

Does an Effective Audit Committee Impact Bank Performance? An Evidence From the Indian Banking Sector

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Abstract

Purpose: A well-functioning audit committee significantly improves transparency and accountability in financial matters. The current study aims to investigate how an effective audit committee impacts bank performance.

Design/methodology/approach: This research examines a sample of 29 Indian listed banks, including 12 public sector banks and 17 private sector banks, that are listed on the National Stock Exchange and the Bombay Stock Exchange from 2014-15 to 2023-24. The study employs an unweighted audit committee index comprising 11 items to assess the efficiency of the audit committee. Bank performance is assessed using Return on Assets (ROA) and Net Interest Margin (NIM). The present study used the System Generalized Method of Moments technique for the analysis.

Findings: The study finds a positive impact of audit committee index score on bank performance. The results show that the audit committee score has a positive impact on the ROA and NIM. These findings support previous publications that suggest the individual features of audit committees (AC) enhance financial performance.

Research limitations/implications: The study evaluates bank performance solely through ROA and NIM measures. Further, the research period is constrained to the years 2014-15 to 2023-24.

Practical implications: The findings of the study provide empirical evidence on the differing impacts of AC on bank performance, which is essential for policymakers, bank managers, and other stakeholders in their decision-making and regulation of AC.

Social implications: The significance of an effective audit committee lies in its role in promoting transparency and accountability in financial matters, particularly within the banking sector, which is crucial for the economy. Thus, this topic serves the interests of society at large.

Originality/value: The study asserts its uniqueness by employing an unweighted audit committee index to examine the combined effect of audit committee characteristics on the performance of banks. Further, this study is one of the initial literature on the connection between effective audit committee and bank performance in context of recent corporate governance reforms in India. The findings indicate that an effective audit committee has a substantial and beneficial impact on the performance of banks. Additionally, these findings continue to hold significance in the context with recent corporate governance reforms, providing valuable insights for policy deliberation.

Categories: Corporate Governance & Business Ethics

Keywords: audit committee, bank performance, return on assets (roa), and net interest margin (nim), corporate governance

Introduction

Corporate governance generally refers to the mechanisms employed to cope with agency problems and manage risk within an organization. It aims to minimize potential conflicts of interest among stakeholders. The audit committee effectively governs corporate activities by overseeing the financial reporting process, the internal control system, and adherence to applicable laws and regulations. An effective audit committee enhances transparency and accountability in financial affairs, thus strengthening investor confidence and enhancing the overall reputation of the company. With an effective audit committee in place, management decisions will exhibit transparency, financial reports will demonstrate reliability, the internal control system will be strengthened, and the company's credibility will be enhanced. It can detect and resolve potential financial issues prior to their escalation, thereby enhancing financial stability and performance over the long run. The banking sector holds significant

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importance because of the functions of banks within the economy and the characteristics of their operations ([Andres and Valledado, 2008](#)). The considerable costs linked to failures in bank governance ([Pathan and Faff, 2013](#)) highlight the importance of analyzing governance mechanisms in this sector, which is both specific and significant.

This research assessed the impact of audit committee index scores on performance of Indian public and private sector banks. The selection of audit committee index items is grounded in the audit framework outlined in, Securities Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations of 2015 ([SEBI, 2015](#)), Reserve Bank of India (RBI) guidelines ([RBI, 2021](#)), and other appropriate literature. The empirical literature indicates that there are limited studies on the relationship between audit committees (AC) and bank performance. In contrast, most prior research on AC and firm performance has concentrated on non-financial firms. The findings of those studies are not applicable to banks because Banks exhibit different governance frameworks in contrast to non-financial corporations ([Adams and Mehran, 2012](#)).

Secondly, prior research has predominantly concentrated on developed nations, with limited studies conducted in developing countries. The majority of studies have focused on the individual characteristics of AC and their impact on financial performance.

Prior research primarily used Return on Assets (ROA), Return on Equity (ROE), and Tobin's q as performance metrics. In contrast, the current study employs ROA and Net Interest Margin (NIM) as financial performance measures, as indicated in the RBI stability report, December 2022 ([RBI stability report, 2022](#)).

