The impact of audit committee effectiveness on firms' outcomes in China: A systematic review

Abstract

Purpose: The paper discusses the academic literature on the impact of audit committee effectiveness on different outcomes (accounting, auditing, governance, and economics) in China.

Design: We have conducted a systematic review using the PRISMA guidelines.

Findings: The key finding is that the regulatory organisations in China, such as the CSRC and the SASAC, need to play the active role that is expected of them in order to enhance the transparency and independence of an audit committee. Also, Chinese listed companies are facing institutional barriers (CEO power, concentrated ownership, and government influence) to effectively implementing the imported concept within China. Research relating to the audit committee's effectiveness has focused mainly on agency and resource dependence perspectives.

Research implications: China's regulatory bodies (CSRC and SASAC) should make necessary reforms to enhance the audit committee's effectiveness. It also provides implications for the other settings that have imported the audit committee concept from the Anglo-American countries.

Originality: Our study contributes to the literature by synthesising the prior mixed findings on audit committee literature in China and providing suggestions to the regulators and future research.

Keywords: audit committee; corporate governance; Anglo-American economy; systematic review; China.

1. Introduction

Since the narrative review of Liu (2007) on the audit committee effectiveness in China, several studies have explored the audit committee effectiveness and the impact of different audit committee characteristics on various accounting, auditing, governance, and economic outcomes. However, prior literature recommends the establishment of an audit committee in China to respond to regulatory pressure, and its role to be ceremonial rather than monitoring and oversight (Alkebsee et al., 2022a; Alkebsee et al., 2022b; Lin et al., 2008; Wu et al., 2015; Huang and Chong, 2016). We believe there is a need to explore and understand the audit committee's operations in practice within the Chinese context (Alkebsee et al., 2021; Cheng et al., 2021; Komal et al., 2021). The key focus of the research is on the extent of findings that may help policymakers and regulators in incorporating and implementing the regulatory rules for audit committees.

This study is motivated by regulators, practitioners, investors and academicians in China regarding the need for effective, accountable, ethical, and governance audit committees among the Chinese listed firms. Audit committees are responsible for monitoring the integrity of financial statements and ensuring the quality of financial reports (Salem et al., 2021; Usman et al., 2022; Hegazy, Chong & Hegazy, 2014). From 2000 to 2002, a series of corporate scandals have shaken investors' confidence and raised concerns about the quality of financial reporting and the effectiveness of an audit committee in protecting the shareholders' interests (Chiang et al., 2020; Frobes, 2002; Salem et al., 2020). The Sarbanes-Oxley (SOX) Act of 2002 in the United States has stipulated that audit committees need to play important roles in ensuring the quality and transparency of financial reporting as well as stressing the roles of boards of directors in implementing reliable internal control systems. Since the passage of SOX, the number of countries requiring an audit committee has increased, e.g., Canada, Hong Kong, the EU, Mexico, Australia, and Brazil (Hammami & Zadeh, 2020; BenYoussef & Drira, 2020; Bhuiyan & D'Costa, 2020).

Similarly, a few countries, including the UK and Germany, enforce an audit committee requirement on a "comply-or-explain" basis. Furthermore, audit committees in China, France and Japan remain voluntarily (Tafara, 2006).

Chambers (2005) compares audit committees' practices, rules, and enforcement between the UK and China. They conclude that audit committees' responsibilities are similar in both China and the UK. The major differences are the audit committees' duties, corporate governance guidelines, and the requirement of independent audit committee members. The UK's Code (Elsayed et al., 2022; George, 2018) plays a significant role in risk management and non-accounting control, whereas the Chinese Code (Chen and Zhang, 2014; Lin and Chan, 2000) does not specify these matters. In the UK, the market influences corporate governance guidelines, whereas, in China, compliance is influenced by regulators. China requires most audit committee members to be independent, whereas the UK's code requires all audit committee members to be independent.

In China, the China Securities Regulatory Commission (CSRC) required listed companies to set up an audit committee in 2002 under the corporate governance code (CSRC, 2002). The majority of the audit committee should consist of independent directors, and an independent director should chair it. Furthermore, at least one independent director from the audit committee should have accounting expertise. In addition, the Shanghai and Shenzhen Stock Exchanges ensure compliance with CSRC regulations regarding the governance of the listed companies. The State-Owned Assets Supervision and Administration Commission (SASAC) is an agency responsible for overseeing, regulating, and managing state-owned enterprises (SOEs). The audit committee roles and responsibilities in China have been imported from the Anglo-American model (Wu et al., 2015). However, the successful implementation of this imported concept remains a subject of debate. China's institutional environment is significantly different from its Anglo-American counterparts. For instance, China's economy has transitioned from planned to market-based, characterised by concentrated ownership, government influence, lower investor protection, weak legal structure and a two-tier board structure (Ashraf et al., 2022; Chang et al., 2021; Geng et al., 2021; Lee, 2014). The key concern is whether this imported concept is equally effective in the context of China (Chen, 2004; Miles, 2006). As a result, the current study is driven by a desire to address this gap in the literature by examining previous literature on th context of China. This will give a new perspective to the literature and, hence, make a distinctive contribution to the audit quality literature.

