

**MODERATING ROLE OF SHARIAH COMMITTEE QUALITY ON THE RELATIONSHIP BETWEEN  
AUDIT COMMITTEE AND MALAYSIAN TAKAFUL PERFORMANCE: A LITERATURE REVIEW**

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**Abstract**

*The moderating effect of Shariah Committee Quality (SCQ) on the relationship between Audit Committee (AC) characteristics and Malaysian Takaful performance remains a challenge that is yet to be resolved. AC characteristics have a significant effect on corporate financial performance. AC characteristics play a crucial role in the overall Malaysian Takaful companies which is supposed to enhance financial performance. Hence, SCQ as part of the internal governance structure and control body of the institution, thereby, ensure Shariah compliance in all transactions and activities, and enhancing the credibility of institutions in the eyes of its shareholders and customers. SCQ can potentially moderate the relationship between AC and Malaysian Takaful performance. As an important mechanism of Corporate Governance (CG), In addition, agency theory and stewardship theory were used to develop the hypotheses. Several results of the previous literature were found fraternized, and inconsistent regarding the SCQ effect on firm performance or its effect on AC characteristics in general context, while the literature on Malaysia context remain scarce. It is expected that this SCQ moderation may considerably improve corporate performance by determining the strength or weakness of the relationship between AC characteristics and firm performance. Therefore, this paper conceptualized that 'SCQ' moderates the relationship between AC Chairman Specialization, Shariah Background, AC Independence and Meeting frequency, and Malaysian Takaful performance.*

**Keywords:** Audit Committee, Malaysian Takaful performance, Moderating, Shariah Committee Quality.

## INTRODUCTION

In Malaysia, the CG reforms were enacted in 2001. The reforms were introduced by the Securities Commission to regulate the Malaysian capital market for one decade (Orazalin & Mahmood, 2018). Following the scandals, crises, and their impact on South East Asia, the financial reform in this region including Malaysia are quite related to CG reform in western countries such as UK, USA, because the scandals and crises transverse through all corporate sectors due to lack of adequate measure in place to absorb the shocks which lead to great failure in the both developed economies and South East Asia include Malaysia such as Renong Berhad in 2000, United Engineers (Malaysia) Berhad in 2001 and Transmile Group Berhad in 2007 (Akhter et al., 2017). All these companies failed in Malaysia because poor CG practices. Notwithstanding, further reason for CG failures is more of internal matters because local banks were not having adequate liquidity to finance the continuing operations of the corporate sector. However, rely on external sources to finance these continuing operations. After the Financial Crisis of 2008-2009, a new wave of reports and reviews followed. All these reviews have contributed to the most updated UK Combined Code of 2012. This led to CG reforms in order to globalize local savings and international portfolio investment (Younas et al., 2011).

The Governor of Bnak Negara Malaysia, who is the Director-General of *Takaful*, stated the aim of developing the *Takaful* industry in Malaysia to be as follows: The aim is to create progressive world-class *Takaful* operators that are able to successfully position themselves as leaders in the area of *Takaful* and thereby positioning the development of Malaysia as the international Islamic financial center (BNM, 2005).

The AC is the key advisory committee of the corporate body because of its role insafeguardingstakeholders' interests in conjunction with financial management and control (Alqadi, 2017). Further, it plays a fundamental role in CG as a value creatorthroughguaranteeing financial reporting transparency by structuring and maintaining the confidence of shareholders and the general public as well (Abbadi et al., 2016; Velte, 2017).

Audit committees have been in forefront of public attention for decades nowsince they are the primary decision-making teamswith responsibility tosupervise the internal control and financial reporting of firms (Al Daoud et al., 2015; Al-Dalahmeh et al., 2017).

The quality of ACservicesmay be affected by auditors' capability to carry out required audit processes and the approacheshelpingin identifying failures in the corporate's accounting and thus, reporting freely on these closures or bankruptcies (Al-Dalahmeh et al., 2017). The ACindependence (i.e. unhindered function), the size, number of meeting, accounting expertise are important in this case (Toumeh& Yahya, 2017; Suprianto et al., 2017). Therefore, the current study encompasses the relationship between corporate performance and ACcharacteristics as moderated by SCQ in the context of Malaysia. Thus, this study aims to investigate the moderating effect of SCQ on the relationship between AC characteristic and corporate performance in Jordan.