Review of literature

The theoretical framework of the present study is grounded in agency theory, resource dependence theory, and legitimacy theory. Agency theory, as proposed by Jensen and Meckling, states that managers possess objectives distinct from those of shareholders ([Jensen and Meckling, 1976](#)), potentially resulting in agency problems, including asset misappropriation and earnings management. AC are crucial in addressing agency problems through management oversight, validate financial statements, and fostering ethical business practices ([Setia-Atmaja, 2009](#)), ([Agyemang-Mintah and Schadewitz, 2018](#)), and ([Dakhlallah et al., 2020](#)). The core concept of resource dependence theory was established by Pfeffer, highlighting the significance of the connection between power and exchange both within organizations and in their external environments. Pfeffer posits that resource dependence theory asserts a company's success depends on optimizing its control over essential resources necessary for efficient operations ([Pfeffer, 1972](#)). It is argued that the presence of independent directors on their boards enables them to obtain more advantageous resources ([Johnson et al., 1996](#)).

The legitimacy theory proposed by Dowling and Pfeffer states that an organization's survival is contingent upon its operation within the socially formed framework of values and beliefs ([Dowling and Pfeffer, 1975](#)). An organization that maintains a robust audit committee is viewed as credible and is regarded as more significant and reliable. The cumulative impact of these theoretical arguments suggests that an effective audit committee will enhance the overall performance.

In light of the preceding discussion, Figure 1 illustrates the theoretical structure of the present study.

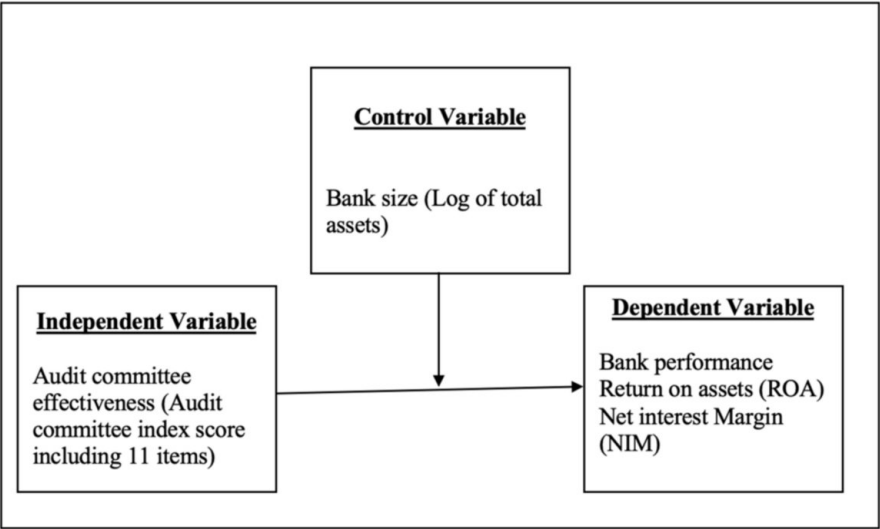


FIGURE 1: Theoretical framework of the study

The following gaps identified in the empirical research pertaining to the relationship between the audit committee and firm performance.

First, extensive literature exists on the relationship between audit committee and firm performance; however, this literature primarily emphasizes individual characteristics (Umar et al., 2024).

Second, some studies on audit committee composition have examined specific characteristics that correlate with a limited perspective of audit committee effectiveness and its association with firm performance (Kallamu and Saat, 2015), (Bazhair, 2022).

Third, a few studies discuss the audit committee's comprehensive impact on financial performance. Gupta and Mahakud studied how various characteristics of AC influence the performance of commercial banks in India by using the audit committee index. Their findings indicate that having financial experts serve as both the chair and members of the audit committee positively affects bank performance. Conversely, an increased number of audit committee meetings and a chairman who is overcommitted negatively impact performance. These results are consistent across multiple measures of bank performance and among different subgroups categorized by time period and bank ownership (Gupta and Mahakud, 2021).