We have conducted a systematic review to suggest implications for the regulators for sustaining the audit committee's effectiveness in China and introducing new avenues for future audit committee research. Our findings show that regulatory organisations in China, such as the CSRC and the SASAC, need to take the active role that is required of them in order to improve the audit committees' transparency and independence. Additionally, Chinese publicly traded firms are facing institutional impediments (CEO authority, concentrated ownership, and influence from the government) that prevent them from successfully integrating foreign concepts in China. The agency and resource dependence viewpoints have received the majority of attention in research pertaining to the efficiency of the audit committee. Previously, CSRC (2002) conducted a narrative review of studies published from 2002 to 2006 on audit committee effectiveness in China and claimed that the audit committee in China is a newborn thing and needs sufficient time to develop. Thus, there is a need to systematically synthesise the recent literature to explore the audit committee's effectiveness in China since its establishment in 2002. Our study contributes to the controversial debate about the effectiveness of the audit committee in an important emerging market such as China by reviewing and synthesising 19 studies published from 2007 to 2021. Furthermore, this paper contributes to a more comprehensive understanding of the audit committee's effectiveness, which is crucial for future changes and to reduce the risk of politically unanticipated and potentially dysfunctional outcomes. As a result, this research adds to previous analyses of China's public business auditing regulations.

The rest of the study is as follows: Section 2 presents materials and methods; Section 3 portrays the key insights from the audit committee research in China; Section 4 discusses the implications for regulators, suggestions for future research, and limitations of the study, and Section 5 concludes the study.

2. Materials and Methods

For the systematic review of the audit committee literature, different combinations of keywords have been used to find studies that incorporate the results of the audit committee and its effective monitoring role. This is to ensure the financial reporting quality in China, in English, by following Moher et al. (2009). These keywords are: audit committee, audit committee effectiveness, board, supervisory board, the independent director, board monitoring, discretionary accruals, financial reporting quality, corporate governance and Chinese listed companies. Databases and editorial sources searched include the ISI Web of Science (Clarivate Analytics), ScienceDirect, Blyun (Chinese integrated librarian network), EJS, EBSCO, Blackwell, Emerald, ABI Inform, and SSRN (working papers). Also, the accounting and auditing journals that are mainly recognised for publishing studies on corporate governance have been accessed. Furthermore, to find more research sources in this area, the references of the related articles have also been explored. The studies are selected for this systematic review by the following inclusion criteria:

1. Studies that have explored audit committee effectiveness in China.

2. Studies that have examined the impact of audit committee characteristics (e.g., audit committee independence, size, and meetings) on different outcomes (accounting, auditing, governance, and economics).

3. Studies published in the English language.

The studies of the audit committee which are published in Chinese or other languages, are excluded. Figure 1 shows the 19 studies that meet the inclusion criteria through extensive literature searching from published and unpublished (working papers) sources.

[Insert Figure 1 here]

3. Results

The audit committee research in China can be divided into two streams. One line of research is concerned with the audit committee's roles and responsibilities and its effectiveness. The other stream explores the impact of establishing an audit committee in Chinese listed companies on different accounting, auditing, governance, and economic outcomes, as shown in Figure 2.

[Insert Figure 2 here]

3.1. Insights regarding roles and responsibilities of the audit committee

The research relating to audit committee roles, responsibilities and effectiveness have found concerns regarding implementing the Anglo-American corporate governance system in a country such as China, which lacks a supportive infrastructure. The considerable problems encountered are shown in Table 1.

[Insert Table 1 here]

Lin et al. (2008) find that, although most Chinese companies have established audit committees according to the CSRC's corporate governance standards, these are not effectively performing their responsibilities. In a questionnaire survey, various stakeholders have regarded audit committees in China as only a "symbolic showcase" of corporate governance. They are ineffective in performing their role of overseeing financial reporting, audit processes and rule compliance. The authors have highlighted reasons for the ineffectiveness of audit committees in China: poor qualification, inadequate commitment to their duties, lack of definite and strict legal requirements on audit committee duties, a two-tier board structure and shortcomings in the corporate governance system.

