Accountancy Business and the Public Interest
ISSN: 1745-7718
Volume: 40
Issue Number:05

ROLE OF AUDIT COMMITTEE IN ESG REPORTING QUALITY: EVIDENCE FROM INDIA

RAHUL MATTA[1]*, SUNIL DUTT TRIVEDI[2], P SHALINI[3] and ANIL MISHRA[4]

[*1]Research Scholar, Indian Institute of Management, Rohtak, India. Email: carahulmatta@gmail.com

[2]Research Scholar, Indian Institute of Management, Rohtak, India. Email: sunildutttrivedi@gmail.com

[3]Research Scholar, Indian Institute of Management, Rohtak, India. Email: shalinipremchandran@gmail.com

[4]Research Scholar, Indian Institute of Management, Rohtak, India. Email: anil.mishra29@gmail.com

Abstract

Audit committee (AC) perform a critical role in improving the internal as well as external operations of companies through establishing vigil mechanisms and addressing to the needs of various stakeholders. Likewise, ACs ensure that the responsibility towards society and environment is adhered properly and the ESG reporting quality is not compromised. Based on the sample of 225 public companies listed on the stock exchanges in India and employing regression analysis, the results indicate that the AC's characteristics such as size, independence, meeting frequency and financial expertise of the members of the AC have favourable influence on the ESG reporting. This indicates that AC improves the transparency, promotes accountability and fosters trusts among the stakeholders through effective ESG reports. This paper enriches the existing literature and helpful for the regulators and policymakers to promote formation of AC with large independence and membership.

Keywords: ESG reporting quality, audit committee, agency theory, legitimacy theory, India.

JEL Classification: M4, M14, G10, G14

1. INTRODUCTION

Over a period of time, entities have become more socially responsible and more practical towards the environment and social protection in the interest of its various stakeholders such as supplies, customers, shareholders, investors, and others (Hoang, 2018). Considering the growing information needs of various investors and stakeholders, there has been a paradigm shift on the level of corporate reporting through annual reports (Elgergeni et al., 2018; Jung et al., 2018). Conventionally, the annual reports were seen as a source of financial performance of an entity and over the recent years, the stakeholder's interest has gained attention towards non-financial information to understand the key value creation strategies to ensure business sustainability (Al-Awadhi et al., 2020). Also, the current volatile market situation and the COVID-19 pandemic has put pressure on the entities to make critical management choices for the long-term survival and competitive edge. Hence, proactive entities are making efforts to enhance and strengthen its value creation strategies and share tits progress as part of its annual reports to meet the growing information needs of the stakeholders (Kumar et al., 2021; Vitolla et al., 2020; Bauer and Hann, 2010).

In the recent years, the environmental and social responsibilities of an organization has increased significantly (Kolk, 2008; Benlemlih et al., 2018). Companies should make key management choices to face the dynamic market situations (Ball et al., 2000). With the increased expectations and information needs of the stakeholders and dynamic as well as uncertain market conditions, firms are forced to act proactively and share its progress and performance reports as part of its annual reports, along with the financial results (Camilleri, 2015; Donnelly and Mulcahy, 2008). Many "sensitive industries" such as oil and gas, power generation companies, are required to report on their ESG performance to maintain the creditability of its annual reports and enhance transparency and accountability of operations

(Elgergeni et al., 2018). However, due to the lack of structured rules and norms in place, ESG disclosures are voluntary and biased (Garcia et al., 2017). The ESG reporting is questioned as regards to the concerns about its credibility and objectivity (Goel, 2018). Companies have started using ESG reporting as an effective marketing tool to improve the corporate reputation and fosters confidence among the stakeholders (Olson, 2010).

Due to the lack of high reporting standards, the complete and accurate reporting system is still under development. As regarded from the standpoint of ESG disclosures, an independent AC may offer the efficient monitoring needed to balance management and stakeholder objectives (Appuhami and Tashakor, 2017; Diaz et al, 2022; Darbyshire, 2020). An AC is a critical control tool that verifies both reporting as well as non-reporting operations (Karamanou and Vafeas, 2005). It is now the AC's responsibility to monitor an organization's financial behaviour and reporting as well as to ensure that organisations take a long-term and comprehensive strategy to judgement (Jamali et al., 2008). It is necessary to examine the influence of business and operational practises on ESG components. Businesses that subject to heavy fines and penalties if their actions create environmental problems; have a stronger need for existence of audit committee in place (Nazari et al., 2015). Consequently, AC features have an influence on a company's financial as well as non-financial reporting (Bedard et al., 2008). Moreover, the financial competence of AC greatly improves the disclosures of the organisations under assessment (Mangena and Pike, 2005). CSR and intellectual property disclosures are greatly affected by the independence as well as the size of the committee (Li et al., 2012; Edmans, 2012; FRC, 2010).