Al-Ahdal and Hashim developed an audit committee index and an external audit index to assess their effects on business financial performance. The study's findings reveal insufficient evidence to support the claim that audit committee characteristics enhance firm performance. However, the quality of external audits significantly influences the financial performance of firms, as indicated by Tobin's Q. Additionally, factors such as firm size and leverage also have a substantial impact on financial performance, measured by ROA and ROE (Al-ahdal and Hashim, 2022).

Singhania and Panda identify key audit committee features that significantly influence business performance. They create an index to illustrate the relationship between audit committee effectiveness and firm performance (Singhania and Panda, 2023).

They further use Partial Least Squares-Structural Equation Modeling to investigate how the composition of AC impacts corporate performance (Singhania and Panda, 2024). The findings indicate that the primary factor influencing financial performance is the absence of executive directors within the audit committee. Additionally, audit committee size and gender diversity also play significant roles. However, the presence of independent directors and their expertise do not seem to influence the composition of the audit committee (Singhania and Panda, 2024).

Furthermore, preliminary research on AC and corporate performance predominantly originates from developed nations (Chandrasegaram et al., 2013). There are very few studies that examine the relationship between AC and bank performance (Sharma and Dey, 2022), (Gupta and Mahakud, 2021).

Finally, the literature presents mixed and fragmented results regarding the relationship between audit committee characteristics and firm performance (Discussed in Table 1).

Numerous studies have identified a positive correlation between the characteristics of AC and the performance of firms [(Hamdan et al., 2013), (Farouk and Hassan, 2014), (Kallamu and Saat, 2015), (Bansal and Sharma, 2016), (Nuhu et al., 2017), (Alqatamin, 2018), (Sharma and Dey, 2022)].

Several studies have identified an adverse relationship between audit committee characteristics and firm performance [(Robin and Amran, 2016), (Barka and Legendre, 2017), (Gurusamy, 2017), (Fariha et al., 2022), and (Sharma and Dey, 2022)].

Some studies are also there stating no relationship between audit committee characteristics and firm performance (Chan et al., 2011), (Zhou et al., 2018), and (Wibawaningsih and Surbakti, 2020).

Author and Year	Dependent Variable	Independent Variable	Relationship
(Hamdan et al., 2013)	Audit Committee Size, and Expertise of Members	Return on Equity (ROE), and Earning Per Share (EPS)	Positive Relationship
(Hamdan et al., 2013)	Audit Committee Independence	Return on Assets (ROA), and Return on Equity (ROE)	
(Farouk and Hassan, 2014)	Audit Committee Size	Net Profit Margin (NPM)	
(Kallamu and Saat, 2015)	Audit Committee Independence	Return on Assets (ROA)	
(Bansal and Sharma, 2016)	Frequency of Audit Committee Meetings	Tobin's q and Market Capitalisation	
(Nuhu et al., 2017)	Frequency of Audit Committee Meetings	Return on Assets (ROA)	
(Alqatamin, 2018)	Audit Committee Size, Audit Committee Independence, Frequency of Audit Committee Meetings	Return on Assets (ROA)	
(Sharma and Dey, 2022)	Audit Committee Size	Return on Assets (ROA), and Return on Equity (ROE)	Negative Relationship
(Robin and Amran, 2016)	Audit Committee Independence	Return on Equity (ROE)	
(Barka and Legendre, 2017)	Audit Committee Independence, Frequency of Audit Committee Meetings	Return on Assets (ROA), and Return on Equity (ROE)	
(Gurusamy, 2017)	Audit Committee Independence	Return on Equity (ROE)	
(Fariha et al., 2022)	Audit Committee Size	Tobin's Q	
(Sharma and Dey, 2022)	Audit Committee Size	Non-performing Asset Ratio (NPAR)	No Relationship
(Chan et al., 2011)	Audit Committee Independence	Tobin's Q	
(Zhou et al., 2018)	Audit Committee Size. Audit Committee Independence	Return on Assets (ROA)	
(Wibawaningsih and Surbakti, 2020)	Audit Committee Size. Audit Committee Independence, Expertise of Members	Return on Assets (ROA)	

TABLE 1: Studies on relationship of audit committee characteristics and firm performance

The study aims to address the above research gap by constructing the audit committee index and assessing the impact of the audit committee index score on ROA and NIM.

