

FROM STRUCTURE TO CAPABILITY: RETHINKING AUDIT COMMITTEE EFFECTIVENESS AND FIRM PERFORMANCE: A NARRATIVE REVIEW

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ABSTRACT

Purpose: This review examines whether, how, and under what conditions audit committee effectiveness, conventionally proxied by independence, financial expertise, size, and diligence, is associated with firm performance, and why prior findings diverge.

Design/methodology/approach: A narrative review structured around the SANRA quality criteria synthesises peer-reviewed theoretical, primary empirical, review, and meta-analytic evidence through agency, resource dependence, and institutional theory.

Findings: Evidence is strongest for independence and financial expertise, particularly accounting expertise, and is more robust for financial reporting and audit quality outcomes than for firm performance. Meta-analytic evidence links independence, expertise, and committee size to firm performance, whereas meeting frequency shows no significant aggregate association with performance, even though it is linked to lower earnings management. Divergent findings are traced to three sources: reliance on structural proxies that do not capture oversight processes; dynamic endogeneity, whereby prior performance and adverse events reshape committee composition and activity; and institutional variation, including principal-principal conflicts in concentrated-ownership settings.

Originality/value: The review develops a process-based framework and five testable propositions linking structural attributes, oversight processes, governance outcomes, and firm outcomes under institutional boundary conditions, and illustrates their relevance using Kenya's corporate governance code.

Research limitations: As a narrative review, the synthesis is interpretive rather than exhaustive, and the proposed mediating pathways remain to be tested empirically.

Practical implications: Boards, regulators and investors should assess audit committees on the substance of their oversight, information access, challenge and follow-up-rather than on their formal composition alone.

Keywords: *audit committee; corporate governance; firm performance; financial expertise; independence; endogeneity; institutional theory; emerging markets; narrative review*

1. Introduction

The separation of ownership from control creates information asymmetries and divergent incentives between those who manage firms and those who finance them. Jensen and Meckling (1976) formalised this problem as one of agency costs, and Fama and Jensen (1983) placed the board at the apex of the firm's internal decision-control system. Within that system, the audit committee has become the principal mechanism through which boards oversee financial reporting, internal control, internal and external audit, and, increasingly, enterprise risk. Successive corporate failures and regulatory reforms have expanded the committee's mandate and raised expectations of what it can deliver.

Formal existence, however, does not equal effectiveness. A committee may satisfy statutory composition rules while lacking the information, competence, authority or willingness to challenge management. This distinction between form and substance is central to the present review. The most frequently examined attributes, independence, financial expertise, size, and diligence (usually proxied by meeting frequency), are observable and therefore readily regulated and measured, but they only imperfectly indicate whether a committee actually monitors.

The empirical record reflects this tension. Studies report positive, insignificant, and occasionally negative associations between audit committee attributes and firm performance. The literature has been synthesised by several syntheses (DeZoort et al., 2002; Bédard & Gendron, 2010; Ghafran & O'Sullivan, 2013) and meta-analyses (Pomeroy & Thornton, 2008; Lin & Hwang, 2010; Bilal et al., 2018; Altın, 2024). However, these syntheses largely aggregate attribute outcome associations; they do less to explain why the same attribute is associated with reporting quality but not with performance, or why associations vary across institutional settings. That explanatory gap motivates this review.

The review addresses three questions. RQ1: What does the theoretical and empirical evidence indicate about the association between each principal audit committee attribute and firm performance, distinct from financial reporting and audit quality? RQ2: What accounts for the divergence in findings across studies and settings? RQ3: What framework best integrates structural, behavioural and institutional explanations to guide future research?

The review makes three contributions. First, it separates evidence on intermediate governance outcomes from that on firm performance, showing that the literature is considerably stronger for the former. Second, it identifies three systematic sources of divergence construct validity of structural proxies, dynamic endogeneity, and institutional context and shows how each operates for each attribute. Third, it develops a process-based framework with five testable propositions and illustrates its relevance to emerging markets, using Kenya's governance code as an example of how formal requirements interact with enforcement and ownership structure.

The remainder of the paper is organised as follows. Section 2 conceptualises audit committee effectiveness; Section 3 sets out the theoretical foundations; and Section 4 describes the review approach. Sections 5 to 8 synthesise evidence on each attribute. Section 9 analyses why the findings diverge; Section 10 presents the framework and propositions; and Section 11 examines

institutional boundary conditions. Sections 12 to 16 discuss contributions, the research agenda, practical implications, limitations and conclusions.

