

Impact of Audit Committee Characteristics on Bank Performance: Evidence from Licensed Commercial Banks Listed in CSE

Madampage, D.I.¹ and Wijerathna, A.G.H.S.K.²

¹dinishkama36@gmail.com; ²shashikalaw@kln.ac.lk

Abstract

The audit committee is a critical component of corporate governance, playing a pivotal role in ensuring the integrity and transparency of financial reporting within an organization. Because audit committee characteristics have a significant impact on a firm's financial performance, it is important to understand those characteristics. This study aims to determine the impact of audit committee characteristics on the financial performance of licensed commercial banks listed on the Colombo Stock Exchange. The sample of the study consists of ten commercial banks listed in the Colombo Stock Exchange and data was collected from annual reports from 2013 to 2022. This study measures the bank's performance based on return on assets and returns on equity and audit committee characteristics by incorporating audit committee size, independence, number of meetings, members' professional finance education, and gender diversity. Bank asset size and age were used as the control variables in this study. Very few studies have been conducted on the impact of audit committee characteristics on bank performance focusing on the Sri Lankan banking sector. A panel regression analysis was performed to identify the relationships between audit committee characteristics and bank financial performance. According to the findings of the study, audit committee independence, gender, and professional finance education have a positive influence on the bank's financial performance, and audit committee size and the number of meetings have a negative influence on financial performance. However, insignificant relationships exist between the audit committee meeting and members' professional finance education and bank financial performance. Also, the asset size of the bank and age significantly impact the bank's financial performance. This study contributes to the existing literature on corporate governance and bank financial performance by providing the framework that affects the relationship between audit committee characteristics and bank financial performance in the context of licensed commercial banks listed on the Colombo Stock Exchange.

Keywords: Audit Committee Characteristics, Financial Performance, Listed Commercial Banks