The objective of the study is to assess the influence of audit committee effectiveness on bank performance.

The following hypotheses are formulated to assess the influence of audit committee effectiveness on bank performance.

H1: there is no significant impact of audit committee effectiveness on ROA.

H2: there is no significant impact of audit committee effectiveness on NIM.

Research Method

Sample selection and data collection

This study selects a sample of 29 Indian listed banks, comprising 12 public sector banks and 17 private sector banks, which are listed on the National Stock Exchange and the Bombay Stock Exchange. The sample excludes Bandhan Bank Limited, which attained commercial bank status in 2015, and IDFC Bank Limited, established in 2015. Additionally, banks that underwent amalgamation and merger during the period were excluded. The list of selected banks is presented in Appendix 1.

The duration of this study spans a decade, specifically from 2014-15 to 2023-24. This period has been chosen due to its significance in the context of substantial corporate governance reforms and regulatory changes in India. It also serves the objective of carrying out a recent study.

This study employed data acquired from secondary source. The data regarding audit committee efficiency and bank performance are sourced from the audited annual reports of banks. Data were collected on 11 audit committee items, ROA, NIM, and total asset value from 290 annual reports of 12 public and 17 private sector banks for the period 2014-15 to 2023-24.

Data collection was conducted manually, employing content analysis as a fundamental method. This method consisted of a thorough examination and analysis of the annual reports' content.

Variables and measurement

The financial performance of banks in this study is regarded as a dependent variable. Two dependent variables have been selected: ROA and NIM (Lin and Zang, 2009), (Nguyen and Dang, 2020). The variable types, names, symbols, and proxy measures are presented in Table 2. The audit committee index score is regarded as an independent variable. The audit committee index comprises 11 items (Table 3). The unweighted disclosure index is employed to calculate the audit committee score for banks. The fundamental principle of the unweighted disclosure index is that all items related to the audit committee are regarded as equally significant. The bank size is treated as a controlled variable and is measured using the logarithmic value of total assets (Bhagat and Black, 2008).

Variable	Name of Variable	Symbol	Proxy Measure
Dependent Variables	Return on Assets	ROA	ROA = Profit after Tax/Total Asset
	Net Interest Margin	NIM	[(Interest Revenue-Interest Expenses)/Total Assets] * 100
Independent Variable	Audit Committee Composition Index	AU-SCORE	Audit Committee Index Value (Based on 11 items)
Controlled Variable	Bank Size	LTA	Log of Total Assets

TABLE 2: Definition of variables

S. No.	Items	Source
1	The bank discloses the composition of the audit committee.	(RBI, 2021), (Ho and Taylor, 2013), (Kaur and Vij, 2018), (Varshney et al., 2013), (SEBI, 2015)
2	The audit committee of the bank has at least two-thirds independent members.	
3	The Chairman of the bank's Audit Committee is an Independent Director.	
4	The bank discloses the audit qualifications.	
5	The audit committee of the bank conducts at least four meetings during the year.	
6	The bank defines its internal audit procedures in the report.	
7	The bank's board appoints the statutory auditor.	
8	The bank includes a certificate from the auditor or practicing company secretary regarding complaints about corporate governance conditions in the annual report.	
9	The audit committee of the bank has at least two members who possess expertise in accounting or finance.	
10	The bank discloses the audit and non-audit fees paid during the year.	
11	The bank discloses about the activities and conduct of the audit committee.	

TABLE 3: Audit committee index composition

Method of data analysis

The present study used the System Generalized Method of Moments (GMM) technique because a dynamic panel model is necessary due to the evolving nature of the data in the study and the dependence of current behavior on past behavior.

