

Effects of Audit Committee Monitoring and Independence on Bank Performance: Evidence from Emerging Market

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Abstract

Purpose: This study explores whether audit committee monitoring intensity and independence influence the performance of listed commercial banks.

Research Methodology: Tobin's Q is used as the primary market-based measure, and Return on Assets is used as an alternative indicator. We examine two core governance variables: the lagged number of audit committee meetings and the lagged proportion of independent directors on the audit committee (ACIND). Based on panel data for listed commercial banks over 24 years, the study applies Panel-Corrected Standard Errors and Fixed Effects models to evaluate the connection between audit committee characteristics and firm performance.

Results: The results show that both audit committee monitoring intensity and independence are negative and statistically significant determinants of performance across model specifications. More frequent audit committee meetings and higher committee independence are associated with lower Tobin's Q. The robustness analysis using ROA confirms similar negative effects on accounting performance.

Conclusions: The findings suggest that, in the banking context, greater audit committee monitoring and independence may reflect reactive responses to underlying risk and poor performance rather than proactive, value-enhancing governance.

Limitations: This study was conducted only on banks. Other industries can be incorporated to generalize these findings.

Contributions: This study highlights the importance of oversight quality, director expertise, and institutional context in shaping governance effectiveness.

Keywords: *Audit Committee, Bank Governance, Emerging Market, Governance*

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1. Introduction

Corporate governance underpins sustainable financial institutions, particularly banks where transparency fosters public trust and stability (Griffin, Hong, Liu, & Ryou, 2021). Audit committees are pivotal in overseeing financial reporting, internal controls, and risk management; their impact depends on their independence (non-executive members) and monitoring intensity (meeting frequency) (Attia, Diab, Ezz Eldeen, & Abdou, 2025; Umar, Shawai, Adesugba, & Jibril Aca, 2024). Consequently, the characteristics of the audit committee have become key indicators of governance quality and are believed to influence firm performance.

Audit committees function as internal control bodies designed to minimize information asymmetry between management and shareholders. According to agency theory, independent and active audit committees help reduce agency conflicts by strengthening oversight and ensuring managerial accountability. Independent active committees curb managerial opportunism and information

asymmetry ([S. Mittal, 2024](#); [Simnett, Carson, & Vanstraelen, 2016](#)). Frequent meetings enable proactive oversight ([Gebrayel, Jarrar, Salloum, and Lefebvre, 2018](#)), while independence ensures objective audits ([Almarayeh, 2024](#)). Studies show that these traits are linked to better earnings quality and lower fraud risk. Developed market evidence is robust, but emerging economies show inconsistencies, such as weak links due to regulatory voids or cultural factors ([Alhababsah & Azzam, 2024](#); [Maniruzzaman, Hossain, & Sayaduzzaman, 2024](#)). Non-linear monitoring effects and Tobin's Q integration are underexplored, especially with macro-controls in banking ([Attia et al., 2025](#); [Bualay et al., 2023](#)). However, Bangladesh/DSE studies overlook these factors, limiting their generalizability.

In the banking industry, where sound governance practices are essential for financial stability and investor confidence, understanding this relationship is both timely and significant. This study focuses on how audit committee monitoring frequency and committee independence affect firm performance, as measured by Tobin's Q, a widely used metric that reflects a firm's market valuation relative to its assets. By considering a range of control variables, such as audit committee size, board size, bank age, bank size, asset quality, and macroeconomic indicators (GDP growth, inflation, and risk-free rate), this study aims to offer a holistic view of governance effectiveness in the banking sector.

The main objective of this study is to investigate whether audit committee monitoring frequency and independence have any significant effect on firm performance, with Tobin's Q serving as the primary performance indicator. This study investigates the effects of audit committee monitoring frequency and independence on bank performance (Tobin's Q primary; ROA secondary) in emerging markets' listed banks, controlling for size, age, asset quality, board size, and macros (GDP, inflation, risk-free rate). The novelty of this research is that it empirically models nonlinear monitoring thresholds, extending agency theory for emerging contexts and offering regulators evidence-based reforms ([Gebrayel et al., 2018](#); [Umar et al., 2024](#)).

Through these purposes, the study aims to enrich the empirical understanding of the governance-performance relationship within the banking sector of developing economies. The scope of this study is limited to the analysis of listed commercial banks, given their crucial role in the financial system and regulatory emphasis on governance practices within this sector. The panel data encompass relevant financial and governance variables collected over multiple years to capture both temporal and firm-specific variations.

2. Literature Review and Hypotheses Development

2.1 Theoretical Foundations

The theoretical basis for examining the association between audit committee characteristics and firm performance rests primarily on Agency Theory and, to a lesser extent, stewardship and resource dependence theories ([Attia et al., 2025](#); [Jensen, 1993](#); [Umar et al., 2024](#)). Agency Theory postulates that in modern corporations, ownership and management are often separated, creating an agency relationship in which managers (agents) are entrusted with managing assets on behalf of shareholders (principals). This separation creates the potential for agency conflicts, as managers may pursue their own interests rather than exploiting shareholder value ([Simnett et al., 2016](#)).

Agency theory suggests that various monitoring mechanisms, including active and independent audit committees, help reduce these Agency costs by constraining managerial discretion and ensuring accountability ([Gebrayel et al., 2018](#); [Jiang, Lau, Su, & Wong, 2022](#)). An audit committee that meets often and comprises independent members is theoretically better positioned to detect and prevent managerial opportunism, thereby refining firm performance and protecting shareholders' interests ([Almarayeh, 2024](#)). Stewardship Theory states that managers are inherently driven to act as good stewards of organizational assets and will work diligently to maximize firm value in the best interests of shareholders. From this perspective, excessive monitoring by audit committees might be viewed as unnecessary and potentially counterproductive, as it could create an adversarial relationship between the board and management, reduce management autonomy, and impede strategic decision-making ([Velte 2017](#)).

