

## FACTORS AFFECTING ON AUDIT COMMITTEE EFFECTIVENESS IN LISTED CAPITAL GOODS COMPANIES ON THE COLOMBO STOCK EXCHANGE (CSE)

M.P.V. Rasanjalee<sup>1,\*</sup>, C.T. Gamage<sup>2</sup> and W.P. Wijewardhana<sup>3</sup>

<sup>1,2,3</sup>Rajarata University of Sri Lanka.

Corresponding author (Email: m.p.v.rasanjalee@gmail.com)

### ABSTRACT

Audit committees have been widely recognized as a very effective mechanism for ensuring good governance in corporate affairs. At present, the auditing effectiveness of most listed companies in Sri Lanka is declining. This is because most listed companies do not consider the different factors that impact audit committee effectiveness. Thus, this research examines the effect of audit committee factors on audit committee effectiveness in relation to listed capital goods companies in Sri Lanka. Audit committee size, audit committee independence, audit committee meetings, and audit committee financial expertise were taken as audit committee factors on audit committee effectiveness. The sample consists of 29 capital goods companies listed on the Colombo Stock Exchange over the period 2017-2021. In this study, data were collected from secondary sources, and the hypotheses were examined using descriptive, correlation, and regression analyses. The results of this study show the audit committee meetings and audit committee independence are positively related with audit committee effectiveness. Audit committee size and financial expertise have a negative relationship with audit committee effectiveness. With  $R^2 = n$ , the results of the study could be beneficial for managers and directors in making suitable choices about audit committee factors and corporate governance mechanisms to enhance the company's audit committee effectiveness. It provides a better understanding of the different factors required for audit committee effectiveness, and the study strongly recommends that audit committee factors are much more important for the audit committee effectiveness of listed capital goods companies. Further, this study contributes to the literature by identifying the audit committee factors in a company audit committee effectiveness.

**Keywords:** Audit committee effectiveness, audit committee size, financial and expertise independence