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Audit Committee Attributes and Firm Performance

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Abstract

The audit committee provides considerable support when achieving corporate goals and objectives through practicing good governance in a firm. Although the audit committee is a critical element of corporate governance there is a dearth of studies relating to the audit committee. Thus, this research examined the impact of audit committee attributes on firm performance based on the Stewardship theory. The population for the study includes the listed companies in the Colombo Stock Exchange and the top 100 companies which have the highest market capitalization. The data collection study is an archival strategy based on the annual reports of the sample companies for the two years. The goals of this study are met with the help of EViews software and descriptive statistics and panel regression. The research findings of the study suggested that there is a positive relationship between Audit committee size, interlock of directors on the audit committee, and risk management committee with the firm's performance. The Interlock of directors on both the audit committee and nomination committee as well as the audit committee and remuneration committee have a negative relationship with the firm performance. Additionally, this study found that audit committee independence, financial expertise, audit committee diversification, and meeting frequency have no significant relationship with the firm performance. The findings of this study suggest that there should be audit committee compliance requirements that result in an increase in stewardship and improve performance which added new knowledge to Stakeholder theory.

Keywords: *audit committee; interlock of directors on subcommittees; firm performance.*

JEL Classification: *M42; G34; G30.*

Introduction

In any business, both the owners and the management team want to see the company succeed. Ideally, a company would always be striving to do better at what it does. In order to boost its commercial results, a company should increase its compliance with corporate governance regulations. There are several parts to corporate governance, but the audit committee is the most

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important. Consequently, the purpose of this research is to investigate the connection between the audit committee and financial outcomes for businesses. There is a lack of research because academics who have studied corporate governance haven't paid enough attention to the audit committee. This study will therefore be conducted to look into the link between the audit committee and the company's success.

Considering the present circumstances in Sri Lanka, it's clear that good corporate governance practices have a significant impact on the economy. Golden Key, Pramuka, and Sakwithi are just some of the local businesses that failed due to lax compliance with corporate governance. Heenetigala and Armstrong (2012) write that similar attitudes can be found in Sri Lanka, where good corporate governance is seen as evidence of corporations' willingness to answer for their actions, where financial reports are more reliable, and where the capital market functions more smoothly and fairly. While looking at the origins of corporate governance in Sri Lanka, one has go all the way back to 1997. In 1997, Sri Lanka adopted a voluntary code of best practice for the unique issues of financial aspects of corporate governance, making it possible to assess the country for potential adoption of corporate governance. Corporate governance regulations in Sri Lanka were first implemented as voluntary norms in 2003, and were revised and updated in 2007. Listed firms were required to use the ICASL 2007 codes beginning with the fiscal year ending on March 31, 2009.

According to Ruzaidah and Takiah (2004), the audit committee plays a critical role in corporate governance by helping to exercise oversight over the firm's management. This is something that has been said repeatedly by all credible academics who have studied the topic of corporate governance. The audit committee's primary role is to ensure that financial data is readily available, to encourage responsible management, and to determine where the board of directors and other important personnel may benefit from additional training. The ICASL, which was launched in 2013 and updated in 2017, provides guidelines for the establishment of the audit committee, including its size, independence, duties, and obligations of members. These corporate governance best practices codes were developed jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The audit committee's responsibilities and mandates were laid out in great detail in the 2002 code of best practices for audit committees. It is clear that Sri Lanka implemented corporate governance at the same time as the rest of the world, as the first Sri Lankan code was introduced in 1997. That's why it's important for Sri Lanka to promote good corporate governance within the country's own businesses. It is primarily an audit committee.

Several forms of studies on the audit committee have been conducted. On the other hand, several scholars who conducted research on corporate governance have included the audit committee as a component of their studies. Kallamu and Saat (2015) conducted a study on audit committees and financial firm performance proof. Buallay (2018) conducted study on the audit committee and intellectual property. Similarly, Ahmed Haji (2015) conducted study on the same problem using evidence from Malaysia. Iskandar and Rahmat have conducted study on the audit committee and financial crisis. Ferrari (2009) has authored an article on the relationship between audit committee qualities and performance. Lin, Li, and Yang (2006) conducted research on the impact of the audit committee on earnings quality. Adelopo, Jallow, and Scott (2012) and Scott's 2001 research on audit committee activity drivers. Salehi, Tahervafaei, and Tarighi (2018) conducted audit committee and business profitability studies in Iran. On the other side, (Mardnly, Mouselli, and Abdulraouf, 2018) have investigated corporate governance and business performance, and the audit committee has been evaluated as the most important element of corporate governance. In Sri Lanka, multiple sorts of research on corporate governance have been conducted, and the audit committee has been included as a topic of study. In this instance, however, the audit committee did not hold a separate meeting. In his study on corporate governance practices and their effects on business performance, Sri Lankan scholar Manawaduge (2012) discusses audit committee as a component of corporate governance. In addition to the research conducted by Dissanayake, Dissabandara, and Ajward (2018) and two others on the impact of compliance with principles on the board of directors and company performance, the audit committee is also considered here. Although the audit committee has been described as a component of corporate governance, no study has been conducted in Sri Lanka to explore the audit committee in depth. Thus, this study will be conducted to investigate the relationship between the audit committee and business performance.

