KHALDOON AL DAOUD

Yarmouk University, Jordan

THE ROLE OF THE AUDIT COMMITTEE AND THE BOARD OF DIRECTOR IN MITIGATING THE PRACTICE OF EARNINGS MANAGEMENT: EVIDENCE FROM JORDAN

Abstract:

Recently, the audit committees and boards of directors have been considered to be corporate governance mechanisms that can play key roles in mitigating earnings management practices. This study’s purpose is to explore the impact of the board of directors (i.e., size, CEO duality, independence and financial expertise and knowledge) and the presence of an audit committee with earnings management practices in Jordanian firms. The study used the leverage ratio as a control variable. The sample covered industrial firms listed in the Amman Stock Exchange from the years 2014-2016. This study used multiple regression in determining if the board of directors and the audit committee affect earnings management practices. The study revealed that the presence of an audit committee negatively affected the earnings management practice in industrial Jordanian firms. This study suggested that characteristics of the board of directors, namely, independence and CEO duality, significantly influenced the practices of earnings management Furthermore, the findings indicate that separating the position of CEO and chairman along with more independent board members plays an increasingly important role in preventing earnings management practices by ensuring the effective monitoring of management. The study recommends extending such research to offer a more comprehensive awareness of earnings management in emerging capital markets using new variables of corporate governance.

Keywords:

Earnings management, board of director, audit committee and Jordan.