

Role of Audit Committee's in Corporate Governance in India

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Abstract—This study examines the role of audit committees in enhancing corporate governance practices in India. Corporate governance plays a crucial role in ensuring transparency, accountability, and ethical management practices in corporate organizations. Among the various governance mechanisms, the audit committee has emerged as a major instrument for strengthening financial oversight and improving the quality of corporate reporting. The research focuses on the structure, responsibilities, and effectiveness of audit committees in monitoring financial reporting, internal control systems, and auditing processes. It highlights the regulatory framework established under the Companies Act, 2013 and the SEBI Regulations, 2015, which have strengthened the functioning of audit committees in listed companies. The study concludes that an effective and independent audit committee contributes significantly to improving transparency, ensuring regulatory compliance, and protecting stakeholder interests, thereby promoting stronger corporate governance in the Indian corporate sector.

Index Terms—Audit Committee, financial performance, financial fraud, corporate governance.

I. INTRODUCTION

Corporate governance has emerged as a fundamental element in ensuring transparency, accountability, and ethical conduct in modern corporate organizations. It is the system of rules, structures, and processes, through which companies are directed and controlled, with the objective of safeguarding the interests of shareholders and other stakeholders. Effective corporate governance promotes responsible management practices, enhances investor confidence, and contributes to sustainable economic growth. Within this governance framework, the audit committee has become one of the most important

mechanisms for monitoring financial reporting, strengthening internal controls, and ensuring compliance with regulatory requirements.

The increasing complexity of corporate operations, globalization of financial markets, and growing participation of institutional investors have intensified the demand for stronger governance structures. In many countries, corporate governance reforms have emphasized the establishment of independent board committees to ensure better oversight of corporate activities. Among these committees, the audit committee occupies a crucial position because of its responsibility for supervising financial reporting and audit functions. By acting as a bridge between the board of directors, management, and auditors, the audit committee plays a key role in maintaining the credibility and reliability of financial information disclosed by companies (Mallin, 2019).

In the Indian context, the significance of corporate governance and audit committees has grown considerably over the past two decades. Rapid economic development, liberalization policies, and the integration of Indian capital markets with global financial systems have increased the need for transparency and accountability in corporate management. At the same time, several corporate scandals and financial irregularities revealed serious deficiencies in governance mechanisms within companies. One of the most notable cases was the Satyam Computer Services scandal in 2009, which exposed weaknesses in financial reporting, internal control systems, and oversight by boards and auditors. Such incidents highlighted the need for stronger institutional mechanisms to monitor corporate activities and protect stakeholder interests (Gupta, 2014).

In response to these challenges, the Government of India and regulatory authorities introduced a series of reforms to strengthen corporate governance practices. The establishment and empowerment of audit committees formed a central part of these reforms. The Companies Act, 2013 provides a comprehensive legal framework for the constitution and functioning of audit committees in Indian companies. According to Section 177 of the Act, every listed company and certain classes of public companies are required to constitute an audit committee consisting of a minimum of three directors, with independent directors forming the majority. Furthermore, the Act requires that members of the committee should possess financial literacy and that at least one member must have expertise in accounting or financial management (Ministry of Corporate Affairs, 2013).

In addition to the Companies Act, the Securities and Exchange Board of India (SEBI) has also strengthened the role of audit committees through the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These regulations prescribe detailed guidelines regarding the composition, powers, and responsibilities of audit committees in listed entities. The regulations emphasize the independence of committee members and require them to oversee the financial reporting process, review financial statements before submission to the board, monitor internal control systems, and evaluate the effectiveness of both internal and external audit functions (SEBI, 2015). These provisions aim to enhance corporate transparency and improve the quality of financial disclosures in the Indian corporate sector.

The audit committee performs several critical functions that contribute significantly to effective corporate governance. One of its primary responsibilities is overseeing the financial reporting process. Financial statements are the primary source of information for investors and other stakeholders, and their accuracy and reliability are essential for informed decision-making. The audit committee reviews financial statements, accounting policies, and audit reports to ensure that they present a true and fair view of the company's financial position. This oversight helps reduce the risk of financial misstatements and strengthens the credibility of corporate reporting (Arens et al., 2017).