According to the research problem research questions of the study in the context of listed companies are as follows.

- What is the level of compliance with audit committee principles?
- What is the impact of the audit committee on the firm performance?

Corporate governance is crucial, and the audit committee provides substantial assistance to corporations in accomplishing their aims and objectives through the practice of good corporate governance. Although the audit committee is a crucial component of corporate governance, there is a paucity of research pertaining to this committee. Aside from this, if there is a good association between the audit committee and business performance, organizations can boost their performance by complying with audit committee laws. Through this study, it will be possible to examine the level of compliance with audit committee principles, the relationship between audit committee principles and firm performance, and the impact of the audit committee on firm performance. Using these research findings, the relevant authorities will be able to amend existing standards in order to improve the quality and efficacy of such standards and rules. This may be the result of improved corporate reporting, which may reduce the number of company failures. Ultimately, it will contribute to the expansion of the Sri Lankan economy.

Corporate governance is a big deal in the business world. The audit committee, on the other hand, is a much more important part of corporate governance. As many researchers have said, the main reason for the development of good governance is that ownership is split. The big financial and business failures of the past, like Enron and WorldCom, have made it possible for business firms to follow codes of best practices. These rules for the best way to run a business help companies do very well. In the beginning, we talked about how important the audit committee is to a business. On top of that, it was said that the audit committee doesn't do enough research. It tries to stress that research has been done, but it doesn't go into more detail about the audit committee. According to this study, there will be real-world evidence about the audit committee, which could be used to make decisions about how to make corporate governance rules and regulations better and more effective.

Literature Review

In terms of organizational direction, control, and responsibility, the audit committee is critical in corporate governance. It is recognized as an important component of corporate governance. Furthermore, it is regarded good practice for corporations to develop internal audit functions to carry out frequent monitoring of important controls and procedures through the audit committee.

Audit committees are defined differently by different academics. According to Hamdan and Mushtaha (2011), it is a corporate governance strategy used to promote management questioning and auditor independence. Chen et al. (2008) define the audit committee precisely. He defined the audit committee as a vehicle for monitoring. As he stated, the audit committee can aid in the resolution of agency issues by minimizing knowledge asymmetry between insiders (managers) and outsiders (board members). Klein believes that the audit committee is a delegate body of the board of directors responsible with safeguarding and advising shareholders' interests. Audit committees, according to Alderman, are one of the most critical cornerstones of a solid corporate governance framework. A proper audit committee, according to his definition, improves board supervision, improves financial reporting quality, decreases information asymmetry issues, and improves auditor performance, independence, and objectivity. increases financial decision making and risk management. The audit committee, according to Manawaduge (2012), is a committee that functions independently of the executives to ensure that the interests of shareholders are appropriately protected in financial reporting and internal controls. Independence is a prerequisite for good company governance. The audit committee contributes to a firm's independence.

As a result, the audit committee is confronted with several researchers' definitions. Nonetheless, when the broader concept is considered, there are commonalities between these concepts. Therefore, based on all of these criteria, the audit committee can be defined as an internal controlling mechanism developed under corporate governance that empowers the firm's transparency and financial reporting quality.

Theories related to the audit committee

Agency theory

The primary factor influencing insider difficulties in a corporation can be characterized as agency theory. As a result of the principal-agent relationship, two difficulties have come to light: agency costs and information asymmetry. According to agency theory, the interests of principals and agents differ, and the principal can lower agency costs by providing incentives to the agent and monitoring and controlling the self-interest activities of the agents. Meckling and Jensen (1976) Kallamu and Saat state that (2014). The independent audit committee is a device put in place to reduce the agent's self-serving tendency. As a result, in order to mitigate the agency problem of knowledge asymmetry, corporate governance structures such as board subcommittees comprised of directors with relevant attributes have emerged.