In China, the Anglo-American notions of the audit committee and independent directors have been implemented by regulators. Still, most of the duties required by these regulations have not been incorporated into the operations of Chinese companies. However, the Chinese government has made efforts to change the formal rules, but the constraints present in the institutional environment of China have resisted these efforts. Wu et al. (2015) highlight the issues that emerged from implementing the audit committee's Anglo-American concepts and independent directors in China. Company managers, independent directors, auditors, and academics were interviewed to enquire how loose coupling was initiated in China. The study concludes that the audit committee in China is playing a ceremonial role rather than monitoring and oversight and its establishment is merely a response to regulatory pressure. The effectiveness of audit committees and independent directors is largely affected by government influence, a weak legal system and guanxi culture. These have caused insufficient and dysfunctional interactions among management, controlling and minority shareholders, the audit committee, the independent director and auditors. The shift of power to audit committees created power imbalances and conflicts of interest among organisational actors. The influence of management in selecting the audit committee and shaping its operations resulted in a compromise of its independence and an avoidance of confrontation, thus affecting the effectiveness of the audit committee's oversight role.

However, Lee (2015) supports the oversight role of the audit committee in China. The author explores the audit committee's role in China using the agency, resource dependence and managerial hegemony theory. A telephonic interview was conducted with the General Secretary of the board of directors of Chinese listed companies. The author finds that the audit committee in China does not merely act as a "rubber stamp".The audit committee plays the overseer role according to agency theory and adds value by acting as a trainer and consultant according to resource dependence theory. However, the audit committee is not independently performing its supervisory function as it involves decision-making regarding important company policies.

The major constraints highlighted in relevant research studies are controlling shareholder-oriented norms, government influence, weak legal structure, guanxi culture and lack of clear audit committee responsibilities. These constraints have resulted in the lack of audit committee independence with insufficient commitment to its duties. This has turned the audit committee's role into a rubber stamp, making it ineffective in overseeing management financial performance, auditor independence, the audit process, compliance with rules or regulations, preventing fraudulent financial reporting, and enhancing audit quality.

The two-tier board structure system is also an important constraint highlighted in relevant studies. In the two-tier board structure, the responsibility of the board of directors is to run the company. In contrast, the supervisory board performs the monitoring of company affairs and the board of directors. The supervisory board in the Chinese system has similar duties to that of the audit committee in the Anglo-American system. The supervisory boards and audit committees both perform the internal supervisory function. The studies have stated that the coordination problem between them is due to overlapping, redundancy and conflict.

China has a two-tier board system, and establishing an audit committee is voluntary in China. Between 2000 and 2007 the implementation of audit committees in China increased from 1% to 41% (Lin & Lee, 2013). Therefore, in Chinese companies, the supervisory boards exist either with or without audit committees. Lin & Lee (2013) compare the effectiveness of these two supervisory systems. For this purpose, the authors have formed two groups; supervisory boards with the audit committee and boards without the audit committee. The effectiveness of the supervisory function has been evaluated through several factors such as the independence, expertise, size of the supervisory board, number of meetings, CEO dual positions and shareholding structure. The impact of these variables on market response to the earnings has been examined. A total of 17 variables were included; only six have shown significant results. The study concludes that the monitoring role of the audit committee adds to the effectiveness of the supervisory function in China. However, the authors suggest that supervisory boards in China cannot be replaced even after the establishment of an audit committee.

On the same lines, Lee (2015) states that implementing an audit committee in China's two-tier board system has raised questions regarding effective monitoring. The author has highlighted the coordination issues between the supervisory board and the audit committee and mentioned reasons for ineffective monitoring by the supervisory board: lack of expertise, independence, and experience of implementation in practice. The governors interviewed provided different opinions about the coordination of the supervisory board and audit committee. The author calls for further research to investigate ways to strengthen the relationship between the two supervisory institutions.

3.2. Insights regarding the effectiveness of the audit committee

The second stream of audit committee research in China mostly includes archival studies that explore the audit committee's effectiveness by examining the impact of different audit committee characteristics on accounting, governance, auditing and economic outcomes, as shown in Table 2.

[Insert Table 2 here]

3.2.1. Accounting outcomes

These studies extend our knowledge regarding audit committee effectiveness by examining the impact which the presence of an audit committee, the independence of audit committees and the presence of gender diversity and financial experts on audit committees have on earnings management and restatements. Overall, these studies provide mixed evidence regarding the establishment of the audit committee. However, the presence of financial experts on the audit committee is associated with reducing earnings management and restatements. Wu et al. (2007) explore the impact of the presence of an audit committee on the quality of financial reporting. The findings show that financial reporting is more reliable in China in companies that have established an audit committee. In contrast, Yang et al. (2012) find that setting up an audit committee does not restrict China's income smoothing behaviour. Similarly, Lo et al. (2010) find that having an audit committee does not impact earnings manipulations. However, the presence of financial experts on the audit committee reduces earnings management through transfer pricing manipulation.

Along the same lines, Chen & Zhang (2014) find that the independence of the audit committee and the presence of financial and accounting experts on the audit committee is associated with reduced earnings management. Qi & Tian (2012) investigate the impact of the audit committee's personal characteristics - working experience, education, age, and gender, - on earnings management. The results show that older audit committee members compared to young ones, female audit committee members compared to male ones, and audit committees with financial working experience are more effective in monitoring earnings management. However, audit committee members with higher educational levels do not influence earnings management in Chinese listed companies. Recently, Komal et al. (2021) analysed the age diversity of the audit committee financial experts (ACFEs) and documented that young ACFEs mitigate earnings management while older ACFEs failed to mitigate the earnings management practices.

