

The Role of Audit Committees in Improving Financial Performance (Case Study: Al Salam Bank in Algeria)

دور لجان التدقيق في تحسين الأداء المالي (دراسة حالة - بنك السلام في الجزائر)

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Abstract: This study aims to identify the role of audit committees in improving the financial performance of financial institutions. The study relied on field research to change the ratios of financial indicators, which are used to measure financial performance, especially after the Bank El-Salam institution committed to the recommendations provided to it by the audit committees present at the management level.

Keywords: Audit committees; supervision; financial institution; indicators; financial performance.

JEL Classification Codes : M42, D73, G21, C43, G32.

ملخص: تهدف هذه الدراسة إلى التعرف على دور لجان التدقيق في تحسين الأداء المالي للمؤسسات المالية، وقد تم الاعتماد في هذه الدراسة على الدراسة الميدانية لتغيير نسب المؤشرات المالية، والتي يتم الاعتماد عليها لقياس الأداء المالي خاصة بعد التزام مؤسسة بنك السلام بالتوصيات التي تقدمها لها لجان التدقيق الموجودة على مستوى الإدارة.

كلمات مفتاحية: لجان تدقيق، رقابة، مؤسسة مالية، مؤشرات، أداء مالي.

تصنيفات JEL: G32، C43، G21، D73، M42.

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Introduction:

The world has witnessed the liberalization of global markets, especially financial markets, which has resulted in the separation of ownership from management and the growth of economic institutions. All this has necessitated the use of all forms of control to protect capital and investors' interests. This has increased interest in establishing special committees for governance requirements, namely the Audit Committee, due to the support it provides to stakeholders in

terms of accounting disclosure and the quality of accounting information. This committee also helps management to efficiently and effectively carry out its legal responsibilities, as well as coordinate between internal control and external audit. To contribute to improving the financial performance of financial and economic institutions.

This prompted us to raise the following problematic:

What is the role of audit committees in evaluating financial performance in financial institutions in Algeria?

From this we ask the following questions:

- Where does the importance of audit committees lie in financial and economic institutions?
- How is financial performance evaluated?
- Have audit committees contributed to improving the financial performance of Bank Al Salam?

Study hypotheses:

- 1) Audit committees work to increase the effectiveness of internal control systems, including financial and administrative control and internal audit.
- 2) Financial performance is measured using financial indicators such as return on assets.
- 3) The effectiveness of the audit committee in improving the financial performance of Bank Al Salam.

Study objective:

This study aims to identify basic concepts about audit committees and their role in improving financial performance in Algerian financial institutions, due to the important role that banks play in society. The more reliable and valuable information there is, the more the economy will continue to grow at a healthy rate and continuous development, especially with the major changes in the Algerian economic system and its reforms.

Importance of study:

The importance of this study lies in its subject matter dealing with an important sector, namely the financial sector. It aims to identify the role of audit committees in improving financial performance and benefiting from them in activating and rationalizing control within economic and financial institutions, as well as setting achievable future goals as quickly as possible.

Previous Studies:

Many studies have been interested in audit committees in economic institutions, including:

1. Luohe et al study entitled: "Board Monitoring Audit Committee Effectiveness, and Financial

Reporting Quality: "Review and Synthesis of Empirical Evidence", 2008.

This study aimed to highlight the important role of governance tools in improving the various attributes of financial reporting quality in Canada on a sample of 50 companies. This study measured governance by examining components of some characteristics of the board of directors such as the independence of board members and examining components of characteristics of the audit committee such as: the independence of committee members and their financial expertise, linking these different components of the board of directors and audit committee to the quality of financial reporting by measuring the quality of financial reporting through three measures: earnings management - analysis of earnings content - misleading financial reporting. The study

data was analyzed using a multiple regression model and found that board independence is the most effective deterrent to reducing misleading financial reporting and that for the audit committee to be effective it must be active, experienced and fully independent.

2. Musa & Venancio study entitled: "Audit Committees and Voluntary External Auditor Involvement in UK Interim Reporting", 2008.

This study examined the relationship between audit committee characteristics in terms of committee size, number of meetings, financial expertise of its members, and independence they enjoy and the percentage of shares owned by audit committee members, and the decision to appoint an external auditor to review interim reports.

The study sample consisted of 258 British companies listed on the UK stock market that published their interim reports between 2001 and 2003. The study data was analyzed using a multiple regression model and found that the likelihood of appointing an external auditor to review interim reports increases with the availability of independence and financial expertise for audit committee members, and this probability decreases when audit committee members have ownership in company shares.

3. Raafat Khalaf Abdel Fattah Al-Abd study entitled "The Role of Audit Committees in Reducing Earnings Management Practices in the Context of Corporate Governance by Applying to the Public Shareholding Electricity Distribution Company in the Hashemite Kingdom of Jordan 2012.

This study aimed to measure the role of audit committees in reducing earnings management practices by applying to Jordanian public shareholding companies, where the study tested some factors affecting restricting these companies from practicing earnings management. The study found that companies practice earnings management through positive discretionary accruals, and there is a positive effect of the size, independence and number of board meetings on reducing earnings management practices. There is no effect of the number of audit committee meetings, its size and the independence of its members in reducing earnings management practices. The study came out with a number of recommendations, most notably the need to impose penalties on company administrations that are proven to practice earnings management to mislead users of financial reports, provided that these penalties are commensurate with the size of the damage left behind.