2. Conceptualizing Audit Committee Effectiveness

Audit committee effectiveness is defined here as the committee's capacity to discharge its oversight responsibilities in a manner that safeguards the integrity of financial reporting, internal control, audit and risk management. The definition follows DeZoort et al. (2002), whose synthesis organised the literature around four interdependent elements (composition, authority, resources and diligence) and concluded that effectiveness emerges from their interaction rather than from any single attribute. Earlier, Kalbers and Fogarty (1993) framed effectiveness in terms of power, distinguishing the organisational sources of a committee's authority from members' personal expertise and diligence. Both perspectives imply that effectiveness is a capability exercised in practice, not a property of committee composition.

Process-oriented field research supports this view. Gendron et al. (2004), studying audit committees in large Canadian-listed companies, documented how members' questioning of management and auditors' shapes perceived effectiveness. Turley and Zaman (2007) found that the committee's most significant effects on governance outcomes occurred outside formal structures and processes, through informal networks, shifts in power relations, and the committee's role in non-routine situations. Beasley et al. (2009), interviewing audit committee members of U.S. public companies, found evidence of substantive monitoring alongside ceremonial elements, including management influence over the selection of committee members. Collectively, these studies indicate that structurally similar committees can perform very differently.

Two implications follow for measurement. First, structural attributes should be treated as enabling conditions for oversight rather than as measures of oversight. Second, the most widely used behavioural proxy, meeting frequency, is ambiguous: frequent meetings may signal proactive monitoring, or they may be a response to distress, restatements, or regulatory scrutiny. Effectiveness should therefore be understood as the interaction of committee attributes with committee processes, conditioned by the organisational and institutional setting.

3. Theoretical Foundations

3.1 Agency theory

Agency theory provides the dominant rationale for audit committees. Because managers possess superior information and may pursue private benefits, principals rely on monitoring mechanisms to limit opportunism (Jensen & Meckling, 1976). Delegating financial oversight to a specialised committee of the board is consistent with the board's role as the apex of internal decision control (Fama & Jensen, 1983). Independent members are expected to monitor more objectively, while financially expert members are expected to monitor more competently.

Typically, agency theory focuses on conflicts between dispersed shareholders and professional managers. However, in many emerging and frontier markets, the main issue is the principal–principal conflict between controlling and minority shareholders, driven by concentrated

ownership, family control, business groups, and weak protections for minorities (Young et al., 2008). In these contexts, even a formally independent committee may still rely on the controlling shareholder, so the monitoring role outlined by agency theory needs to be adjusted to reflect ownership structures.

3.2 Resource dependence theory

Resource dependence theory suggests that organisations rely on their environments for essential resources such as information, expertise, and legitimacy (Pfeffer & Salancik, 1978). In this view, directors play roles beyond monitoring, including offering advice, counsel, and access to external knowledge. Hillman and Dalziel (2003) synthesise these ideas through the concept of board capital, comprising directors' human and social capital, which influences both monitoring and resource provision. When applied to audit committees, this theory highlights that the quality and relevance of expertise matter more than its mere presence, and that increasing committee size can broaden the knowledge base.

3.3 Institutional theory

Institutional theory explains how organisations within a field tend to develop similar structures due to coercive, mimetic, and normative influences (DiMaggio & Powell, 1983). Factors such as audit committee composition, charters, and meeting procedures are shaped by legislation, listing requirements, governance guidelines, and professional standards. However, adopting similar structures does not necessarily imply effective implementation; they are often adopted primarily for legitimacy, with limited practical effect. Therefore, institutional theory explains why similar committees can yield different outcomes across regions and why the strength of enforcement serves as a boundary condition, shaping how agency and resource dependence mechanisms operate.

3.4 Integrating the perspectives

The three theories are complementary rather than competing. Agency theory explains why oversight is needed and predicts that independence matters; resource dependence theory explains what the committee needs to oversee effectively and predicts that expertise and capacity matter; and institutional theory explains where and when formal structures translate into substantive monitoring. This integration underpins the framework developed in Section 10.

4. Review Approach

4.1 Design and rationale

A narrative review was chosen because of the wide variability in the existing literature on the theory, design, setting, and measurement of audit committee attributes and performance. Its purpose is explanatory, aiming to identify patterns and differences in the evidence rather than to produce a single pooled effect. When available, the review cites published meta-analyses rather than reanalysing them. For transparency, the review adheres to the six SANRA criteria (Baethge et al., 2019): justification of the topic, aims, literature search details, referencing, scientific reasoning, and clear data presentation. Appendix A maps each criterion to its

corresponding section. Moreover, following Siddaway et al. (2019), the review describes its methods transparently to facilitate scholarly evaluation.