In India, the Companies Act, 2013 is a legislative act which mandates formation of audit committee for certain class of companies. According to section 177 of the Companies Act, 2013, "every publicly listed company and companies prescribed under Rule 6 of Companies (meetings of board and its powers) Rules, 2014 shall constitute an audit committee. As per rules, every public company having paid-up capital of Indian rupees 100 million or more or having annual turnover of Indian rupees 1000 million or having in aggregate outstanding loans, debentures and deposits more than Indian rupees 500 million". Further, the act provides more regulations to be followed such as:

a. Minimum three directors out of which independent directors should form majority.

b. The chairperson of the AC shall be an independent director.

c. At least one of the members should possess financial expertise.

d. At least hold four meetings in a year.

ACs perform a critical role in improving the internal as well as external operations of companies through establishing vigil mechanisms and addressing to the needs of various stakeholders (Yu et al., 2018). Likewise, ACs ensure that the responsibility towards society and environment is adhered properly and the ESG reporting quality is not compromised. However, at present, the research is limited to specific countries such as Europe, Gulf Countries Council (GCC) and Australia; and limited attention has been paid to developing countries like India.

This study investigates the role of AC's characteristics on the ESG reporting in India. Based on the sample of 225 firms listed on the stock exchange in India, we employed regression analysis to examine the AC's size, independence, meeting frequency and educational background in finance of the members on the quality of ESG reports published by companies on their websites. The findings show that AC's characteristics have a positive and significant influence on the ESG reporting quality by firms.

2. REVIEW OF LITERATURE

Today's markets evaluate a company's performance in light of its intangible and tangible assets, as well as its overall social and environmental impact (Alcaide et al., 2020). Only 59 percent of the world's largest corporations have sustainability assurance in their annual reports (Sattar et al., 2020). The current literature has highlighted that the lack of adequate reporting standards had led to varying results, which consequently question the reliability and credibility of the findings. Due to the non-existence of uniform and standardized framework on ESG reporting, stakeholders are worried about the accuracy and reliability of such reports (Buallay and Aldhaen, 2018; Gregory, 2022; Hopwood, 2009).

In recent years, ESG data has taken on a significant amount of significance, and businesses are under pressure to provide more insightful and meaningful data regarding ESG initiatives. ESG reporting methods are a key instrument to safeguard the benefits of stakeholders and show that a company is really committed to environmental responsibility (Helfaya and Moussa, 2017). In this way, stakeholders' choices now heavily rely on the sharing of information on ESG problems (Cheng et al., 2014).

Additionally, it is not feasible to combine different ESG reporting framework from different sources (Kriva ci c, 2017). An effective ESG reporting framework has become an important issue for entities, which necessitates the increasing role of AC in supervising and monitoring the reporting process. In order to avoid financial frauds or errors, it is essential to get the books of accounts of an entity audited on a regular basis (Sattar et al., 2020; Hyunjung et al, 2018). For the sample companies, information sharing is more important than trustworthiness, according to the researchers. Netherlands and France had the highest quality indices among the nations studied. Governments in both Netherlands and France have enacted legislation requiring businesses to provide data on their efforts to reduce their environmental impact. Since, there are lack of standardized reporting frameworks of ESG reporting, stakeholders are concerned about the transparency, accuracy and completeness of ESG reporting. To increase the number and high quality of sustainability reports for various samples, multiple studies have looked at the function of management control systems.

In recent years, companies have paid significant attention to non-financial information and found out a way to report their ESG practices through sustainability reports (Hammami and Hendijani, 2019; Minor and Morgan, 2011). Accurate sustainability statements have also been emphasised in the literature. As part of the overall implementation of the reporting system, a company's internal auditors collaborate with independent auditors, and the AC keeps tabs on how they are doing (Saibaba and Ansari, 2011). In an attempt to offer improved non-financial reporting, the AC function has also been examined from several viewpoints (Sattar et al., 2020). ESG quality reporting can promote sustainable innovation by providing companies with valuable information and incentives to improve their performance in these areas. By regularly reporting on their ESG performance, companies can identify areas where they need to improve and develop strategies to address them.

