et al. (2011), among others, have also used LLP as the main variable representing the specific accruals of banks.

LLP will be broken down into two components: The normal or the non-discretionary component (LLPND) that depends on regulatory requirements and residuals that reflect the discretionary component of that variable (LLPD).

Total provisions (LLP) = Non-discretionary provisions (LLPND) + Discretionary provisions (LLPD)

To examine the relationship between discretionary provisions and audit committee's characteristics of Tunisian commercial banks, we followed the approach of Ben and Mersni (2016). We chose the two-stage approach. The first step is to estimate total provisions by identifying the normal component of provisions (the non-discretionary component). In the second step, the residual of the first regression representing the discretionary component is calculated by the difference between the total and non-discretionary provisions.

Total provisions equation is as follows:

LLP = f (non-performing loans, change in non-performing loans, change in loans)

Our approach begins with estimating total provisions to obtain the estimators of the coefficients α_1, α_1, α_2 and, which will enable us to calculate the discretionary provisions for each year.

Model 1:

$$LLP_{it}=\alpha_0+\alpha_1 NPL_{it}+\alpha_2 \Delta NPL_{it}+\alpha_3 \Delta LOAN_{it}+\varepsilon_{it} \quad (1)$$

LLP_{it}: Loan loss provisions of bank i in year t by total loans of year t−1

NPL_{it-1}: The opening balance of non-performing loans of bank i at date t−1 divided by total loans of year t−1;

ΔNPL_{it}: Change in non-performing loans of bank i in year t divided by total loans of year t−1;

$\Delta LOAN_{it}$: Change in loans of bank i in year t divided by total loans of year t−1;

ε_{it}: The residual of the equation which represents the discretionary provisions of bank i in year t.

The second step is to calculate non-discretionary provisions (LLPND) as follows:

$$LLPND_{it} = \hat{\alpha}_0 + \hat{\alpha}_1 NPL_{it} + \hat{\alpha}_2 \Delta NPL_{it} + \hat{\alpha}_3 \Delta LOAN_{it} \quad (2)$$

With

$\hat{\alpha}_0, \hat{\alpha}_1, \hat{\alpha}_2$ and $\hat{\alpha}_3$ are estimators of the coefficients of equation 1;

$$LLPD_{it} = \hat{\varepsilon}_{it} = LLP_{it} - LLPND_{it}$$

i.e.:

$$LLPD_{it} = LLP_{it} - \left[\hat{\alpha}_0 + \hat{\alpha}_1 NPL_{it} + \hat{\alpha}_2 \Delta NPL_{it} + \hat{\alpha}_3 \Delta LOAN_{it}\right] \quad (3)$$

With

LLP_{it}: Loan loss provisions of bank i in year t divided by total loans of year t−1;

$LLPND_{it}$: Non-discretionary loan loss provisions of bank i in year t;

$LLPD_{it}$: Discretionary loan loss provisions of bank i in year t;

NPL_{it-1}: The opening balance of non-performing loans of bank i at date t−1 divided by total loans of year t−1;

ΔNPL_{it}: Change in non-performing loans of bank i in year t divided by total loans of year t−1;

$\Delta LOAN_{it}$: Change in loans of bank i in year t divided by total loans of year t−1.

Finally, in order to test our four hypotheses, which examine the effect of audit committee's characteristics on earnings management of Tunisian commercial banks, we will test a second model strongly inspired by that of Ben and Mersni (2016). The dependent variable is the amount of discretionary provisions. The independent variables represent the different characteristics of the audit committee: Independence of audit committee members (INDCA), expertise of the audit committee (EXPER), number of audit committee meetings (REUN) and size of the audit committee (TAILCA), which seem to likely influence discretionary provisions. The control variables used in this model are: Return on assets, bank size (LASSET), audit quality (BIG) and bank age (AGE). Our model will take the following form:

LLPD = f (audit committee characteristics, control variables)