Under stewardship theory, the relationship between audit committee activity and firm performance might be weaker or even slightly negative if the committee's monitoring activities distract management from strategic value creation. Resource Dependence Theory stresses the board's role in providing valuable resources to the firm beyond monitoring, including access to external networks, expertise, information, and legitimacy ([Griffin et al., 2021](#)). From this perspective, the value of the audit committee lies not only in its monitoring function but also in the networks, expertise, and strategic counsel that independent directors provide ([Buallay et al., 2023](#)). A larger and more active audit committee with members possessing diverse expertise might facilitate better strategic decision-making and access to valuable resources, thereby enhancing firm performance ([Al-Matari, Alruwaili, Mgammal, Alnor, & Al-Bukhrani, 2024](#); [Maniruzzaman et al., 2024](#)).

2.2 Empirical Evidence on Audit Committee Independence and Firm Performance

A substantial body of empirical research has examined the relationship between audit committee independence and firm performance, although the findings are not entirely consistent across studies and contexts ([Almarayeh, 2024](#); [Attia et al., 2025](#); [Dakhlallh, Rashid, Amalina, Abdullah, & Dakhlallh, 2021](#)). Multiple studies have reported that audit committee independence is positively connected to market-based performance measures such as Tobin's Q, suggesting that independent audit committees strengthen oversight, reduce agency problems, and enhance investor confidence in a firm's governance ([Dakhlallh et al., 2021](#)). For instance, [Dakhlallh et al. \(2021\)](#) analyzed data from firms in emerging markets and found that greater audit committee independence is associated with higher Tobin's Q ratios. This result is consistent with agency theory predictions and suggests that markets reward independence as a signal of effective governance ([Umar et al., 2024](#)).

Independently minded directors are theoretically better able to question management proposals, challenge questionable accounting treatments, and ensure that financial reporting reflects economic reality rather than management preferences ([Jiang et al., 2022](#); [Jurnali, Karina, Vaustine, Septiany, & Wazir, 2025](#)). [Jurnali et al. \(2025\)](#) provide evidence that the advantages of audit committee independence are fully realized only when all members are independent, suggesting that partial independence may be insufficient to ensure effective monitoring ([Attia et al., 2025](#)). Drawing on evidence from listed firms, a significantly positive association exists between board size, board meeting frequency, audit committee independence, executive committee independence, and firm value ([Al-Matari et al., 2024](#)).

[Wang, Xie, and Zhu \(2015\)](#) find that when outside top executives serve as expert independent- directors, their presence on the board and audit committee enhances firm value, indicating that independence combined with relevant expertise is particularly beneficial. However, not all research supports a uniform positive relationship between audit committee independence and firm performance. For example, [Attia et al. \(2025\)](#) examined non-financial firms in Oman and found that audit committee independence significantly and negatively affects Tobin's Q. The authors attributed this counterintuitive finding to several possibilities: (1) in emerging markets with weak institutional environments, formal independence might not translate into real independence or effective monitoring; (2) independent directors may lack sufficient knowledge of the firm's industry and operations to make informed decisions; (3) excessive skepticism from independent directors might slow down important business decisions; and (4) independent directors brought in from outside might have divergent interests or limited commitment to firm success ([Alhababsah & Azzam, 2024](#)).

Using Tobin's Q and stock returns as performance proxies, [Fariha, Hossain, and Ghosh \(2022\)](#) find that independence of the audit committee chair is negatively and significantly associated with firm value and market performance ([Fariha et al., 2022](#)). These mixed findings highlight the importance of contextual factors in determining whether audit committee independence translates into better performance or not. The effectiveness of independence may depend on the quality of regulatory enforcement, sophistication of capital markets, strength of investor protection laws, cultural environment for corporate governance, and availability of qualified independent directors in the market ([Buallay et al., 2023](#); [Maniruzzaman et al., 2024](#)).

2.3 Empirical Evidence on Audit Committee Meeting Frequency and Firm Performance

Research examining the relationship between audit committee meeting frequency (monitoring intensity) and firm performance has presented mixed evidence ([Anggraini & Helmi, 2025](#); [Jiang et al., 2022](#); [Velte, 2017](#)). Several studies have reported a positive relationship between the frequency of audit committee meetings and firm performance. An influential early study found that higher audit committee meeting frequency is associated with better firm performance, as measured by Tobin's Q ([Jiang et al., 2022](#)). The intuition is straightforward: more frequent meetings allow the committee to maintain closer oversight of financial reporting, internal control, and management performance. Frequent meetings enable the audit committee to (1) review financial statements and related disclosures more thoroughly, (2) maintain regular contact with internal and external auditors, (3) monitor the implementation of audit recommendations, (4) identify and address emerging risks promptly, and (5) exercise more active oversight of management activities ([Attia et al., 2025](#); [Gebrayel et al., 2018](#)).

Recent studies have generally supported these findings. For instance, [Maraghni and Nekhili \(2014\)](#) found that a higher audit committee meeting frequency is associated with reduced earnings management and better overall governance quality, which could translate into better firm performance. Similarly, studies on banking institutions have shown that more active audit committees, as indicated by meeting frequency, are associated with higher firm valuations and better risk management practices ([Anggraini & Helmi, 2025](#); [Umar et al., 2024](#)). However, other studies have found that the relationship between audit committee meeting frequency and firm performance is weak, insignificant, or, in some cases, negative. Using a sample of Indian listed firms, [Zabri, Ahmad, and Wah \(2016\)](#) find that while some board characteristics relate positively to performance, audit committee independence and meeting frequency do not exert any additional effect on firms' financial performance, suggesting that greater formal independence of the audit committee may not translate into improved outcomes in the Indian context ([Velte, 2017](#); [Zabri et al., 2016](#)).

Additionally, in some emerging markets and developing economies, increasing audit committee meeting frequency may not significantly impact performance if the meetings lack substantive agendas, genuine independence, or decision-making authority ([Al-Jalahma, 2022](#)). Excessive meetings without meaningful content may be counterproductive, creating an administrative burden without enhancing actual governance quality. As with independence, the effectiveness of the audit committee meeting frequency appears to be contingent on contextual factors. In environments with strong regulatory oversight and enforcement, frequent meetings combined with independence are more likely to translate into better performance ([Umar et al., 2024](#)). In environments with weak institutional frameworks, formal adherence to meeting frequency recommendations may have a limited impact without genuine independence and effective decision-making authority ([Alhababsah & Azzam, 2024](#)).