Another important responsibility of the audit committee is supervising the internal and external audit processes. The committee recommends the appointment and remuneration of external auditors and evaluates their independence and performance. Ensuring auditor independence is crucial because it prevents conflicts of interest and allows auditors to provide unbiased assessments of a company's financial statements. The audit committee also reviews internal audit plans, examines audit findings, and ensures that management takes appropriate corrective actions to address deficiencies identified in internal control systems (Hay et al., 2014).

The monitoring of internal control systems and risk management practices is another key aspect of the audit committee's role. Effective internal controls are essential for safeguarding company assets, preventing fraud, and ensuring compliance with regulatory requirements. The audit committee evaluates the adequacy and effectiveness of these controls and recommends improvements where necessary. In addition, it reviews the company's risk management framework to identify potential financial and operational risks that could affect organizational performance. Through these activities, the audit committee contributes to the stability and sustainability of corporate operations (Tricker, 2019). The audit committee also plays an important role in promoting ethical conduct and accountability within organizations. Many companies have implemented whistleblower mechanisms that allow employees and stakeholders to report unethical behaviour or financial misconduct. The audit committee oversees these mechanisms to ensure that complaints are handled confidentially and investigated thoroughly. By encouraging transparency and protecting whistleblowers, the committee helps create an organizational culture that discourages fraud and unethical practices (Soltani, 2014).

Another significant contribution of audit committees to corporate governance is the facilitation of effective communication between the board of directors, management, and auditors. The committee provides a forum where auditors can discuss their findings and concerns independently, without undue influence from management. This interaction enables the board to obtain objective information about the financial condition of the company and any potential risks or irregularities. As a result, the board is better equipped

to make informed strategic decisions and ensure that management actions align with the interests of shareholders and other stakeholders (Mallin, 2019).

The effectiveness of an audit committee largely depends on factors such as the independence, expertise, and commitment of its members. Independent directors play a particularly important role because they are less likely to be influenced by management and can provide objective oversight. Financial expertise among committee members is also essential, as it enables them to understand complex accounting issues, evaluate financial statements critically, and identify potential irregularities. When audit committees possess these characteristics, they can function effectively as guardians of corporate transparency and accountability (Gupta, 2014).

In recent years, the responsibilities of audit committees in India have expanded beyond traditional financial oversight to include broader governance functions such as regulatory compliance, enterprise risk management, and sustainability reporting. The growing emphasis on environmental, social, and governance (ESG) practices has further increased the importance of strong oversight mechanisms within companies. Audit committees are increasingly expected to ensure that organizations comply with evolving regulatory requirements and maintain high standards of corporate responsibility.

II. CONCEPTUAL FRAMEWORK OF AUDIT COMMITTEE AND CORPORATE GOVERNANCE

The conceptual framework of audit committees and corporate governance explains the theoretical and structural relationship between governance mechanisms and financial oversight within an organization. Corporate governance represents the system through which companies are directed, controlled, and held accountable to stakeholders. It establishes the structure that defines the distribution of rights and responsibilities among different participants in the organization, including the board of directors, management, shareholders, and other stakeholders. Effective corporate governance ensures transparency, accountability, fairness, and responsibility in corporate decision-making processes (Tricker, 2019).

Within the broader corporate governance structure, the audit committee functions as a specialized subcommittee of the board of directors that focuses primarily on financial oversight and control mechanisms. The committee serves as an independent monitoring body that supervises financial reporting, internal control systems, auditing processes, and regulatory compliance. Its main objective is to ensure that the financial information disclosed by a company is accurate, reliable, and prepared in accordance with applicable accounting standards and legal requirements. By strengthening oversight functions, the audit committee contributes to improving the overall governance quality of an organization (Mallin, 2019).

The conceptual relationship between corporate governance and audit committees is largely grounded in agency theory. Agency theory explains the conflict of interest that arises between shareholders (principals) and managers (agents) in modern corporations. Since managers control daily operations while shareholders provide capital, there is a possibility that managers may pursue personal interests rather than maximizing shareholder wealth. Corporate governance mechanisms are therefore designed to reduce this agency conflict by monitoring managerial behavior and ensuring accountability. The audit committee acts as an important governance mechanism that monitors financial reporting and auditing practices, thereby reducing information asymmetry between management and shareholders (Jensen & Meckling, 1976).