Lin et al. (2015) explore the impact of the presence of government officials and the listing environment on the audit committee's ability to influence earnings management. The study finds that the audit committee is less effective, measured through independence and expertise, in reducing earnings management in the case of the presence of government officials on the audit committee. In addition, the audit committee's independence and expertise are associated with a reduction in earnings management for cross-listed Chinese companies. Recently, Cheng et al. (2021) analysed the impact of the same/different province/municipality of the audit committee chair and firm headquarters on earnings management. They have documented that local (e.g., same province/municipality of an audit committee chair and firm headquarters) audit committee chairs failed to mitigate the earnings management. In another study, Alkebsee et al. (2021) find that more cash payments to audit committee members lead to poor financial reporting quality. Zhizhong et al. (2011) find that setting up an audit committee is associated with reducing financial restatements in China. Likewise, many studies have argued that the presence of an audit committee lowers restatements in other developing countries (Salehi et al., 2021; Wan Mohammad et al., 2018).

3.2.2. Auditing outcome

One study explores the relationship between gender diversity on the audit committee and audit fees (Xiang et al., 2015). The study finds that, in the case of weak management control, the presence of male and female audit committee members is associated with reduced audit fees. The relationship between gender diversity and audit fees is stronger in the case of non-state-owned companies compared to state-owned companies. Chang et al. (2017) examine the effectiveness of the audit committee certification campaign launched by the CSRC in 2007. The findings show that companies that certify that they have established effectively-operating audit committees are likely to have less modified opinions, higher earnings quality, and lower audit fees. However, the mandatory certification of audit committee effectiveness was not subsequently enacted. In line with the above findings, several studies have documented the same results in other developing countries (Bliss et al., 2007; Husnin et al., 2013; Salem et al., 2021).

3.2.3. Governance outcome

Two studies examine the impact of the presence and activity of the audit committee on ownership structure. Yin et al. (2012) investigate the relationship between the meeting frequency of the audit committee and ownership structure. The findings show that the number of audit committee meetings is less in the case of concentrated ownership in state-owned companies than in privately-owned companies. In contrast, audit committee size is positively associated with audit committee meeting frequency. Moreover, audit committee meeting frequency is not significantly related to accounting experts on the audit committee. Cai et al. (2015) investigate whether the existence of an audit committee reduces agency cost of ownership. The findings show that the presence of an audit committee is associated with a reduction in agency conflicts embedded in the ownership structure. Private companies use an audit committee if the controlling shareholder has concentrated ownership, while state-owned companies probably have the audit committee in case of the ownership-control wedge. Moreover, the companies with improved governance structures and those in regions with weak legal frameworks are likely to have an audit committee. Similar findings are reported in the contexts of other developing countries (Al-Rassas & Kamardin, 2015; Gurusamy, 2017).

3.2.4. Economic outcome

One study exploring the impact of different corporate governance variables on company performance finds that the presence of an audit committee does not have any significant impact on a company's performance in China (Wei, 2007). However, Cai et al. (2015) find a positive association between the presence of an audit committee and a firm's value in companies with concentrated and dispersed ownership structures. These findings are consistent with the prior studies in other developing countries (Alqatamin, 2018; ElHawary, 2021).

4. Discussion

4.1. Implications of findings for practice

We expect that the findings so far have various imperative implications for practice. Firstly, the regulatory bodies (e.g., CSRC and SASAC) in China need to perform their active role to improve the transparency and independence of an audit committee. The findings of the prior studies reveal that the lack of independence is the fundamental issue affecting the operation of audit committees (Alkebsee et al., 2022b; Lin et al., 2008). The influence of management in selecting the audit committee and shaping its operations resulted in compromising independence (Guo et al., 2022; Wu et al., 2015). We recommend that the CSRC makes the necessary reforms and requires the listed companies to have an independent and transparent oversight board which should appoint an audit committee, so as to enhance the audit committee's independence. We also recommend that the SASAC ensures a lesser involvement of management in the audit committee's decisions in the case of state-owned enterprises. The board should independently select the audit committee without the involvement of the influential executives (e.g., Chief Executive Officer and

Chief Financial Officer) and ensure the recognition and authority of the audit committee. The board should also remove all the barriers: 1) individual (e.g., multiple directorships of audit committee members); 2) group level (e.g., coordination problems with other audit committee members on the board); and 3) organisational (e.g., political connections of management and controlling shareholders) within the audit committee throughout their term so they can effectively perform their functions (Boivie et al., 2016; Komal et al., 2021; Namakavarani et al., 2021).