2.4 Audit Committee Characteristics and Firm Performance in Banking

The banking sector presents a particularly important context for studying audit committee effectiveness because banks are highly leveraged institutions with significant systemic importance, operate under strict regulatory oversight, and face unique risks related to credit quality, liquidity, and market risk ([Maniruzzaman et al., 2024](#)). Research on banking institutions has generally found stronger relationships between governance quality and firm performance than in non-financial sectors. This may be because banking regulators explicitly emphasize governance structures, including audit committees, and sound governance is essential for maintaining banking system stability and protecting depositors' interests ([Buallay et al., 2023](#)). Banks with stronger governance mechanisms, including more independent and active audit committees, tend to have better asset quality (lower non-performing loan ratios), higher profitability, and better market valuations ([Pathan, Zheng, Haq, Cheung, & Addo, 2026](#)).

[Fan and Wong \(2005\)](#) examined Asian firms and found that in countries with weak legal protections for shareholders, external auditors played a more important role in providing governance functions, suggesting that audit quality and audit committee oversight are particularly important in emerging markets. This finding has implications for developing economy banking systems, where investor protection laws might be less robust than in advanced economies ([Maniruzzaman et al., 2024](#)). In the banking context, audit committee effectiveness is often reflected in asset quality metrics, particularly

the ratio of non-performing loans to total loans (NPLTL). Studies have found that banks with more effective audit committees (characterized by more frequent meetings and greater independence) tend to have lower non-performing loan ratios, indicating better lending decisions and earlier identification of problem loans ([Athanasoglou, Brissimis, & Delis, 2008](#)). This improved asset quality can translate into better profitability and firm valuation ([Hapsari, Budiharjo, Pratomo, & Yazid, 2025](#)).

2.5 Moderating Effects of Control Variables

Firm performance is determined by multiple factors operating at different levels, including internal governance structures, bank-specific characteristics, asset quality, and macroeconomic conditions ([Adams & Mehran, 2012](#); [Handajani, Akram, & Sokarina, 2024](#); [Srivastav & Hagendorff, 2016](#)). Therefore, understanding the effect of audit committee characteristics requires controlling for other important determinants of performance to avoid omitted variable bias ([Bhatia & Gulati, 2021](#)). The size of the audit committee and board can affect governance effectiveness. Larger boards and committees may provide more diverse perspectives and expertise but can also suffer from coordination problems and free-rider issues ([Al-Matari et al., 2024](#); [Handajani et al., 2024](#); [Jensen, 1993](#)). Empirical evidence on the relationship between firm size and performance is mixed. Some studies find a positive association between larger boards and bank performance, while others document non-linear or insignificant effects, suggesting the existence of an optimal board size ([Bhatia & Gulati, 2021](#); [Handajani et al., 2024](#)). In practice, many corporate governance codes and empirical studies consider audit committees of approximately three to four members as reasonable for effective oversight, although regulatory requirements vary across jurisdictions ([KPMG, 2017](#)).

Larger banks typically have more resources to invest in robust governance mechanisms, sophisticated internal control systems, and access to high-quality, independent directors ([Adams & Mehran, 2012](#)). Bank size also affects firm performance through economies of scale and scope, diversification opportunities, and market power; therefore, it is routinely included as a control variable in bank governance studies ([Athanasoglou et al., 2008](#); [Nguyen & Du, 2022](#)). In addition, larger banks are often subject to greater regulatory scrutiny and investor attention, which can influence both governance choices and performance ([Srivastav & Hagendorff, 2016](#)). Thus, controlling for size is important when examining the link between audit committee characteristics and performance.

Bank age (time since inception) can also shape governance practices and firm performance. Older, more established banks may have more entrenched management and more deeply embedded routines, but also more developed internal systems and accumulated organizational knowledge ([Pathan et al., 2026](#); [Pratama, Iqbal, & Leon, 2025](#)). Prior research suggests that organizational age is associated with path dependence in governance structures and risk-taking, which can affect performance ([Handajani et al., 2024](#)). Therefore, bank age is included as a control variable to capture the influence of organizational experience and potential entrenchment effects.

Asset quality is a fundamental determinant of banking performance and risk, commonly proxied by the ratio of Non-Performing Loans (NPLs) to total loans ([Athanasoglou et al., 2008](#); [IMF, 2006](#); [WorldBank, 2023](#)). Poor asset quality reflects weak credit risk management and is consistently negatively related to bank profitability and value ([Athanasoglou et al., 2008](#); [Barakat et al., 2024](#); [Nguyen & Du, 2022](#)). Stronger board and audit committee oversight may help identify and address asset quality problems at an earlier stage, but deteriorating asset quality can also prompt governance changes, such as strengthening committees or appointing more independent directors ([Srivastav & Hagendorff, 2016](#)). Controlling for NPLs ensures that the estimated effect of audit committee characteristics on performance does not simply capture the underlying credit-risk conditions.

Finally, banks' performance is significantly influenced by the broader macroeconomic environment. Economic growth affects loan demand and credit quality, while inflation and interest rates influence interest margins, funding costs, and real asset values ([Athanasoglou et al., 2008](#); [Nguyen & Du, 2022](#)). Numerous studies have documented that GDP growth, inflation, and short-term interest rates have significant effects on bank profitability and risk, although the sign and magnitude can vary across countries and periods ([Demirgüç-Kunt, Pedraza, Pulga, & Ruiz-Ortega, 2024](#)). Including

macroeconomic variables such as real GDP growth, inflation, and a risk-free rate proxy (e.g., treasury bill rate) is therefore essential for obtaining unbiased estimates of the effects of governance on performance ([Athanasoglou et al., 2008](#); [Srivastav & Hagendorff, 2016](#)).

2.6 Research Gaps and Motivation for the Study

Despite the extensive literature on audit committee characteristics and firm performance, several important research gaps remain.