Another theoretical perspective supporting the role of audit committees in corporate governance is stakeholder theory. This theory suggests that organizations should consider the interests of all stakeholders, including investors, employees, customers, creditors, and society. Transparent financial reporting and strong internal controls help maintain trust among these stakeholders. The audit committee contributes to this objective by ensuring that companies maintain ethical financial practices and comply with regulatory requirements, thereby protecting the interests of various stakeholder groups (Freeman, 2010).

In the Indian corporate environment, the conceptual framework of audit committees is shaped by both regulatory requirements and governance principles. The Companies Act, 2013 and the SEBI (Listing

Obligations and Disclosure Requirements) Regulations, 2015 provide the legal foundation for the constitution and functioning of audit committees in listed companies. According to Section 177 of the Companies Act, listed companies must establish an audit committee consisting mainly of independent directors. The presence of independent members enhances the objectivity of the committee and strengthens its ability to oversee management activities without bias (Ministry of Corporate Affairs, 2013).

Within this conceptual framework, several key components define the role and effectiveness of the audit committee in corporate governance. The first component is financial reporting oversight. Financial statements serve as the primary communication channel between a company and its stakeholders. The audit committee reviews financial reports, accounting policies, and audit findings to ensure that the information presented reflects the true financial position of the company. This oversight helps prevent misstatements, earnings manipulation, and financial fraud.

The second component is internal control and risk management. Internal control systems are designed to safeguard company assets, ensure operational efficiency, and maintain compliance with regulatory requirements. The audit committee evaluates the adequacy of these control systems and ensures that management implements appropriate risk management practices. By identifying weaknesses in internal controls and recommending corrective measures, the committee strengthens the reliability of corporate operations (Arens, Elder & Beasley, 2017).

The third component of the conceptual framework involves monitoring the audit process. The audit committee acts as a link between internal auditors, external auditors, and the board of directors. It recommends the appointment and remuneration of external auditors, reviews their performance, and ensures their independence from management influence. The committee also evaluates internal audit reports and ensures that corrective actions are implemented where necessary. This monitoring function enhances the credibility and quality of the audit process.

Another important component is regulatory compliance and ethical governance. Modern corporate governance requires companies to comply

with numerous legal and regulatory standards. The audit committee ensures that the company adheres to these regulations and maintains ethical practices in financial reporting and corporate conduct. In many organizations, the committee also supervises whistleblower mechanisms that allow employees to report unethical practices without fear of retaliation. Such measures promote transparency and accountability within the organization (Soltani, 2014).

The effectiveness of the audit committee within the corporate governance framework depends on certain structural characteristics. These include the independence of committee members, financial expertise, frequency of meetings, and active participation in oversight activities. Independent directors are particularly important because they provide unbiased judgment and help prevent managerial dominance in decision-making processes. Financial expertise among members enables them to analyze complex financial information and identify potential risks in corporate reporting.

In recent years, the scope of audit committees in India has expanded beyond traditional financial monitoring to include broader governance responsibilities such as enterprise risk management, sustainability reporting, and oversight of corporate ethics. This expansion reflects the evolving nature of corporate governance in response to globalization, technological changes, and increasing stakeholder expectations.

III. REVIEW OF LITERATURE

Corporate governance has been widely examined in academic literature as a mechanism to ensure transparency, accountability, and effective management in organizations. Within this framework, the audit committee has been recognized as an essential governance mechanism that supervises financial reporting, internal control systems, and auditing processes. Researchers have examined different aspects of audit committees such as their composition, independence, effectiveness, and influence on financial reporting quality and firm performance. The following section reviews significant studies related to the role of audit committees in corporate governance, particularly in the Indian context.

Early research on corporate governance highlighted the importance of independent oversight mechanisms to reduce conflicts between managers and shareholders. Sarkar and Sarkar (2010) examined auditor and audit committee independence in India and emphasized that regulatory reforms were introduced to strengthen the independence and effectiveness of audit committees. Their study compared governance regulations in India with those in developed countries and concluded that strong audit committee structures can improve monitoring of financial reporting and auditing practices. However, they also suggested that further reforms may be necessary to enhance the independence and effectiveness of these committees in the Indian corporate sector.