Secondly, the institutional environment in China significantly affects the effectiveness of audit committees in China. In Anglo-American countries, the agency problem exists between managers and shareholders, whereas, in China, it exists between the minority and majority shareholders due to the concentrated ownership (Wen, 2021). Regulators are aware of this agency problem and introduced independent directors to mitigate agency costs. Nevertheless, independent directors are still failing to protect the rights of minority shareholders due to government interventions. In most Chinese listed companies, the government is the controlling shareholder, and it is intervening in the companies' decision-making by exerting its influence in the nomination of people for management positions. The CSRC ensures the compliance with its rule for controlling shareholders. It does this by, for example, forming a "reasonably balanced shareholding" structure restraining controlling shareholders from appointing management without the consent of the board of directors (Deshui et al., 2022). Another way is to arrange a shareholders' meeting to reduce concentrated ownership and restrict the controlling shareholder from playing a political role.

Finally, to improve the audit committee’s effectiveness, there is a need to improve the protection of the minority shareholders by strengthening the legal system so that management and directors, including audit committee members, can be held accountable for their ineffective role in the case of failure. China's legal system is not effective for private enforcement due to the absence of class action lawsuits that normally exist in all Anglo-American countries. Thus, the minority shareholders in China rely heavily on public enforcement by the CSRC. Xu (2022) and Xu and Xu (2017) claim that the public enforcement of the CSRC has increased significantly in the last few years, but it fails to create a deterrent effect for wrongdoers (e.g., the fraudulently listed companies). Many factors lead to ineffective CSCR enforcement, including a reactive approach as the investigation starts after the wrongdoing, unqualified staff, and political pressure from state-owned enterprises. We suggest the CSRC introduces more aggressive enforcement by proactively investigating the wrongdoing cases of the individuals (e.g., the managers and the audit committee members) to create deterrent effects. This ultimately improves the audit committee's effectiveness and reduces the agency problem of the controlling and minority shareholders.

4.2. Recommendations for future research

Although the audit committee trend has increased and attracted research attention, the number of studies is still limited. We have observed that the majority of the studies concerning the roles, responsibilities, and effectiveness of the audit committee in China claim that it has been ineffective in performing its monitoring role (Geng et al., 2021; Lee, 2015; Lin et al., 2008; Wu et al., 2015). However, Lee (2015) finds that the audit committee is effective in performing its oversight role. On the other hand, Lin and Lee (2013) claim that the audit committee is more effective than the supervisory board in enhancing the effectiveness of monitoring. This mixed evidence indicates that audit committee effectiveness in China is a debatable issue which requires more research. We have observed that there are several institutional barriers, e.g., CEO power, concentrated ownership, an underdeveloped legal system, guanxi culture and government influence, that audit committees face in providing effective oversight and monitoring. Future studies should examine how these barriers affect audit committee performance and how they can overcome these barriers through their skills and experience.

Prior research relating to audit committee effectiveness has mostly focused on agency and resource dependence perspectives. However, there exist other challenges affecting audit committee performance that need to be explored by further research. Boivie et al. (2016) have developed a model for board effectiveness considering barriers to information-processing arising from individual factors, group factors, and firms' contextual factors that hinder effective monitoring. Future studies relating to audit committee effectiveness should consider this model to explain the audit committee behaviour better.

Prior studies have a relatively small sample size which could raise the concern of generalisability. However, the topic under discussion is important concerning the regulators and policymakers and requires extensive research using a representative sample. In addition, a variety of research methods should be employed, such as experimental, surveys, case studies and archival. Most previous research focuses on the audit committee's presence, independence, meeting frequency, diversity, and financial expertise. However, the other attributes of the audit committee, such as audit committee compensation, audit committee member tenure, audit committee member additional directorship, firm-specific knowledge and dual roles (e.g. serving as chairman of the board and a member of the audit committee and serving on both audit and nomination committees) also need to be considered for further research.

Prior studies mostly explore the impact of audit committee effectiveness on earnings management. However, the other measurements of earnings quality, such as accounting conservatism, internal control weaknesses, real earnings management, etc., also need to be focused on in future studies. Mixed evidence regarding the impact of the audit committee on earnings management suggests that there is a scope for further research on this paradigm through a meta-analysis (Bilal et al., 2018).

Another promising area is examining the interactions of the audit committee with external and internal auditors and analysing how these interactions affect the audit outcomes or financial reporting quality. There is a shortage of research on the impact of the audit committee on auditing outcomes (e.g., auditor independence, auditor switching, auditor selection, audit quality, audit and non-audit fees, audit opinion, risk assessment and internal audit operations) in China. Social and political ties of audit committee members with management (e.g., CEO and CFO) and auditors in China also needs to be explored due to guanxi culture. Another area that needs the attention of scholars is the exploration of the impact of the audit committee's characteristics on corporate fraud and voluntary disclosures, as the number of fraudulent transactions has significantly increased in China in recent years (Liu, 2017; Wang & Wang, 2022).