The study considered the audit committee index, its distinct parameters, and bank performance estimates (ROA and NIM) as endogenous variables in the analysis, while the control variable log of total assets was treated as instrument. The econometric models are estimated using Roodman's (2009) command "xtabond2" in Stata 18.0. We used Arellano and Bond's test for serially uncorrelated errors of first- and second-order autocorrelation. The study utilizes Hansen-J statistics for instrument validity, as Sargan statistics tend to over-reject the null hypothesis of valid instruments when non-spherical errors are present (Roodman, 2009).

Empirical model specification

This study constructs the audit committee index of sample banks and investigates the impact of this index on bank performance, considering bank size as a control variable. This study developed the following two econometric dynamic models (autoregressive), equations (1) and (2), to analyze the impact of audit committee score on bank performance:

$$ROA_{it} = \phi_1 ROA_{it-1} + \phi_2 LTA_{it} + \phi_3 AU-SCORE_{it} + d_t + \epsilon_{it} \quad (1)$$

$$NIM_{it} = \phi_1 NIM_{it-1} + \phi_2 LTA_{it} + \phi_3 AU-SCORE_{it} + d_t + \epsilon_{it} \quad (2)$$

Where,

i = Cross-sectional dimension,

t = time dimension,

dt = Year dummy,

eit = Error term,

And f1, f2, and f3 represent the possible effect of explanatory variables, ROA is Return on Assets, NIM is Net Interest Margin, and AU-SCORE is the audit committee index score, and LTA is Log of Total Assets.

Results

Descriptive analysis

Table 4 illustrates that the effectiveness of the audit committee, as indicated by the AU-SCORE, has an average value of 9.36. The AU-SCORE has a minimum value of 6 and a maximum value of 11, with a standard deviation of 1.24, indicating significant variation in the AU-SCORE throughout the study period.

Regarding dependent variables, the ROA, as a dependent variable, has an average value of 0.57, with a minimum of -5.1 and a maximum of 6.81, and a standard deviation of 1.25. The NIM averages 3.24, with a minimum of 1.32 and a maximum of 5.5, resulting in a standard deviation of 0.83. The NIM exhibits a lower standard deviation compared to ROA.

The average Log of Total Assets is 12.41, with a minimum value of 9.38 and a maximum value of 15.64. The standard deviation is 1.38, indicating significant variation in bank size based on Total Assets (TA) in India.

Variable	Mean	Std. Dev.	Min	Max
ROA	0.57	1.25	-5.1	6.81
NIM	3.24	0.83	1.32	5.5
AU-SCORE	9.36	1.24	6	11
LTA	12.41	1.38	9.38	15.64

TABLE 4: Descriptive statistics of the variables

Source: Author's computation. ROA, Return on Assets; NIM, Net Interest Margin; LTA, Log of Total Assets

Pearson correlation matrix

Table 5 illustrates the correlation among the variables examined, demonstrating that changes in one variable correspond to directional changes in another variable. Table 4 indicates that a significant number of variables exhibit positive correlations, except of TA and NIM, which demonstrate a minor negative correlation of -0.0941.

The profitability measures ROA and NIM exhibit a positive correlation with AU-SCORE of 0.2985 and 0.5752, respectively. The ROA and NIM demonstrate a positive correlation coefficient of 0.5935. The results indicate a lack of strong bivariate correlation and the absence of multicollinearity.

Variable	ROA	NIM	AU-SCORE	TA
ROA	1.0000			
NIM	0.5935	1.0000		
AU-SCORE	0.2985	0.5752	1.0000	
LTA	0.0717	-0.0941	0.0094	1.0000

TABLE 5: Correlation table

Source: Author's computation. ROA, Return on Assets; NIM, Net Interest Margin; LTA, Log of Total Assets; TA, Total Assets

System GMM results and discussion

The findings of the one-step GMM regression are displayed in Table 6 and Table 7. The Lagroa is the lagged dependent variable of ROA and the Lognim is the lagged dependent variable of NIM. The lagged dependent variables significantly positively affect both ROA and NIM, indicating that the financial performance of the previous year strongly influences the current year's performance of the bank. The AU-SCORE has a positive effect on both ROA and NIM. The AU-SCORE significantly positively influences both performance measures, indicating the role of an effective audit committee in enhancing the financial

performance of banks in India.