4. Alaa Hassan Karim Al-Shar'a's study entitled "The Role of Audit Committees in Reducing Earnings Management Practices and Its Impact on the Quality of Published Financial Reports for Iraqi Public Shareholding Companies - An Applied Study on a Sample of Insurance Companies Listed on the Iraq Stock Exchange 2017".

This study aimed to identify the role of audit committees in reducing earnings management practices and their impact on the quality of financial reports. To achieve the objectives of the study, a questionnaire was designed and distributed to internal auditors and accountants working in Iraqi public insurance companies. The study reached a set of results including that preparing reports by audit committees periodically represents support for audit committees in order to raise the level of quality of financial reports and increase users' confidence in these reports. The existence of audit committees in Iraqi insurance companies increases confidence, credibility and transparency of financial report information, thus increasing their quality level. The study reached a set of recommendations, most notably the need for audit committees to follow appropriate procedures to evaluate internal control systems in sample companies and change audit committees periodically from time to time to ensure their neutrality and independence, and that the annual report should include a statement about the responsibilities of audit committees and their number Meetings as well as evaluating their achievements.

5. Islam & Saleh's study "The Impact of Board Characteristics on Financial Performance 2020":

The study aimed to test the impact of board characteristics represented by gender diversity on the board, board size, board meetings, financial knowledge of board members on financial performance (return on equity) by applying it to 150 non-financial companies listed on Palestine Stock Exchange during 2011 until 2016. The study found that as board size increases, company performance improves, in addition to a positive relationship between both board meetings and knowledge.

Research Methodology:

The research relied on surveys, researches and articles in the field of analyzing the role of audit committees in improving financial performance in Algerian economic institutions.

Research Structure:

The study was divided into three axes. First, we touched upon: concept of audit committees, role of audit committees in economic institutions, how to measure financial performance, impact of audit committees on improving financial performance at Bank Al Salam.

1. Concept and role of audit committees:

The concept of audit committees is a modern concept that has attracted the attention of many countries, and many professional organizations recommend their formation due to the role they play in monitoring the process of preparing financial reports and disclosures for shareholders and ensuring their credibility, as well as supporting the independence of the audit process.

Definition of an Audit Committee:

It is "a committee emanating from the board of directors of an economic institution and its membership is limited only to non-executive members who have experience in accounting, auditing and auditing. It is responsible for supervising the process of preparing financial statements, auditing accounting principles and policies, reviewing internal and external audit functions, and ensuring compliance with corporate governance rules (Jafar Othman, 2021).

The Canadian Institute of Chartered Accountants 1992 defined an audit committee as "a committee composed of company directors whose responsibilities are focused on reviewing annual financial statements before submitting them to the board of directors. Its activities include reviewing the nomination of the external auditor, the scope and results of the audit, as well as internal control of the institution and all financial information prepared for publication" (Awad Bin Salama, 2008).

While Chris Mallin defined an audit committee as "a committee composed of non-executive directors responsible for evaluating board performance, ensuring that executive decisions are not made individually, conducting periodic evaluations of internal control systems, and contributing to defining tasks and responsibilities for both internal and external auditing" (Rasha , 2010).

It was also defined as "a number of people selected from among the members of the company's board of directors who are responsible for maintaining the independence of the external auditor from management. It consists of five to seven members from non-executive members of the board of directors" (Jafar Othman, 2021).

From the above, it can be concluded that all definitions of an audit committee share the following elements:

- Providing confidence to users of financial data and creating an impression that company activities are monitored at the board level through an audit committee.
- Ensuring the integrity of published financial statements and transparency in disclosing information that is important to various stakeholders.
- Ensuring that financial operations and individual actions comply with applicable laws and regulations.
- Integrating audit activities and internal and external assurances with adopted control systems.

1.2 Importance of Audit Committees:

The importance of audit committees is reflected in the expected benefits for stakeholders such as the board of directors, internal auditor and external auditor as well as external parties as follows:

- For the Board: The Audit Committee assists executive board members in carrying out their tasks and responsibilities, particularly with regard to accounting and auditing.
- For External Auditor: The Audit Committee plays a major role in supporting the independence of external auditors in terms of their appointment and determination of their fees, and resolving problems that arise between them and management.
- For Internal Auditing: The Audit Committee selects a head or director for internal auditing department, provides necessary resources for department, resolves problems between internal auditing department and management.
- For External Parties: Establishing an audit committee increases transparency and reliability in accounting transactions and reports issued by institution.

1.3 Objectives of Audit Committees:

The objectives of audit committees are as follows (Jafar Othman, 2021):

- Supporting credibility of annual financial statements reviewed and audited to ensure disclosure and comprehensiveness.
- Providing effective communication channel between management and external auditor, between management and external (non-executive) members on board. Supporting independence of internal auditors. Increasing effectiveness of external audit.
- Increasing reliability and transparency in transactions and accounting reports issued by institutions to external parties.
- Ensuring consistency in information available to board members.
- Ensuring compliance with proper legal business practices. Ensuring all transactions comply with business ethics.

1-4- Characteristics of the Audit Committee: The audit committee is characterized by the following characteristics:

- a. Independence:** The standard of independence from executive management is one of the most important standards on which most regulations governing the work of the audit committee are based. This standard represents one of the most important conditions for selecting members of the audit committee. It is necessary for members of the audit committee to be independent both apparently and actually from the management of the institution so that it does not appear

to the board of directors that there is a direct or indirect relationship between members of the committee and executive directors of the institution (Iyad Saeed, 2012).