## LITERATURE REVIEW

The implication of the efficiency of ACs has increased in the awakening of the global financial scandals that resulted withinpast two decades, whichsaw the legislation of regulations in developed countries that encompassesCGproblems, including ACs (Carson, 2003).On another hand the failure of financial performance witnessed around the world particularly the Islamic Financial Institutions of Islamic countries in addition to weak

CG structures (Eldaia et al., 2020). The development towards regulating CG has seen an increase in developing and developed countries, in an effort to moderate the likelihoods of financial scandals and corporate failures, particularly the negative impacts of such incidences have on the general economies of developing countries (Giroux, 2008; Aldamen et al., 2012). There are several factors that can influence CG practices (Shatnawi et al., 2020; Alaaraj et al., 2018; Alaarj et al. 2017a, b).

The AC is one of the most indispensable mechanisms of CG that impacts corporate performance. Effectiveness audit committee considerably reduce the fraudulence reporting, crises, misstatement, and financial disclosure (shatnawi et al, 2019b). Furthermore, studies have exhibited that internal AC size and meeting frequency have their influence on performance, while the AC independence, qualification, and experience have significant effect on firm performance (Zain et al., 2006; Salameh et al., 2011; Yin et al., 2012; Alzeban&Sawan, 2015; Almagdoub, 2016). It was debated that AC size and independence plays an important role in enhancing the corporate performance. Some researchers report that small AC is more effective in supervising the financial reporting practice and cutting internal risks while others claimed that larger size and independence of the ACs have more impact (Chow, 1982; Palmrose, 1986; Al Najjar, 2011; Anderson et al., 2012; PVVS & Palaniappan, 2016; Velte&Stiglbauer, 2018). However, other studies reported a negative or no significant effect of AC characteristics on firm performance.

Numerous tests have been carried out in order to resolve the relationship between variables, including AC size, the frequency of AC meeting, AC independence, and accounting expertise in the AC (Yin et al., 2012; Alzeban&Sawan, 2015; Almagdoub, 2016; PVVS & Palaniappan, 2016; Velte&Stiglbauer, 2018). The findings revealed that the relationship between AC characteristics and firm performance is positive in term of CG context. Conversely, there was a negative relationship between these variables, excluding AC frequency of meetings and AC independence which exhibited a positive relationship with firm performance (Salameh et al., 2011; Yin et al., 2012; Alzeban&Sawan, 2015). General negative relationship noted in this literature may be as a result of the fact that AC characteristics have no impact on financial information disclosure through risks.

Moreover, several studies used various AC characteristics to moderate different variables effect on firm performance. Such as Suprianto et al. (2017) investigated the AC accounting expert and earnings management with “status” AC as a moderating variable, found a positive influence on firm performance. The prerequisite to investigate the effect of AC characteristics on financial performance is becoming a major emphasis amongst scholars, stakeholders, accountants, and financial institutions. The importance of this study is to investigate the moderating effect of SCQ on the relationship between AC characteristic and Malaysian *Takaful* performance. The role of AC characteristics is of high interest to both managers and the public in CG especially on the issues on what moderates it for an effective corporate performance. This distinguishes this investigation from previously studies for introducing and focusing on the moderating effect of SCQ and Malaysia.

## ANALYSIS & DISCUSSION

### C.1. Background of *Takaful* Industry

*Takaful* industry plays a key role in plummeting risks and global basic economic growth, predominantly in the financial sector (Sherif&AzlinaShaairi, 2013; Arifin et al., 2018). Between the mid-1960s and 1970s, about 93% of the global insurance market was retained in the countries in Europe and Northern America (Eldaia et al., 2020).