For post-estimation tests, first, the Hansen test is used to check the validity of the over-identifying restrictions in the case of the instruments. If the p-value of this test is more than 0.05, it shows that the selection of the instruments is appropriate. Furthermore, the test for autocorrelation of the error term is presented to evaluate the null hypothesis regarding the first and second orders of serial correlation in the differenced error term. A failure to reject the null hypothesis of no second-order serial correlation indicates that the original error term is serially uncorrelated, and the moment conditions are appropriately specified, specifically when the value of the second-order autocorrelation test exceeds 0.05.

The results of one-step GMM present that the F-test statistics for the dependent variables ROA and NIM demonstrate the model's fitness. Additionally, The p-value for the Hansen test is 0.581 for ROA and 0.110 for NIM, both supporting the validity of the instruments. The test for AR(2) indicates that second-order autocorrelation is absent for ROA ($Pr > z = 0.120$) and NIM ($Pr > z = 0.860$) leading to the rejection of the second-order autocorrelation hypothesis.

Explanatory Variables	Coefficient	Standard Error	P > [t]
Lagroa	0.3584*	0.2094	0.098
TA	0.0313	0.0517	0.550
AU-SCORE	0.2416**	0.0984	0.021
F statistics	73.71 (0.000)		
No. of observations	284		
Year dummies	Yes		
No. of groups	29		
No. of instruments	22		
AR (1)	0.028		
AR (2)	0.120		
Hansen test	0.581		
Note: * p < 0.1, ** p < 0.05, *** p < 0.01 indicate significance at the 10, 5, and 1 percent levels, respectively; year dummy variables are not given in the table. The p-value of t-statistics, standard error, second-order autocorrelation, and Hansen test results are presented.			

TABLE 6: One-step system GMM estimation results (ROA and Audit Committee Index Score)

Source: Author's computation. GMM, Generalized Method of Moments; ROA, Return on Assets; TA, Total Assets

Explanatory Variables	Coefficient	Standard Error	P > [t]
Lagnim	0.8212***	0.1352	0.000
TA	-0.0415**	0.0171	0.022
AU-SCORE	0.1275**	0.0477	0.012
F statistics	2857.80 (0.000)		
No. of observations	258		
Year dummies	Yes		
No. of groups	29		
No. of instruments	22		
AR (1)	0.010		
AR (2)	0.860		
Hansen test	0.110		
Note: * p < 0.1, ** p < 0.05, *** p < 0.01 indicate significance at the 10, 5, and 1 percent levels, respectively; year dummy variables are not given in the table. The p-value of t-statistics, standard error, second-order autocorrelation, and Hansen test results are presented.			

TABLE 7: One-step system GMM estimation results (NIM and Audit Committee Index Score)

Source: Author's computation. GMM, Generalized Method of Moments; NIM, Net Interest Margin; TA, Total Assets

The outcomes of the two-step GMM regression are displayed in Table 8 and Table 9. The lagged dependent variable significantly positively affects both ROA and NIM, indicating that the financial performance of the previous year strongly influences the current year's performance of the bank. The audit committee index score (AU-SCORE) has a positive effect on ROA and NIM. The AU-SCORE significantly positively influences ROA and NIM, highlighting the role of an effective audit committee in enhancing the financial performance of banks in India.

The results of the two-step GMM present that the F-test statistics for the dependent variables ROA and NIM demonstrate the model's fitness. Additionally, the p-value for the Hansen test is 0.581 for ROA and 0.110 for NIM, both supporting the validity of the instruments. The test for AR(2) indicates that second-order autocorrelation is absent for ROA ($\text{Pr} > z = 0.360$) and NIM ($\text{Pr} > z = 0.841$), leading to the rejection of the second-order autocorrelation hypothesis.