Model 2:

$$LLPD_{it}=\beta_0+\beta_1 INDCA_{it}+\beta_2 EXPER_{it}+\beta_3 REUN_{it}+\beta_4 TAICA_{it} +\beta_5 ROA_{it}+\beta_6 LASSET_{it}+\beta_7 BIG_{it}+\beta_8 AGE_{it}+\varepsilon_{it} \quad (6)$$

With

$LLPD_{it}$: Discretionary loan loss provisions of bank i in year t;

$INDCA_{it}$: Percentage of independence of audit committee members of bank i in year t;

$EXPER_{it}$: Percentage of accounting and/or financial experts in the audit committee of bank i in year t;

$REUN_{it}$: The number of meetings per year held by the audit committee of bank i in year t;

$TAICA_{it}$: The number of members in the audit committee of bank i in year t;

ROA_{it}: Return on assets of bank i in year t;

$LASSET_{it}$: Size of bank i in year t;

BIG_{it}: The external auditor belongs to the Big 4 group of bank i in year t;

AGE_{it}: Age of bank i in year t;

ε_{it}: Error term.

4. THE RESULTS

4.1. Descriptive Statistics

The results, reported in Table 1, show that, on average, the studied Tunisian commercial banks' allocations to total provisions represent 2.7% of total loans with a maximum of 15.98%. These results slightly replicate those of Taktak and Elleuch (2010) on a sample of 10 Tunisian banks (an average of 2.36%) and those of Quttainah et al. (2013) who found lower total provision in their sample. This finding is similar to that found by Ozili (2015) on a sample of Nigerian banks in the post-IFRS period (2009–2013) where the average provisions for loan losses is 2% and the maximum is 16.8%. However, this result is somewhat different from that of Cornett et al. (2009) on a sample of 593 US banks where average provisions to total provisions is 0.52% with a maximum of 4.67%. Standard deviation of provisions to total loans is 2.68%, indicating similarity in LLP practices between banks in our sample.

Moreover, the results show that, on average, non-performing loans (NPL) represent 17.32% of total loans with a maximum of 64.60%. This indicates that Tunisian commercial banks display a relatively high rate of classified receivables, a fact that increasingly indicates the usefulness of the audit committee. This result is relatively close to that of Olson and Zoubi (2014) on GCC banks[2], who also found fairly high loss rates, with an average of 7.5 % and a maximum value of 51.78%. The standard deviation of NPL to total loans is 14.97%, pointing to a small variation around the mean.

2 The GCC consists of 6 States: Saudi Arabia, Oman, Kuwait, Bahrain, United Arab Emirates and Qatar.

Table 1: Descriptive statistics of the first model

Variable	LLP	NPL	ΔNPL	ΔLOAN
Mean	0.027186	0.1732123	0.013004	0.0921152
Min	0.0000167	0.0000802	−0.1154509	0.0270438
Max	0.1598903	0.6460603	0.1766946	0.3066719
Standard deviation	0.0268898	0.1497344	0.0438628	0.0600232
Observation	140	140	140	140

LLP: Loan loss provisions, NPL: Opening balance of non-performing loans divided total loans, ΔNPL: Change in non-performing loans divided by total loans, ΔLOAN: Change in loans divided by total loans

As for the change in NPL, the results show that, on average, the Tunisian commercial banks register a change of 1.3% with a maximum of 17.66%. It also seems that this change is positive and consequently it follows an upward trend from one year to another. This last finding only reinforces the idea that establishing an audit committee in Tunisian banks is a necessary move. This result is in line with that of Fernando and Ekanayake (2015)[3] who found an average change in NPL of 0.68% in their sample of small private banks in Sri Lanka. The standard deviation of the change in NPL is 4.38% indicating a rather low dispersion of this variable in our sample.

Finally, as for change in loans, the descriptive statistics point to the important role that commercial banks could play in financing the Tunisian economy, which is a debt-based economy. Indeed, the results indicate that loans increase, on average, by 9.21% with a maximum of 30.66%. This finding, replicating that of Fernando and Ekanayake (2015) on the Sri Lanka banking market, may indicate that the risk of earnings management is real.