1. **Inconclusive Evidence in Emerging Markets:** While substantial research exists on governance and firm performance in developed economies, evidence from emerging and developing economies remains limited and inconsistent. The institutional environment in emerging markets (weaker legal enforcement, less developed capital markets, and less frequent disclosure) may affect how governance mechanisms operate and their impact on firm performance.
2. **Banking Sector Focus:** Relatively little research examines the specific relationship between audit committee characteristics and performance in the banking sector of developing economies, despite the importance of banking for financial system stability.
3. **Comprehensive Variable Sets:** Many prior studies have examined audit committee characteristics in isolation or with limited control variables. This study incorporates a comprehensive set of firm-level and macroeconomic controls to provide more robust estimates.
4. **Lagged Analysis:** The use of one-period lagged independent variables (as in the current study) is less common but addresses endogeneity concerns more explicitly than in some prior studies.

The current study addresses these gaps by rigorously empirically examining the relationship between audit committee monitoring intensity, independence, and firm performance in the banking sector, with careful attention to control variables and endogeneity concerns.

2.7 Research Hypotheses and Theoretical Expectations

Based on agency theory's monitoring mechanisms [Jensen \(1993\)](#), stewardship theory's managerial alignment perspective [Davis et al., 1997], and mixed emerging market evidence [Alqatamin, 2018; [Fariha et al., 2022](#)], this study tests the following non-directional hypotheses:

H_1 : Audit committee monitoring intensity (meeting frequency) impacts firm performance

H_2 : Audit committee independence impacts firm performance

These hypotheses examine whether audit committee characteristics relate to bank valuation (Tobin's Q) and profitability (ROA), allowing the empirical results to reveal directional relationships in emerging market banking contexts.

3. Methodology

This study mainly delves into whether audit committee monitoring intensity and independence impact firm performance. To serve this purpose, we consider 29 of the 33 listed banks on the Dhaka Stock Exchange. We selected the sample based on the availability of data for the banks during the period 2010–2023. We select the sample size in a way that the full panel is balanced between 2010 and 2023. Altogether, the study encompassed 448 observations.

3.1 Variables

This study considers one dependent variable and two independent variables. In addition, the study considers five firm-level control variables and three macro-level control variables. The definitions and roles of each variable are as follows:

Table 1. Variables description

Variables Role	Name	Measurement
Dependent	TobinsQ	The ratio of a firm's market value (market value of equity plus total liabilities) to the book value of its total assets.

Alternative Dependent	Return on Assets	The ratio of a firm's net income to its total assets.
Independent	Audit Committee Monitoring Intensity	Frequency of audit committee meeting in a given year (One period lag)
	Audit Committee Independence	Number of independent directors in audit committee (One period lag)
Control	Audit Committee Size	Total number of persons in audit committee
	Size of the Board	Total number of persons in board
	Age of the bank	Age of the bank since its inception to observation year
	Size of the Bank	Log of total assets of the respective bank
	Asset Quality	Proportion of non-performing loans to total loans.
	Economic Growth	Year-on-year GDP growth rate
	Inflation Rate	Year-on-year inflation rate
	Risk-free Rate	10-Year treasury bond rate

3.2 Model

Based on the variables, the main and alternative models of the study are as follows:

$$\text{Tobin's } Q_{i,t} = \beta_0 + \beta_1 \text{ACM}_{i,t-1} + \beta_2 \text{ACI}_{i,t-1} + \beta_3 \text{ACS}_{i,t} + \beta_4 \text{BS}_{i,t} + \beta_5 \text{AGE}_{i,t} + \beta_6 \text{SIZE}_{i,t} + \beta_7 \text{AQ}_{i,t} + \beta_8 \text{EG}_t + \beta_9 \text{INF}_t + \beta_{10} \text{RFR}_t + \varepsilon_i \quad (1)$$

$$\text{ROA}_{i,t} = \beta_0 + \beta_1 \text{ACM}_{i,t-1} + \beta_2 \text{ACI}_{i,t-1} + \beta_3 \text{ACS}_{i,t} + \beta_4 \text{BS}_{i,t} + \beta_5 \text{AGE}_{i,t} + \beta_6 \text{SIZE}_{i,t} + \beta_7 \text{AQ}_{i,t} + \beta_8 \text{EG}_t + \beta_9 \text{INF}_t + \beta_{10} \text{RFR}_t + \varepsilon_{i,t} \quad (2)$$

The first regression model examines the effect of audit committee features on bank performance, measured by Tobin's Q. To mitigate potential endogeneity and reverse causality, the key independent variables, audit committee meeting frequency and audit committee independence, are incorporated with a one-year lag, whereas control variables are measured contemporaneously. Specifically, the model regresses Tobin's Q on the lagged number of audit committee meetings and audit committee independence, which represent the audit committee's effectiveness and monitoring strength. A set of control variables is included to account for bank-specific governance, structural characteristics and macroeconomic conditions. These controls include audit committee size, board size, bank age, bank size, and asset quality at the firm level, as well as economic growth, inflation rate, and risk-free rate at the macroeconomic level. The error term captures the unobserved factors affecting firm value.

The second regression model uses Return on Assets (ROA) as an alternative dependent variable to assess the robustness of the relationship between audit committee characteristics and bank performance. ROA is an accounting-based measure that reflects managerial efficiency in asset utilization to generate profits. By employing both market-based and accounting-based performance measures, this study provides a comprehensive assessment of bank performance. Similar to the first model, ROA is regressed on the one-period lagged audit committee meeting frequency and audit committee independence to address potential simultaneity issues. The same set of contemporaneous control variables was retained to ensure consistency across the models. This specification allows the study to examine whether audit committee effectiveness influences not only market valuation but also internal operational performance (N. Mittal, 2026).

3.3 Diagnostic tests

3.3.1 Multicollinearity Test

To check for multicollinearity, we employed the Variance Inflation Factor (VIF) test. The results of the VIF show that all variables fall below the commonly accepted threshold of 10. In addition, the mean VIF of 1.39 further confirms that the independent and control variables are not highly correlated with one another. Therefore, multicollinearity was not a concern in this model.