Explanatory Variables	Coefficient	Standard Error	P > [t]
Lagroa	0.4496***	0.1250	0.001
TA	0.0360	0.0520	0.494
AU-SCORE	0.2601**	0.1061	0.021
F statistics	54.33 (0.000)		
No. of observations	284		
Year dummies	Yes		
No. of groups	29		
No. of instruments	22		
AR (1)	0.171		
AR (2)	0.360		
Hansen test	0.581		
Note: * p < 0.1, ** p < 0.05, *** p < 0.01 indicate significance at the 10, 5, and 1 percent levels, respectively; year dummy variables are not given in the table. The p-value of t-statistics, standard error, second-order autocorrelation, and Hansen test results are presented.			

TABLE 8: Two-step system GMM estimation results (ROA and Audit Committee Index Score)

Source: Author's computation. GMM, Generalized Method of Moments; ROA, Return on Assets; TA, Total Assets

Explanatory Variables	Coefficient	Standard Error	P > [t]
Lagnim	0.8799***	0.1008	0.000
TA	-0.0432**	0.0211	0.050
AU-SCORE	0.1465**	0.0571	0.016
F statistics	2201.60 (0.000)		
No. of observations	258		
Year dummies	Yes		
No. of groups	29		
No. of instruments	22		
AR (1)	0.013		
AR (2)	0.841		
Hansen test	0.110		
Note: * p < 0.1, ** p < 0.05, *** p < 0.01 indicate significance at the 10, 5, and 1 percent levels, respectively; year dummy variables are not given in the table. The p-value of t-statistics, standard error, second-order autocorrelation, and Hansen test results are presented.			

TABLE 9: Two-step system GMM estimation results (NIM and Audit Committee Index Score)

Source: Author's computation. GMM, Generalized Method of Moments; NIM, Net Interest Margin; TA, Total Assets

The H1 states that there is no significant impact of audit committee effectiveness on ROA; however, the system GMM results show a positive impact of an effective audit committee on ROA. The H2 states that there is no significant impact of audit committee effectiveness on NIM; however, the system GMM results show a positive impact of an effective audit committee on NIM.

Discussion

The findings state that audit committee index value positively impacts the ROA and NIM of Indian Banks. These findings line up with recent studies on the relationship between the audit committee index and financial performance (Gupta and Mahakud, 2021), (Singhania and Panda, 2024). Our results also align with numerous studies that have established a favorable relationship between individual audit committee characteristics and firm performance (Hamdan et al., 2013), (Farouk and Hassan, 2014), (Kallamu and Saat, 2015), (Bansal and Sharma, 2016), (Nuhu et al., 2017), (Alqatamin, 2018), (Sharma and Dey, 2022).

The favorable impact of audit committee on bank performance lies in the agency theory, resources theory, and legitimacy theory. The audit committee tackles agency problems, guarantees the precision of financial statements, fosters ethical practices, and enhances social trust in banking institutions (agency theory), which contribute to bank performance. The inclusion of specialists and independent board members in the audit committee provides a significant benefit to banks (resource dependence theory). Independent directors and finance professionals are better equipped to keep an eye on financial reporting, enhancing fairness and transparency, which can lead to improved bank performance. An efficient audit committee aids banks in fostering reporting transparency, which helps them match their operations with social norms and values (legitimacy theory). Overall, an effective audit committee plays a crucial role by diligently overseeing the financial reporting process, leveraging diverse resources, and guiding management, all of which contribute to the monitoring and enhancement of bank's financial performance.

These results suggest that the audit committee features are important for the banks' profitability. Policy makers should strengthen corporate governance norms relating to the audit committee, focusing on higher independence of board members, more members with accounting and finance expertise, and greater transparency in audit functions. The banks' board of directors should pay more attention to the structure of the audit committee and follow all mandatory and non-mandatory norms related to the audit committee. Furthermore, banks should prioritize voluntarily following international standards related to the audit committee to strengthen and enhance transparency.

The study has certain limitations. The study examines the period from 2014-15 to 2023-24; subsequent research may extend the timeframe further. Only two variables were utilized to assess bank performance; future research may incorporate additional variables. Additionally, future research may categorize the sample by bank type to analyze the effects of AC on public versus private sector banks.