Table 2 reports the descriptive statistics of the variables used to examine the effect of audit committee's characteristics on earnings management over the 2001 to 2014 period. The results show that average discretionary provisions is −6.96e-12, with a maximum of 13.01% and a minimum of −3.29%. The results of the descriptive statistics on the independence of the audit committee vary between 0 and 1 with an average of 54.47%. These results, similar to those of Atılgan and Güneş (2016), led us to conclude that the Tunisian banks in our sample tend to follow the good governance practice guide recommending that at least one of the members of the audit committee be independent, and if necessary, the leadership of this committee could be entrusted to an independent director.

Moreover, the results of the descriptive analysis on the expertise of the audit committee show that, on average, the audit committees in our sample consist of 37.08% financial or accounting experts. This is in line with the legal provisions in Tunisia (2011)[4] which require that at least the chairman of the audit committee should have a qualification and expertise in the financial and accounting field and that the structure of the committee should match the qualifications of its members to the required powers. This result is relatively close to that of Badolato et al. (2014), who found an average expertise of the audit committee in their sample of 57%.

As for audit committee size as measured by the logarithm of the total number of directors in the committee, the results show that it varies between 0.69 and 2.07, with an average of 1.46. Thus, it seems that Tunisian banks slightly follow the recommendations on the good governance practices guide which stipulates that the audit committee should consist of a minimum of three directors. This result is similar to that of Salloum et al. (2014) who (measuring committee size by the number of its members) found that on average, Lebanese banks include 4 members on their audit committees (between 2009 and 2011). This finding also corroborates that of Atılgan and Güneş (2016), who found that the average audit committee size of banks in Turkey is 2.28 and that of UK banks is 4.46 during the 2006–2010 period.

As for the number of audit committee meetings, the descriptive statistics show that the average number of audit committee meetings of Tunisian commercial banks is almost 4 (3.98) times per year, with a minimum of 2 and a maximum of 7 meetings per year. This result falls somewhat short of the legal requirements. Indeed, according to the circular of the law no 2011–06 on credit institutions, audit committees should meet at least six times a year and whenever their chairmen deems it useful.

4.2. The Results and their Discussion

To test the two regression models, we use the "panel corrected standard errors" method of Beck and Katz (1995). This method is preferred to the generalized least squares (GLS) method, because it overcomes heteroskedasticity and autocorrelation problems and thus yields more robust and reliable results (Beck and Katz, 1995).

The results of the first model by the GLS (panel corrected) method are presented in Table 3.

The regression results show that non-performing loans (NPL) and change in loans (ΔLOAN) have positive and significant effects on the banks' total provisions. This latter finding, in line with that of Kanagaretnam (2004), indicates that LLP increase as NPL and change in loans increase. Accordingly, the intermediary practices in the Maxulla stock exchange indicate that starting from 2003, provisioning Tunisian banks has steadily increased. This can be explained by the desire of the Tunisian banking system to upgrade itself to better prepare for the imminent entry of foreign institutions in 2008.

The results of the second model by the GLS (panel corrected) method are presented in Table 4.

Contrary to our first hypothesis, the results of this regression point to a positive and a significant relationship between independence of audit committee members and discretionary provisions. This result suggests that independent audit committee members are not enough or even efficient in controlling disclosure quality. On the contrary, their presence makes it possible to increase earnings management.

This positive effect of independent audit committee members on earnings management of Tunisian banks can be explained by management discretion theory, which assumes that managers have such an excessive power over firm resources so that in some cases

3 Average change in loans reaches 8.37%.

4 Circular no 2011–06 to credit institutions.

Table 2: Descriptive statistics of variables representing the audit committee

Variable	Mean	Min	Max	Standard deviation	Observation
LLPD	−6.96e-12	−0.0329875	0.1301552	0.0257245	116
INDCA	0.544741	0	1	0.38278717	116
EXPER	0.370833	0	0.8	0.32830170	116
TAICA	1.462373	0.693147	2.079442	0.3412908	116
NREU	3.9827586	2	7	1.27164911	116