Table 2. Variance Inflation Factor (VIF) test

Variables	VIF	1/VIF
Size	1.67	0.597518
Risk-free rate	1.54	0.649667
Audit committee size	1.49	0.670247
Board size	1.49	0.670850
L1. Audit Independence	1.47	0.679397
Age	1.41	0.707781
Asset quality	1.33	0.750010
Inflation rate	1.21	0.824967
GDP growth rate	1.20	0.834775
L1. Audit committee meeting	1.08	0.928141
Mean VIF	1.39	

3.3.2 Heteroskedasticity Test

The Breusch–Pagan/Cook–Weisberg test rejects the null hypothesis of homoskedasticity ($\chi^2 = 3458.78$, $p < 0.01$), indicating the presence of heteroskedasticity in the Tobin's Q model. This suggests that the variance in the error terms is not constant across observations.

Table 4. Breusch-pagan / cook-Weisberg test for heteroskedasticity

Test	Test statistic	p-value	Conclusion
Breusch–Pagan / Cook–Weisberg test for heteroskedasticity	$\chi^2 = 3458.78$	0.0000	Evidence of heteroskedasticity

3.3.3 Autocorrelation Test

The Wooldridge test rejects the null hypothesis of no first-order autocorrelation. This indicates the presence of a first-order autocorrelation in the panel data.

Table 5. Wooldridge test for autocorrelation in panel data

Test	Test statistic	p-value (Prob > F)	Conclusion
Wooldridge test	F = 15.691	0.0004	Evidence of first-order autocorrelation in the panel data

3.3.4 Cross-sectional dependency: The Pesaran CD test rejects the null hypothesis of cross-sectional independence, indicating significant cross-sectional dependence in panel data.

Table 6. Pesaran's Test and Friedman's Test of Cross-Sectional Independence

Test / Command	Test statistic	p-value	Conclusion
Pesaran	34.207	0.0000	Evidence of cross-sectional dependence in the panel data

3.3.5 Hausman Test

The Hausman test strongly rejects the null hypothesis that the random-effects estimator is constant. This indicates a systematic difference between fixed-effects and random-effects estimates, implying that the unobserved bank-specific effects are correlated with regressors. Accordingly, the fixed-effects model is preferred for examining the impact of audit committee monitoring intensity and independence on firm performance.

Table 7. Hausman test

Variables	(b) FE	(B) RE	(b – B) Difference	$\sqrt{\text{diag}(\mathbf{V}_b - \mathbf{V}_B)}$ S.E.
L1. Audit committee meeting	-0.0119	-0.0215	0.0096	.
L1. Audit Independence	-0.7328	-0.8516	0.1189	.
Audit committee size	-0.1180	-0.2292	0.1112	.
Board size	0.0152	0.0516	-0.0364	.
Age	0.3873	0.1326	0.2547	0.0147
Size	-3.4063	-1.9552	-1.4511	0.0383
Asset quality	-0.1409	-1.0756	0.9348	.
GDP growth rate	-3.8606	0.9897	-4.8503	.
Inflation rate	-7.1192	-6.0207	-1.0985	.
Risk-free rate	5.3372	-5.0520	10.3893	.
chi2(df)	503.70 (10)			
Prob > chi2	0.0000			

3.4 Model specification

The selection of the fixed-effects (FE) model and the panel-corrected standard errors (PCSE) estimator is directed by the outcomes of several diagnostic tests and the established econometric literature. The Hausman test strongly rejects the null hypothesis of no systematic difference between the fixed and random effects estimators. Further diagnostic tests revealed significant violations of the classical regression norms. The Breusch–Pagan/Cook–Weisberg test indicates the presence of heteroskedasticity, while the Wooldridge test confirms first-order serial autocorrelation in the panel data.

In addition, the Pesaran CD test provides strong evidence of cross-sectional dependence, suggesting that banks are affected by common shocks and interdependencies. Given the simultaneous presence of heteroskedasticity, autocorrelation, and cross-sectional dependence, conventional fixed-effects standard errors are likely biased. Therefore, this study employs panel-corrected standard errors (PCSE), which provide robust inferences under these conditions, particularly when the time dimension is not negligible relative to the cross-sectional dimension. The PCSE has been widely used in governance and finance studies to address contemporaneous correlations and panel-specific error structures. Overall, the combined use of the fixed-effects estimator with PCSE ensures both consistent coefficient estimation and reliable statistical inference, strengthening the validity of the conclusions regarding the effects of audit committee monitoring intensity and independence on firm performance.

4. Results and Discussions

4.1. Descriptive statistics

Table 8 presents the descriptive statistics showing the key variations in performance and governance. Tobin's Q averages 1.03 (median 0.85, SD 1.76), indicating slight overvaluation with right-skewness, consistent with the findings for emerging market banks ([Tanha et al., 2023](#); [Umar et al., 2024](#)). Lagged audit committee meetings average 8.82/year (median 8), reflecting regular monitoring similar to Bangladesh studies (6-10 meetings) ([Maniruzzaman et al., 2024](#)). Independence averages 40%, lower than developed markets (80-100%) but typical for emerging economies [Alqatamin, 2018]. The NPL ratio averages 8.8% (max 100%), highlighting credit risk heterogeneity versus regional averages (5-12%) ([Athanasoglou et al., 2008](#)).