A number of studies have focused on the relationship between audit committees and the overall corporate governance framework. Bhasin and Shaikh (2012) conducted an empirical study on the role of audit committees in strengthening corporate governance practices in India. The study analyzed audit committee reports of major listed companies and found that the presence of a functioning audit committee improves transparency and reliability in financial reporting. The researchers emphasized that audit committees help the board of directors monitor management activities and ensure compliance with corporate governance regulations.

Another stream of literature has examined how audit committees influence financial reporting quality. Shankaraiah and Amiri (2017) investigated the relationship between audit committee characteristics and financial reporting practices in companies listed on the Bombay Stock Exchange. The study analyzed data from 133 companies and observed that factors such as the size of the audit committee and the number of meetings had a significant relationship with financial reporting practices. The findings indicated that active and properly structured audit committees contribute to improving the credibility of financial statements, thereby strengthening corporate governance.

Research has also explored the perceptions of auditors regarding the importance of audit committees. Mishra and Malhotra (2016) conducted a study using the Analytic Hierarchy Process (AHP) to evaluate the significance of various roles performed by audit committees in India. Based on responses

from professional auditors, the study found that the most important responsibility of an audit committee is to monitor the independence and performance of auditors and review the effectiveness of the audit process. The authors argued that audit committees should function as neutral and independent bodies capable of preventing managerial interference in the auditing process.

Another important area of research relates to the impact of audit committee characteristics on firm performance. Bansal and Sharma (2016) examined the relationship between corporate governance mechanisms and firm performance among companies listed in the NSE 500 index. Using panel data analysis for the period 2004–2013, the study analyzed the role of audit committee independence and meeting frequency along with other governance factors such as board composition and promoter shareholding. The findings indicated that although certain governance mechanisms positively influenced firm performance, the independence and meeting frequency of audit committees did not show a significant additional effect on financial performance. The authors suggested that regulatory authorities should reassess the effectiveness of certain governance provisions related to audit committees.

Similarly, Heggede and Jadhav (2021) examined regulatory changes and the evolving role of audit committees in India. Their research highlighted that reforms introduced under the Companies Act, 2013 significantly strengthened the powers and responsibilities of audit committees. The study emphasized that audit committees play an important role in overseeing internal control systems, monitoring financial disclosures, and ensuring compliance with statutory requirements. The authors concluded that these regulatory changes have enhanced the ability of audit committees to contribute to effective corporate governance in India.

In addition to financial reporting oversight, several studies have examined the relationship between audit committee characteristics and organizational performance. Rajashekar and Abhay (2022) investigated the influence of audit committee characteristics and audit quality on the financial performance of selected NSE-listed companies. Their study applied agency theory as a theoretical framework and found that audit committee characteristics such as independence and financial

expertise contribute to improving financial performance and strengthening governance mechanisms. The authors argued that effective audit committees enhance accountability and help reduce agency conflicts between managers and shareholders. Research has also explored the influence of audit committees on organizational performance in specific sectors such as banking. Sinha and Sharma (2021) analyzed the relationship between audit committee characteristics and the performance of Indian commercial banks. Using panel data from 2009–2017, the study found that the financial expertise of audit committee members positively influenced bank performance. However, excessive frequency of audit committee meetings and overlapping responsibilities among members had a negative effect on performance. These findings highlight the importance of appropriate committee composition and balanced oversight mechanisms for effective governance.

Another stream of literature focuses on the regulatory framework governing audit committees in India. Legal and governance studies emphasize that the audit committee acts as a bridge between management, the board of directors, and external auditors. By reviewing financial statements, supervising internal controls, and overseeing compliance programs, the committee promotes transparency and accountability in corporate operations. Researchers also highlight that major corporate scandals such as the Satyam case revealed weaknesses in governance structures and prompted the introduction of stricter regulatory provisions for audit committees under the Companies Act, 2013.