A study by Klein (2002) found that independence of audit committees reduces likelihood of management manipulating profits. Studies have also shown a positive relationship between audit committees and audit fees, indicating that independence of audit committee leads to better quality financial reporting. In addition, a study by (Ali, Ahmed, & Henry, 2009) found that institutions with independent audit committees have better corporate governance (Abu Al-Hijaa & Ahmed Faisal, 2012). The first recommendation in BRC-1999 report defined this independence as follows (Iyad Saeed, 2012):

- A member of the audit committee should not be an employee of the institution or any of its affiliates;
- The member should not receive any financial reward from the institution or any of its affiliates other than rewards received for service on board of directors;
- None of his relatives should be an executive employee within institution or any its affiliates;
- The member should not be an executive director in one institutions that have business relationships with institution or any its affiliates;
- It is not permissible for someone who works as a consultant in an institution to be a member of its audit committee.

b. Qualifications and experience of audit committee members: The complexity of current financial instruments, complexity capital structures institutions emergence new industries trend towards international accounting standards financial reporting standards all explain importance having qualified audit committee members appropriate scientific qualifications sufficient practical experience. In this regard Dezoort et al (2003) suggest that experience audit committee members important helping them deal external auditors adding that audit committee members especially those necessary professional certificates understand responsibilities duties auditor more than their peers (Abu Al-Hijaa & Ahmed Faisal, 2012).

Mohammed Abdullah believes that all boards directors institutions should determine set qualifications competencies must available committee members such having experience accounting financial auditing affairs experience legal affairs institution having high degree understanding institution's business field. Availability experience audit committee members necessary because many accounting legal problems depend personal judgment its members (Mohammad Abdullah, 2010).

c. Size Audit Committee its Meetings: Number audit committee members depends size board directors size institution necessary determine number audit committee members so this number sufficient achieve mix expertise capabilities balance between size nature tasks performed committee members vary from one institution another care taken not increase number committee members way may prevent decisions being made quickly effectively not decrease number committee members way limits committee's ability perform its work efficiently effectively optimal number audit committee members ranges from three five members also should include least three independent non-executive members (Smith, 2003).

(Ismail, Alias, & Sulaiman, 2008) believe that audit committee meetings are an important tool for verifying that committee members are completing their assigned tasks towards institution.

(Bedard, Chtourou, & Courteau, 2004) believe that audit committees should efficiently carry out their tasks by increasing frequency meetings in order maintain supervisory function.

d. Evaluation of the Audit Committee's Work and Compensation of its Members: It is recommended to conduct a formal evaluation process to assess the effectiveness of the committee's performance on a regular basis. However, additional evaluations can be conducted as needed throughout the year. These evaluations include: (Egyptian Directors Center, 2001)

- Evaluating the effectiveness of the committee's performance and assessing the members and chairman of the committee. It is important to appropriately reward the members of the audit committee for the services they provide.

In most exchange-listed institutions, the responsibility of proposing the amount of compensation lies with the Remuneration Committee, which is affiliated with the Board of Directors. The proposed compensation amount is presented to the General Assembly for approval. While the compensation should reflect the members' commitment to allocating the necessary time and accepting their responsibilities in order to attract competent individuals to fulfill these tasks, it should not be excessive to avoid any conflicts or considering committee membership as a source of income.

1.The role of the Audit Committee in economic institutions: The audit committee is considered one of the sub-committees emanating from the board of directors, and it is one of the most important committees that assist the board of directors in its supervisory and oversight tasks regarding financial disclosure, internal control systems, auditing activities, and ensuring the conformity of the institution's operations with laws and regulations (Hussein Ahmed, 2008). Therefore, we study the relationship between the audit committee and various internal and external mechanisms of corporate governance in the context of the tasks of the audit committee within corporate governance as follows:

2.1 The role of the audit committee in supporting internal auditing: The interest in internal auditing as a control function extends to both the financial and operational aspects of the entire institution. Internal auditing has become a tool to serve the institution as a whole, not just its management. The activities of internal auditing, as stated in International Auditing Standard No. 610, include the following points: (Hussein Ahmed, 2008).

- Reviewing the accounting system and internal control system, as setting appropriate accounting and internal control systems is part of management responsibilities. Usually, internal auditing is assigned specific responsibilities by management to review and monitor the implementation of these systems and provide necessary suggestions for their development.

- Testing financial and operational information.

- Examining the economic feasibility, efficiency, and effectiveness of operations, including the non-financial controls of the institution.

- Verifying compliance with laws, regulations, and other external requirements, as well as compliance with policies, administrative orders, and other internal requirements. The summary of the tasks of the audit committee regarding internal auditing includes the following points (Iyad Saeed, 2012):

- Evaluating the effectiveness and quality of internal auditing as part of internal control and ensuring that it is conducted in accordance with professional performance standards.