LLPD: Discretionary loan loss provisions; INDCA: Audit committee independence, EXPER: Audit committee expertise, TAICA: Audit committee size, NREU: Number of audit committee meetings

Table 3: Results of the regression of the first model

Variable	Coefficient	Std. Err	z	P>|z	[95% Conf. interval]	
NPL	0.0396327	0.0146796	2.70	0.007***	0.0108611	0.0684043
ΔNPL	0.050814	0.0501121	1.01	0.311	−0.0474039	0.149032
ΔLOAN	0.0711009	0.0362552	0.050	0.050**	0.000042	0.1421597
Constant	0.0131109	0.0047612	2.75	0.006	0.0037792	0.0224426

NPL: Opening balance of non-performing loans divided by total loans, ΔNPL: Change in non-performing loans divided by total loans, ΔLOAN: Change in loans divided by total loans.***Significant at 1%, **Significant at 5% and *Significant at 10%

Table 4: Multiple regression of the effect of audit committee characteristics on earning management

Variable	Coefficient	Std. Err.	z	P>|z|	[95% Conf. Interval]	
INDCA	0.0191152	0.0065236	2.93	0.003***	0.0063291	0.0319013
EXPER	−0.0153956	0.0078879	−1.95	0.051*	−0.0308557	0.0000644
TAICA	0.0022652	0.0066811	0.34	0.735	−0.0108295	0.0153599
NREU	0.0023647	0.0017199	1.37	0.169	−0.0010063	0.0057357
ROA	−0.3310189	0.173532	−1.91	0.056*	−0.6711354	0.0090977
LASSET	−0.0272084	0.0038804	−7.01	0.000***	−0.0348139	−0.019603
BIG	−0.0074989	0.0048536	−1.55	0.122	−0.0170117	0.0020139
AGE	−0.0158348	0.0066064	−2.40	0.017**	−0.028783	−0.0028865
Constant	0.4567044	0.059121	7.72	0.000	0.3408294	0.5725793

INDCA: Audit committee independence, EXPER: Audit committee expertise, TAICA: Audit committee size, NREU: Number of audit committee meetings, ROA: Return on assets, LASSET: Bank size, BIG: External auditor belongs to the Big 4, AGE: Bank age. ***Significance at 1%, **Significance at 5% and *significance at 10%

they could undermine the control executed by the independent audit committee members. The latter result can be taken under the "strategic alignment" hypothesis, which assumes that independent members could cooperate and collaborate with managers in order to secure mutual benefits for both parties (managers and members). In summary, like in Brickley et al. (1997), Piot and Janin (2007) and Baccouche et al. (2013), our results challenge both the predictions of agency and Stewardship theories[5]. Indeed, it seems that the presence of independent audit committee members is not considered useful to solve earnings management problem. This latter finding was also validated by Klein (2002) and Habbash (2011). However, our results differ from those of Vafeas (2000, 2005), Anderson et al. (2004), Carcello et al. (2006), Liu et al. (2011), Woidtke and Yeh (2013) and Ntim and Soobaroyen (2013), who argued that audit committee independence is a good governance mechanism that reduces earnings management.

As for the audit committee expertise, the results of our regression show a significant and a negative effect of audit committee expertise of Tunisian banks on discretionary provisions. Indeed, compliance with the requirement of including expertise in the audit committees of Tunisian banks (37% on average) proved to be an effective means of limiting managers' discretionary practices. These results confirm our second hypothesis, and agree with those of Vafeas (2005), Carcello et al. (2006), Qin (2007) and Ittonen et al. (2015), who found that the presence of expert members correlates with lower discretionary provisions. These results are also in line with those of Badolato et al. (2014) who found that expertise of the audit committee correlates with lower managerial discretion. However, this finding contradicts that of Lin et al. (2006), Liu et al. (2011) and Abernathy et al. (2013) who rejected this relationship and the role of audit committee expertise in reducing accounting manipulation.