4.2 Literature identification

Searches were conducted across Scopus, Web of Science, ScienceDirect, Emerald Insight, Wiley Online Library, SpringerLink and Google Scholar. An illustrative search string was: (“audit committee”) AND (“effectiveness” OR “independence” OR “financial expertise” OR “size” OR “meetings” OR “diligence”) AND (“firm performance” OR “financial reporting quality” OR “earnings management” OR “restatement” OR “corporate governance”). Theoretical terms (“agency theory”, “resource dependence”, “institutional theory”) were used to identify foundational works. Database searches were supplemented by backward and forward citation tracking of the principal reviews and meta-analyses.

4.3 Eligibility

Studies were included if they were peer-reviewed, published in English, and examined one or more audit committee attributes in relation to firm performance, financial reporting quality, audit quality, internal control, earnings management, or related governance outcomes. Studies were excluded if audit committees were not a focal construct, if outcomes were unrelated to governance or performance, or if the work was not peer-reviewed. Seminal theoretical works were retained irrespective of date. Board-level studies were included selectively and identified as such where they provided direct evidence on mechanisms (board size, meeting activity, endogeneity) that the audit committee literature draws on. Evidence from developed and emerging markets was deliberately sought because institutional context is a focal explanatory variable.

4.4 Synthesis and weighting of evidence

Evidence was synthesised thematically by attribute. Within each theme, the review distinguishes (a) the theoretical mechanism, (b) evidence on intermediate governance outcomes (reporting quality, audit quality, restatements, timeliness), (c) evidence on firm performance (accounting and market measures), and (d) contextual explanations of divergence. Greater interpretive weight was given to meta-analyses and to designs that address endogeneity than to single cross-sectional studies. Consistent with the narrative design, the number of records screened was not recorded, no protocol was registered, and no formal risk-of-bias instrument was applied; these limitations are addressed in Section 15. Table 1 summarises the principal studies.

Table 1. Principal studies informing the review

Study	Design and context	Attribute(s) and outcome	Principal finding
Yermack (1996)	Empirical; large U.S. industrial firms (board-level)	Board size; Tobin's Q	Inverse association between board size and firm value.
Vafeas (1999)	Empirical; 307 U.S. firms, 1990–1994 (board-level)	Board meeting frequency; firm value and operating performance	Meetings negatively related to value, driven by activity after share-price declines; operating performance improves subsequently.
Carcello & Neal (2000)	Empirical; U.S. financially distressed firms	Affiliated directors on the committee; going-concern opinions	Higher proportion of affiliated directors associated with lower likelihood of a going-concern opinion.
Klein (2002)	Empirical; U.S. listed firms	Independence; abnormal accruals	Negative, non-linear association; significant below majority independence, not significant for wholly independent committees.
DeZoort et al. (2002)	Literature synthesis	Composition, authority, resources, diligence	Effectiveness arises from the interaction of multiple elements.
Xie et al. (2003)	Empirical; U.S. firms	Committee activity and members' backgrounds; discretionary accruals	Committee activity and financial sophistication associated with lower discretionary accruals.
Abbott et al. (2004)	Empirical; U.S. matched sample	Independence, activity, expertise; restatements	Independence, activity and financial expertise negatively associated with restatements.
Gendron et al. (2004)	Field study; large Canadian listed firms	Committee practices	Questioning and challenge of management and auditors central to perceived effectiveness.
DeFond et al. (2005)	Event study; U.S. firms	Appointment of financial experts; market reaction	Positive reaction to accounting experts only, concentrated in firms with strong governance.
Turley & Zaman (2007)	Case study; U.K. company	Informal processes	Most significant effects occur outside formal structures and processes.
Pomeroy & Thornton (2008)	Meta-analysis	Independence; reporting and audit quality	Stronger effect on audit quality than statement quality; outcome definition explains about half of variation.
Beasley et al. (2009)	Interviews; U.S. committee members	Oversight process	Substantive monitoring alongside ceremonial elements.
Sharma et al. (2009)	Empirical; New Zealand	Determinants of meeting frequency	Meeting frequency shaped by size, independence, ownership and misreporting risk.
Brick & Chidambaran (2010)	Empirical; U.S. panel 1999–2005; simultaneous equations	Board and audit committee meetings; firm value	Activity rises after adverse events; activity associated with higher firm value.
Dhaliwal et al. (2010)	Empirical; post-SOX U.S. firms	Type of expertise; accruals quality	Accounting experts effective when independent, less busy, shorter-tenured; finance experts complementary.
Lin & Hwang (2010)	Meta-analysis	Independence, expertise, size, meetings; earnings management	Each attribute negatively associated with earnings management.
Wintoki et al. (2012)	Dynamic panel GMM; ~6,000 U.S. firms (board-level)	Board size and independence; performance	No causal relation once dynamic endogeneity is controlled.
Ghafran & O'Sullivan (2013)	Literature review	Independence, expertise, size, meetings	Independence and expertise linked to reporting quality and audit coverage; larger committees to external assurance.
Abernathy et al. (2014)	Empirical; U.S. firms	Source of accounting expertise; reporting timeliness	Accounting expertise, especially from public accounting, associated with more timely reporting.
Bilal et al. (2018)	Meta-analysis; 90 studies, 165,529 firm-years	Financial expertise; earnings quality	Positive association, stronger for accounting experts; multiple institutional moderators.
Mnzava (2023)	Empirical; Tanzanian listed firms, 1998–2018	Existence, size, independence, meetings; profitability	Positive associations for all attributes in a frontier market.
Altun (2024)	Meta-analysis; 39 studies, 2012–2022	Independence, expertise, size, Big Four, meetings; firm performance	Positive for independence, expertise, size and Big Four affiliation; meetings non-significant; moderated by economic level and performance metric.