Interactions among the board of directors and board oversight committees, e.g., audit, nomination, and compensation committees, are important paradigms to examine (Carcello et al., 2015). They find that CEOs, by serving on the nominating committee and being involved in director selection, affect the audit committee's effectiveness in reducing restatements. The interactions between the audit and compensation committees are also worth exploring (Carcello et al., 2015). The characteristics of the audit committee may differ by industry as well as firm. Thus, future studies should examine how audit committee characteristics vary according to different industry and firm characteristics. Comparative studies should be conducted concerning Anglo-American countries to understand how the effectiveness of audit committees can be improved in China. The role of key personnel (e.g., audit committee chairs and financial experts) in the audit committee's effectiveness also needs to be addressed, as there is a lack of research in this area.

4.3. Limitations

Firstly, our study is limited to the Chinese context and we encourage upcoming studies to extend the sample to all developing countries. Secondly, our systematic review includes only the audit committee literature in the English language. The Chinese language literature certainly has a useful contribution. Finally, another limitation is that we cannot apply meta-analysis due to a lack of empirical literature on audit committee effectiveness and barriers (e.g., CEO power, concentrated ownership, etc.). We leave this for future research to explore the influence of potential moderators on the audit committee effectiveness in China when a sufficient number of studies is available.

5. Conclusions

The sustainable performance of an audit committee is a key element for the Chinese listed companies to improve the transparency of the financial reporting process. Our study systematically reviews the 19 studies published from 2007 to 2021 on the audit committee effectiveness and finds that Chinese listed companies are facing institutional barriers (e.g., CEO power, concentrated ownership, underdeveloped legal system, guanxi culture and government influence) to productively implement the imported concept within China. For instance, in China's context, the ineffectiveness of audit committees could be attributed to an inadequate commitment to their duties, poor qualification, a two-tier board structure, tight regulatory requirements on audit committee duties, and shortcomings in the corporate governance framework. In addition, due to a lack of knowledge, independence, overlapping, redundancy, and conflict of interest, the internal supervisory role of both audit committees and supervisory boards has inadequate coordination. We recommend the important implications to the regulators to lessen the institutional barriers that hinder the audit committee’s sustainable performance. We also provide fruitful areas for future research in China. Given the absence of publicly available data, some new research areas will have to rely on experiments, case studies, field studies and surveys.

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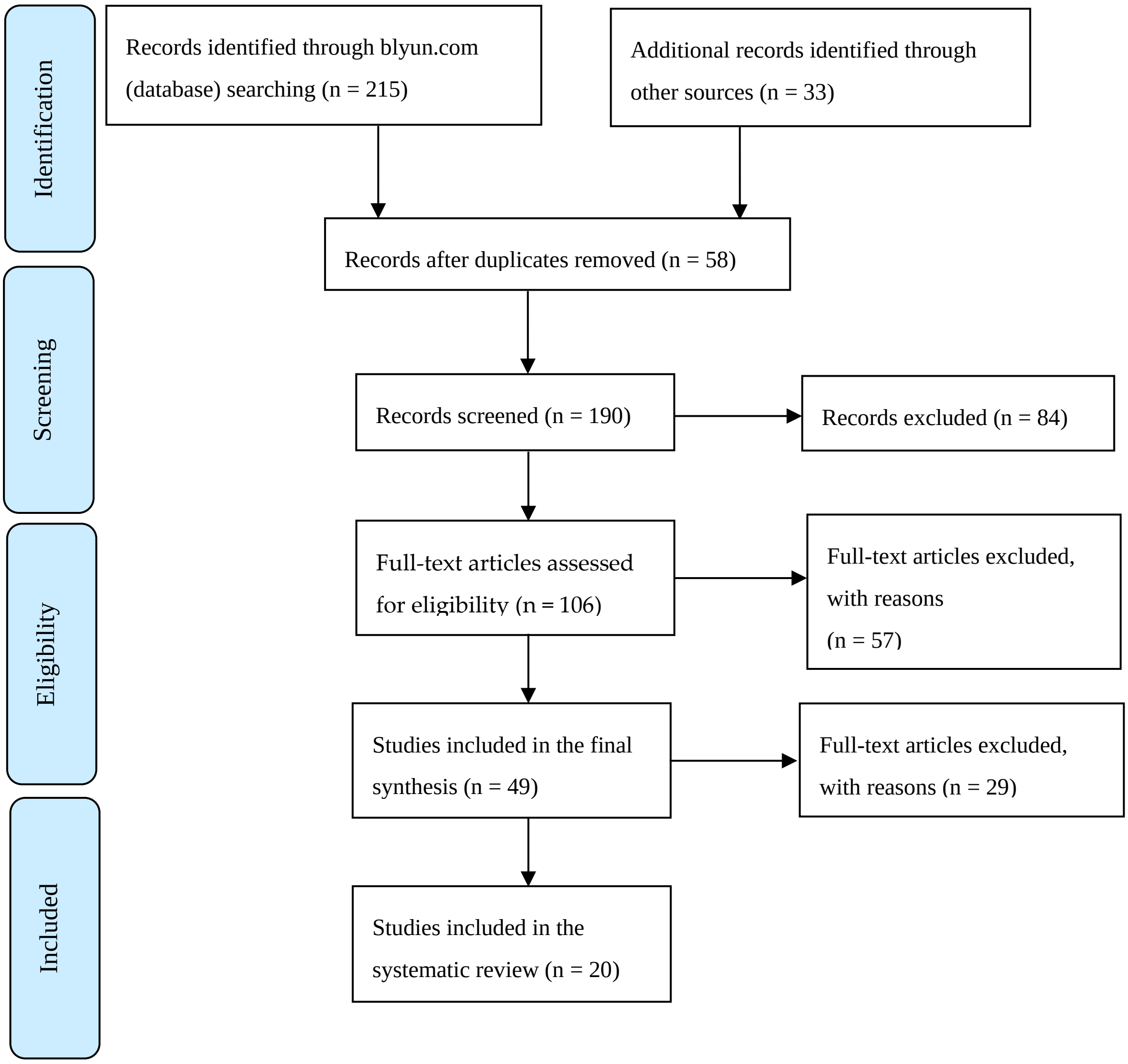

