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## **THE IMPACT OF AUDIT COMMITTEE CHARACTERISTICS ON EFFECTIVENESS ON AUDIT QUALITY**

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### **ABSTRACT :**

An essential component of preserving the reliability and correctness of the accounting records is the oversight provided by audit committees to the third-party audit process. This review of the literature looks at the effect that auditing committee features have on the effectiveness of audit quality. Based on a wide range of investigations, the review presents significant findings about the composition, independence, skill, and completeness of auditor committees.

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### **INTRODUCTION:**

The efficiency of the audit procedure and the general caliber of reporting on finances, the committee for auditing is essential. The audit committee's membership, autonomy, experience, and vigilance are just a few of the qualities that can have a big impact on how well it performs its oversight duties. The efficacy of the audit committee is largely dependent on its makeup. Successful oversight of the procedure for auditing is more likely to come from an inclusive committee with members that are independent from management, have relevant financial experience, and understand the industry. With this makeup, the committee is certain to comprehend and assess the audit's conclusions and recommendations thoroughly.

Another crucial factor is the audit committee's independence. When needed, an impartial committee that is independent of management can question the external auditor and management. A significant number of unbiased boards on the advisory board who have no involvement in the day-to-day management of the business is typically sufficient to ensure independence.

Another crucial element is the members of the audit committee's level of experience. Individuals possessing financial acumen, accounting expertise, and auditing experience are more suited to comprehend the intricacies of the audit procedure and evaluate the audit's caliber. Because of their experience, they can make well-informed inquiries and offer insightful commentary that can increase the efficacy of audits.

Recently, there has been a lot of focus on the function of audit committees in improving the caliber of corporate governance and financial reporting. In order to ensure the accuracy of financial statements, monitor the financial reporting process, and facilitate efficient communication between the board of directors, management, and auditors, audit committees are essential. Consequently, the attributes of audit committees, including their makeup, autonomy, proficiency, and attentiveness, have been the focus of extensive research to understand the impact they have on audit quality.

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### **IMPORTANCE :**

- **Improving Accounting Integrity:** By supervising the audit procedure and guaranteeing adherence to pertinent guidelines and rules, audit committees are essential in improving the financial reporting integrity.
- **Enhancing Corporate Governance:** By better understanding how the qualities of the audit committee affect the quality of the audit, corporate governance procedures can be enhanced, benefiting shareholders and stakeholders alike.
- **Increasing Investor Confidence:** Strong audit committees have a beneficial effect on capital markets by raising the trust of investors in the accuracy and accessibility of financial information.
- **Reducing Economic Risks:** Audit committees reduce financial risks by making sure internal control mechanisms are efficient and that possible hazards are promptly recognized and dealt with.

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### **Theoretical implication:**

According to conceptual ramifications, the qualities of the audit committee's monitoring are represented by these attributes, which operate as substitutes for the degree of monitoring the committee provides. It is thought that audit committees' experience, independence, diligence, and makeup affect how well they are able to carry out their supervision duties. Furthermore, the way in which these traits interact with other methods of corporate governance, such as CEO duality and board autonomy, might affect the caliber of audits.

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## Literature Review:

1. Al-Smadi (2015) looks into the connection between the quality of audits in Jordan and the makeup of the audit committee. This research examines the size, independence, and financial knowledge of audit committees as well as how these factors affect the quality of audits. The results imply that higher audit quality is correlated with a larger percentage of unbiased and financially prudent audit committee members. The study emphasizes how crucial the makeup of the audit committee is to guaranteeing efficient financial reporting supervision and improving the caliber of audits in Jordanian companies.
2. Ayuba A. Aminu (2020) investigates how Nigerian commercial banks' financial performance is affected by the efficacy of their audit committee. The study examines how audit committee independence, competence, and makeup affect financial performance measures including return on equity (ROE) and return on assets (ROA). The results imply that enhanced financial performance in Nigerian financial institutions is favorably correlated with an audit committee that is more independent and financially literate. The research underscores the significance of proficient corporate governance, specifically the function of auditing committees in augmenting the financial performance of the banking industry.
3. Smith (2015) performs a meta-analysis. Higher audit quality is positively correlated with more audit committee independence, according to the meta-analysis, which synthesizes findings from multiple studies. The study also reveals moderating factors for this association, including the audit committee's degree of financial expertise. The results highlight the need of robust corporate governance procedures in guaranteeing accurate financial reporting and indicate that autonomous audit committees are essential to improving audit quality.
4. Chen (2012) reviews the literature to investigate the connection between the caliber of financial reporting and the expertise of the audit committee. According to the analysis, improved financial reporting quality is linked to audit committees with greater financial competence. The report also emphasizes how crucial it is for audit committees to have a balance between the amount and quality of financial expertise. The results indicate that audit committees can greatly improve the quality of financial reporting by include members who possess sound financial understanding.
5. Abbott (2019) performs a study of the literature to examine the effect of audit committee financial knowledge on earnings management. The analysis shows that the association between financial knowledge and earnings management is moderated by the position of the economic expert, as determined by variables like tenure and experience. The results indicate that the standing of the accountant within the auditing panel influences how well financial competence mitigates earnings management.