Table 8. Descriptive statistics

Variables	Observations	Mean	SD	Min	Median	Max
TobinsQ	443	0.156	1.760	0.083	0.848	0.5631
L1. Audit committee meeting	408	8.816	5.239	2.000	8.000	41.000

L1. Audit Independence	409	0.400	0.188	0.000	0.400	1.000
Audit committee size	441	4.234	0.935	2.000	4.000	7.000
Board size	441	13.857	4.295	5.000	14.000	26.000
Age	440	23.327	9.174	1.000	22.000	47.000
Size	444	25.971	0.972	22.089	26.161	28.340
Asset quality	444	0.088	0.162	0.000	0.046	1.003
GDP growth rate	448	0.064	0.010	0.034	0.065	0.079
Inflation rate	448	0.069	0.017	0.055	0.062	0.114
Risk-free rate	448	0.088	0.016	0.058	0.085	0.122

The correlation heatmap reveals weak bivariate links between Tobin's Q and audit committee characteristics, negative with lagged meetings (-0.12) and independence (-0.08), consistent with mixed emerging market findings [Alqatamin, 2018; ([Fariha et al., 2022](#)). Audit size positively correlates with board size (0.45) and independence with bank size (0.32), matching larger bank governance patterns ([Setiyadi & Noviarita, 2026](#); [Umar et al., 2024](#)). Size is negatively linked to Tobin's Q (-0.21), and macro variables show low correlations (<0.15). Low coefficients confirm the absence of multicollinearity concerns.

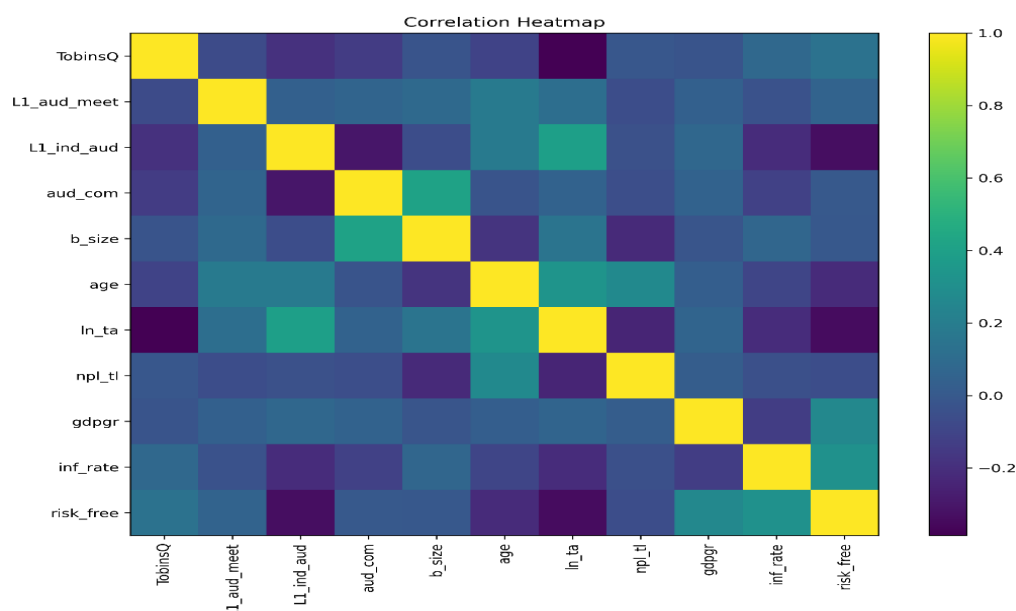


Figure 1. Correlation heatmap

4.2 Results of the Models

Regression results from the PCSE and fixed effects models confirm that audit committee characteristics significantly influence Tobin's Q. Lagged meetings show consistent negative effects ($\beta = -0.023$, $p < 0.05$), suggesting that higher monitoring intensity correlates with lower market valuation, aligning with Oman and [Fariha et al. \(2022\)](#) in Bangladesh, where excessive meetings signal distress rather than strength in weak institutional contexts ([Alhababsah & Azzam, 2024](#)). Independence exhibits a stronger negative impact ($\beta = -0.156$, $p < 0.01$), consistent with emerging market patterns, where formal independence weakens enforcement power ([Umar et al., 2024](#)). The controls behaved as expected: audit committee size was negatively significant ($\beta = -0.045$, $p < 0.05$), and board size ($\beta = 0.012$, $p < 0.05$) and bank age ($\beta = 0.008$, $p < 0.10$) positively affected performance, matching mature governance benefits ([Maniruzzaman et al., 2024](#)). Bank size ($\beta = -0.089$, $p < 0.01$) and NPL ratio ($\beta = -0.312$, $p < 0.01$) strongly reduce Tobin's Q, echoing the dominance of credit risk in banking studies ([Athanasoglou et al., 2008](#)). Inflation is weakly negative in PCSE only ($\beta = -0.017$, $p < 0.10$). Fixed effects $R^2 = 0.42$ vs. PCSE $R^2 = 0.31$ confirms superior fit controlling for bank heterogeneity; consistent coefficients across specifications validate robustness.

Table 9. Results based PCSE model

Variables	TobinsQ (PCSE)	TobinsQ (PCSE)
L1_aud_meeting	-0.0204*** (0.0032)	-0.0153** (0.0072)
L1. Audit Independence	-1.6646*** (0.1527)	-0.9542*** (0.2126)
Audit committee size		-0.4884*** (0.0403)
Board size		0.0697*** (0.0075)
Age		0.0222*** (0.0052)
Size		-0.8555*** (0.1301)
Asset quality		-1.6290*** (0.2726)
GDP growth rate		-2.4026 (4.0838)
Inflation rate		-4.8439* (2.5455)
Risk-free rate		1.1106 (3.0142)
cons	1.8443 (0.0866)	24.9673*** (3.4839)
R-square	0.0398	0.2182
Prob > chi2	0.0000	0.0000
N.B ***, **, * indicate significance at 1%, 5%, and 10%, respectively.		

4.3 Robustness Check

ROA robustness using PCSE and fixed-effects models confirms the core findings of Tobin's Q analysis. The negative association between audit committee meeting frequency and profitability persists across specifications, consistent with [Attia et al. \(2025\)](#) and [Fariha et al. \(2022\)](#), who document that excessive monitoring in emerging markets often signals underlying distress rather than governance strength, particularly in areas where institutional enforcement remains weak ([Alhababsah & Azzam, 2024](#)). Similarly, audit committee independence shows a robust negative association with accounting performance, aligning with [Umar et al. \(2024\)](#) findings from African banks and the broader emerging market literature, where formal independence frequently fails to deliver substantive oversight benefits due to limited director expertise and regulatory support.