Audit committee plays a crucial role in enhancing the quality of disclosure practices by banks by providing guidance, oversight, and assurance on the effectiveness of such disclosures. Previous studies highlighted that audit committee helps in enhancing risk disclosure by encouraging the culture of transparency, accountability, and responsibility within an entity. Furthermore, effective communication and alliance between audit committee and the management enhances the relevance and reliability of disclosures. Furthermore, some studies investigated the attributes of audit committee such as size, meeting frequency, and expertise in

developing and improving the quality of disclosures and resultingly, ensuring stakeholders trust and confidence.

AC safeguards the interest of stakeholders and shareholders through financial control and oversight. The existing literature has shown that AC is helpful in enhancing the performance of an organization and also, reflected that a higher independence level and financial expertise of the members of AC enhance the value of the firm. The current body of knowledge is enriched with the role of AC's characteristics such as size, independence, financial literacy, frequency of meetings and gender-diversity of the members of AC and its influence on the performance of banks. Acs act as a checking devices or tools to avoid unethical practices and behaviours and to fortify the financial and non-financial reporting quality of annual reports. Therefore, AC is responsible to reduce the information asymmetry between the management and associated stakeholders of the organization.

An AC improves the quality of reporting, risk management and monitoring the operating activities of an organization and therefore, helps in improving the overall performance of the banks. Previous studies have shown that reporting quality positively influences the market returns. Likewise, an AC improves the quality of reporting and hence, have a favourable influence on the value of the firm. AC assist in identify and solving potential issues in corporate reporting practices. AC supervises the affairs of the company independently and closely and it perceives the unethical and fraudulent practices and behaviours in a timely manner. AC protects the interest of the stakeholders by ensuring the accuracy and transparency of corporate reporting. AC is helpful in improving the internal corporate governance mechanism.

AC attributes were also looked at in relation to how Australian firms disclose their CSR (Appuhami and Tashakor, 2017). Corporate governance frameworks are said to foster practises of corporate transparency, according to the literature (Ahmed and Ghazali, 2013; Matta et al., 2022). If the audit committee is large enough, it may be possible to give more accurate and comprehensive financial information (Ika and Ghazali, 2012). In the past, several audit committees' features have been studied in terms of non-financial openness, but the findings have been uneven (Bedard et al., 2004). Audit committee knowledge and neutrality have a favourable impact on Malaysian companies' voluntary disclosure levels (Akhtaruddin and Haron, 2010; FRC, 2010). Audit committee's frequency and their financial knowledge had no effect on how much information was readily available (Madi et al., 2014).

The independent or non-executive directors' oversight and supervise the functioning and business and have no personal or economic relationship with the firm. Additionally, non-executive directors have diverse experience and backgrounds and are more attentive to environmental and social concerns. Independent directors enhance the firm value by ensuring that companies are undertaking sustainable actions for its long-term survival (Ahmed and Anifowose, 2016; Pisani and Russo, 2021). Also, independent directors enhance the effectiveness of corporate disclosures, especially the ESG reporting to communicate their sustainable actions to the large audience of stakeholders and protect their professional reputation by communicating that company is not just focused on financial performance. Hence, voluntary ESG reporting helps in improving the social profile of an entity and fosters the trust among the stakeholders and shareholders (Jizi, 2017; Velte, 2018).

According to the assessment of the relevant literature, the contribution of the audit committee to the enhancement of ESG performance of listed firms in India has received little attention.

3. THEORETICAL FRAMEWORK AND FORMULATION OF HYPOTHESES

3.1 Theoretical Framework

One of the new perspectives taken in the crux of social ethics that has become minimal as profit-making has taken centre stage is the development of theories or models of corporate governance. In today's cut-throat business environment, companies are working to embed the principles of good governance throughout their operations. To avoid information imbalance between stakeholders and management, AC acts an agent to monitor and supervise the reporting. Also, a firm is acceptable in society if it adhered to societal expectations and norms. This ESG score can serve as a good proxy for a firm to seek legitimacy.

a. Agency Theory

Agency theory advocates that management acts as an agent to communicate financial and non-financial information between the entity and its stakeholders. Hence, it is important for the management to avoid information asymmetry and AC is responsible to protect the interests of stakeholders (Husted and De Sousa-Filho, 2019). Hence, the existence of independent directors safeguards the interest of the shareholders, making a corporate governance structure an integral component of agency theory. The research in the past has shown that ESG reporting is helpful in addressing the legitimacy concerns of shareholders (Michelon and Rodrigue, 2015).