Stewardship theory

This theory examines events in the opposite direction of agency theory. According to the stewardship idea, agents are concerned with their principals' welfare and the firm's overall performance. But, according to the agency hypothesis, agents primarily care about themselves. Together, Donaldson and Davis (1991). According to the stewardship idea, managers should strive diligently to help owners achieve their objectives.

Based on the stewardship theory, Ntim (2009) said that the firm's performance would be better if it had more executives. The theory says that a board's performance will improve if there are more executive directors than independent directors. Since executive directors have more technical knowledge than independent directors, they can make operational decisions on behalf of the company. Under that theory, it was said that managers are driven to work for the long-term good of their bosses by the rewards that come from doing so.

Research Hypothesis Development

Audit committee size

One of the most important things that decides an audit committee is its size. The study by Buallay (2018) found that the size of the audit committee is related to performance in a good way. As well as Ahmed Haji's (2015) study, this is also how he feels about the size of the audit committee. On the other hand, Mohd Saleh, Mohd Iskandar, and Mohid Rahmat (2007) and Lin, Li, and Yang (2006) say that the size of a committee has a negative effect on how well a company does. Adelopo, Jallow, and Scott (2012) and Rahman and Mohamed Ali (2006) said that the size of an audit committee has nothing to do with how well a business does. Accordingly,

$H_1$1: There is a positive relationship between audit committee size and firm performance;

Audit committee independence

The independence of the committee is also treated as a major component of the audit committee. There is a positive relationship between AC independence and firm performance. Buallay, (2018), Adelopo, Jallow and Scott, (2012), Ahmed Haji, (2015), Buallay and Al-Ajmi, (2019), Kallamu and Saat, (2015). Mohd Saleh, Mohd Iskandar, and Mohid Rahmat, (2007) stated that independence is negatively related to firm performance. Lin, Li, and Yang, (2006) suggest that committee independence has no relationship with performance. Accordingly,

$H_1$2: There is a positive relationship between audit committee independence and firm performance

Audit committee financial expertise

Financial expertise in the audit committee is a mandatory requirement for an audit committee. Several researchers have investigated the relationship between financial expertise and firm performance. Buallay, (2018), Ahmed Haji, (2015), Salehi, Tahervafaei, and Tarighi, (2018) expressed a positive relationship between AC financial expertise and firm performance. According to the research findings of Buallay and Al-Ajmi, (2019), financial expertise and firm performance have a negative relationship. Furthermore Lin, Li, and Yang, (2006), Adelopo, Jallow, and Scott, (2012) exhibit a zero relationship between AC financial expertise and firm performance. Accordingly,

$H_1$3: There is a positive relationship between the audit committee's financial expertise and firm performance

Audit committee meeting frequency

Previous researchers have experimented with the frequency of meetings held by the audit committee, and the results of those experiments have been found to differ from one another. Buallay, (2018), Ahmed Haji, (2015) stated a positive relationship between meeting frequency and firm performance. The study of Lin, Li, and Yang, (2006) stated that there is no relationship between meeting frequency and firm performance. Accordingly,

$H_1$4: There is a positive relationship between the frequency of audit committee meetings and firm performance

Interlock of directors on the audit committee and nomination committee

This variable is not commonly used in prior studies. Kallamu and Saat, (2015) have tested the effect of the interlock of the audit committee and nomination committee on the firm performance. According to his investigation if the director is at both the audit committee and nomination committee negatively affected firm performance. Accordingly,

$H_1$5: There is a positive relationship between the interlock of directors on audit and NC and firm performance

Interlock of directors on the audit committee and remuneration committee

This variable is also not commonly used in prior studies. Kallamu and Saat, (2015) have tested the effect of the interlock of the audit committee and the remuneration committee on firm performance. According to his investigation if the director is at both the audit committee and the remuneration committee it has no significant effect on firm performance. Accordingly,

$H_1 6$: There is a positive relationship between the interlock of directors on audit and RC and firm performance

Interlock of directors on the audit committee and risk management committee

This variable is also not commonly used in prior studies. Kallamu and Saat, (2015) have tested the effect of the interlock of the audit committee and risk management committee on the firm performance. According to his investigation if the director is on both the audit committee and risk management committee it has no significant effect on firm performance. Accordingly,

$H_1 7$: There is a positive relationship between the interlock of directors on audit and RMC and firm performance

Methodology

This technique examines the level of compliance with audit committee principles, the relationship between audit committee principles and firm performance, and the impact of the audit committee on firm performance. To fulfill these research objectives, secondary data taken from annual reports of publicly traded Sri Lankan enterprises would be utilized. In addition, this study is conducted as quantitative research. The collected data from annual reports are then interpreted with the aid of previous research.