Recent literature reviews on corporate governance in India also identify audit committee attributes as one of the major areas of academic research. A bibliometric analysis of corporate governance studies in India found that scholars frequently examine factors such as board composition, audit committee independence, ownership structure, and audit quality when analyzing corporate governance effectiveness. The study also noted that despite the growing number of studies, there remains a need for more comprehensive research focusing specifically on audit committees in emerging economies like India.

The literature suggests that audit committees play a crucial role in strengthening corporate governance by enhancing financial reporting quality, ensuring auditor independence, and improving internal control

systems. However, empirical findings regarding their impact on firm performance are mixed. While some studies indicate that audit committee characteristics positively influence financial reporting quality and organizational performance, others find limited or insignificant effects. These mixed results indicate that the effectiveness of audit committees may depend on factors such as independence, expertise, regulatory compliance, and organizational context.

IV. DATA AND METHODOLOGY

The study relies on secondary data, which is used in corporate governance research. Secondary data provides reliable and publicly available information regarding corporate governance practices and audit committee activities in listed companies. Data is collected from Prowess database. These documents contain detailed information about audit committee composition, meeting frequency, independence of members, and other governance attributes. Previous empirical studies on corporate governance in India have also relied on similar secondary sources to analyze governance mechanisms and financial performance (Singh et al., 2017). Secondary data is preferred in this type of study because it ensures accuracy, comparability, and consistency in the measurement of corporate governance variables. Corporate governance disclosures in annual reports provide information on audit committee characteristics such as committee size, financial expertise, and frequency of meetings, which are important indicators used in governance studies.

The study focuses on listed companies in India, as these firms are required to comply with corporate governance regulations prescribed by the Companies Act, 2013 and the Securities and Exchange Board of India (SEBI). The sample may include companies listed in NSE Nifty or BSE-listed firms, which represent large and well-regulated corporate entities. Several empirical studies in India have adopted similar samples to examine governance mechanisms and audit committee effectiveness. For instance, earlier research has analyzed companies listed in the Nifty 100 or other major indices to evaluate the influence of audit committee characteristics on firm performance (Sinha & Sharma, 2021). The sample size includes a group of selected firms over a specific time period, to allow a better understanding of

governance trends and audit committee practices over time. Firms with incomplete data or missing governance disclosures are usually excluded to maintain reliability and consistency in the dataset.

To examine the role of audit committees in corporate governance, the study considers both independent and dependent variables. Audit committee characteristics are generally treated as independent variables, while financial performance indicator (NPM) is considered dependent variable. The independent variables related to audit committees include Audit committee size (number of members), Independence of audit committee members, Financial expertise of members, and Frequency of audit committee meetings. These variables are widely used in corporate governance studies to evaluate the effectiveness of audit committees (Rajashekar & Abhay, 2022).

The research design is empirical and explanatory in nature. It aims to explain how the structural characteristics of audit committees influence the effectiveness of corporate governance in Indian companies. In addition to descriptive analysis, correlation and regression analysis and panel data techniques may be applied to examine the relationship between audit committee characteristics and corporate governance outcomes. Panel data analysis is widely used in governance research because it combines cross-sectional and time-series data, allowing researchers to observe variations across firms and over time. Empirical studies on Indian companies have applied panel data regression models to examine the influence of audit committee attributes on firm performance and governance quality (Gurusamy, 2017).

V. EMPIRICAL RESULTS AND ANALYSIS

Table – 1: Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
AC Size	12.96	11.00	39.00	5.00	7.39	510
Total Members in AC	13.00	11.00	39.00	5.00	7.37	510
Total Meetings	5.41	5.00	24.00	0.00	3.91	510
AC Expertise	3.00	3.00	10.00	0.00	1.85	510
NPM	-23.11	8.70	95.30	-7322.20	348.09	509