Figure 1: Flow diagram of the studies selection

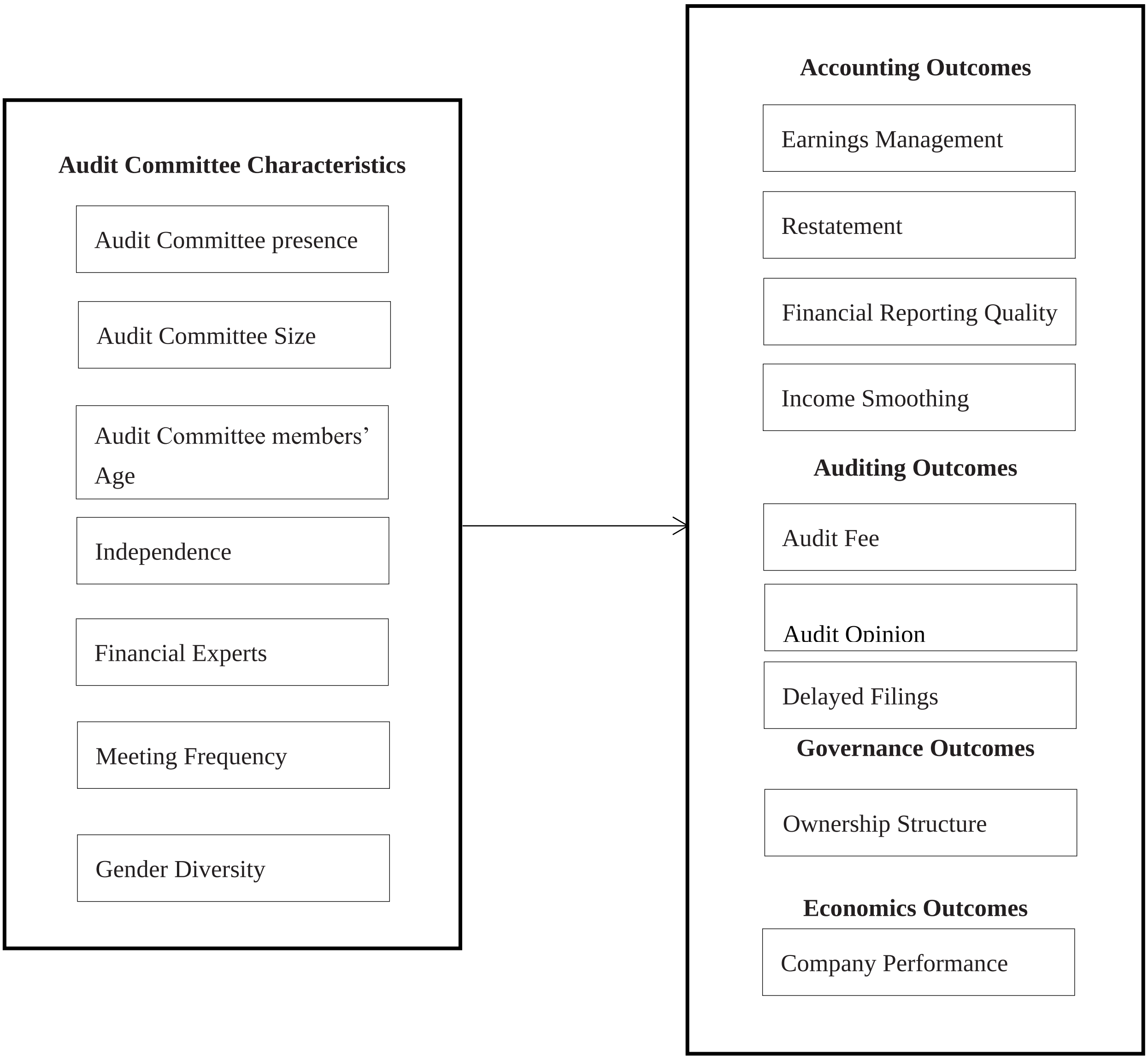

Figure 2: Impact of audit committee characteristics on different outcomes

Table 1: Summary of studies regarding the roles and responsibilities of the audit committee in China

