Audit Committee and the Overall Performance of Companies

R. Regin*
Assistant Professor, Department of Computer Science and Engineering, SRM Institute of Science and Technology, Ramapuram, India. regin12006@yahoo.co.in

S. Suman Rajest
Professor, Bharath Institute of Higher Education and Research, Chennai, Tamil Nadu, India.

Shynu T
Master of Engineering, Department of Biomedical Engineering, Agni College of Technology, Chennai, Tamil Nadu, India.

Steffi. R
Assistant Professor, Department of Electronics and Communication, Vins Christian College of Engineering, Tamil Nadu, India.

ABSTRACT
The impact of audit committees and boards of directors on company performance is investigated, primarily the number of members on the board and their ability to make decisions without outside influence, as well as the audit committee's composition, authority, expertise, and frequency of meetings. Although agency theory predicts that a more impartial board leads to greater results, this paper discusses resource dependency theory, which holds that non-independent directors can improve a company's performance. Accounting scandals and other worldwide corporate governance failures have had a significant impact on stakeholders and economies at all levels during the past few decades. But we couldn't find any correlation between audit committee qualities and financial outcomes in our analysis. The foregoing results provide light on the inner workings of corporate governance.

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INTRODUCTION

Over the past few decades, there have been numerous accounting scandals and numerous worldwide failures in corporate governance, which have had a significant impact on stakeholders and have weighed heavily on national and global economies [1]. The importance of audit committees and boards of directors in corporate governance has been emphasised by policymakers, regulators, and researchers. Companies have been accused by regulators over the years of failing to disclose relevant information, of having insufficient and careless internal controls, and of having ineffective and possibly dishonest board members [2]. When investors lose faith in a company, the stock price drops [3-5]. This is a direct result of poor management and an inefficient board [6-11]. Changes for improved corporate governance have been enacted in response to recent economic catastrophes like those mentioned above. In a nutshell, corporate governance is a system of structures and controls put in place by a company to ensure that its many interested parties, including shareholders, employees, and the community at large, are all satisfied while the company abides by all applicable laws and regulations and is managed effectively [12]. Furthermore, corporate governance regulates the board of directors' level of accountability to shareholders and the company, and it establishes internal and external mechanisms to try to bridge the gaps and differences of interest between owners and management due to harmful practises that can obstruct the company's efforts to achieve its goals [13-15]. The agency problem refers to the tension that arises between shareholders and management, and one of the board of directors' many responsibilities is to ensure that the executive officers are carrying out their duties effectively and efficiently [16-19].

The effect of this on the company's bottom line is substantial [20]. The composition of the board of directors is crucially important, especially the appointment of independent board members [21-24]. Independent board members, board size, meeting frequency, and even board diversity and competence have all been the focus of prior research into how board composition affects a company's bottom line [25-27]. An independent board member is one who does not have a financial stake in the company and who does not have any other relationships with the company's management, shareholders, or employees that could cloud his or her objectivity with respect to board decisions [28-33]. According to agency theory, for instance, a higher growth in corporate valuation and performance is associated with a lower level of agency costs, which originate from inefficiencies in the firm's governance and disputes between management and shareholders [34]. In other words, a higher valuation is associated with greater corporate governance [35-39]. However, resource dependency theory, which examines how an organization's external resources affect its behaviour, suggests that directors contribute to the company by bringing in relevant experience, establishing lines of communication with key external stakeholders and constituents, and securing external support. In addition to bolstering the public's trust in the company, these efforts help to fortify the company's reputation in the marketplace [40-44].