Agency theory highlights that association between the agent and principle may result in moral issues that could lead to agency costs. An effective ESG reporting lowers the agency costs and consequently, helps in lowering the finance cost for reporting (Jensen and Meckling, 1976). Also, with an integration of financial and non-financial information in one report, the chances of information asymmetry have reduced, resultingly, it helps in reducing the borrowing costs and improving the risk profiles of an organization (Cheng et al., 2014). Further, presence of women in AC's is positively correlated with the quality of ESG reporting and helps in reducing the agency issues within an organization (Gerwanski, 2020). The research in the past has shown that women are more sensitive to ESG information and give more attention to the details and enhance the overall quality of ESG reporting (Masulis & Reza, 2015).

In light of the agency theory, the presence of independent directors positively influences the behaviours of management. This is because independent directors have no personal or financial or economic relationship with the management and therefore, they act independently and objectively towards the actions of the management. Further, executive directors are likely to emphasise their vested interest than the investors, resulting to information asymmetry between the management and stakeholders. AC is responsible to avoid the agency conflicts by overseeing the quality of reporting and monitoring the performance of the executive directors. AC ensures corporate accountability and better governance. Furthermore, AC protects the corporate reputation by ensuring the quality reporting.

b. Legitimacy Theory

Using ESG disclosure as a corporate cover, corporate executives may explain their activities and evade full scrutiny (Lokuwaduge et al., 2017). Hopwood (2009) contends voluntary social and environmental disclosures might limit the amount of information about a corporation and its environmental activities that is known. If these approaches are successful, "it is possible that fewer inquiries may be asked of the legitimated organisation, and hence less may be known about it".

Organization's internal control mechanisms are vital in reducing opportunities for business executives to take advantage of ESG disclosures. ESG disclosures' conflicting aims may be

resolved via a critical role for the AC, which is a critical and dependable institution among all organisational control systems. The AC's involvement and independence have also been proved to be critical in enhancing both financial as well as non-financial information (Li et al., 2012). It is the responsibility of an entity to adhere to the rules and regulations and meet the social expectations of its stakeholders. This helps in building the corporate image (Campbell et al., 2003) and ensures long-term survival (Dowling and Pfeffer, 1975).

3.2 Formulation of Hypotheses

Since the ability of AC to effectively carry out its monitoring and regulatory obligations is directly connected to the human capital resources available, the number of persons who make up this body is an important consideration (Bedard et al., 2004). Legislative requirements and past studies suggest that an audit committee should include between three and five members, with a majority of those members being independent, however there is no ideal number. With more persons on the audit committee, there is a greater chance that the group will have a diverse range of perspectives, ideas, and talents. In order to strengthen enforcement and monitoring operations, a bigger audit committee discovers and rectify any faults with the reporting process (DeZoort et al., 2002).

H_{01}: An audit committee's size has a positive influence on ESG reporting quality.

In order to effectively supervise and monitor, the audit committee's independence is an important attribute (Bronson et al., 2009). Regulations and academic standards both call attention to the need of such autonomy (King, 2009). Audit committees with a high degree of independence are better able to detect and prevent fraudulent information collection and representation operations, according to the agency theory (Abbott et al., 2000). Because independent members have no links to internal administration, they are better able to supervise and oversee actions (Li et al., 2012). Independent members are better able to present their viewpoints and monitor the corporate operation from different angles. For both financial and non-financial company transparency to be more credible it is important to have an independent AC (Bedard et al., 2004).

H_{02}: An audit committee's independence has a positive influence on ESG reporting quality.