The late 1970s oil price shocks along with the subsequent inflationary pressure had a deteriorating impact on the percentage of global insurance market of these nations which raised up to 56% in 2012 (Swiss Re, 2013). In contrast, during this period the share of emerging Asian economies improved from 3.8% in the 1960s to 30% in 2012. It was anticipated that emerging economies of Asian countries will enable growth with a rate of 8% which is more than triple of developed countries growth rate of 2.6% (Swiss Re, 2013).

However, Malaysia *Takaful* industry grew radically in 2010 with total assets of 6.8 million RM (Malaysian *Takaful* Association, 2010). In 2017, the total assets of *Takaful* were peg at 29.3 billion RM (Malaysian *Takaful* Association, 2017). This is expected to grow by 18% in 2019 (Husin, & Rahman, 2016).

There is a belief among the Muslim majority that conventional insurance is forbidden with regards to legality because of the existence of numerous forbids, for instance, Riba (interest), Maysir (gambling), and Gharar (uncertainty). Consequently, there is a need for a substitute form of insurance that meet the demands and needs of Muslims who want to do financial transactions that are harmonious with Islamic *Shariah* (El-Gamal, 2001; Akhter, 2010).

In June 15, 1972, the Fatwa Committee of the National Council for Islamic Religious Affairs Malaysia issued a religious fatwa declaring that conventional life insurance is haram (proscribed) as it opposes Islamic *Shariah* and rules. In 1975, this verdict was affirmed by a similar decree released by the Council of Islamic Fiqh Scholars that conventional insurance is prohibited and unacceptable based on Islamic law.

The major purpose for establishing the Islamic insurance scheme in Malaysia was to adhere to Islamic code and to regress from the three prohibited components (Riba, Maisir, and Gharar) based on Islamic law and rules. The key objective was to develop and innovate an Islamic alternative to conventional insurance, which is preferred by Muslims in Malaysia (Eldaia et al., 2020).

Malaysian *Takaful* industry was first established in 1984 based on the master plan of Central Bank of Malaysia in three phases (Bank Negara Malaysia, 2006). The first phase (1982-1992) was when the infrastructure of the *Takaful* industry in Malaysia was set up. The second phase (1993-2000) was when the regional cooperation between the operators of *Takaful* was reinforced. The third and final stage (2001-current) financial Sector Master plan (FSMP) reinforced the legal, *Shariah* and regulatory framework and improve the capability of the *Shariah*

The Governor of BNM who is also the Director-General of *Takaful*, explained that the purpose of establishing the *Takaful* industry in Malaysia is to form progressive world-class *Takaful* operators that are capable to positively place themselves as frontrunners in the area of *Takaful* and thus positioning the growth of Malaysia as the global Islamic business center (Bank Negara Malaysia, 2005, p. 9). Consistent with the

goal of strengthening Malaysia as an Islamic financial center, competition in the *Takaful* market has been increasing in the last decades, with the addition of three novel *Takaful* companies in 2006. There are eleven *Takaful* companies in the Malaysian market. Despite the intense competition between these two types of insurance, the performance and achievement of the *Takaful* industry in Malaysia have made it a strong competitor to traditional insurance (Sherif&Shaairi, 2013).

Presently, the *Takaful* industry in the Malaysian market confronts substantial rivalry from the traditional insurance industry in many fields. The absence of a secondary market, the organizational infrastructure of Islamic law and the lack of research on the main issues of *Takaful*, hindered the development of Islamic products in *Takaful* effectively. The Islamic insurance companies also face the lack of Islamic products that comply with *Shariah*. With the increasing number of companies in the *Takaful* market, there is a need to create many products to compete in the market, and the industry still needs more research to develop *Takaful* product in Malaysia. There are many studies such as (Johnes et al., 2009) recommending an increase in research in evaluating the performance of *Takaful* companies using financial ratios so that *Takaful* companies can be compared to traditional insurance companies (Abdou, et al., 2014).

*Takafulis* described based on Malaysia Code as “a scheme based on brotherhood, solidarity, and mutual assistance which provide for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose” (*Takaful Act, 1984*).