Study	Objective	Sample	Design	Findings
Lee (2015)	To explore the role of the audit committee in light of agency, resource dependence, and managerial hegemony theories.	61 General secretaries of directors and supervisory boards	Qualitative	Audit committees in 95% of companies perform the role of overseers, 92% act as supervisors, 60% as consultants, and 23% act as trainers and thus support both agency and resource dependence theories. While in conflict with managerial hegemony theory suggesting that the role of the audit committee in China is not a mere legal requirement.
Lin & Lee (2013)	To compare the effectiveness of the supervisory board and audit committee	1515 listed companies (2005-07)	Archival	Independence and expertise are higher in companies with both audit committee and supervisory boards as compared to companies with the supervisory board only. Companies without audit committees (only supervisory boards) have more activity and meeting times than companies with both audit committees and supervisory boards.
Lee (2015)	To analyse the issues of implementing a two-tier board structure	2 Governors	Qualitative	Establishing audit committees with supervisory boards raises coordination issues. The reasons for the ineffectiveness of supervisory boards are lack of expertise, independence, and experience of implementation.
Lin *et al.* (2008)	To investigate the perceptions of roles and responsibilities of the audit committee	259 responses	Survey	The audit committee is only a "symbolic show-case" of corporate governance, and it is ineffective in performing its role of overseeing financial reporting, audit processes and rules compliance. The reasons for ineffectiveness are the poor qualification, inadequate commitment to its duties, lack of definite and strict legal requirements on audit committee duties, two-tier board structure, and shortcomings in the corporate governance system.
Wu *et al.* (2015)	To investigate the effectiveness of the audit committee and independent directors	23 responses	Qualitative	The implementation of the audit committee and independent directors are a mere legal requirement, and these are ineffective to improve the financial reporting quality. The government influence, weak legal system and guanxi culture create a conflict of interest and power imbalances among organisational players.

Table 2: Key insights of audit committee characteristics and different outcomes

Domain	Selected Findings
Accounting	**Financial Reporting Quality** 1. Quality of financial reporting is positively associated with having an audit committee on board (Wu *et al.*, 2007). **Earnings Management** 1. There is no significant association between earnings management and having an audit committee on board. The presence of financial experts on the audit committee is negatively associated with earnings management (Lo *et al.*, 2010). 2. Earnings management is negatively associated with the independence of the audit committee and the presence of financial and accounting experts on the audit committee (Chen & Zhang, 2014). 3. Earnings management is negatively associated with older audit committee members, female audit committee members and the presence of financial experts on the audit committee (Qi & Tian, 2012). 4. Earnings management is negatively associated with audit committee independence and expertise in the case of cross-listed companies but positively associated in the case of presence of government officials on audit committees (Miles, 2006). 5. Certification of audit committee effectiveness is negatively related to earnings management (Chang *et al.*, 2017). 6. Local audit committee chairs associated with better accrual quality (Cheng *et al.*, 2021). 7. Audit committee members with more cash payments engaged more in earnings management (Alkebsee *et al.*, 2021). 8. Audit committee financial experts' age diversity inversely associated with earnings management (Komal *et al.*, 2021). **Restatements**

	1. Restatements are negatively associated with the presence of an audit committee (Zhizhong *et al.*, 2011). **Income Smoothing** 1. There is no significant association between the presence of an audit committee and income smoothing (Yang *et al.*, 2012).
Auditing	**Audit outcomes** 1. There is a negative association between audit committee gender diversity and audit fees (Xiang *et al.*, 2015). 2. Certification of audit committee effectiveness is negatively related to audit fees, modified opinion, and delayed filings (Chang *et al.*, 2017).
Governance	**Ownership Structure** 1. There is a negative association between audit committee meeting and concentrated ownership. Audit committee size is positively associated with audit committee meeting frequency. Furthermore, there is no significant association between audit committee meeting frequency and the presence of financial experts on the audit committee (Yin *et al.*, 2012). 2. There is a negative association between the presence of an audit committee and agency costs of ownership structure (Cai *et al.*, 2015).
Economic	**Company Performance** 1. There is no significant association between the presence of an audit committee and company performance (Wei, 2007). 2. There is a positive association between the presence of an audit committee and a firm's value (Cai *et al.*, 2015).