- Monitoring regulations and systems related to the tasks of internal auditing and approving them.
- Reviewing the strategy and annual plan of internal auditing and approving them.
- Enhancing the independence of internal auditing through:
 - Appointing and isolating the internal audit manager and ensuring that they have sufficient resources to carry out their operations.
 - Granting the internal audit manager, the freedom to communicate directly with the audit committee to discuss any important matters.
 - Ensuring that there are no restrictions on internal auditors when performing their duties.
 - Participating in the appointment, promotion, and change of the audit team.
- Reviewing the results of internal auditing, especially those that have a significant impact on the institution, such as illegal actions and weaknesses in internal control, as well as compliance with applicable laws.
- Examining the professional level and efficiency of internal auditors in carrying out their responsibilities. Information can be obtained from external auditors regarding this matter.
- The audit committee contributes to the preparation of the internal auditing program in coordination with the auditor and monitors the tasks of the internal auditor through various reports sent by the auditor to the committee. It serves as a control tool for the benefit of the board of directors, represented by the audit committee.

2.2 Importance of the Audit Committee for the External Auditor: The audit committee is responsible for recommending the appointment of the external auditor, recommending their selection and determining their fees. It also oversees the external auditor's work and approves other professional services provided by them to the organization. The audit committee limits the management's influence and pressure on the external auditor, strengthens their independence, ensures their objectivity and efficiency, and reviews the audit plan with them, providing comments. It also studies the external auditor's observations on the financial statements and monitors actions taken regarding them, as the audit committee acts as a link between the external auditor and the board of directors (Eid bin Hamed, 2010)). According to Smith's report, the committee responsible for supervising the organization's relationship with the external auditor is the audit committee, and its responsibilities are summarized in the following points (Adel Khalil Ali, 2010):

- The audit committee is responsible for nominating the appointment, reappointment, or removal of the external auditor for the board of directors, and the board submits recommendations to the shareholders' general assembly for approval.
- The audit committee assesses the qualifications and experience of the external auditor and evaluates the effectiveness of the audit at the end of each audit cycle. It reviews the external auditor's independence annually.
- It investigates the reasons for the auditor's resignation and considers any actions that can be taken regarding it.
- The committee approves the terms of engagement and determines the fees for the auditor, ensuring their appropriateness in relation to the conducted audit activities.

- It reviews the results of the audit work with the external auditor, discussing resolved and outstanding issues.
- It reviews the error levels and management's response to the external auditor's observations and suggestions, seeking explanations from both the auditor and management in the case of unresolved specific errors.
- It reviews the representation letter before signing it by the management and the management's letter sent by the auditor to the board of directors.
- It evaluates the effectiveness of the external audit work at the end of each audit cycle, ensuring that the auditor has implemented the planned audit procedures, reviews significant accounting estimates with the auditor, assesses their satisfaction with these estimates, and seeks their responses to the audit committee's questions.

2.3 Tasks of the Audit Committee related to Internal Control:

Given the importance of internal control in organizations, the board of directors often delegates the responsibility of examining and evaluating internal control to the audit committee. Therefore, one of the audit committee's tasks is to confirm that the management has designed and implemented an efficient internal control system. Some consider this as one of the most important responsibilities of the audit committee. In 1992, the Committee of Sponsoring Organizations (COSO) issued a report emphasizing the role that the audit committee can play in preventing fraudulent financial reporting, as it is a significant factor in the control environment. According to the second standard issued in 2004 by the Public Company Accounting Oversight Board (PCAOB) in the United States, the audit committee in the audited entity must approve the external auditor's performance to provide assurance on management's assertions regarding the effectiveness of the internal control structure, to ensure their independence is not compromised (Rasha , 2010).

One of the most important responsibilities of the Audit Committee is to examine the internal control system, as recommended by the Tredway Committee, due to its ability to provide reasonable assurance regarding the absence of financial statement distortions. This is achieved through its supervisory role in examining and evaluating the internal control system procedures (Hussein Ahmed, 2008). The key activities carried out by audit committees regarding internal control include the following tasks (Rasha , 2010):

- Evaluating and discussing the adequacy of the internal control system with the management of the organization, internal auditors, and external auditors, as it affects the quality of financial reports.
- Studying and discussing management's plans to address significant weaknesses and corrective action plans.
- Discussing compliance with laws and regulations with the management, internal auditors, and external auditors, and contacting the legal advisor of the organization if necessary.
- Examining and reviewing reports related to the development of work procedures, accounting and financial systems, administrative procedures, internal audit procedures, and proposing necessary amendments.
- Working to support the effectiveness of the internal control structure.

2.4 Audit Committee Tasks related to Risk Management:

The Audit Committee assists the Board of Directors in managing risks within the organization, and it carries out this task in coordination with internal audit, which is assigned the responsibility of managing financial and non-financial risks within the organization under the supervision of the Audit Committee. The Audit Committee prepares a report to the Board, clarifying its responsibilities in identifying, evaluating, and managing risks. Among the tasks of the Audit Committee regarding its responsibilities in risk management (Rasha , 2010) are:

- Supervising risk management.
- Assisting management in designing a risk management strategy based on different types of risks.
- Assessing fraud risks at all levels of management.
- Contributing to understanding and mitigating uncertainty in investment opportunities, as well as understanding the relationship between overall risk management and financial reporting.
- Evaluating the adequacy of risk controls, including external risks.
- Ensuring the identification, assessment, and implementation of an appropriate system for managing all risks (Egyptian Directors Center, 2001).