This description characterizes the Islamic standard of *Takaful* whereby an assembly of members consents to equally promise each other against a specific loss or harm. Likewise, the Islamic Financial Services Act 2013 (IFSB), in its published guidelines entitled ‘Guiding Principles on Governance for *Takaful* Undertakings’, describes *Takaful* as follows: “*Takaful* is the Islamic counterpart of conventional insurance, and exists in both Family (and “Life”) and General forms” (Bank Negara Malaysia, 2013).

As Islamic protection, consistence with *Shariah* standards and standards is the foundation; as it is without a doubt the particular trademark that reflects the Islamic character of *Takaful* business (Bank Negara Malaysia, 2010). *Takaful* has encountered unparalleled development particularly in the course of the most recent decade. Global *Takaful* extended generously between the period 2004 and 2007 from a commitment of 2.1 billion US dollar to 3.4 billion US dollar, the same to a compound of yearly development rate (CAGR) around 30 %, with the biggest markets being Saudi Arabia and Malaysia. Territorially, the ASEAN area has been described as the greatest market for the period 2005-2008. In 2008-2010, balanced for international expansion, the division developed at 28 % as against the ordinary market which remained at 5 % in the respective Muslim nations and 8% in the MENA districts amid a similar period (Ernst & Young, 2015).

## **C.2. Shariah Committee (SC)**

The *Shariah* Committee (SC) consists of *Shariah* scholars appointed by the IFI. “The Committee is formed of *Shariah* scholars, world-renowned experts in Islamic commercial jurisprudence (*fiqh al-Muamalat*) and finance, with the fundamental role of setting business standards in all situations in which a company needs to ensure that its activities abide by *Shariah* ” (Hassan et al., 2018) To ensure *Shariah* compliance in all transactions and activities, each IFI prepares a SC, which is unit of a larger *Shariah*

division, as well as a *Shariah* conformity unit and a Review Unit /Sharia Audit (Ullah et al., 2014). As part of the internal governance structure of the institution, this body functions as an internal control body of the institution, thereby enhancing the credibility of institutions in the eyes of its shareholders and customers and enhancing their Islamic qualifications (Rammal, 2006).

### **C.3. Audit Committee Characteristic And *Takaful* Performance**

Audit committee characteristics have a significant effect on corporate financial and risk decision-making practices (Kikhia, 2014; Siam et al., 2014; Alqatamin, 2018). The AC is the sole crucial board sub-committee attributing its precise role of safeguarding the interest of stakeholders with respect to financial oversight and control (Hamdan et al., 2013). The fundamental AC role is to supervise the corporate's financial reporting practice, review of financial reports, auditing practice, internal accounting controls, and more currently its risk management processes (Abdullah & Shukor, 2017; Cohen et al., 2017). Therefore, AC characteristics including AC Chairman Specialization, *Shariah* Background of AC, AC Independence, and the frequency of AC meeting are explained under the following subheadings. There are several factors that can be influence CG practices (Shatnawi et al, 2020).

#### **Audit Committee Chairman Specialization and Malaysian *Takaful* Performance**

The Chairman of the AC may be considered independent from the Administration because he will have a different mentality and arguments relating to specific financial reporting and auditing issues in the Company and not controlled by a single individual. It can be said that with various qualifications and experience in the industry between the Chairman of AC, the Executive Director and the Chief Financial Officer (Ng, 2013). The chairman of the AC in listed company is required to be an independent director and also a member of the Malaysian Institute of Accountants (KLSE, 2000).

MCCG (2017) pointed out "The Chairman of the AC is not the Chairman of the board". Also, mentioned that, the Chairman of the AC is responsible for ensuring the overall effectiveness and independence of the Committee. Having the positions of Chairman of the board and Chairman of the AC assumed by the same person may impair objectivity of the board's review of the AC's findings and recommendations. In another issue MCCG focus in the qualification, collectively, the AC should have a wide range of skills to perform its duties. All AC members should be financially knowledgeable and be able to understand what is within the competence of the AC, containing the financial reporting procedure (Securities Commission Malaysia, 2017).