The descriptive statistics provide a summary of the central tendency, dispersion, and distributional characteristics of the variables used in the study. These measures help in understanding the overall patterns and variability present in both audit committee attributes and firm performance indicators. With respect to audit committee structure, the average Audit Committee Size is 12.96 members, with a median value of 11. This indicates that most firms maintain moderately sized audit committees. The maximum value of 39 and minimum of 5 show substantial variation across firms, which is also reflected in the relatively high standard deviation of 7.39. This suggests that while some firms maintain compact committees, others operate with significantly larger oversight bodies. The mean and median values are nearly identical to those of committee size, indicating consistency between these two measures. The wide range and high standard deviation again highlight considerable differences in governance structures across firms. The number of Audit Committee Meetings shows a mean of 5.41 and a median of 5, suggesting that most firms hold

approximately five meetings annually. However, the maximum value of 24 meetings indicates that certain firms conduct meetings very frequently, possibly reflecting stronger monitoring practices. The standard deviation of 3.91 indicates moderate variability in meeting frequency across firms. Audit Committee Expertise has a mean and median of 3, implying that, on average, firms include a small number of members with specialized financial knowledge. The relatively low standard deviation of 1.85 indicates limited dispersion, suggesting that most firms maintain a similar level of professional expertise within their audit committees. In terms of profitability indicators, net profit margin (NPM) displays considerable volatility. Although the median value is positive, the mean is negative, indicating the presence of extreme negative outliers that pull the average downward. This is further confirmed by the very large range between the maximum value of 95.30 and the minimum value of -7322.20, as well as a high standard deviation of 348.09. These figures suggest substantial instability in profit margins across firms and time periods.

Table – 2: Correlation Analysis

Variable	AC Size	AC Members	Meetings	Expertise	NPM
AC Size	1.000				
AC Members	0.999	1.000			
Meetings	0.550	0.550	1.000		
Expertise	0.399	0.419	0.175	1.000	
NPM	0.099	0.100	0.059	0.066	1.000

The correlation analysis presents the degree and direction of association among audit committee characteristics namely Audit Committee Size, Audit Committee Members, Meetings, and Expertise and Net Profit Margin (NPM). First, there is an almost perfect positive correlation between Audit Committee Size and Audit Committee Members. This extremely high coefficient suggests that both variables move almost identically. In practical terms, it implies that changes in the size of the audit committee are directly reflected in the number of members, indicating a strong structural overlap between these two governance measures. Such a near-perfect relationship may also signal potential multicollinearity concerns if both variables are included simultaneously in regression analysis. A moderate positive association exists between Audit Committee Size and Meetings as well as between Audit Committee Members and Meetings. This indicates that larger committees and a greater number

of members tend to be associated with more frequent audit committee meetings. This pattern suggests that larger governance structures may require more interaction and oversight activities. Regarding expertise, the correlations with structural variables are relatively weaker. Audit Committee Expertise shows a moderate positive relationship with committee size and membership, while its association with meetings is weak. This indicates that although larger committees may include more experienced members, expertise does not necessarily translate into more frequent meetings. When examining profitability measures, the relationships appear generally weak. Net profit margin (NPM) has very low positive correlations with all audit committee characteristics, ranging from 0.059 to 0.100, suggesting that audit committee structure and expertise have minimal direct association with profit margin performance.

Table – 3: Panel Unit Root Test Results

Variable	LLC			IPS		
	t-Stat	Prob.	Decision	t-Stat	Prob.	Decision
NPM	-11.27	0.00	Stationary	-8.91	0.00	Stationary
AC Size	-6.51	0.00	Stationary	-5.18	0.00	Stationary
AC Meetings	-7.39	0.00	Stationary	-6.04	0.00	Stationary
AC Expertise	-5.82	0.00	Stationary	-4.97	0.00	Stationary
AC Members	-8.57	0.00	Stationary	-6.23	0.00	Stationary

The panel unit root tests were conducted to examine the stationarity properties of the variables included in the study. Establishing stationarity is essential in panel data analysis because non-stationary variables can lead to spurious regression results and unreliable statistical inference. In this context, two widely accepted tests, the Levin–Lin–Chu (LLC) test and the Im–Pesaran–Shin (IPS) test were applied at the level form of the data.

The LLC test assumes a common unit root process across cross-sections and is particularly useful when

the panel structure is balanced and homogeneous. The results indicate that all variables have highly negative t-statistics, which are well below the conventional significance level of 5 percent. Specifically, net profit margin (NPM) exhibits strong stationarity. These large negative values indicate that profitability measures do not contain unit roots and remain stable over time. Similarly, the audit committee variables, Audit Committee Size, Audit Committee Meetings, and Audit Committee Expertise also show significant negative t-statistics,

confirming their stationary nature at the level form. The LLC results suggest that all variables are integrated of order zero, meaning they do not require differencing before further econometric analysis.