In addition to an inductive research design, the empirical investigation of this study employs a descriptive research method. A descriptive research study describes the current status and features of a phenomenon. Manawaduge (2012). (2012). Typically, descriptive approaches are exploratory and aim to ascertain the conditions of a certain region. Heppner (2008) (2008) This type of research tries to verify the proposed hypothesis regarding the current situation.

Population and sample

The companies listed on the Colombo stock exchange that were formed under the Companies Act No. 07 of 2007 and are part of the study's population. As of January 1, 2020, there are 290 companies on the Colombo stock exchange that belong to 20 GICS industry groups. The sample will be chosen from the whole population based on the size of the market. This study looks at the top 100 companies on the Colombo stock exchange with the most money in the market.

Data and data collection

This study is based on secondary data, and the data will come from the Colombo stock exchange's annual reports from 2017 to 2019. These reports can be found on the exchange's website. Since the data is accurate and reliable for the study, it was taken from the audited annual reports of the companies that were on the stock market.

Conceptual Framework

Figure 1 depicts the conceptual framework applied in this study.

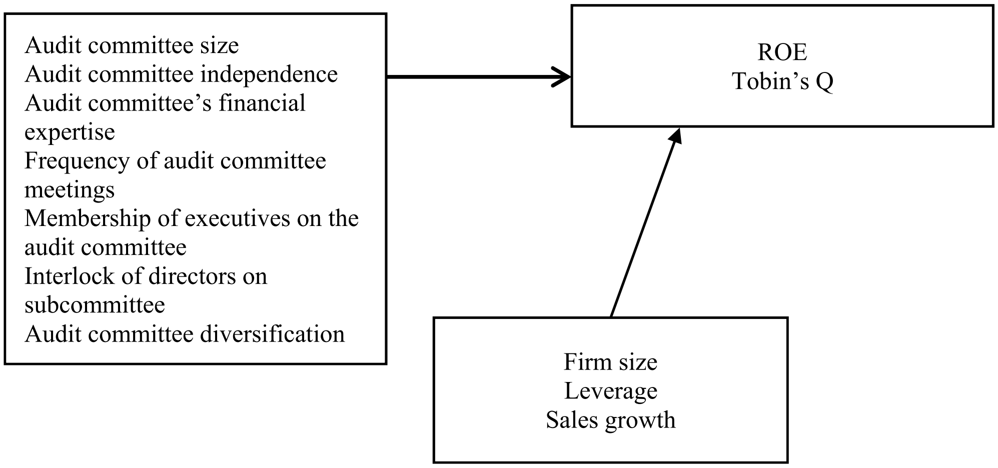

Fig. 1. Conceptual framework

Source: Constructed by the authors.

Operationalization of variables

Table 1 illustrates the operationalization of the variables of this study.

Table 1. Operationalization of variables

Variable	Measure	Literature
Independent variables		
Audit committee size	No. of members on the audit committee	Adelopo, Jallow and Scott, (2012), Buallay and Al-Ajmi, (2019), Ahmed Haji, (2015), Mohd Saleh, Mohd Iskandar, and Mohid Rahmat, (2007)
Audit committee independence	The proportion of independent directors to the total no. of directors on the audit committee	Mohd Saleh, Mohd Iskandar and Mohid Rahmat, (2007) Kallamu and Saat, (2015) , Ahmed Haji, (2015)
Audit committee's financial expertise	The proportion of audit committee members with accounting or finance qualifications or experience	Ahmed Haji, (2015), Buallay and Al-Ajmi, (2019), Kallamu and Saat, (2015)
Frequency of audit committee meetings	No. of meetings during a year	Adelopo, Jallow and Scott, (2012), Buallay and Al-Ajmi, (2019), Ahmed Haji, (2015), Mohd Saleh, Mohd Iskandar and Mohid Rahmat, (2007)
Membership of executives on the audit committee	The proportion of executives to the total number of directors in the audit committee	Kallamu and Saat, (2015)

Table 1 (cont.)