Referring to the regression results of our second model, audit committee practices do not have a significant effect on discretionary provisions. This leads us to conclude that the number of audit committee meetings of Tunisian banks, which is below the recommendations of the Good Governance Practices Guide (a minimum of 6 meetings per year), is not an effective means to control and limit discretionary provisions. These results, which are similar to Bédard et al. (2004), Lin et al. (2006) and Moses (2016), indicate that audit committee practices as measured by the number of its meetings do not contribute to reducing the discretionary behavior of Tunisian managers. Indeed, if the number of meetings is low, the audit committee cannot complete its mission successfully (Menon and Williams, 1994).

As for audit committee size, our results indicate that discretionary provisions are less sensitive to audit committee size. Indeed, it seems that "TAICA" has a non-significant effect on discretionary

5 According to this theory, the manager is not opportunistic by default and looks for the good of the firm.

provisions. These results, which lead us to reject our fourth hypothesis, seem to indicate that audit committee size of banks does not affect managers' discretionary behavior. Like Chtourou and Ben Hassine (2006), we may explain these results by the fact that Tunisian banks in general are characterized by a weak control culture and that the audit committees of these banks are not powerful tools. Our results are also similar, to those of Felo et al. (2003) and Xie et al. (2003), who argue for no relationship between audit committee size and financial accruals. However, our results reject those of Anderson and al. (2004), and Al Najjar and Hussainey (2011) who argued for the efficiency of audit committee size in auditing financial statements and subsequently in reducing earnings management.

This result can be explained by agency theory. Indeed, the proponents of agency theory defend the idea that dominance of managers is all the more favored by increasing board and audit committee size. In fact, the management perspective suggests that, in order to push through their proposals, these managers work towards reducing audit committee involvement by increasing its size. A large size can trigger conflicts and coalitions that reduce the involvement of decision-makers and increase managers' margin to maneuver. A large size also favors the manipulation of evaluations issued by administrators (Mintzberg, 1983). According to Davidson et al. (2005), small committees oversee better than larger committees. Indeed, audit committees with a few members tend to be more participative than larger ones. Pincus et al. (1989) also believe that large audit committees lose their focus and become less participative than smaller ones. This finding is in line with that of Hamdan et al. (2013) who showed that audit committee size negatively relates to earnings quality.

In addition to agency theory, decision-making theory seems to explain the positive relationship between audit committee size and earnings management. This theory indicates that board or committee size may slow down the decision-making process, thus giving an additional discretion to managers who may manage earnings in a desired direction. Other things being equal, the decision-making process would be more effective with a small committee size.

Table 4 shows that accounting performance has a significant and a negative effect on discretionary provisions. These results are consistent with those of Cohen et al. (2002) and Kothari et al. (2005) showed that earnings management is more frequent in underperforming firms. As for external audit quality measured by belonging to one of the BIG 4 firms, it shows a negative but a non-significant effect on discretionary provisions of Tunisian banks. This indicates that Tunisian banks' use of BIG4 external auditors did not result in disciplining discretionary practices, particularly provisions. This governance mechanism is still shy about its role in controlling managers' opportunistic behavior and limiting earnings management. The findings are similar to those of Wright et al. (2006) who found that external auditors cannot limit managers' self-oriented behavior. In the United States, earnings management is more aggressive as auditors are appointed by the board of directors, while British auditors are appointed directly by shareholders. However, these results differ from those of Chen et al. (2011), Francis et al. (2013) and Taktak and Mbarki (2014), among others.

Finally, the regression results indicate that bank age has a negative and a significant effect on discretionary provisions. Like in Clarkson (2000) and Clarkson et al. (2003), this suggests that experience helps to discipline managers' discretionary behavior.

5. CONCLUSION

This paper examined the effect of audit committee characteristics (independence, expertise, meetings and size) on earnings management of Tunisian banks. Our results indicate that expertise of the audit committee's members has an important effect on discretion. However, the frequency of audit committee meetings, which is below the standards required by regulatory authorities, does not have a disciplinary effect on discretionary practices. Similarly, committee size, although it complies with the standards required by law, did not play a significant role, thus raising the question about the control culture of Tunisian banks, which is by nature poor, and highlighting the weakness of this mechanism. As for the independence of audit committee members, although it is on average close to 54% in our sample, it is a source of inefficiency because it has a positive and a significant effect on earnings management.