Numerous studies have demonstrated that the total number of meetings conducted each year is a good indicator of an AC's activity (Song and Windram, 2004). Having regular meetings demonstrates the members' commitment to their roles and responsibilities and serves as a gauge of the committee's overall performance. Audit committees benefit from regular meetings because they have more time to oversee disclosure processes. The inactive audit committees are less likely to uncover financial irregularities and dishonest disclosure practises because they spend less time together and have weaker bonds among their members (Yang and Krishnan, 2005). Regular meetings proactively address the issues rising from the changes in the business environment and helps firms to responds better to the micro and macro level changes. To guarantee that high quality information is provided upon disclosure, audit committees have regular meetings (Kang et al., 2011).

H_{03}: An audit committee's number of meeting has a positive influence on ESG reporting quality.

Recent corporate scandals have heightened concerns about the involvement of financial and accounting expertise on these panels. Financial competence is critical for audit committees (Ahmed and Anifowose, 2016). In order to assist other members, understand auditor findings and identify the root of differences between independent auditors and management, it is important to require financial abilities (Li et al., 2012). In order to minimise disputes between

the management and statutory auditors, the financial knowledge of the audit committee promotes favourable capital market reactions and decreases vulnerabilities in internal controls (Ahmed and Anifowose, 2016).

When it comes to financial and accounting competence, this body is not as effective as it may be since it does not have such skills (Raghunandan et al., 2007). Participation in disclosure standards by persons with financial expertise ensures higher-quality content (Mangena et al., 2005). With the addition of financial professionals, the AC's monitoring duties grow, as well as the healthy rivalry for transparent disclosure processes (Krishnan, 2005). Financial professionals' attitudes and abilities are critical when it comes to presenting non-financial information (Bedard et al., 2004).

H_{04}: An audit committee's financial expertise has a positive influence on ESG reporting quality**.**

4. RESEARCH METHODS

4.1 Sample

This paper investigates the role of AC in influencing the quality of ESG reports on a sample of 225 companies listed on stock exchanges in India. We used the Bloomberg ESG database's ESG Score. ESG score vary from 0 to 100, with 100 being the best. Table 1 describes the industry breakdown of the sample. 20% of the sample is from financial industry, followed by pharmaceutical industry (12%) and FMCG industry (11%).

Table 1: Describes the industry breakdown of the sample

No.	Sectors	Number	Percentage
1	Financial	45	20%
2	Pharmaceuticals	26	12%
3	FMCG	25	11%
4	Chemical	15	7%
5	Auto Ancillary	10	4%
6	Auto OEM	9	4%
7	Cement	12	5%
8	Others - multiple sectors	83	37%
	Total	225	100%

Source: Author(s) compilation.

4.2 Dependent Variable

The ESG reporting quality is the dependent variable (ESGQ). The Bloomberg ESG database was used to examine the ESG performance of firms in India.

4.3 Independent Variables

The independent variables are the size of AC (ACSIZE), which is represented by the total number of members in the AC; the independence of the audit committee (ACIND), which is counted as a percentage of the whole audit committee; the frequency of meetings of the AC (ACMEET), which is calculated the total number of audit committee meetings that occurred in an year; and financial expertise of the AC (ACEXP), which represents 1 if at least one member has financial knowledge (Ahmed, 2015; Raimo et al., 2020).

We added some more control variables to the regression model such as profitability of the firm (FPROF), size of the firm (FSIZE), age of the firm (FAGE), independence of the board (BIND), gender-diversity among the board (BDIV), presence of CSR committee (CSRCOM) and environmental sensitivity of the firm (ESEN).

4.4 Model Specification

Using regression model, this study was able to determine the relationship between audit committee features and ESG disclosure:

ESGQ = β_0+ β_1ACSIZE + β_2ACIND + β_3ACEXP + β_4ACMEET + β_5BSIZE + β_6BIND + β_7BDIV + β_8CSRCOM + β_9FPROF + β_{10}FSIZE + β_{11}FAGE + β_{12}ESEN + e.

Where, ESGQ = ESG reporting quality, β0 = intercept, ACSIZE = total number of members in AC, ACIND = total number of independent members in AC, ACEXP = number of members with financial expertise, ACMEET = meeting frequency of AC, BSIZE = total number of directors, BIND = total number independent directors, BDIV = gender diversity in board, CSRCOM = presence of CSR committee, FPROF = profitability of the firm, FIZE = size of the firm, FAGE = age of the firm, ESEN = environmental sensitivity and e = standard error.