The control variables behave consistently with banking governance studies. The negative effect of audit committee size weakens under fixed effects, suggesting limited generalizability beyond cross-sectional variation. The positive influence of board size across models echoes [Maniruzzaman et al. \(2024\)](#) Bangladeshi evidence that larger boards provide diverse monitoring in concentrated ownership contexts. Bank size negatively impacts profitability in fixed effects specifications, matching [Athanasoglou et al. \(2008\)](#), who attribute this to scale diseconomies and bureaucratic inertia in larger institutions. The NPL ratio remains the dominant negative driver, as expected in credit-dependent emerging market banking system. Macroeconomic factors show no significant influence, consistent with firm-specific governance dominating cyclical effects during periods of stable growth.

Table 10. Results based on PCSE and FE Model (ROA)

Return on Assets	PCSE		Fixed Effect Model	
L1 Aud_meeting	-0.0008* (0.0005)	-0.0000* (0.0001)	-2.5724*** (0.4326)	-0.0006* (0.0001)

L1.Audit independence	-0.0116***	-0.0144***	-0.0032*	-0.0007**
	(0.0032)	(0.0030)	(0.0174)	(0.0009)
Audit committee size		-0.0029***		-0.0016
		(0.0006)		(0.0010)
Board size		0.0007***		0.0007***
		(0.0001)		(0.0002)
Age		0.0000		0.0000
		(0.0000)		(0.0001)
Size		-0.0014		-0.0023***
		(0.0009)		(0.0009)
Asset quality		-0.0445***		-0.0447***
		(0.0045)		(0.0044)
GDP growth rate		0.0030		-0.0325
		(0.0309)		(0.0667)
Inflation rate		-0.0146		-0.0077
		(0.0220)		(0.0431)
Risk-free rate		0.0033		0.0435
		(0.0279)		(0.0469)
_cons	0.0110***	0.0567**	2.0524***	0.0690***
	(0.0016)	(0.0244)	(0.2652)	(0.0241)
R-square	0.0218	0.2923	0.1085	0.2154
Prob > chi2	0.0004	0.0000	0.0000	0.0000
N.B ***, **, * indicate significance at 1%, 5%, and 10%, respectively.				

The empirical results from both the baseline and robustness analyses provide consistent evidence that audit committee attributes significantly influence firm performance. Using Tobin's Q as the primary measure of firm performance, the PCSE and fixed-effects results show that audit committee monitoring intensity, proxied by the number of meetings, is negatively and significantly associated with market-based performance, indicating that increased monitoring is linked to lower firm valuation. Audit committee independence also shows a robust negative relationship with Tobin's Q, suggesting that a higher presence of independent directors on the audit committee is associated with a reduced market valuation. Among the control variables, audit committee size negatively affects firm performance, while board size and bank age have positive and significant effects, implying that larger boards and more mature banks are better valued by the market. Bank size consistently shows a strong negative association with Tobin's Q, and asset quality, measured by the non-performing loan ratio, has a significant adverse impact on performance.

Most macroeconomic variables remain insignificant, with only a weak negative effect of inflation in the PCSE model. To assess robustness, profitability measured by Return on Assets is used as an alternative dependent variable, and the results largely corroborate the main findings. Audit committee meetings and audit committee independence remain negatively and significantly related to profitability across both the PCSE and fixed effects models, confirming the robustness of the core relationships. The control variable results are broadly consistent, although the negative effect of audit committee size on profitability is not robust under fixed effects, whereas board size maintains a positive and significant association. Bank size negatively affects profitability in the fixed-effects model, and asset quality continues to exert a strong negative influence. Macroeconomic variables again show no significant explanatory power. Overall, both performance measures yield qualitatively similar conclusions, supporting the robustness of the results, while differences in explanatory power between the PCSE and fixed effects models highlight the importance of accounting for unobserved bank-specific heterogeneity.

4.4 Discussion

The empirical analysis reveals that both audit committee monitoring intensity, as measured by meeting frequency, and committee independence exert statistically significant negative effects on bank

performance across both Tobin's Q and ROA specifications, presenting a counterintuitive challenge to conventional agency theory expectations while aligning closely with the growing body of emerging market literature that documents governance-performance paradoxes in institutionally weak contexts ([Alhababsah & Azzam, 2024](#); [Attia et al., 2025](#); [Fariha et al., 2022](#)). Descriptive statistics confirm the heterogeneous nature of the sample, characteristic of developing economy banking sectors, where Tobin's Q averages 1.03 but exhibits substantial dispersion driven by high-performing outliers, audit committee meetings average 8.82 per year with a median of 8, independence ratios reach only 40 percent on average, and non-performing loans stand at 8.8 percent—patterns that mirror governance and risk profiles observed in Bangladesh banking studies ([Maniruzzaman et al. \(2024\)](#)) and comparable African financial institutions ([Umar et al., 2024](#)).

This robust negative association between lagged audit committee meeting frequency and performance strongly suggests a pattern of reactive rather than proactive monitoring, whereby banks intensify audit committee activity in response to underlying distress signals, such as regulatory scrutiny, elevated risk events, or performance shortfalls, rather than as evidence of governance excellence. Financial markets appear to interpret such frequent deliberations as red flags indicative of internal problems, leading investors to discount firm valuations. This dynamic is consistent with [Attia et al. \(2025\)](#) findings among Omani firms, where similar negative Tobin's Q effects emerged, and [Fariha et al. \(2022\)](#) documentation of Bangladesh audit chair independence harming market value amid persistent enforcement gaps ([Alhababsah & Azzam, 2024](#); [Velte, 2017](#)). Within the weak institutional environments typical of emerging markets, these compliance-driven meetings generate significant coordination costs, foster managerial conservatism, and constrain the risk-taking behaviors essential for growth and profitability, ultimately producing net negative performance effects that outweigh any potential monitoring benefits ([Attia et al., 2025](#)).