REFERENCES

Abbott, L.J., Parker, S., Peters, G.F. (2004), Audit committee characteristics and restatements. Auditing: A Journal of Practice and Theory, 23(1), 69-87.

Abernathy, J.L., Beyer, B., Masli, A., Stefaniak, C.M. (2015), How the source of audit committee accounting expertise influences financial reporting timeliness. Current Issues in Auditing, 9(1), 1-9.

Abernathy, J.L., Herrmann, D., Kang, T., Krishnan, G.V. (2013), Audit committee financial expertise and properties of analyst earnings forecasts. Advances in Accounting, 29(1), 1-11.

Agrawal, A., Chadha, S. (2005), Corporate governance and accounting scandals. Journal of Law and Economics, 48(2), 371-406.

Anderson, R.C., Mansi, S.A., Reeb, D.M. (2004), Board characteristics, accounting reportintegrity and the cost of debt. Journal of Accounting and Economics, 37, 315-342.

Al-Najjar, B., Hussainey, K. (2011), Future-oriented narrative reporting: Determinants and use. Journal of Applied Accounting Research, 12(2), 123-138.

Atılgan, M.S., Güneş, N. (2016), Comparison of the effectiveness of audit committees in the UK and Turkish banks. International Journal of Financial Research, 7(2), 18-29.

Baccouche, S., Hadriche, M., Omri, A. (2013), The impact of audit committee multiple-directorships on earning management: Evidence from France. The Journal Applied Business Research, 29(5), 1333-1342.

Badolato, P., Donelson, D.C., Ege, M. (2014), Audit committee financial expertise and earnings management: The role of status. Journal of Accounting and Economics, Forthcoming, 58, 208-230.

Bédard, J., Chtourou, S.M., Courteau, L. (2004), The effect of audit committee expertise, independance, and activity on aggressive earnings management. Auditing: A Journal of Practice and Theory, 23(2), 13-35.