The audit committee is arguably the most crucial board committee in terms of protecting shareholders' interests through rigorous financial monitoring and management [45]. Financial reporting and auditing, internal controls pertinent to the creation and fair presentation of financial statements, and risk management applications are the major responsibilities of the audit committee [46]. A well-documented function of the audit committee is to enhance the quality of earnings, decrease the frequency with which financial statements are restated, and tighten up internal control [47]. However, few research have examined whether audit committees actually play a substantial role in guaranteeing greater corporate performance. It is possible that in emerging markets, traditional corporate control techniques, such as the threat of takeover by outsiders, are not sufficient to prevent agency conflicts [48-55]. There have been a plethora of research conducted with
the goal of learning more about corporate governance systems and the traits of boards and audit committees in advanced economies and economically powerful regions all over the world, including the United States, Europe, and China [56]. However, expanding markets like the Middle East and Africa have received surprisingly little attention from academics; for example, few studies have examined how the composition of boards and audit committees affects the success of public and private businesses in these areas [57-61]. The Middle East has been undergoing economic transition, from improved education, communication, and mobility, to an overall higher standard of life, as a result of the region's rapid population growth and the advent of industrialisation during the past 30 years or more [62-68].

Traditionally, the goal of a family business has been to strengthen the social and economic standing of the family rather than to make a profit or meet a market need [69]. The majority of firms are owned by wealthy families who use elaborate pyramid structures to manage holding corporations, which can legally purchase additional enterprises or gain further shares in existing ones [70-76]. The problem stems from the belief that family businesses are run largely for the purpose of maintaining absolute control by the family rather than for the purpose of making a profit or obtaining the least expensive financing available. Small and medium-sized businesses as well as multimillion-dollar multinationals are all owned by families [77-81]. A transparent corporate procedure, which would have an impact on and provide a framework for the roles and obligations of individuals responsible for governance, does not appear to be supported by the prevailing business culture [82-88]. The above-mentioned "family business" culture has delayed the completion of the separation of ownership and control. The board of directors acts as a check on management and is accountable to the shareholders for ensuring the corporation is run efficiently [89-91]. Because of the lack of autonomy and information sharing, it becomes exceedingly challenging to monitor management's decisions effectively in such a setting [92-101]. As we investigate the board's properties, we see that it gets even worse. Independent directors and boards of directors are not mandated by law for businesses. As a result, investors' rights may be violated and their interests may be disregarded [102-109].

The audit committee is crucial for any board because of the vital role it plays in protecting shareholder interests through effective financial oversight and management [110-115]. The audit committee is responsible for monitoring the company's risk management systems, internal controls related to the preparation and fair presentation of financial statements, and financial reporting and auditing processes. Internal control flaws, restatements of financial accounts, and the quality of earnings are all things that the audit committee can help with [116-119]. There have been few investigations investigating whether audit committees actually play a substantial role in achieving greater firm performance [120]. Agency conflicts may be difficult to mitigate in emerging markets using conventional corporate control strategies such as the threat of takeover by outsiders. Numerous studies have emerged with the goal of exploring corporate governance systems and the features of boards and audit committees in already established countries and in strong economic regions around the world, like the United States, Europe, and China [121-127]. To date, however, researchers have paid scant attention to corporate governance systems in emerging markets like the Middle East and Africa region. Indeed, only a small number of studies have investigated how the composition of boards and audit committees affects the success of public and private businesses in these areas. The Middle East has been undergoing economic transition, from improved education, communication, and mobility, to an overall higher standard of life, thanks to the rapid growth in population over the past 30 years or more and the region's expanding industrialization [128-133].

Traditionally, the goal of a family business has been to increase the family's social and economic standing rather than to make a profit or meet a consumer demand [134-139]. Through elaborate pyramid arrangements, most firms are owned by a small number of families who exercise control through holding
corporations that can legally buy other businesses or acquire shares in other companies [140]. The problem stems from the belief that family businesses prioritise maintaining complete control over operations over maximising profits or reducing financing costs. In the United States, the vast majority of businesses are held by families, whether they are micro-, small-, or large-scale operations [141-149]. This organization's norms and values don't appear to be conducive to implementing a transparent corporate protocol that would define the functions and responsibilities of governance leaders. The above-mentioned "family company" attitude is preventing the full implementation of the principle of separate ownership and management. The board of directors is an internal control mechanism that is accountable for supervising the company's management on the shareholders' behalf. Due to a lack of objectivity and information sharing, it becomes exceedingly challenging to monitor management's decisions effectively in such a setting [150]. Examining the board's details reveals that it's considerably worse than we thought. An independent director or board of directors is not required by law for a corporation. This means that investors' interests may not be completely considered and their rights may be violated [151-153].