Interlock of directors on subcommittees	**AC- RMC** - the proportion of directors on both the audit committee and risk management committee to the total number of directors on the audit committee **AC- NC** - the proportion of directors on both the audit committee and nomination committee to the total number of directors on the audit committee **AC- RC** - the proportion of directors on both the audit committee and the remuneration committee to the total number of directors on the audit committee.	Kallamu and Saat, (2015)
Control variables		
Firm size	The natural logarithm of the total assets of the firm	Adelopo, Jallow and Scott, (2012), Buallay and Al-Ajmi, (2019), Ahmed Haji, (2015), Mohd Saleh, Mohd Iskandar, and Mohid Rahmat, (2007)
Leverage	The natural logarithm of total assets to total debts	Adelopo, Jallow and Scott, (2012),Buallay and Al-Ajmi, (2019),Ahmed Haji, (2015), Mohd Saleh, Mohd Iskandar, and Mohid Rahmat, (2007)
Dependent variable		
Firm performance	ROE - Return on Equity (the ratio of stated capital to the total assets)	Kallamu and Saat, (2015)
	ROA - Return on Assets (the ratio of earnings before tax to total assets)	Kallamu and Saat, (2015)

Source: Constructed by the authors.

Data Analysis Method

Several quantitative data analysis techniques are used on the selected sample data set of the study. An examination of the relationship between the performance of the company and the factors determined by the audit committee will involve a descriptive analysis, a correlation analysis, and a regression analysis. The data were cleaned through the use of diagnostic tests in addition to tests for normality and multicollinearity before being analyzed.

The outcomes of the regression model will be examined in light of the findings obtained from the F test, as well as the significance of the model as determined by the p-value that was computed. The hypothesis will be examined with the help of the regression model that is presented below:

$$FP_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACI_{it} + \beta_3 ACFE_{it} + \beta_4 FACM_{it} + \beta_5 MEAC_{it} + \beta_6 AC.RMC_{it} + \beta_7 AC.RC_{it} + \beta_8 AC.NC_{it} + \beta_9 DAC_{it} + \beta_{10} FS + \beta_{11} LEV + \beta_{12} G_{it} + u_{it} \quad (1)$$

Where:

FP - Firm Performance (ROE and ROA);
ACS - audit committee size;
ACI - audit committee independence;
ACFE - audit committee's financial expertise;
FACM - frequency of audit committee meetings;
MEAC - membership of executives on the audit committee;

AC-RMC - both membership in the AC and risk management committee;
AC- RC - both membership in the AC and remuneration committee;
AC-NC - both membership in the AC & nomination committee;
DAC - audit committee diversity;
FS - firm size;
LEV - leverage;
G - Growth;
U - Error term.

Data Analysis

This study investigates the connection between the characteristics of audit committees and the success of businesses. The return on equity (ROE) and Tobin's q were used as the dependent variable, while the audit committee's size, independence, meeting frequency, audit committee financial expertise, audit committee interlock with other subcommittees in the board such as the risk management committee, nomination committee, and remuneration committee, and the committee diversity were used as independent variables. The control variables for this analysis are the size of the company, its leverage, and its rate of growth.

SPSS will be used to analyze the data, as it is a standard tool for conducting pool regression analysis. As initial normality constraints were not met, two levels of extreme values must be removed from the data set in order to achieve a normal distribution of variables. Further required tests were executed after normalcy requirements were satisfied. Due to the normality of the multicollinearity and independence results, correlation and regression analysis were performed with the goal of actualizing the study aims. Two regression models were constructed, and their outcomes were examined. One regression model is constructed with audit attributes and financial performance as independent variables, while another is constructed with audit committee attributes and market performance as independent variables.

Descriptive statistics

The primary objective of the study is to examine the level of compliance with audit committee principles. This objective was materialized with the help of descriptive statistics. The result of the descriptive statistics of the audit committee principles is illustrated in Table 2.

Table 2. Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
ACS	2.000	7.000	3.444	1.008	1.016	0.996	0.192	1.273	0.381
ACI	0.400	1.000	0.831	0.173	0.030	-0.365	0.192	-1.128	0.381
ACM	1.000	18.000	6.450	3.726	13.884	1.393	0.192	0.988	0.381
ACFE	0.250	1.000	0.599	0.219	0.048	0.451	0.192	-0.711	0.381
AC-RMC	0.000	1.000	0.685	0.331	0.110	-0.835	0.192	-0.357	0.381
AC-NC	0.000	1.000	0.179	0.252	0.063	1.189	0.192	0.450	0.381
AC-RC	0.000	1.000	0.557	0.325	0.105	-0.235	0.192	-0.926	0.381
DAC	0.000	1.000	0.250	0.434	0.189	1.166	0.192	-0.650	0.381
firm size	0.198	5323.9	167.57	620.22	4E+17	7.106	0.192	55.373	0.381
Leverage	0.000	14.212	2.416	3.587	12.865	1.616	0.192	1.368	0.381
Growth	-1.000	2.898	0.163	0.453	2052.390	3.183	0.192	16.276	0.381
ROE	-.049	.535	.122	.117	.014	1.436	.192	2.567	.381
Tobbins Q	0	49	5.41	8.852	78.349	2.461	.192	5.978	.383

Source: Constructed by the authors.