Beck, N., Katz, J. (1995). What to do (and not to do) with time-series

cross-section data. American Political Science Review, 89(3), 634-647.
Ben Othman H., Mersni, H. (2016), The impact of corporate governance mechanisms on earnings management in Islamic banks in the Middle East region. Journal of Islamic Accounting and Business Research, 7(4), 318-348.
Ben Amar A. (2014), The effect of independence audit committee on earnings management: The case in French. International Journal of Academic Research in Accounting, Finance and Management Sciences, 4(1), 96-112.
Brickley, J.A., Coles, J.L., Jarrell, G. (1997), Leadership structure: Separating the CEO and chairman of the board. Journal of Corporate Finance, 3(3), 189-220.
Carcello, J.V., Hollingsworth, C.W., Neal, T.L. (2006), Audit committee financial experts: A closer examination using firm designations. Accounting Horizons, 20(4), 351-373.
Carcello, J.V., Neal, T.L., Palmrose, Z.V., Scholz, S. (2006), CEO Involvement in Selecting Board Members and Audit Committee Effectiveness. Available from: http://www.ssrn.com/abstract=887512.
Chtourou, M.S., Ben Hassine, S. (2006), Impact de la mise en places des comites d'audit dans les banques tunisiennes. Available from: https://www.halshs.archives-ouvertes.fr/halshs-00548104.
Chen, H., Chen, J.Z., Lobo, G.J., Wang, Y. (2011), Effects of audit quality on earnings management and cost of equity capital: Evidence from China. Contemporary Accounting Research, 28(3), 892-925.
Cohen, J., Krishnamoorthy, G., Wright, A. (2002), Corporate governance and the audit process. Contemporary Accounting Research, 19(4), 573-594.
Cornett, M.M., McNutt, J.J., Tehranian, H. (2009), Corporate governance and earnings management at large US bank holding companies. Journal of Corporate Finance, 15(4), 412-430.
Cornett, M.M., Marcus, A.J., Tehranian, H. (2008), Corporate governance and Pay-For-performance: The ımpact of earnings management. Journal of Financial Economics, 87(2), 357-373.
Clarkson P.M., Fergusona, C., HallaJ. 2003, Auditor conservatism and voluntary disclosure: Evidence from the Year 2000 systems issue, Accounting and Finance, 43, 21–40.
Clarkson P.M. (2000). Auditor quality and accuracy of management earnings forecasts. Contemporary Accounting Research, 17(4), 595-622. DOI: 10.1506/ QFPH-W3X9-PTRF-Y2G2.
Davidson, R., Goodwin-Stewart, J., Kent, P. (2005), Internal governance structures and earning management. Accounting and Finance, 45, 241-267.
Dhaliwal, D., Naiker, V., Navissi, F. (2010), The association between accruals quality and the characteristics of accounting experts and mix of expertise on audit committees. Contemporary Accounting Research, 27(3), 787-827.
Felo, A.J., Krishnamurthy, S., Solieri, S.A. (2003), Audit Committee Characteristics and the Perceived Quality of Financial Reporting: An Empirical Analysis. Working Paper. Pennsylvania State University, State University of New York at Binghamton and University of Scranton.
Fernando, W.D., Ekanayake, E.M. (2015), Do commercial banks use loan loss provisions to smooth their ıncome? Empirical evidence from Sri Lankan commercial banks. Journal of Finance, 3(1), 167-179.
Francis, J., Michas P., Yu, M. (2013), Office size of big 4 auditors and client restatements. Contemporary Accounting Research, 30, 1626-1661.
Ghosh, A., Marra, A., Moon, D. (2010), Corporate boards, Audit committees, and earnings management: Pre-and post-sox evidence. Journal of Business Finance and Accounting, 37(9), 1145-1176.
Habbash, M. (2011), The Role of Corporate Governance Regulations in Constraining Earnings Management Practice in Saudi Arabia. Working Paper.
Hamdan, A.M., Mushtaha, S.M.S., Al-Sartawi, A.A.M. (2013), The audit committee characteristics and earnings quality: Evidence from Jordan Australasian. Accounting, Business and Finance Journal, 7(4), 51-80.
Ittonen, K., Tronnes, P.C., Vähämaa, S. (2015), Do Former Auditors on the Audit Committee Constrain Earnings Management? Evidence from the Banking Industry. Working Paper.
Johnstone, K., Li, C., Rupley, K.H. (2011), Changes in corporate governance associated with the revelation of internal control material weaknesses and their subsequent remediation. Contemporary Accounting Research, 28(1), 331-383.
Kalbers, L., Fogarty, J.T. (1998), Organization and economic explanations of audit committee oversight. Journal of Managerial Issues, 10(2), 129-150.
Kanagaretnam, K. (2004), Earnings management to reduce earnings variability: Evidence from bank loan loss provisions. Review of Accounting and Finance, 3(1), 128-148.
Klein, A. (2002), Audit committee, board of director characteristics, and earnings management. Journal of Accounting and Economics, 35, 375-400.
Kim, H., Kwak, B., Lim, Y., Yu, J. (2015), Audit committee accounting expertise, CEO power, and audit pricing. Asia Pacific Journal of Accounting and Economics, 22(3-4), 421-439.
Kothari, S.P., Leone, A.J., Wasley, C.E. (2005), Performance matched discretionary accruals. Journal of Accounting and Economics, 39(1), 23-49.
Lin, J.W., Li, J.F, Yang, J.S. (2006), The effect of audit committee performance on earnings quality. Managerial Auditing Journal, 21(9), 921-933.
Liu, G., Sun, J., Lan, G. (2011), Does female directorship on independent audit committees constrain earnings management? Journal of Business Ethics, 99(3), 369-382.
Lin, J.W., Hwang, M.I. (2010), Audit quality, corporate governance, and earning management: A meta-analysis. International Journal of Auditing, 14(1), 57-77.
McMullen, D. (1996), Audit committee performance: An investigation of the consequences associated with audit committees. Auditing: A Journal of Practice and Theory, 15, 87-103.
McNichols, M., Wilson, P. (1988), Evidence of earnings management from the provision for bad debts. Journal of Accounting Research, 26 Suppl, 1-31.
Menon, K., Williams, J.D. (1994), The use of audit committees for monitoring. Journal of Accounting and Public Policy, 13(2), 121-139.
Mintzberg, H. (1983), Power in and Around Organization. The Theory of Management Series. Philippines, PA: Library of Congress Cataloging in Publication Data. p700.
Moses, T. (2016), Audit committee number of meetings and earnings management in quoted Nigerian banks. International Journal of Advanced Academic Research. Social and Management Sciences, 2(6), 14-23.
Ntim, C.G., Soobaroyen, T. (2013), Black economic empowerment disclosures by South African listed corporations: The influence of ownership and board characteristics. Journal of Business Ethics, 116(1), 121-138.
Olson, D., Zoubi, T.A. (2014), The determinants of loan loss and allowances for MENA banks: Simultaneous equation and three-stage approaches. Journal of Islamic Accounting and Business Research, 5(1), 98-120.
Ozili, P.K. (2015), Determinants of bank profitability and basel capital regulation: Empirical evidence from Nigeria. Research Journal of Finance and Accounting, 6(2), 124-131.
Piot, C., Kermiche, L. (2009), A Quoi Servent les Comites D'audit ? Un