Note. Board-level studies are included where the audit committee literature relies on their mechanisms; they are identified as such. Associations reported in observational studies should not be read as causal.

5. Independence

Independence is the most extensively studied attribute. Its rationale is agency-theoretic: members without economic or personal ties to management are expected to question accounting judgements, resist pressure, and engage directly with internal and external auditors.

Evidence on reporting and audit outcomes is substantial. Klein (2002) reported a negative association between audit committee independence and abnormal accruals. The association was non-linear: it was significant when committees moved below a majority independence threshold, but no significant association was found for wholly independent committees, suggesting diminishing marginal benefits beyond that threshold. Abbott et al. (2004) found that both independence and activity level were negatively associated with restatements. Carcello and Neal (2000) found that, among financially distressed firms, those whose audit committees included a higher proportion of affiliated directors were less likely to receive a going-concern opinion, consistent with independent members supporting auditor independence. Ghafran and O'Sullivan (2013) concluded that more independent committees are associated with higher external audit coverage, lower purchases of non-audit services and higher financial statement quality.

The meta-analysis provides a crucial clarification. Pomeroy and Thornton (2008) discovered that independence correlated more strongly with audit quality than with financial statement quality. They also noted that variations in how reporting quality is defined explained about half of the differences in outcomes. Additionally, they suggested that independence might lead to more reported restatements and corrective accruals by uncovering issues, indicating that some measures of poor reporting quality could actually reflect effective problem detection. Lin and Hwang (2010) observed a negative relationship between independence and earnings management in their studies. Regarding firm performance, Altın (2024), through a meta-analysis of 39 studies published from 2012 to 2022, found a significant positive link between independence and firm performance.

Three cautions should be noted. First, formal independence is a legal label; behavioural independence, the willingness and ability to challenge dominant executives or controlling shareholders, is not indicated by the proportion of independent members. Second, in concentrated-ownership settings, independence from management does not necessarily imply independence from controlling owners (Young et al., 2008). Third, research using dynamic panel methods shows no causal link between board independence and performance after accounting for the impact of past performance on board structure (Wintoki et al., 2012), implying that some cross-sectional correlations might be due to reverse causality. Therefore, independence is best seen as a necessary enabling factor that influences performance through oversight, but its effect is shaped by the institutional context.

6. Financial Expertise

Financial expertise is grounded in resource dependence theory: increasingly complex standards, estimates and instruments require members who can evaluate management's judgements and auditors' work. Expertise complements independence by converting the authority to challenge into the competence to do so.

Evidence consistently indicates that the type of expertise matters. DeFond et al. (2005) found a positive market reaction to the appointment of accounting financial experts to audit committees, but not to non-accounting financial experts, with the reaction concentrated among firms with relatively strong governance. Abernathy et al. (2014) found that audit committee accounting expertise was associated with more timely financial reporting, and that expertise derived from public accounting experience was associated with greater timeliness than expertise derived from CFO experience. Dhaliwal et al. (2010) found that accounting experts were associated with higher accruals quality when they were independent, held fewer additional directorships and had shorter tenure. They also found that finance experts complemented accounting experts, highlighting the contextual nature of expertise.