2.5 Audit Committee Tasks related to Financial Reporting, Reporting, and Financial Supervision:

1. Improving the quality of reports and financial statements:

The concept of the quality of accounting information (financial reports) can be defined as the degree to which this information possesses credibility and usefulness to users. It should be free from distortions, misleading information, and prepared in accordance with legal, regulatory, professional, and technical standards that aid in achieving their purpose (Sameh Mohamed Reda, 2011). The Audit Committee plays a vital role in ensuring the quality of financial reports, establishing trust in accounting information, and reducing manipulation and illegal practices due to its supervision of internal and external auditing processes and resistance to management pressures and interventions in the audit process. Additionally, some studies have indicated that the mere announcement of the formation of an audit committee has had an impact on the stock movement of companies in the securities market. The study by Abbott, which examined the role of audit committees in increasing trust in information published in financial statements, found that companies with audit committees experienced a decrease in the occurrence of illegal financial transactions, along with an increase in the level of confidence in the information provided in the financial statements, especially for companies listed in the securities market (Sameh Mohamed Reda, 2011). Lindsell argues that audit committees can play a key role in achieving greater accountability by organizations and restoring confidence in financial reporting (Zaman, Stuar Turley, Mahbub, 2004). Dorothy's study concluded that there is a strong correlation between the existence of audit committees in organizations and the level of quality and reliability in financial reports and statements. Among the recommendations of the Blue Ribbon Committee, which emerged from the American stock exchange, was the improvement of the quality of financial reports and statements through full coordination between the external auditor and the audit committee. To enhance the role of the audit committee, Majdi believes that the formation of audit committees composed of members with financial expertise can contribute to the quality of financial reports and statements (Magdy , 2009).

Several tasks have been identified for the audit committee regarding financial statements, including:

- Reviewing periodic reports before presenting them to the Board of Directors and making recommendations, with a focus on considering any changes in accounting policies or changes in the organization's accounts as a result of auditing processes or proposals from auditors.
- Monitoring all issues raised by internal and external auditors to ensure their proper handling.
- Reviewing annual financial statements before presenting them to the Board of Directors and ensuring the provision of necessary information for users.
- Understanding the nature of revenues appearing in the income statement and evaluating them.

2. Financial Performance and Measurement Methods

Here we will try to understand the concept of financial performance, its importance, and the factors that influence financial performance.

2.1. Concept of Financial Performance:

- Financial performance represents the narrow concept of institutional performance, focusing on the use of financial indicators to measure the achievement of goals. Financial performance reflects the performance of institutions as it contributes to providing financial resources and supplying the institution with various investment opportunities in different performance areas, which help meet the interests and achieve their goals. (Shahada & Taher , 2000).

- Mohammed Mahmoud Al-Khatib defines financial performance as the narrow concept of institutional performance, focusing on the use of financial indicators to measure the achievement of goals. Financial performance reflects the performance of the institution as it is the main supporter of various activities practiced by the institution, and it contributes to providing financial resources and supplying them with different investment opportunities. (Mohammad , 2010).

- It is also defined as the diagnosis of the financial health of the institution to determine its ability to create value and face the future through reliance on the financial budget, income statement, and other financial statements. However, this is futile if the economic environment and the industrial sector to which the active institution belongs are not taken into account in the study. Therefore, diagnosing performance is done by examining the economic profitability of the institution and the rate of profit growth. (Dadan , 2007, p. 36)).

- Some define financial performance as the exploitation of the available financial resources of the institution in a way that enables it to achieve the objectives of the financial function. This depends on the financial policy pursued by the institution, which is clearly evident through: (Khalou , 2011):

- The composition of its financial budget of assets and liabilities and its ability to finance its investments.
- Its reliance on short-term debts and the turnover rate of the operating cycle, and its ability to meet its obligations.
- The amount of available liquidity it possesses. If it suffers from a deficit, this leads to an increase in its debts, resulting in a decrease in performance. However, if it has a surplus with the ability to exploit it better by employing it to achieve additional profit opportunities.

Financial performance also means highlighting and examining the following aspects through the simulation process (Dadan , 2007, p. 36):

- Factors influencing financial profitability.
- The impact of financial policies adopted by managers on the profitability of private funds.
- The extent to which the institution's growth rate contributes to the success of the financial policy and the achievement of profit surpluses.
- The coverage level of general expenses by the activity level.

Based on the above, financial performance can be defined as a motivational tool for making investment decisions, a means to address gaps, problems, and obstacles that arise in the institution's journey, and also a tool to motivate employees and management in the institution. Additionally, it serves as a mirror reflecting the financial position of the institution at a specific moment.

2.2. Importance of Financial Performance

The importance of financial performance lies in its goal of evaluating the performance of institutions from various perspectives in a way that serves data users who have financial interests in the institution. It aims to identify the strengths and weaknesses of the company and utilize the data provided by financial performance to streamline financial decisions for users. Its importance also becomes evident in monitoring the operations of institutions, examining their behavior, monitoring their conditions, evaluating their performance levels and effectiveness, and directing performance towards the right and desired direction. This is achieved by identifying obstacles, stating their reasons, proposing corrective measures, optimizing the general utilization of institutions and their investments, in line with the overall goals of the institutions, and contributing to making sound decisions for preservation, survival, and competitiveness.

2.3. Objectives of Financial Performance

Financial performance can achieve the following objectives for investors: (Waters, 2002, p. 17)

Investors can monitor and understand the activities and nature of the institution. It also helps in monitoring the surrounding economic and financial conditions, estimating the impact of financial performance indicators such as profitability, liquidity, activity, and solvency on the stock price.