Regard Sur la Recherche Empirique. Cahier de Recherche n2009-14 E2. p60. Available from: http://www.halshs-00537952.

Pincus, K., Rusbarsky, M., Wong, J.W. (1989), Voluntary formation of corporate audit committees among NASDAQ firms. Journal of Accounting and Public Policy, 8(4), 239-265.

Piot, C., Janin, R. (2007), External auditors, audit committees and earnings management in France. European Accounting Review, 16(2), 429-454.

Qin, B. (2007), The influence of audit committee financial expertise on earnings quality: US evidence. The ICFAI Journal of Audit Practice, 4(3), 7-28.

Quttainah, M.A., Song, L., Wu, Q. (2013), Do Islamic banks employ less earnings management? Journal of International Financial Management and Accounting, 24(3), 203-233.

Salloum, C., Azzi, G., Gebrayel, E. (2014), Audit committee and financial distress in the middle east context: Evidence of the lebanese financial ınstitutions. International Strategic Management Review, 2, 39-45.

Taktak, B.N., Elleuch, H.S. (2010), La Gestion des Résultats Dans les Banques Tunisiennes: Vers une Gestion Réelle. Strasbourg, France: La Place de la Dimension Européenne Dans la Comptabilité Contrôle Audit. p28.

Taktak, B.N., Mbarki, I. (2014), Board characteristics, external auditing quality and earnings management: Evidence from the Tunisian banks. Journal of Accounting in Emerging Economies, 4 (1), 79-96.

Vafeas, N. (2000), Board structure and the informativeness of earnings. Journal of Accounting and Public Policy, 19(2), 139-160.

Vafeas, N. (2005), Board meeting frequency and firm performance. Journal of Financial Economics, 53(1), 1093-1122.

Wirtz, P. (2005), Meilleures pratiques de gouvernance et création de valeur: Une appréciation critique des codes de bonne conduite. Comptabilité Contrôle Audit, 11, 141-159.

Woidtke, T., Yeh, Y.H. (2013), The role of the audit committee and the informativeness ofaccounting earnings in East Asia. Pacific Basin Finance Journal, 23, 1-24.

Wright, C.J., Shaw, J.R., Guan, L. (2006), Corporate governance and ınvestor protection: Earnings management in the UK and the US. Journal of International Accounting Research, 5(1), 25-40.

Xie, B., Davidson, W.N., Dadalt, P.J. (2003), Earnings management and corporate governance: therole of the board and the audit committee. Journal Corporate Finance, 9, 295-316.

Yang, J.S., Krishnan, J. (2005), Audit committees and quarterly earnings management. International Journal of Auditing, 9, 201-219.