Meta-analytic evidence corroborates these patterns. Bilal et al. (2018), pooling 90 studies and 165,529 firm-year observations, found a positive relationship between audit committee financial expertise and earnings quality, stronger for accounting than for non-accounting experts, and moderated by the governance system, IFRS adoption, the Sarbanes–Oxley regime, the proxies used, and experts' independence and busyness. Lin and Hwang (2010) likewise found expertise to be negatively associated with earnings management. At the firm-performance level, Altın (2024) reported a significant positive aggregate association.

The relationship between expertise and performance is nonetheless likely to be largely indirect, mediated by information quality, reduced reporting risk, stronger audit quality, and potentially a lower cost of capital. The evidence also highlights a measurement problem: binary or count measures of “financial experts” conflate accounting, auditing, finance, investment, and supervisory experience, which vary in their relevance to oversight. The interaction effects documented by Dhaliwal et al. (2010) and Bilal et al. (2018) indicate that expertise is most valuable when combined with independence and adequate time, a complementarity formalised in Proposition 2.

7. Committee Size

Theoretical predictions about size are competing. Resource dependence theory implies that larger committees bring a broader range of expertise, perspectives and capacity to share the workload. Group-process arguments imply that additional members increase coordination costs, diffuse accountability and invite free-riding. Board-level evidence is consistent with the second view: Yermack (1996) reported an inverse association between board size and Tobin's Q, although that evidence concerns full boards rather than audit committees.

At the audit committee level, the evidence generally favours larger size. Ghafran and O'Sullivan (2013) found that larger committees tend to have greater external audit coverage. Lin and Hwang (2010) showed that larger size is linked to less earnings management, while

Altın (2024) reported a significant overall positive relationship between committee size and firm performance. Since audit committees usually consist of only three to five members—the size range where coordination costs are less impactful this might explain why findings at the board and committee levels differ.

Two inferential limitations should be noted. First, a positive linear coefficient cannot establish an optimal size or a non-linear relationship; such claims require explicit functional-form tests, such as quadratic or threshold specifications. Second, size is correlated with firm size and complexity, so its association with performance may partly reflect omitted firm characteristics. The defensible conclusion is that appropriate size is contingent on organisational complexity and workload, which underpins Proposition 3.

8. Diligence and Meeting Frequency

Diligence refers to the time and attention members devote to oversight. Meeting frequency is the most common observable proxy, on the reasoning that more meetings create more opportunities to review reporting, question auditors, and follow up on control weaknesses.

For intermediate governance outcomes, the evidence is broadly supportive. Xie et al. (2003) found that audit committee meeting activity and members' financial sophistication were associated with lower discretionary accruals. Abbott et al. (2004) found that committees meeting at least four times a year were less likely to experience restatements, and Lin and Hwang (2010) found that meeting frequency was negatively associated with earnings management across studies. However, for firm performance, Altın (2024) found no significant aggregate association. Meetings may therefore matter for reporting quality without consistently translating into measurable performance.

The main issue is endogeneity. Sharma et al. (2009) demonstrated that the frequency of audit committee meetings is influenced by governance and risk factors. It is positively linked to committee size, institutional and managerial ownership, and board independence when misreporting risk is high. Conversely, it is negatively related to independence and multiple directorships. At the board level, Vafeas (1999) found that higher meeting frequency correlates with lower firm value, driven by increased activity after share-price drops, with improvements in operating performance in later years. Brick and Chidambaran (2010), using meeting counts as monitoring proxies within a simultaneous-equations framework, observed that monitoring activity increases after events like acquisitions or restatements. This activity, once modeled correctly, is associated with higher firm value. These studies collectively indicate that meeting counts reflect both proactive and reactive efforts, and their link to performance depends heavily on addressing reverse causality.

Evidence from individual frontier countries can differ from overall patterns. Mnzava (2023), who analyzed firms listed on the Dar es Salaam Stock Exchange from 1998 to 2018, found that meetings are positively linked to profitability. This variation aligns with the idea that the added value of committee activity depends on the existing level of governance. It also highlights the importance of designing studies that distinguish activity levels from their underlying causes. Going forward, research should focus on assessing the quality of due diligence—such as

attendance, preparation, agenda content, private auditor sessions, and follow-up actions—rather than merely counting activities.