Rashidah and Fairuzana (2006), In Malaysia who argued that it is crucial for an AC to include directors who are competent and experienced in financial aspects. The reason for this is because an AC is first and foremost formed with the intent of monitoring a firm's financial reporting process. DeZoort and Salterio (2001) argue that the AC's financial expertise increases the likelihood of detected material misstatements, which is reflected in better financial performance. Further, DeZoort et al. (2003) found that more experienced AC members, and those AC members who were CPAs, are more supportive of the external auditor.



To date, no study examined the chairman of AC specialization. He has accounting degree or other specialization. While the MCCG not mention to this issue, so, this study tries to examine the impact of chairman specialization on financial performance in Malaysian *Takaful* companies.

#### ***Shariah* Background of Audit Committee and Malaysian *Takaful* Performance**

Several studies agree that the experience and knowledge of members of the AC have a significant impact in increasing the effectiveness of the Committee (McDaniel et al. 2002; Bedard et al. 2010). For instance, Jun Lin et al. (2008) argue that the main task of AC is to supervise firms financial reporting and auditing procedures, therefore, members of AC should have the ability to understand the problems being discussed or examined. DeFond et al. (2005) and Aldamen et al. (2012) showed that an AC include members with previous financial knowledge or executive experience is positively associated with firm performance. Experience in the field of industry is very important for the members of the AC, so, they can judge the technical transactions and contracts. This is consistent with the resources dependency theory in order to benefit from all the resource and expertise available in the company (Alqatamin, 2018).

In order to accomplish their responsibilities for monitoring financial reporting and internal control, members of AC should have the necessary expertise. (Bedard et al. 2004) study three aspects of AC expertise: governance, financial, and firm-specific expertise. More focus on critical issues of quality financial reporting, and additional structured discussion of the quality of reports (McDaniels et al. 2002) Hence, when their experience increases, they become more effective at supervision the firm's financial reporting procedure. For instance, the effectiveness of the AC depends on the composition of the Board and the Directors' background (Peasnell et al., 2000; Vicknair et al., 1993).

*Shariah* Backgrounds is important issue on *Shariah* audit challenged by Islamic finance institution to have human capital with sufficient *Shariah* and audit knowledge. Abdul Rahman (2010) indicate one of the challenges in implementing the *Shariah* audit would be the production of independent and competent *Shariah* auditors. This happens because audit and *Shariah* knowledge's are necessary to implement *Shariah* auditing practices. Currently, there is a lot of discussion about the level of efficiency of the *Shariah* auditor. Due to the insufficient number of practitioners who have audit and *Shariah* knowledge in the Islamic finance industry, the discussion focuses on deterring whether the audit specialist or the legitimate person is the most qualified person to conduct the forensic audit. Therefore, there is a special gap on talent to carry out *Shariah* auditing practices (Iqmal, et al., 2017).

The effectiveness of internal audit depends mainly on quality, training and staff experience. Employees must have sufficient experience in accounting, auditing and *Shariah* background. Therefore, IFI must provide them with training and professional experience in *Shariah* education. For instance, the employees are able to make decision in the *Shariah* transactions. This is also required by the members of the AC because they must participate in financial and *Shariah* decisions (Iqmal et al., 2017).

The MCCG has pointed to the importance of acquiring all AC members a sufficient level of knowledge, skills, experience and commitment, also stressed that it is very important so, that the AC can perform its duties and responsibilities effectively. He explained that a strong understanding of the financial and technical

processes is in line with the need to understand all the financial dimensions in the company and this gives greater confidence in the financial reports as well as recommendations of the AC (Securities Commission Malaysia, 2017).

Hamid et al., (2014) suggested that there is a positive and significant impact on company performance when the AC has directors with accounting and financial backgrounds.

#### **Audit Committee Independence and Malaysian *Takaful* Performance**

Independence can be considered as one of the bases of AC effectiveness (Inaam&Khamoussi, 2016; Amoush, 2017) and firm performance (Alqatamin, 2018) since such independence permits AC members more self-sufficient and free from consigned interests (Al-Najjar, 2011) in reviewing firms' performance. However, studies on the effect of AC independence on corporate performance still remain incomplete (shatnawi et al, 2019a).