The descriptive statistics of AC components; audit committee size, independence, meeting frequency, financial expertise, interlock of directors with other sub-committees, and committee diversity are presented with their descriptive statistics. The minimum value, maximum value, mean of the data set, standard deviation, variation, skewness, and kurtosis have been calculated as descriptive statistics. In addition to this, the findings of descriptive statistics regarding control variables such as firm size, growth, and leverage. The mean value of these three variables is 167.57, 0.163, and 2.416 respectively.

Correlation Analysis

The second purpose of the research was to investigate the connection between the audit committee principles and the overall performance of the company.

When examining the relationship between audit committee components and firm performance, table 3 illustrates that audit committee size has a positive relationship with ROE with a 95% confidence level. That result consists of several study results. Buallay, (2018) Ahmed Haji, (2015). In addition, at a confidence level of 95%, there is a negative relationship between the interrelationship between audit committee and the remuneration committee, and the ROE of the company. Furthermore, at a 95% confidence level, it indicated that committee size is negatively related to committee independence and positively related to committee diversity. Committee meetings were negatively related to independence, positively related to committee diversity as well as committee size. Interconnection with RMC has negatively related to committee size as well as committee meetings. Interconnection with NC is independent and Interconnection with RMC as well as negatively related to committee size and meetings.

Table 3. Correlation results of model 01

	ACI	ACFE	DAC	sqrtroe	logacs	logacm	logacrmc	logacnc	logacrc
ACI	1								
ACFE	-0.007	1							
DAC	-0.025	0.102	1						
sqrtroe	**-0.076**	**0.063**	**-0.034**	**1**					
logacs	-.299**	-0.056	**.267****	.206*	1				
logacm	-.357**	0.09	**.344****	0.017	.430**	1			
logacrmc	0.071	0.062	**-0.115**	-0.027	-.315**	-.225**	1		
logacnc	.420**	-0.091	**-0.035**	-0.073	-.296*	-.362**	.354**	1	
logacrc	.347**	0.107	**-.176***	-.196*	-.392**	-.393**	.292**	.431**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Constructed by the authors.

Finally, interconnection with RC has positive relationships with independence, interconnection with RMC, and interconnection with NC as well as negative relationships with committee diversity, size, and meetings. Table 4 illustrates that Q is positively correlated with interconnection with RMC at a 95% confidence level.

Table 4. Correlation results of model 02

	ACI	ACFE	DAC	logacs	logacm	logacrmc	logacnc	logac	logTQ
ACI	1								
ACFE	-0.007	1							
DAC	-0.025	0.102	1						
logacs	-.299**	-0.056	.267**	1					
logacm	-.357**	0.09	.344**	.430**	1				
logacrmc	0.071	0.062	-0.115	-.315**	-.225**	1			
logacnc	.420**	-0.091	-0.035	-.296*	-.362**	.354**	1		
logac	.347**	0.107	-.176*	-.392**	-.393**	.292**	.431**	1	
logTQ	**-0.086**	**0.093**	**-0.051**	**-0.001**	**0.121**	**.219****	**-0.077**	**-0.145**	**1**

*. Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

Source: Constructed by the authors.

Examination of the Impact of the Audit Committee on the Firm Performance

The next objective of the study was to investigate the influence that the audit committee had on the overall performance of the company. The regression analysis was used to accomplish this objective. Table 5 illustrates the results of the regression of model 01.

Table 5. Regression summary of model 01

Model 01	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.655[a]	0.429	0.299	0.129

a. Predictors: (Constant), Growth, logacrmc, ACFE, ACI, logacs, logac, DAC, logacnc, logleverage, logacm.

Source: Constructed by the authors.

As the regression model explains 0.655 of the R-value and 0.429 of the R^2 value. Although the model shouldn't explain the dependent variable to some extent by the selected independent variables. The situation can be accepted to some extent. However, it must say the explanatory power of the model is somewhat low. Though R values are taken somewhat lower values. Durbin-Watson criteria were met. It was lower than 2 and the data are independent. As well as according to the ANOVA test the model is significant. As for the Kolmogorov-Smirnov, test residuals are also normal and normality conditions were met. Test for collinearity VIF factor there were some multicollinearity issues. But all VIF values are less than 3.