Conclusions

This study analyzes the impact of audit committee effectiveness on ROA and NIM in selected Indian banks, utilizing panel data from 2014-15 to 2023-24. In the analysis, one-step system GMM and two-step system GMM panel estimation techniques have been employed. The observed findings suggest that the AU-SCORE has a positive and significant impact on the ROA and NIM in Indian banks. The results of our study align with the existing literature suggesting that effective audit committee positively influence financial performance. Our research contributes to the existing body of literature in multiple manners. This study is among the limited research that addresses the influence of audit committee on the bank performance. The research utilized the audit committee index score to assess the overall impact of an effective audit committee on bank performance. This study employs the guidelines set forth by RBI, SEBI (LODR) Regulations, 2015, and pertinent literature to evaluate the efficacy of the audit committee. The study employed the GMM technique to address issues of endogeneity, unobserved panel heterogeneity, autocorrelation, omitted variable bias, and measurement errors. The study utilizes a time frame spanning from 2014-15 to 2023-24, indicating its recency. The performance of banks is primarily evaluated through the established financial performance metric, ROA, in conjunction with the NIM, which is particular to the banking industry. The study's findings are relevant for policymakers, bank managers, and other stakeholders, as they offer empirical evidence regarding the varying effects of AC on bank performance, which is crucial for the decision-making and regulation of AC.

Appendices

The list of banks selected as the sample is presented in Table 10.

S. No.	Name of Bank	Type of Bank	Data Source (Website Link)
1	Axis Bank Limited	Private sector	https://www.axisbank.com
2	Bank of Baroda	Public sector	https://www.bankofbaroda.co.in
3	Bank of India	Public sector	https://www.bankofindia.co.in
4	Bank of Maharashtra	Public sector	https://www.bankofmaharashtra.in
5	Canara Bank	Public sector	https://www.canarabank.com
6	Central Bank of India	Public sector	https://www.centralbankofindia.co.in
7	City Union Bank Limited	Private sector	https://www.cityunionbank.com
8	CSB Bank Limited	Private sector	http://www.csb.co.in
9	DCB Bank Limited	Private sector	https://www.dcbbank.com
10	Dhanlaxmi Bank Limited	Private sector	https://www.dhanbank.com
11	Federal Bank Limited	Private sector	https://www.federalbank.co.in
12	HDFC Bank Limited	Private sector	https://www.hdfcbank.com
13	ICICI Bank Limited	Private sector	https://www.icicibank.com
14	IDBI Bank Limited	Private sector	https://www.idbi.com
15	Indian Bank	Public sector	http://www.indianbank.in
16	Indian Overseas Bank	Public sector	https://www.iob.in
17	IndusInd Bank Limited	Private sector	https://www.indusind.com
18	Jammu & Kashmir Bank Limited	Private sector	https://www.jkbank.com
19	Karnataka Bank Limited	Private sector	https://karnatakabank.com
20	Karur Vysya Bank Limited	Private sector	http://www.kvb.co.in
21	Kotak Mahindra Bank Limited	Private sector	https://www.kotak.com
22	Punjab & Sind Bank	Public sector	https://punjabandsindbank.co.in
23	Punjab National Bank	Public sector	https://www.pnbindia.in
24	RBL Bank Limited	Private sector	https://www.rblbank.com
25	State Bank of India	Public sector	https://www.sbi.co.in
26	South Indian Bank Limited	Private sector	https://www.southindianbank.com
27	UCO Bank	Public sector	https://www.ucobank.com
28	Union Bank of India	Public sector	https://www.unionbankonline.co.in
29	Yes Bank Limited	Private sector	https://www.yesbank.in

TABLE 10: List of banks selected as sample

Additional Information

Author Contributions

All authors have reviewed the final version to be published and agreed to be accountable for all aspects of the work.

Concept and design: Sangeeta Tewatia Kundu, Nawal Kishor

Acquisition, analysis, or interpretation of data: Sangeeta Tewatia Kundu, Nawal Kishor

Drafting of the manuscript: Sangeeta Tewatia Kundu

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Disclosures

Human subjects: All authors have confirmed that this study did not involve human participants or tissue.

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