Table 2. Evidence map: direction and consistency of findings by attribute and outcome

Attribute	Reporting and audit quality	Firm performance
Independence	Consistent: lower EM and restatements; supports auditor independence; stronger for audit than statement quality	Positive aggregate association; causal evidence weak; attenuated under concentrated ownership
Financial expertise	Consistent: higher earnings quality and timeliness; strongest for accounting expertise; contingent on independence and busyness	Positive aggregate association; likely indirect
Size	Generally favourable: lower EM; greater external assurance	Positive aggregate association at committee level; inverse at board level; confounded by firm complexity
Meetings	Generally favourable: lower EM and restatements	No significant aggregate association; reactive activity and reverse causality; single-country results vary

Note. Summary characterizations of the direction and consistency of evidence reviewed in Sections 5–8; they are interpretive and do not represent pooled estimates. EM = earnings management.

9. Why Findings Diverge: Measurement, Endogeneity and Aggregation

The attribute-by-attribute synthesis points to three systematic sources of divergence that cut across the literature.

Construct validity of structural proxies. Most studies infer effectiveness from composition and activity counts. These proxies capture the potential for oversight but not its exercise, and they cannot distinguish ceremonial from substantive monitoring (Beasley et al., 2009; Turley & Zaman, 2007). Outcome measurement compounds the problem: Pomeroy and Thornton (2008) attribute about half of the variation in independence–reporting quality results to differences in how quality is defined, and observe that effective committees may increase rather than decrease detected misstatements.

Dynamic endogeneity. Committee composition and activity are chosen in response to firm circumstances. Past performance shapes board structure (Wintoki et al., 2012); adverse events increase meeting activity (Vafeas, 1999; Brick & Chidambaran, 2010); and meeting frequency reflects ownership, risk and expertise (Sharma et al., 2009). Pooled cross-sectional associations are therefore vulnerable to reverse causality and omitted variables. Designs that exploit exogenous regulatory shocks, dynamic panel estimation or instrumental approaches provide stronger inference.

Aggregation across heterogeneous settings. Meta-analyses indicate that governance system, accounting regime, economic development, performance measure, and proxy choice moderate associations (Bilal et al., 2018; Altın, 2024). Pooled estimates are therefore averages across settings in which the underlying mechanisms may differ, and they may also be inflated by

publication bias, which Pomeroy and Thornton (2008) identify as a constraint on cumulative accounting research. These sources of divergence motivate the process-based, context-contingent framework developed next.

10. A Process-Based Framework and Propositions

Figure 1 synthesises the preceding analysis. Structural attributes create the potential for oversight; oversight processes determine whether that potential is realised; improved processes affect intermediate governance outcomes; and these, in turn, may affect firm outcomes through information quality, investor confidence and the cost of capital. Institutional and organisational context conditions every link, and prior performance feeds back to shape committee structure and activity. The framework is a theoretical proposition derived from the literature rather than an empirically tested model.

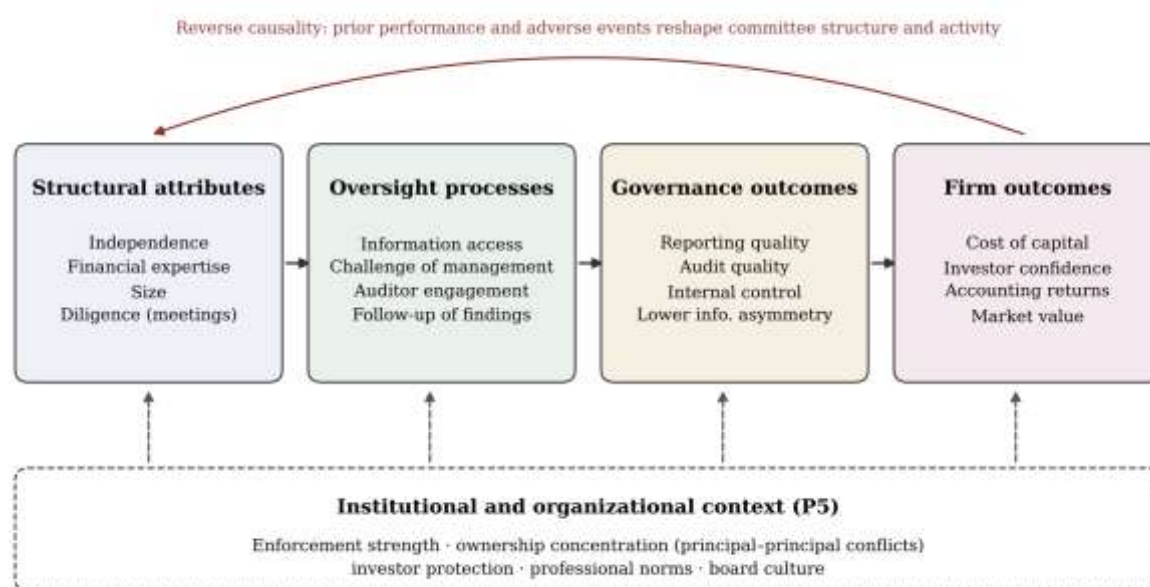


Figure 1. Process-based framework of audit committee effectiveness and firm outcomes. Solid arrows denote the proposed mediated pathway; dashed arrows denote institutional moderation; the curved arrow denotes reverse causality. Propositions P1–P5 are stated in the text.