Al-Najjar (2011) studied the determinants of AC independence and activity: evidence from the UK. The author found a positive relationship between AC independence and activity. In the same way, Bala et al (2015) reported a positively and significantly relationship between AC independence to earnings quality. However, Velte&Stiglbauer (2018) found independent AC who are not managers in other corporates is negatively linked to both the positive and absolute levels of accounting quality.

Abbott et al. (2000) contended that higher AC independence is associated with higher-quality auditors and more effectiveness. The investigators exhibited that AC independence and audit fees are associated not only with the proficiency factor but also with an effective firm structure and CG. Independent auditors have more incentive than internal auditors for supervising as they give attention on corporate's reputational capital (Buallay, 2018). The firm having more independent auditors moderates agency cost which can result in a better reporting quality and create smaller gap with internal auditors (Zain et al., 2006). Therefore, the contribution of AC independence to the corporate performance cannot be over emphasized. However, the moderating effect of SCQ has not been examined for corporate performance.

#### **Frequency of Audit Committee Meeting and Malaysian *Takaful* Performance**

Audit committee meeting is crucial to carry out a successful oversight tasks in supervising the performance of managers and firms (Stewart & Munro, 2007). The existence of AC does not give assurance that the committee will be efficient, thus focus has been redirected on the composition and activities of ACs. Many of the suggestions made have concentrated on the independence and the frequency of AC meetings (Méndez & García, 2007; Alzeban&Sawan, 2015). Conversely, studies indicate that there is a significant difference in the recommended structure and function of ACs across different controls (Greco, 2011).

Beasley et al. (2000) revealed that AC meetings should at least be held once periodical to review the short-term report. This is because, high frequency of AC meeting tend to reduce the financial problem (Bédard& Gendron, 2010). Likewise, based on agency theory viewpoint, the findings of earlier reports have displayed that frequency of AC meeting can increase firm performance (Sharma et al., 2009). Moreover, AC meetings have constantly been found to be linked with superior quality of financial reporting (Al-Daoud et al.,



2015). Australian report indicates a positive relationship between AC and the frequency of AC meetings (Shahanif, 2017).

The AC commitment has been operationalized as the number of AC meetings took place during the financial period (Alaswad & Stanišić, 2016), with the anticipation that the more frequently AC meets, the more probably it carry out its responsibilities. However, researches have established that the number of AC meetings is negatively linked with financial management and performance (Baxter & Cotter, 2009; Aldamen et al., 2012). These results show that an active and dedicated AC plays a vital role in enhancing the quality of financial reporting and performance. However, both AC and firm size were discovered to be positively linked with the number of meetings as well as negatively relationship between the fraction of independent directors and the number of AC meetings held (Yin et al., 2011).

Stewart & Munro (2007) demonstrated that the number of AC meetings with the presence of auditors at meetings is significantly connected with a decrease in the perceived level of audit risks. Directors, managers, and other corporate workers hours are likely to boost when an AC is in place, specifically when meetings are more recurrently, the auditor is mandated to appear in all meetings (Stewart & Munro, 2007; Sharma et al., 2009; Greco, 2011). It is worth noting that none of these studies reported the relationship between the AC characteristics and firm performance as moderated by SCQ.

