

Impact of Audit Committee Characteristics on Financial Performance of Listed Finance Companies in Sri Lanka

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An audit committee is an operating committee of a company's board of directors and it is a compulsory requirement for Sri Lankan listed companies according to the 'Code of best practices on corporate governance' published by the Institute of Chartered Accountants of Sri Lanka and Security and Exchange Commission of Sri Lanka. This study was attempt to find out the relationship between the audit committee characteristics such as Size of the Audit Committee, Independence of the Audit Committee, Audit Committee Meeting Frequency, Financial Literacy of Audit Committee Members and financial performance measured by the Return on Assets and Return on Equity of Sri Lankan finance companies. Twenty listed finance companies were selected as sample for the period of 2012 to 2016. Descriptive statistics, correlation analysis and multiple regression analysis were used to analyze the data. According to the analysis, audit committee independence and audit committee financial literacy showed a significant positive relationship with firms' financial performance. Audit committee meeting frequency significantly related only with financial performance indicator of ROE. However audit committee size did not have significant relationship with firm performance. The results is beneficial to shareholders and companies' board to make appropriate decisions about audit committee characteristics to enhance firm financial performance.

Keywords: Audit committee, Firm performance, Finance companies, Corporate governance, Sri Lanka