Five propositions are advanced for empirical testing.

Proposition 1 (mediation). The association between audit committee independence and firm performance operates primarily through the quality of oversight processes, information access, management challenge, and auditor engagement, and is weaker once these processes are controlled for.

Proposition 2 (complementarity). The association between financial expertise and governance outcomes is stronger where expert members are independent and not overcommitted, and where their expertise is accounting- or audit-specific.

Proposition 3 (contingent capacity). The association between committee size and governance outcomes is positive when organisational complexity is high and diminishes or reverses when complexity is low.

Proposition 4 (reactive diligence). Meeting frequency is partly endogenous to prior performance and adverse events; measures of diligence quality will predict governance outcomes more robustly than meeting counts.

Proposition 5 (institutional contingency). The structure–process–outcome chain is weaker where enforcement is weak and ownership concentrated, because formal independence from management does not ensure independence from controlling shareholders.

11. Institutional Context and Boundary Conditions

Governance mechanisms operate within regulatory, legal and market institutions. Their effectiveness depends on enforcement capacity, investor protection, ownership concentration, professional standards and the broader culture of accountability. Institutional theory predicts that similar committee structures will be widely adopted, though implemented with varying substance; a formally constituted committee may represent active monitoring in one setting and symbolic compliance in another.

Emerging and frontier markets illustrate these boundary conditions. Kenya’s Code of Corporate Governance Practices for Issuers of Securities to the Public (Capital Markets Authority, 2015) requires listed issuers to establish an audit committee of at least three independent non-executive directors, chaired by an independent non-executive director, and provides that at least one member should hold a professional qualification in audit or accounting. The Code does not prescribe a minimum number of meetings, but it requires the committee to meet the external auditor without management at least once a year and to disclose the meetings held and members’ attendance. It adopts an “apply or explain” approach, under which non-application of most provisions is permitted with explanation, while specified mandatory provisions are minimum standards.

These provisions mirror the structural attributes examined in this review, and the Code’s requirement for private sessions with auditors directly targets the oversight process. The framework, however, suggests that their effect will depend on enforcement and ownership. Where listed firms are controlled by families, business groups or the state, the relevant risk is expropriation of minority shareholders rather than managerial opportunism alone (Young et al., 2008), and an audit committee independent of management may remain aligned with the controlling owner. The Kenyan setting therefore offers an informative context for testing Proposition 5: comparing committees with similar formal composition across firms with differing ownership concentration would help isolate the contribution of institutional conditions.

More broadly, the moderating influence of economic development and performance measurement, as noted by Altın (2024), along with governance systems and accounting regimes discussed by Bilal et al. (2018), aligns with a contingency perspective. This suggests that it’s not that audit committees are ineffective in certain contexts, but rather that their effects can’t be assumed based on practices from different settings.

12. Discussion and Theoretical Contribution

The research findings yield three key conclusions. For RQ1, independence and financial expertise, especially in accounting, exhibit the strongest and most reliable links to both financial reporting and audit quality. Meta-analyses also show that independence, expertise, and firm size are associated with overall firm performance. Although meeting frequency is linked to reporting quality, its relationship with performance is less consistent. Overall, the literature offers clearer evidence on governance outcomes like reporting and audit quality than on firm performance, with limited causal evidence supporting the latter.

In response to RQ2, divergence is primarily systematic rather than random. It results from the discrepancy between structural proxies and actual oversight, the evolving nature of committee composition and activity, and the aggregation of different institutional contexts where mechanisms vary. Understanding these sources helps interpret seemingly conflicting results as expected outcomes influenced by design and context.

In response to RQ3, the review contributes a process-based framework that integrates agency, resource dependence and institutional theories. The contribution is threefold. First, it specifies the division of theoretical labour: agency theory explains the need for independent oversight, resource dependence theory the required capabilities, and institutional theory the conditions under which formal structures become substantive. Second, it reconceptualises structural attributes as enabling conditions and places oversight processes at the centre of the explanatory model, drawing together quantitative and field-based research that have largely developed separately. Third, it translates these insights into five testable propositions, including explicit treatment of reverse causality and principal–principal conflicts, which the attribute-based literature has largely neglected.