SCQ as moderator to date no previous study has investigated nor chosen the role of the SCQ as a moderating variable on the relationship between the CG and firm performance in *Takaful* companies. The current study has two main justifications for a new area of examination. The first is related to the reason why the current study has chosen a moderating variable, while the second justification shows why the SCQ is suitable to be a moderating variable on the relationship between CG and firm performance in *Takaful* companies. The first reason for selecting a moderating variable is that, as argued by Baron and Kenny (1986), Holmbeck (1997) and Frazier Tix, and Barron (2004), when the relationship between an independent variable and a dependent variable is poor or inconsistent, a moderating variable can be established in such a case to strengthen or weaken such a relationship and to explain when or for whom an independent variable affects a dependent one. Secondly, the rationale for determining the SCQ as being suitable to be a moderating variable is that the SCQ is one of the most important governance mechanisms of IFIs to ensure there is compliance with the principles of Shariah. Therefore, the role of the SCQ as a moderator on the relationship between CG and firm performance in *Takaful* companies could be used to enhance and strengthen the role of the SC towards increase firm performance. Furthermore, the choice of the SCQ as a moderating variable for the current study is justified as the SCQ has a positive impact as assured by several studies in the literature. For example, Ajili and Bouri (2018) all demonstrated that a SCQ is an important variable that has its significant effect on CG and firm performance. In summary, this study selected a SCQ as a moderator for two reasons: firstly, based on the literature, it can be considered that the SCQ has a high influence on firm performance, and secondly, there is a lack of studies about the relationship between SCQ and firm performance. Thus, the current study chooses the SCQ as a moderating variable on the relationship between the CG and firm performance in *Takaful* companies.

Moderator variable SC quality: SCQ-index Total number of SC recommendations respected by the Firm /5, *Shariah* Committee Expertise, Multi committee membership, Qualification, *Shariah* Committee Size, *Shariah* Committee Gender Diversity(Ajili & Bouri, 2018).

#### D. CONCLUSION

Firm performance has been investigated in the accounting/management literature based on agency theory as a major dependent variable that would be achieved and enhanced as an important goal (Bauer et al., 2008; Haniffa&Hudaib, 2006; Klapper& Love, 2004). The main purpose of firm performance that stems from its concept is to consolidate the efficiency and effectiveness of the company and achieve its objectives being the main concern for the firm in the long run to survive (Al-Hawary, 2011; Zehir et al., 2011).

To measure firm performance there are two types of measurements are used, which are based on the accounting bases and the other measure is market bases. The main objective of measuring firm performance stems from the idea of efficiency and effectiveness of the company and the achievement of the company's long-term goals as well as the continuity and survival of the company (Al-Hawary, 2011; Zehir et al., 2011; Alabdullah et al., 2014).

The use of different performance measures to assess firm performance and relationship with CG achieves many objectives. The accounting bases such as ROA and ROE measures the performance of the company in the short term. This reflects the impact of the balance sheet on CG from an accounting point of view. On the other hand, Market-based-performance takes into account stock prices highlighting the firm data's economic value. Tobin's Q is the most commonly utilized to measure market-based performance (Singh et al., 2018). Tobin's Q explain the long-term firm's value and market indicators on CG in the future, the market measure for the firm performance is more reliable, while accounting bases it can easily influence and manipulate (Cochran and Wood, 1984 and Rhoades et al., 2000). Therefore, many of the literature that analyze the performance of companies are largely focused on measuring the market value of the company. However, there is a debate about the relationship between measuring corporate performance and governance. Gompers et al (2003) show that investors difficult to understand the impact of CG on the market value of the company. Therefore, Core et al (2006) state that measurement on an accounting basis such as ROA and ROE is a better measure to study the relationship between CG and performance.

There is positive relationships between performance and AC size, independence, committees' structure, number of AC meetings, accounting expertise, and Muslim directors in the AC as earlier explained under appropriate sections in this present study. Though negative relationship also reported.

Previous studies have used the accounting based or the market based or a combination of the two types of measurements. Hamid (2008), pointed out that from 1968 to 1978, the studies used the accounting based in the measurement of performance. Hamid (2008) also noted that from 1978 to 1990, the researchers used both accounting and market based to assessing the performance of companies in their study.

The findings of this investigation are expected to addenormously to the existing body of the literature. The findings demonstrated that the SCQ as a moderating variable plays a significant role on the relationship between the AC characteristics and Malaysian *Takaful* Performance. The study also found that the combination of AC existence and activities, adequate Audit Committee Chairman Specialization, *Shariah* Background of Audit Committee and

Audit Committee independence, as well as Audit Committee Meeting Frequency, considerably reduce the fraudulence reporting, crises, misstatement, and financial disclosure in Malaysia. Findings of this study will be useful to managers and decision making levels of Takaful Operators to enhance and upgrade their performance and increase the penetration of Takaful business in Malaysia.

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