In order to carry out its duties efficiently, boards of directors typically establish audit, nomination, and compensation committees [154-156]. The establishment, characteristics, and actions of audit committees have only recently been the subject of study, despite the fact that they have long been mandated by rules in the industrialised world. Numerous studies have looked at audit committees from various angles, including how they're set up, what they do, whether or not they're independent, and how well its members are professionals in the financial sector [157-158]. In this section, we will examine the literature concerning studies of the formation and autonomy of the audit committee. Publicly traded companies often establish audit committees to keep an eye on the accuracy of their financial statements [159-161]. As a result, the audit committee has developed into a valuable monitoring procedure in situations with high agency costs, and it has also become an important tool in maintaining an open channel of communication with stockholders. As a result of multiple accounting scandals like the ones listed, audit committees have emerged as critical participants in protecting shareholder interests. The audit committee is responsible for ensuring the financial statements are accurate and complete, as well as the independence of the company's external auditor, in some jurisdictions like Australia. The New York Stock Exchange requires that the audit committee oversee the company's risk management and hedging methods in the United States. This means that the audit committee's major responsibility is to monitor the effectiveness of the organization's risk management and financial reporting procedures [162].

When discussing the efficiency of an audit committee and the firm's performance when using one, it's important to highlight the characteristics that contribute to the effectiveness of the committee and the firm's performance as a whole [163]. These characteristics include the audit committee's independence, size, members' expertise, and the frequency of its meetings [164]. An independent and capable audit committee has been cited as one of the most reliable guardians of the public interest. It's important to note that in this part of the article, we'll look into the research on audit committee composition, member financial literacy, and meeting frequency. Effectiveness and company performance are modelled below using the framework provided. In light of this, it stands to reason that an audit committee's financial expertise boosts the quality of financial reporting and the committee's diligence. What's more, the aforementioned authors argue that the presence of more financial experts on the committee correlates positively with earnings quality and negatively with the likelihood of restatement of financial statements.

To accomplish its goals, boards of directors typically establish audit, nomination, and compensation committees, each with its own distinct mandate. Even though audit committees were mandated by law in the industrialised world, nothing was known about how they were established, who served on them, or what they did until fairly recently. Numerous studies have looked into the factors that lead to the establishment of audit committees, how such committees function, whether or not its members are truly independent, and
how well they are versed in financial matters. This section of our research will concentrate on studies that look into the formation and autonomy of the audit committee. Listed companies often establish audit committees to keep an eye on things when it comes to the financial reporting process. As a result, the audit committee has developed into a monitoring method that is especially helpful in situations with high agency costs and that also aids in maintaining an open channel of communication with stockholders. After multiple accounting scandals like the ones stated above, audit committees have emerged as vital participants in protecting shareholder interests. The audit committee's responsibility in some jurisdictions, such as Australia, extends to vetting the financial statements for accuracy and completeness and verifying the impartiality of the company's external auditor. The New York Stock Exchange requires American public companies to have an audit committee that oversees risk management and hedging policies. Thus, the audit committee's principal responsibility is now to monitor the procedures around risk management and financial reporting.

When discussing the efficiency of the audit committee and the firm's performance when using an audit committee, it is important to highlight the characteristics that play a significant role in the effectiveness of this committee and, in turn, the efficiency of the firm. These characteristics include the audit committee's independence, size, members' expertise, and the frequency of its meetings. Some people believe that an impartial and knowledgeable audit committee is one of the most reliable safeguards of the public interest. In this part of the article, we will look into the literature concerning the audit committee's size, its members' financial knowledge, and the frequency of its meetings. Please find an effective and firm performance conceptual model below. Accordingly, an audit committee's financial expertise enhances the quality of financial reporting and increases the committee's diligence. Moreover, the aforementioned authors argue that the presence of more financial experts on the committee correlates positively with earnings quality and negatively with the likelihood of restatement of financial statements.