Then the regression model can be developed by using those coefficient results as follows:

$$SqrtROE_{it} = 0.719 + 0.401LogACS_{it} - 0.161ACI_{it} + 0.07ACFE_{it} - 0.607FACM_{it} + 0.238logAC.RMC_{it} - 0.266logAC.RC_{it} + 0.69AC.NC_{it} + 0.77logLEV + 0.01G + u_{it} \quad (2)$$

In a conclusion, it can be said that with a 95% confidence level log audit committee size logAC-RMC and growth are having a positive relationship with ROE, and logAC-RC and ROE have a negative relationship as well as log leverage and ROE has a positive relationship with 90% confident level (Table 6).

Table 6. Coefficients results of model 01

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.719	0.233		3.082	0.004
	ACI	-0.161	0.14	-0.176	-1.147	0.258
	ACFE	0.007	0.103	0.008	0.063	0.95
	DAC	0.047	0.062	0.131	0.749	0.458
	logacs	0.401	0.176	0.315	2.273	0.028
	logacm	-0.607	0.146	-0.784	-4.157	0
	logacrmc	0.238	0.113	0.335	2.112	0.04
	logacnc	0.069	0.132	0.077	0.525	0.602
	logacrc	-0.266	0.121	-0.307	-2.191	0.034
	logleverage	0.077	0.028	0.458	2.77	0.008
	Growth	0.001	0.001	0.319	2.411	0.02

a. Dependent Variable: sqrtroe

Source: Constructed by the authors.

Table 7 and Table 8 illustrate the regression results of model 02. The regression model was as follows:

$$logTobbin'sQ_{\ it} = -0.274 + 0.628LogACS_{it} + 0.431ACI_{it} + 0.597ACFE_{it} + 0.680FACM_{it} + 1.4623logAC.RMC_{it} + 0.59logAC.RC_{it} - 1.257logAC.NC_{it} - 0.02logLEV + u_{it} \tag{3}$$

Table 7. Regression summary of model 02

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.581[a]	0.337	0.175	0.57889

a. Predictors: (Constant), logacrmc, Growth, ACFE, ACI, logfirmsize, logacs, logac, logacnc, logacm, DAC, Leverage;

b. Dependent Variable: logTobbins Q;

Source: Constructed by the authors.

Table 8. Coefficients results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
2	(Constant)	-0.274	1.449		-0.189	0.851
	logacm	0.68	0.638	0.213	1.065	0.292
	logacs	0.628	0.85	0.117	0.738	0.464
	Growth	0	0.002	0.007	0.05	0.961
	Leverage	-0.02	0.038	-0.141	-0.538	0.593
	logfirmsize	-0.151	0.151	-0.209	-0.998	0.324
	DAC	0.186	0.358	0.123	0.519	0.607
	ACFE	0.597	0.486	0.176	1.227	0.226
C	ACI	0.431	0.633	0.112	0.681	0.499
Co	logac	0.059	0.546	0.017	0.108	0.914
	logacnc	-1.257	0.588	-0.339	-2.138	0.038
	logacrmc	1.463	0.528	0.488	2.772	0.008

a. Dependent Variable: logTobbinsQ

Source: Constructed by the authors.

Finally, it can be said that Tobin's Q has 1.257 negative impacts from AC-NC at a 95% confidence level. And log ACRMC has a positive 1.463 impact on log Tobin's Q at a 99% confidence level.

The next objective of the study was to examine the relationship between audit committee principles and firm performance. In the early step, the research hypothesis has been developed and the findings of the study should be adjusted with the hypothesis to conclude the study. Hypothesis 1 was accepted hence the coefficient of the audit committee was positive at the 95% confidence level. The 2nd hypothesis was not accepted. The coefficient of independence obtained a negative value but it was insignificant. So, there is no relationship between independence and firm performance. Hypothesis 3 also has to reject due to insignificant values. So there is no relationship between financial expertise and firm performance. Hypothesis 4 also cannot be accepted because the value was insignificant. So, there is no relationship between audit committee meetings and firm performance. Hypothesis 5 was also rejected due to the insignificant coefficient. So, there is no relationship between interlock directors in AC and NC and firm performance. Hypothesis 6 also has to be rejected. Because there is a negative relationship between the interlock of directors on both AC and firm performance. Hypothesis 7 can be accepted and there is a positive relationship between the interlock of directors on both AC and RMC and firm performance. Table 9 summarizes the results of model 01.