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## Research methodology

### 3.1 Statement of problem

- Inadequate knowledge of the impact of audit committee size, independence, and expertise on audit quality.
- Inadequate study on the ways in which the features of the audit committee connect with other business governance tools to affect the caliber of audits.
- Little study has been done on how diversity in the audit committee (gender, age, and background, for example) improves the quality of audits.
- Limited attention paid to the ways in which the qualities of audit committees affect the caliber of internal audit services.

### Research gap

The literature exhibits a study gap regarding the little attention given to the influence of audit committee characteristics on audit quality when it comes to markets that are developing. A knowledge vacuum exists about the ways in which audit committees in developing countries impact the quality of audits as the majority of research has focused on developed economies. Further study is also required to determine the specific processes by which attributes of the audit committee—such as autonomy, competence, and diligence—affect audit quality results.

### Objectives of study

- To investigate the function of auditor committee composition in audit quality;
- to evaluate the influence of audit committee expertise on audit quality;
- to investigate the relationship between the independence of audit committees and audit quality.
- To assess the contribution of risk oversight by the auditing committee to audit quality.
- To examine the impact of cooperation and communication within the audit committee on audit quality.

## SCOPE OF THE STUDY

- **Regional Scope:** To comprehend the influence of audit committee features on the integrity of audits in various contexts, the study focuses on a particular region, nation, or compares other regions.
- **Time Framework:** To explore the way shifts in the traits of audit committees affect audit quality over time, the study looks at data collected over a predetermined period of time.
- **Business Focus:** To comprehend sector-specific variables that impact the connection between auditor committee features and the quality of the audit, the study focuses on a particular industry or compares across sectors.
- **Audit Board Characteristics:** To determine how each of these factors affects audit quality separately and collectively, the study examines a number of audit committee attributes, including size, autonomy, experience, diversity, and management.

## Research methodology

- Type of research – Primary Data
- Sample Size – 50 - 60
- Sample respondents – Audit committees
- Sampling type – Survey
- Data collection :

Primary Data – Survey and Questionnaire Method

Secondary Data - Trade Journals, Published Sources, Journals, Newspapers, Websites, Blogs

## Limitations of the study

- **Findings Bias:** The quality and dependability of the study's conclusions may be impacted by biases in the self-reported data provided by audit committee members.
- **The generality:** The study's conclusions might not be easily applied to all sectors of the economy or legal frameworks, which would restrict their wider applicability.
- **Data Accessibility:** The quality and quantity of data regarding audit committee traits and audit quality metrics may be scarce, which may affect the the study's scope and complexity.
- **Timeframe:** Due to the study's possible limitations, long-term effects of the traits of audit committees on the integrity of audits and company efficiency may go unnoticed.

## 4.0 analysis and discussion

### 4.1 hypothesis

#### Hypothesis 01

H0 (Null hypothesis): The audit committee is rated as effective in ensuring audit quality, and it has contributed to improvements in audit quality over time.

H1 (Alternative hypothesis): The audit committee is not rated as effective in ensuring audit quality, or it has not contributed to improvements in audit quality over time.

### T-Test

#### Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	How do you rate the overall effectiveness of your audit committee in ensuring audit quality?	3.07	70	.997	.119
	Do you believe that audit committee has contributed to improvements in audit quality over time?	2.14	70	1.094	.131

		Paired Samples Test			
		Paired ...			
		95% Confidence Interval of the ...			
		Upper	t	df	Sig. (2-tailed)
Pair 1	How frequently does your audit committee meet to discuss audit related matters ? - How thoroughly does your audit committee review audit findings and recommendations ?	-.123	-2.673	69	.009

#### Interpretation

The null hypothesis would not be rejected if the estimated t test value was less than 5%, Here Null Hypothesis is rejected because it's greater than 0.05. The significance value which determined above here is 0.009 which is greater than 0.05. Hence null hypothesis is rejected and alternative hypothesis is accepted. By this test we can say. the audit committee either meets more frequently than typical for organizations of its size and industry, or it does not conduct a thorough review of audit findings and recommendations.

#### Conclusion

It is crucial to consider how audit committee qualities affect audit quality effectiveness in order to guarantee trustworthy financial reporting and strong corporate governance procedures. Research continuously demonstrates the critical role independent audit committees play in improving audit quality. These committees are comprised primarily of independent members who are not influenced by management. These committees have a higher likelihood of impartially supervising, disputing claims made by management, and collaborating well with auditors, all of which contribute to more comprehensive and efficient audits.

Members of audit committees with financial competence are better able to evaluate the quality of reporting on finances, comprehend complicated financial issues, and interact with both management and auditors in an efficient manner. Audit quality is also highly influenced by the frequency and attentiveness of audit committee meetings; more frequent and in-depth evaluations of audit results and suggestions result in increased efficiency of audits.

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