The second section of the survey is comprised of two questions that assess the company's profitability and return on assets during the preceding three years. We decided to use the company's return on assets, in addition to its profit and loss statement, to get a better picture of the firm's financial results. To get a clearer picture of the company's success, we need to look beyond the income statement alone and consider the extent of the company's assets. Since return on assets is a non-trivial consideration, we cannot say that this company has done well over the year. Therefore, the Return on Assets (ROA) ratio is an essential component of our survey. In the fourth part, we try to get a better feel for the company's audit committee by asking five questions about it. Specifically, we want to know if an audit committee exists, how big it is, how many members have experience in finance, how many are independent, and how often it convenes throughout the year. We can use these inquiries to better investigate our five hypotheses in the published works. The preferences section of our survey was the fifth section. The outcomes do not change based on the responses to these questions. The answers to these questions reveal the correspondent's views on the audit committee, board of directors, and the Code of Commerce. Below is a table displaying the respondents' choices and perspectives on the Code of Commerce. Our research sample included organisations from a wide variety of industries, such as the banking and banking and the food and beverage industries. We've included both unlisted and public companies in our sample for a more complete picture of the market landscape. In addition, we analysed publicly available financial data from publicly traded companies, which strengthens the reliability of our findings. We sent out the questionnaire to 175 correspondents and chose the 86 responses that met our criteria as our sample. In addition to surveys, secondary data from the financial statements of just 10 listed businesses was utilised to calculate income and return on assets ratios and determine the make-up of audit committees and boards of directors. For purposes of confidentiality, all samples have been made anonymous. However, despite our assurances that their financial data would remain private, there were a few companies who flat-out refused to cooperate.
Our statistical analysis includes a crosstabulation of Pearson's chi-squared tests and symmetric measures in which we use the Phi and Cramer's V tests to demonstrate a connection between the independent and dependent variables (i.e., different characteristics of the BOD and AC and the performance of the business). Our hypothesis can be confirmed by conducting the aforementioned tests, which also reveal whether or not a correlation exists between the various independent and dependent variables. IBM's Statistical Package for the Social Sciences (SPSS) was utilised for the statistical study. Through putting to the test the hypotheses we've formed based on the responses to the survey we designed and administered using the SPSS programme, we hope to learn whether or not the composition of boards of directors and audit committees has any bearing on firm performance. According to the literature review's proposed hypotheses H1-H7, various BOD and AC traits may have an effect on the company's bottom line. However, the income and return on assets of the enterprises in our sample may have been affected by a wide variety of additional factors besides those listed in the hypotheses. This analysis will utilise and focus solely on these corporate governance practises, which are the characteristics of the company's board and the effectiveness of the audit committee. An examination and presentation of the findings will follow.

In keeping with our studies, we have also used the entity's income and return on assets as dependent variables to determine whether or not the aforementioned qualities of an effective audit committee are related to the entity's performance. Consequently, and based on our research of the 86 companies that have responded to our questionnaire plus the 10 listed companies for which we have drawn out their board characteristics from their publicly available financial statements, a larger and more independent board of directors is associated with a higher return on assets and income. Thirdly, we may claim that an audit committee has a substantial link with income, answering the question of whether or not the establishment of such a body has any effect on a company's income and return on assets.

**Conclusion**

Our hypotheses address the size, independence, and financial expertise of audit committee members, as well as the frequency with which they meet. While we did consider 96 companies in total, only 12 of them had audit committees due to the primary limitation we encountered. As was previously established, the law does not mandate that businesses share their financial data with the public. Furthermore, we have only considered income and return on assets in order to establish a company's financial performance, which limits the study because many other aspects can be taken into consideration to more accurately depict a company's financial performance. Future studies on the audit committee's and board of directors' attribution of impacts on business performance, in our opinion, should gather their samples during times of economic growth and expansion. Although the literature analysis presented here provides useful background information, the data we collected were insufficient to definitively answer our research questions. As a last recommendation, we propose adding Q ratios, working capital, book value per share, and cash flow from operations to the list of metrics used to evaluate a company's success. This will help researchers in the future get a clearer picture of how companies' finances really fared.

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