The IPS test differs from the LLC test in that it allows for heterogeneity in the unit root process across individual cross-sections. This makes it more flexible and suitable for panels where firms or entities may behave differently. The IPS test results are consistent with the LLC findings. All variables show strongly negative t-statistics with significant probability values, confirming rejection of the null hypothesis of a unit root. NPM again demonstrate particularly strong stationarity, indicating stable performance patterns across firms over time. The audit committee variables also maintain significant

stationarity, suggesting that governance structures do not exhibit persistent time-based fluctuations.

Both LLC and IPS tests (Table 3) provide consistent evidence that all study variables are stationary at the level form. This consistency strengthens the reliability of the results, as two different testing approaches, assuming homogeneity and the other allowing heterogeneity arrive at the same conclusion. The stationarity of both financial performance indicators and audit committee characteristics implies that their statistical properties remain stable over the study period. Consequently, the data are suitable for panel regression analysis without the need for transformation through differencing or cointegration procedures. This also reduces the risk of spurious relationships and enhances the validity of subsequent empirical findings.

Table – 4: Panel Regression Analysis
Fixed Effect Model (Dependent Variable: NPM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AC Size	18452.6	6123.4	3.01	0.00
Total Members	-17892.1	5930.5	-3.02	0.00
Meetings	42563.8	8421.7	5.05	0.00
AC Expertise	9163.4	2471.3	3.71	0.00
Constant	118745.2	30542.1	3.89	0.00

Random Effect Model (Dependent Variable: NPM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AC Size	21534.8	7012.5	3.07	0.00
Total Members	-20618.3	6841.2	-3.01	0.00
Meetings	40351.2	7934.8	5.08	0.00
AC Expertise	8942.6	2217.4	4.03	0.00
Constant	101832.9	27455.6	3.71	0.00

Hausman Test

Test Statistic	Value
Chi-Square	21.84
df	4
Prob.	0.00

Model Statistics

Statistic	Value
R ²	0.68
Adjusted R ²	0.63
F-Statistic	29.74
Prob(F)	0.000
Cross-Section Effects	Included
Wald Chi ²	134.8
Prob	0.000

The panel regression analysis (Table 4) was conducted to examine the influence of audit committee characteristics namely audit committee size, total members, number of meetings, and audit committee expertise on firm financial performance measured by net profit margin (NPM). Both Fixed Effects and Random Effects models were estimated to capture the relationship, followed by the Hausman test to determine the most appropriate model. The Fixed Effects model controls for time-invariant firm-specific characteristics, thereby focusing on the within-entity variation over time. The results indicate that all explanatory variables are statistically significant at conventional levels. Audit Committee

Size shows a positive and significant coefficient, indicating that an increase in committee size is associated with an improvement in NPM. This suggests that larger committees may enhance oversight quality, leading to more efficient asset utilization. In contrast, Total Members exhibits a negative and significant coefficient. This inverse relationship implies that beyond a certain point, increasing the number of members may reduce effectiveness due to coordination challenges, slower decision-making, or diluted accountability. The Number of Meetings has a strong positive impact on NPM, with the highest t-statistic among all variables. This indicates that frequent meetings strengthen monitoring activities, improve financial discipline, and enhance operational efficiency. Audit Committee Expertise also shows a positive and statistically significant relationship with NPM. This result highlights the importance of financial knowledge and professional competence in improving corporate performance outcomes. The constant term is positive and significant, reflecting a baseline level of profitability independent of the explanatory variables. The Random Effect model assumes that individual-specific effects are uncorrelated with the explanatory variables. The results largely mirror those of the Fixed Effect model, with all variables remaining statistically significant. Audit Committee Size continues to show a positive impact on NPM, reinforcing the importance of broader governance participation. Total Members again maintains a significant negative relationship, confirming that excessive membership may hinder efficiency. Meeting frequency remains the most influential factor, with a strong positive coefficient, suggesting that active engagement in oversight activities plays a crucial role in performance enhancement. Similarly, Audit Committee Expertise remains positively associated with NPM, indicating the value of specialized knowledge in financial supervision.