It assists investors in conducting analysis, comparison, and interpretation of financial data and understanding the interaction between the data to make appropriate decisions regarding the institution's situation.

Therefore, the fundamental purpose of financial performance is to obtain information used for decision-making and selecting the best stock.

The steps for evaluating financial performance are as follows:

Before discussing the steps for evaluating performance, it is important to understand their purpose. Performance evaluation is the measurement of an institution's activities based on the results it has achieved at the end of the accounting period, which is typically a year. It also involves identifying the reasons that led to these results and proposing necessary solutions to overcome negative outcomes, aiming to achieve good performance in the future. Therefore, performance evaluation means a set of studies aimed at assessing the institution's ability and efficiency in managing its activities in various administrative, financial, production, technical, marketing, and planning aspects over a specified period of time. It evaluates its skill in transforming inputs or resources into desired outputs in terms of quality, quantity, and required standards. It also demonstrates its capabilities in developing its efficiency year after year,

overcoming the difficulties it faces, and innovating the most productive and advanced methods in its field of work. (Majid , 2020, pp. 47-48)

Financial performance is evaluated through the following steps:

- a. Obtain the set of annual financial statements and income statement, as financial performance evaluation involves preparing budgets, financial statements, and annual reports related to company performance during a specific period of time.
- b. Calculate various measures for performance evaluation such as profitability ratios, liquidity ratios, activity ratios, financial leverage ratios, and distributions. This is done by preparing and selecting financial tools to be used in the performance evaluation process.
- c. Study and evaluate the ratios. Extracting the results helps identify deviations, differences, and weaknesses in performance by comparing them with expected performance or comparing them with the performance of other institutions operating in the same sector.
- d. Provide appropriate recommendations based on the financial performance evaluation process, considering the ratios, after understanding the reasons behind these differences and their impact on economic institutions to deal with and address them.

In general, the importance of financial performance can be summarized in shedding light on the following aspects: evaluating the profitability, liquidity, activity, indebtedness, and development of the institution, as well as assessing the evolution of its distributions and size. (Mohammad , 2010, pp. 47-48)

3. Study on the Role of Audit Committees in Improving the Financial Performance of Al Salam Bank in Algeria:

In our study, we rely on the change in the return on assets (net profit/total assets) to evaluate financial performance. As for the audit committee, we consider the following factors: the number of independent members, financial and accounting expertise, and the number of annual meetings.

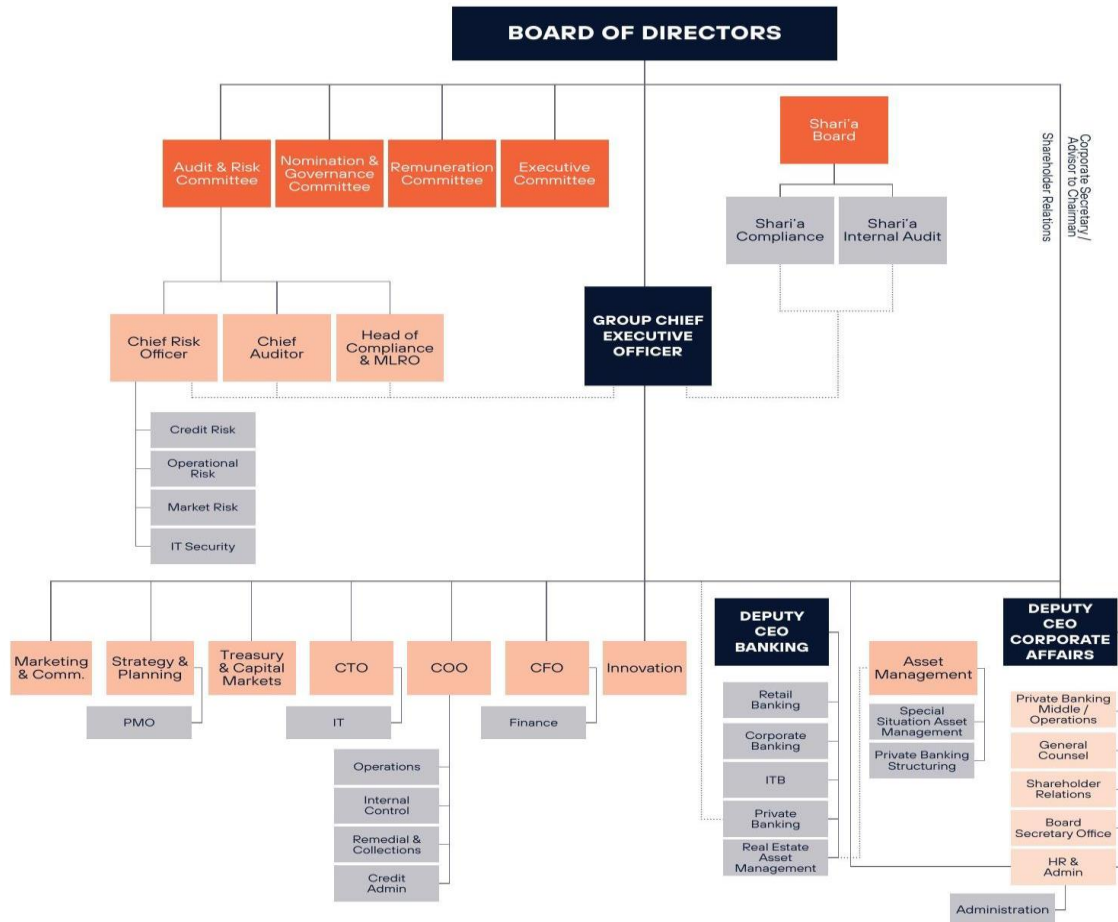
3.1. Overview of Al Salam Bank:

Al Salam Bank in Algeria is a comprehensive bank operating in accordance with Algerian laws and Islamic principles in all its transactions. As a result of Algerian-Gulf cooperation, the bank was approved by the Bank of Algeria in September 2008 to begin its targeted activities of providing innovative banking services, with a capital of 7.2 billion Algerian dinars. It is the second Islamic bank operating in the Algerian banking market after Al Baraka Bank Algeria, which has been in operation since 1990. Al Salam Bank Algeria started its operations on October 20, 2008, aiming to provide innovative services.

Figure 01: Organizational Structure of Al Salam Bank:

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ORGANIZATIONAL STRUCTURE



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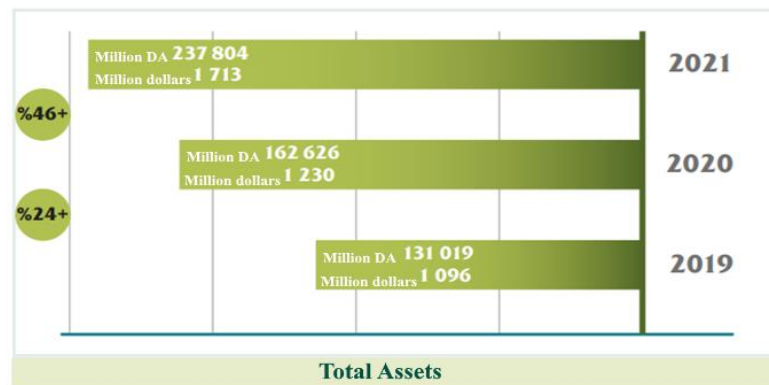
The following figure illustrates the arrangement of the audit committee within the bank's organizational structure and its relationship with the board of directors and the audit management.

Al Salam Bank's Annual Report: The total financial position of the bank amounted to 238 billion Algerian dinars (USD 1.713 billion) compared to 163 billion Algerian dinars (USD 1.230 billion) in 2020, reflecting a growth rate of 46%. The net customer financing portfolio reached 150 billion Algerian dinars (USD 1.082 billion), showing a 51% increase compared to its level in 2020, driven by a significant growth in financing balances for institutions by 62%. However, individual financing experienced a decline due to the halt of car assembly factories in Algeria and the lack of availability of the expected quantity of consumer financing for 2021. The total customer deposits amounted to 195 billion Algerian dinars (USD 1.405 billion) in 2021, compared to 129 billion Algerian dinars (USD 978 million) in 2020, representing a growth rate of 51% and indicating an improved image of the bank and increased customer confidence. The liquidity balance at the end of 2021 reached 76 billion Algerian dinars (USD 547 million), showing significant growth compared to the end of 2020, resulting from the substantial growth of deposits surpassing the growth of the financing portfolio. On the other hand, the banking income for 2021 amounted to 3.9 billion Algerian dinars (USD 67 million), compared to 7.7 billion Algerian dinars (USD 58 million) in 2020, with a growth rate of 20% due to an increase in direct financing profits. The operating expenses for 2021 reached 3.3 billion Algerian dinars (USD 24 million),

compared to 7.2 billion Algerian dinars (USD 20 million) in 2020, with a growth rate of 24% in line with the increase in the number of branches, employees, and the bank's activity. The net provisions reached 4.1 billion Algerian dinars (USD 10 million), showing a 58% increase compared to 2020, as a result of the growth in the financing portfolio and the increase in the general provision to cover it. The shareholders' equity reached 27 billion Algerian dinars (USD 196 million), recording a growth rate of 44% compared to 2020, thanks to the bank's capital increase from 15 to 20 billion Algerian dinars. As a result of the above, I am pleased to announce to you that the net result for the year 2021 amounted to 4.3 billion Algerian dinars (USD 24 million), with a growth rate of 10% compared to the result achieved in 2020. (Board of Directors' Report for the year 2021)

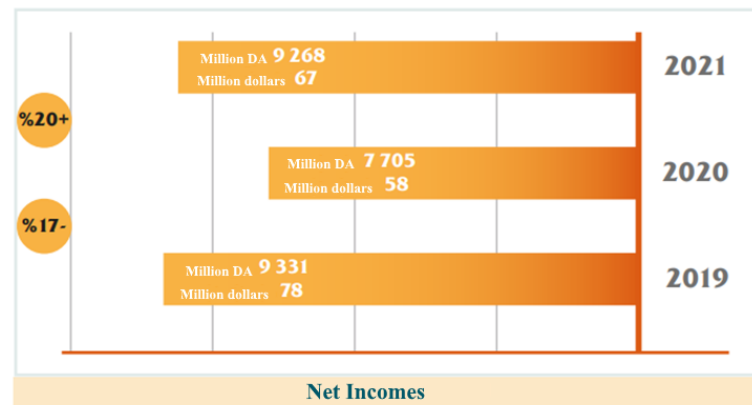
4.2 - Key indicators for evaluating the financial performance of Al Salam Bank for the year 2021:

Figure 02: Evolution of total assets over three years 2019-2020-2021.