13. Research Agenda

Table 3 links the gaps identified in this review to illustrative research questions and designs.

Table 3. Research agenda linked to the propositions

Gap	Illustrative question	Suitable design
Process measurement	Does the quality of challenge and follow-up mediate the independence–outcome link (P1)?	Survey and archival linkage; minutes and disclosure text analysis; structural equation modelling
Expertise heterogeneity	Which forms of expertise complement independence (P2)?	Hand-collected biographies; interaction and configurational (fsQCA) models
Contingent size	Does the value of additional members depend on complexity (P3)?	Threshold or quadratic specifications conditioned on complexity
Reactive diligence	Do meetings respond to, or prevent, adverse events (P4)?	Event-time and dynamic panel designs; regulatory shocks
Institutional contingency	Does ownership concentration attenuate committee effects (P5)?	Cross-country or within-country comparisons by ownership structure
Causal identification	What is the effect of exogenous changes in committee composition?	Difference-in-differences around governance code reforms

Two further areas warrant attention. First, audit committee mandates are expanding to include cybersecurity, artificial intelligence, data governance, and sustainability and climate-related reporting and assurance, which may require competency profiles beyond accounting expertise. Second, African and other frontier markets remain under-represented in the evidence base; studies in these settings can test whether governance structures developed in highly regulated capital markets operate similarly where ownership structures, institutional capacity and enforcement differ.

14. Implications for Practice and Policy

Boards should assess appointments by considering members' expertise in accounting and audit as well as their formal independence, aiming for a balanced approach and preventing overcommitment. Independence and competence are closely related and should be recognized jointly.

For regulators and standard-setters, composition requirements are necessary but insufficient. Governance codes can usefully specify processes: unrestricted access to information and to internal and external auditors, private sessions without management, documented follow-up on identified weaknesses, continuing professional development, and periodic evaluation of committee effectiveness. Disclosure requirements could extend beyond meeting counts to the substance of the committee's work, including significant issues considered.

For investors and analysts, the presence and formal composition of an audit committee are weak indicators of governance quality. More informative assessments consider members' expertise and other commitments, the committee's reported engagement with significant judgments and risks, and the ownership context in which it operates.

15. Limitations

Several limitations qualify the conclusions. First, as a narrative review, the synthesis is interpretive rather than exhaustive; studies were selected by the author rather than through a registered protocol, introducing potential selection bias. Second, the underlying studies employ heterogeneous measures of committee attributes and performance, limiting comparability. Third, the evidence base is predominantly observational, and most studies test direct associations, so the proposed mediating pathways remain untested. Fourth, the evidence is concentrated in developed markets, particularly the United States, limiting generalisation to emerging-market contexts. Fifth, the review relies on published meta-analyses for pooled estimates and inherits their limitations, including potential publication bias. The conclusions should therefore be read as a theoretically informed interpretation of the evidence rather than a census of it.

16. Conclusion

This review set out to explain whether, how and under what conditions audit committee effectiveness is associated with firm performance. The evidence indicates that independence and financial expertise, especially accounting expertise, are the attributes most consistently

associated with better financial reporting and audit outcomes; that committee size is associated with favourable outcomes within the narrow range observed in practice; and that meeting frequency captures activity rather than effectiveness. Associations with firm performance are weaker, less consistent and causally less secure than associations with intermediate governance outcomes.

The central conclusion is that audit committee effectiveness is a multidimensional, context-dependent capability. Structural attributes create the potential for oversight; oversight processes determine whether it is realised; and institutional conditions, including enforcement and ownership concentration, shape the strength of the entire chain. Moving beyond governance checklists toward the measurement of what audit committees actually do—and toward designs that address reverse causality—offers the most promising route to understanding their contribution to accountability, investor confidence and sustainable firm performance.

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Appendix A. Alignment with the SANRA criteria

SANRA criterion	Where addressed
1. Justification of the article's importance	Section 1 (paragraphs 1–3): form–substance gap; divergent findings; explanatory gap in prior syntheses
2. Statement of concrete aims	Section 1: RQ1–RQ3 and stated contributions
3. Description of the literature search	Section 4.2: databases, search string, citation tracking, search date
4. Referencing	In-text claims attributed to specific studies; Table 1 summarizes principal studies
5. Scientific reasoning	Section 4.4 weighting of evidence; Sections 5–9 distinguish outcome types and design strength
6. Appropriate presentation of data	Tables 1–3 and Figure 1; findings described with direction, setting and design