Table 9. Hypothesis results - model 01

Examine the relationship between audit committee principles and firm performance	$H_1$1: There is a positive relationship between audit committee size and firm performance	Accepted
	$H_1$2: There is a positive relationship between audit committee independence and firm performance	Rejected (insignificant)
	$H_1$3: There is a positive relationship between the audit committee's financial expertise and firm performance	Rejected (insignificant)
	$H_1$4: There is a positive relationship between the frequency of audit committee meetings and firm performance	Rejected (insignificant)
	$H_1$5: There is a positive relationship between the interlock of directors on audit and NC and firm performance	Rejected (insignificant)
	$H_1$6: There is a positive relationship between the interlock of directors on audit and RC and firm performance	Rejected (Negative relationship)
	$H_1$7: There is a positive relationship between the interlock of directors on audit and RMC and firm performance	Accepted

Source: Constructed by the authors.

Model two measured the firm performance as the market-related measure and Table 10 summarizes the results. Hypothesis 1 was not significant. And there is no significant relationship between audit committee size and firm performance. The 2nd hypothesis was not accepted. The coefficient of independence obtained a positive value but it was insignificant. So there is no relationship between independence and Tobin's Q. Hypothesis 3 also has to reject due to insignificant values. So, there is no relationship between financial expertise and firm performance. Hypothesis 4 also cannot be accepted because the value was insignificant. So there is no relationship between audit committee meetings and firm performance. Hypothesis 5 was also rejected due to the negative coefficient. But it is significant at a 95% confidence level. So there is a negative relationship between interlock directors in AC and NC and firm performance. Hypothesis 6 also has to be rejected. Because there is no significant positive relationship between the interlock of directors on both AC and firm performance. Hypothesis 7 can be accepted and there is a positive relationship between the interlock of directors on both AC and RMC and firm performance.

Table 10. Hypothesis results – model 02

Objective	Hypothesis	Findings
Examine the relationship between audit committee principles and firm performance	$H_1$1: There is a positive relationship between audit committee size and firm performance	Rejected (insignificant)
	$H_1$2: There is a positive relationship between audit committee independence and firm performance	Rejected (insignificant)
	$H_1$3: There is a positive relationship between the audit committee's financial expertise and firm performance	Rejected (insignificant)
	$H_1$4: There is a positive relationship between the frequency of audit committee meetings and firm performance	Rejected (insignificant)
	$H_1$5: There is a positive relationship between the interlock of directors on audit and NC and firm performance	Rejected (negative relationship)
	$H_1$6: There is a positive relationship between the interlock of directors on audit and RC and firm performance	Rejected (insignificant)
	$H_1$7: There is a positive relationship between the interlock of directors on audit and RMC and firm performance	Accepted

Source: Constructed by the authors.

Conclusion and Recommendations

According to the results, a larger audit committee is associated with better financial outcomes for businesses. Reducing the interaction between the audit committee and the remuneration committee can improve the firm's performance because of the negative correlation between the interlock of directors on audit and RC and firm performance. There is a favorable correlation between the interlock of directors on audit and RMC and firm performance; by strengthening this interlock, firm performance can be improved. Except from these factors, there is no correlation between the firm's performance and the audit committee's independence, meeting frequency, financial expertise, diversity, or interlock of directors on audit and NC.

The findings of the study can be used to help the economy grow and flourish. Theoretically, the research results can help people learn more about audit committee principles and corporate governance as a whole. Also, organizations can use these findings to improve or boost their own performance. The regulators can also use these results to make changes to the rules that are already in place. Last but not least, these results can help Sri Lanka's economy grow. The study found that there is a positive link between the size of the audit committee and how well the company does. There is also a negative link between the number of directors on the audit committee and how well the company does, but a positive link between the number of directors on the audit committee and how well the company does. Because of these results, new information can be added to agency theory and stewardship theory in Sri Lanka.

The findings of the study provide regulators with opportunities to generate new ideas for enhancing the performance of firms in accordance with existing regulations. In order to make the appropriate adjustments for more favorable outcomes. Last but not least, the performance of firms as a whole can be improved along with the mandatory requirements if the essential adjustments are implemented in organizations. This, in turn, would lead to the expansion of the Sri Lankan economy.

This study was conducted using various selected characteristics connected to the audit committee, and many variables can be used for a study, including committee size, independence, meeting frequency, financial expertise, diversity, and interlock of directors on sub-committees. In addition, this study took a quantitative approach and relied on secondary data for analysis. Furthermore, the study only analyzes two years, which are the study's limitations. As a result, future researchers can conduct this research quantitatively and collect primary data through questionnaires and direct interviews. The data collection period can also be extended. As a result, future researchers can do a study by removing the study's constraints.

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