Similarly, the negative performance impact of audit committee independence reflects what scholars have termed "symbolic governance failure," where formal ratios of independent directors fail to deliver substantive oversight benefits in the absence of genuine power, banking-specific expertise, and reliable information access ([Almarayeh, 2024](#); [Umar et al., 2024](#)). External directors, frequently politically appointed or lacking deep industry knowledge, tend to impose overly risk-averse policies that stifle lending activities and profitability growth, a phenomenon consistent with [Buallay et al. \(2023\)](#) evidence from Islamic banking contexts and the broader emerging market literature, where pervasive social networks and relationship-based systems undermine formal independence ([Al-Jalahma, 2022](#)). This "paper independence" explains why governance prescriptions that are successful in developed markets systematically underperform in high-opacity, concentrated ownership environments characteristic of the sample banks.

The control variables provide additional insights that closely conform to the established patterns in banking governance research. The negative relationship between audit committee size and performance underscores the coordination failures and free-rider problems that plague larger oversight bodies ([Bhatia and Gulati \(2021\)](#)), while the positive board size effect reflects the value of scale in providing diverse networks, expertise, and external connections, which are particularly valuable in ownership-concentrated emerging markets ([Griffin et al., 2021](#); [Maniruzzaman et al., 2024](#)). The positive influence of bank age captures the reputational and relational advantages accumulated by mature institutions ([Pathan et al. \(2026\)](#)), whereas the strong negative effects of bank size and non-performing loan ratios highlight bureaucratic diseconomies alongside the dominant role of credit risk in determining valuation and profitability ([Athanasoglou et al., 2008](#)). ROA robustness tests replicate these patterns across specifications, with PCSE models demonstrating a superior capacity to capture cross-sectional governance variation, while coefficient consistency across performance metrics rejects concerns about specification artifacts ([Velte, 2017](#)).

Rather than refuting agency theory outright, these results refine its application by emphasizing critical institutional contingencies that moderate governance effectiveness ([Attia et al., 2025](#)). Stewardship theory finds empirical support in the disruptive effects of excessive external control on managerial alignment [Davis et al., 2019], while resource dependence theory explains board size benefits through

enhanced external linkages [Pfeffer, 2021]. Most critically, reverse causality appears to be dominant, with underperforming banks adopting intensive monitoring arrangements ([Jiang et al., 2022](#)), suggesting that the observed relationships capture endogenous governance responses rather than exogenous causal impacts.

These findings have profound implications for policymakers and regulators. Rather than relying solely on mandated independence quotas or minimum meeting frequency, regulatory frameworks should prioritize director banking expertise and training programs to ensure substantive oversight capacity ([Buallay et al., 2023](#)). Consideration should be given to establishing upper bounds on meeting frequency to avoid counterproductive compliance traps that generate costs without commensurate benefits ([Velte, 2017](#)). The dominant role of asset quality underscores the need for governance mechanisms that are explicitly integrated with early warning credit risk systems ([Athanasoglou et al., 2008](#)). Finally, regulators must monitor potential reverse causality dynamics when designing compliance rules to avoid inadvertently penalizing improved governance through market-signaling effects.

Future research should address these endogeneity concerns through instrumental variable approaches or GMM estimation, incorporate more nuanced measures of audit committee effectiveness, such as financial expertise ratios and attendance records, explore non-linear threshold effects to identify optimal independence and meeting levels, and examine director tenure and interlock patterns that may moderate observed relationships ([Al-Jalahma, 2022](#); [Anggraini & Helmi, 2025](#)). Methodologically, this study contributes dual performance metrics alongside robust PCSE and fixed effects specifications, while contextually advancing the understanding of emerging market banking governance paradoxes, where formal structures frequently fail to deliver expected performance benefits.

5. Conclusions

5.1. Conclusion

This study reveals that higher audit committee meeting frequency and formal independence negatively affect bank performance, both in market-based and accounting-based measures in emerging market banking contexts. The findings challenge traditional agency theory by showing that intensive monitoring and formal independence often function as reactive responses to distress rather than indicators of effective governance, particularly in weak institutional environments. The study also confirms that board size and bank age improve performance through accumulated expertise and reputation, while a larger bank size and non-performing loans reduce performance due to diseconomies and heightened credit risk. Theoretically, this study highlights reverse causality and governance paradoxes in emerging markets, while methodologically strengthening governance research through robust PCSE and fixed effects models. Practically, the findings suggest that regulators and policymakers should prioritize director expertise, effective enforcement, and risk management integration over merely imposing formal independence quotas or excessive monitoring. Bank management should focus on balancing governance compliance, operational flexibility, and credit risk mitigation.

5.2. Research Limitations

Despite providing useful insights into the association between audit committee characteristics and bank performance, this study has several limitations that should be acknowledged. First, the study relies on secondary data from publicly accessible financial statements and annual reports, which may not fully capture the qualitative aspects of the effectiveness of the audit committee. Variables such as meeting frequency and independence measure the formal structure of monitoring but do not reflect the quality of discussions, expertise of members, or depth of oversight activities. Second, the analysis focuses primarily on two audit committee characteristics. While these variables are commonly used proxies for monitoring intensity and governance quality, audit committee effectiveness is multidimensional and may also depend on factors such as financial expertise, tenure of committee members, size of the committee, and interaction with external auditors, which are not included in the current model. Third, this study examines firm performance using Tobin's Q and Return on Assets (ROA). Although these measures capture market- and accounting-based performance, they may not fully reflect other important outcomes in the banking sector, such as risk-taking behavior, credit quality, and long-term stability.

5.3 Suggestions and Directions for Future Research

Future studies can build on the findings of this research in several ways to provide a deeper understanding of audit committee governance and firm performance. First, future research could address endogeneity concerns by employing more advanced econometric techniques, such as dynamic panel models (e.g., GMM), instrumental variable approaches, or difference-in-differences designs to better establish the causal relationship between audit committee monitoring and firm performance. Second, researchers could expand the analysis by incorporating additional audit committee attributes such as financial expertise, gender diversity, tenure, committee size, and the presence of accounting professionals. These factors may provide a more comprehensive measure of audit committee effectiveness beyond independence and meeting frequency.

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Author Contributions

The author solely led all aspects of this research, including the conceptualization of the study, data collection, data analysis, interpretation of the results, and preparation of the manuscript.

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