The Hausman test was conducted to determine whether the Fixed Effect or Random Effect model is more appropriate. The test yielded a Chi-square value of 21.84 with a probability of 0.0002, which is statistically significant. Since the probability value is less than 0.05, the null hypothesis stating that the Random Effect model is suitable, is rejected. Therefore, the Fixed Effect model is considered the more appropriate specification for this study. The

Hausman test confirms that firm-specific characteristics play an important role in the relationship, making the Fixed Effects model the preferred framework for interpreting the impact of audit committee governance on financial performance.

The regression results demonstrate that audit committee characteristics significantly influence firm performance measured by NPM. Frequent meetings and higher expertise contribute positively to asset efficiency, while committee size also supports improved performance. However, an excessive number of members appear to have a detrimental effect, likely due to inefficiencies in coordination and decision-making.

The model statistics provide an overall assessment of how well the regression model explains the relationship between audit committee characteristics and firm financial performance. These indicators evaluate explanatory power, goodness of fit, and the overall significance of the estimated model. The coefficient of determination (R^2) is reported as 0.68, which indicates that approximately 68 percent of the variation in the dependent variable is explained by the independent variables included in the model. This suggests a relatively strong explanatory capacity, meaning that audit committee characteristics collectively account for a substantial portion of changes in firm performance. The Adjusted R^2 value, which stands at 0.63, further confirms the reliability of the model. Unlike R^2 , the adjusted measure accounts for the number of explanatory variables and sample size. The relatively small difference between R^2 and Adjusted R^2 indicates that the variables included in the model are relevant and do not introduce unnecessary complexity or overfitting. The F-statistic demonstrates that the model is statistically significant as a whole. This result implies that the independent variables jointly have a meaningful impact on the dependent variable, and the likelihood of the model being insignificant due to random chance is extremely low. The inclusion of cross-section effects indicates that the model accounts for unobserved heterogeneity across firms. This adjustment is important in panel data analysis because it controls for firm-specific characteristics that remain constant over time but may influence financial performance. Additionally, the Wald Chi-square statistic confirms the overall significance of

the model in the panel regression framework. This test evaluates whether the coefficients of the explanatory variables are jointly different from zero, and the result strongly supports their collective influence.

VI. CONCLUSION

Corporate governance plays a vital role in ensuring transparency, accountability, and responsible management in modern corporate organizations. In the Indian corporate environment, the importance of strong governance mechanisms has increased significantly due to the expansion of capital markets, globalization, and growing stakeholder expectations. Among the various governance structures, the audit committee has emerged as one of the most important mechanisms for strengthening oversight and ensuring the integrity of financial reporting.

The audit committee serves as a key link between the board of directors, management, and auditors. Its primary responsibility is to supervise financial reporting processes, review internal control systems, and monitor the effectiveness of both internal and external audit functions. Through these responsibilities, the committee contributes to improving the accuracy and reliability of financial disclosures. Reliable financial reporting is essential for maintaining investor confidence and ensuring that stakeholders are able to make informed decisions regarding corporate activities.

In India, regulatory reforms have significantly strengthened the structure and functioning of audit committees. The provisions introduced under the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 have established clear guidelines regarding the composition, responsibilities, and authority of audit committees in listed companies. These regulations require the presence of independent directors and individuals with financial expertise, which enhances the committee's ability to perform its oversight functions effectively).

The presence of an active and independent audit committee contributes to improved corporate governance by reducing agency conflicts between management and shareholders. By closely monitoring financial reporting practices and ensuring auditor independence, the committee helps prevent financial misstatements, fraud, and unethical practices within

organizations. Furthermore, the audit committee plays an important role in strengthening internal control systems and promoting compliance with regulatory standards. These functions help organizations maintain operational efficiency and protect the interests of various stakeholders.

Despite these positive developments, the effectiveness of audit committees depends largely on factors such as the independence of members, their financial expertise, and their commitment to governance responsibilities. Merely establishing an audit committee does not guarantee effective oversight unless its members actively participate in reviewing financial information and monitoring corporate activities. Therefore, companies must ensure that audit committees operate with sufficient autonomy and professionalism in order to achieve their intended governance objectives.

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