Source: https://www.alsalamalgeria.com/pdf/RapportAnnuel2021_AR.pdf Accessed on 15-02-2023.

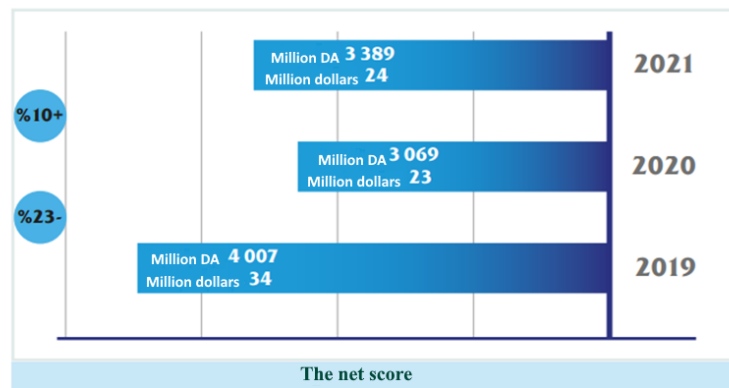
Figure 03: Evolution of net incomes over the three years 2019-2020-2021.



Source: https://www.alsalamalgeria.com/pdf/RapportAnnuel2021_AR.pdf Accessed on 15-02-2023.

Figure 04: Evolution of the result over three years 2019-2020-2021.

The Role of Audit Committees in Improving Financial Performance (Case Study: Al Salam Bank in Algeria)



Source: The role of audit committees in improving financial performance (case study - Al Salam Bank in Algeria)

Table 01: Return on total assets ratio.

Years	Return on Total Assets (Percentage in dollars)
2019	0.031
2020	0.018
2021	0.014

Source: Prepared by the researcher.

Through the indicators of financial performance development, we observe growth and the ability to sustain the institution, indicating that measuring the financial performance of Al Salam Bank with the presence of highly efficient committees has given the institution greater credibility among all stakeholders.

4.3 - The Audit Committee and its role in the bank:

In light of organizational changes and the supervisory authorities' commitment to establishing a comprehensive regulatory system for banks, the bank's management constantly strives to provide a suitable framework for control and enhance its supervisory system to achieve the highest levels of control, ensuring compliance with regulatory rules, policies, and the Board of Directors' directives. In this context, the audit management works on expanding its scope of activities in line with the bank's network size, diversity of services, and operations.

The internal audit management reviews the operations and work of the units according to an annual plan approved by the audit committee, based on the risk level and taking into consideration the self-assessment prepared after previous audit operations on various departments and operations. The audit management successfully implemented its 2021 annual program, despite the challenges posed by the COVID-19 pandemic, which significantly hindered the program's execution. The activities of the audit management were characterized by a focus on reviewing important operations and functions (account management, cash assets, account opening files, foreign trade, investment bonds and deposits, information system authorizations, ATM operations, inheritance accounts, and security measures). Auditing was conducted at 17 work centers (branches in Blida, Setif, Sidi Yahia, Oran2, Oran1, Constantine, Ain Oussera, Biskra, Annaba, El-Quba, Batna, Ouargla, and Bab Ezzouar), with reports submitted to the General Management and summaries provided to the audit committee. The activities also included monitoring the recommendations made in the account managers' reports (Audit Committee Report for Al Salam Bank).

Conclusion

The Audit Committee in Al Salam Bank holds a crucial position in the organizational structure, highlighting the role it plays in auditing and reviewing financial reports, growth indicators, and developments in activities. This committee has been highly effective in improving financial performance due to Al Salam Bank's commitment to Shariah and governance standards, which require the existence of such a committee.

Hypothesis Testing:

Through our study, we have reached the following conclusions:

Hypothesis 1: Audit committees work to enhance the effectiveness of internal control systems, including financial and administrative controls and internal auditing.

This hypothesis is confirmed based on the finding that audit committees monitor all internal, administrative, and external control systems, in accordance with governance and Shariah standards.

Hypothesis 2: Financial performance is measured based on financial indicators such as return on assets.

This hypothesis is confirmed as financial performance is measured using multiple indicators, including activity growth, total assets, and other financial indicators.

Hypothesis 3: The effectiveness of the audit committee in improving Al Salam Bank's financial performance.

This hypothesis is confirmed as the presence of the audit committee has increased the efficiency of Al Salam Bank's financial performance through analyzing financial indicators and reports published by the board of directors, accountants, and the audit committee.

Results:

Based on our study, the following results can be noted:

4. The audit committee monitors the internal control system, financial reports, and risk management.
5. The audit committee coordinates between internal and external auditing and ensures compliance with legal practices.
6. Financial performance of any financial institution is measured using financial indicators.
7. The independence of the audit committee members contributes to neutral and independent committee reports.
8. The experience of the committee members in the accounting and financial field enhances the observation and accuracy in the committee's reports.

Recommendations:

Based on the study, we suggest:

- Raising awareness among stakeholders about the importance of using audit committees in economic institutions.
- Management should adhere to governance principles.
- Utilizing information technology to ensure timely access to accounting and financial information.
- Modernizing and enhancing the efficiency of financial institutions.
- Financing research and updating laws and regulations governing economic activities.

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