5. RESULTS

The primary analysis of both dependent and independent variables using descriptive statistics. Table 2 represents the means, standard deviations and correlation results. Before applying correlations, we ensured multicollinearity is not an issue. We have checked the presence of multicollinearity issue in the sample data through variance inflation factor (VIF). Table 3 shows that VIF of all variables is less than 10, hence, there are no multicollinearity issues (Myers, 1990). The correlation results are presented in Table 2. The dependent variable in this paper is ESG reporting quality (ESGQ). The mean score of ESGQ is 58.94 which represents the strong reporting quality in the annual reports of firms. In terms of independent variable, the AC had an average of four members. Further, on a average, 89% of the AC's members are independent and 53% of the members possess educational background in the field of finance. Lastly, an AC meets six times a year.

In terms of the control variables, descriptive statistics show that boards of directors is generally composed of 12 members with a high degree of independence of around 74%. The CSR committee exists in all the companies selected. The female director ratio of 23%, which represent the number of female directors in board. Finally, the firms have an average age of 58 years and a profit margin of more than 18%.

Table 2: Means, standard deviations and correlations

Variable	Mean	SD	ESGQ	ACSIZE	ACIND	ACEXP	ACMEET	BSIZE	BIND	BDIV	CSRCOM	FPROF	FSIZE	FAGE	ESEN
ESGQ	58.94	7.17	1												
ACSIZE	4.09	1.32	0.412***	1											
ACIND	88.96	19.31	0.366***	0.252***	1										
ACEXP	0.53	0.46	0.126	0.306***	0.227*	1									
ACMEET	6.15	2.70	0.358***	0.356***	0.285***	0.291***	1								
BSIZE	12.34	4.80	0.423***	0.312***	0.110	0.002	0.229**	1							
BIND	73.58	23.60	0.442***	0.201***	0.401***	0.188**	0.285***	0.265***	1						
BDIV	23.09	12.61	0.287***	0.121	0.111	0.010	0.101	0.162*	0.221**	1					
CSRCOM	0.92	0.49	0.276***	0.053	0.302***	0.062	0.021	0.164*	0.203**	0.060	1				
FPROF	18.06	16.48	0.085	0.007	0.033	0.157	0.003	0.054	0.174**	0.001	0.044	1			
FSIZE	17.11	2.58	0.349***	0.164*	0.095	0.134	0.171*	0.330***	0.198**	0.047	0.156	0.064	1		
FAGE	58.32	42.62	0.021	0.055	0.037	0.102	0.033	0.097	0.022	0.075	0.002	0.656	0.065	1	
ESEN	0.55	0.51	0.065	0.121	0.051	0.108	0.051	0.021	0.045	0.053	0.033	0.046	0.045	0.078	1
n=225															
*Note: ***Significant at the 1% level; **Significant at the 5% level; *Significant at the 10% level*															

Source: Author(s) calculation.

Table 3: Variance inflation factor (VIF) analysis

Variable	VIF
ACSIZE	4.26
ACIND	2.34
ACEXP	1.46
ACMEET	3.24
BSIZE	2.47
BIND	2.49
BDIV	2.18
CSRCOM	2.23
FPROF	3.08
FSIZE	4.17
FAGE	2.03
ESEN	2.02

Source: Author(s) calculation.

The multi-regression results are summarized in Table 4. The regression model represents adjusted R2 of 0.384. The results show a positive and significant association between ACSIZE and ESGQ at $p<0.05$ (H1). This indicates that the presence of large number of members in AC enhances the quality of ESG reporting. This is because large AC shall include members with diverse range of ideas and experiences and consequently, enhancing the quality of reporting.

Further, the results show a positive and significant association between ACIND and ESGQ at $p<0.05$ (H2). This indicates the presence of large number of independent directors help in enhancing the quality of ESG reporting. This is because independent directors have no personal or economic relations with the firm and hence are focused to supervise and monitor the functioning and reporting of an organization.

Furthermore, in term so H03, the findings show a positive and significant relationship between ACEXP and ESGQ at $p<0.05$. This indicates that the educational background of members in the field of accounting or finance helps in issuing quality ESG reports. This is because the members with financial expertise are better able to understand, assess the relevance and accuracy of the information disclosed in the ESG reports.

Lastly, in terms of H04, the results reflect a positive and significant association between ACMEET and ESGQ at $p<0.05$. This indicates that the frequency of meetings of AC favours publishing the high quality ESG reports.

In terms of control variables, BSIZE, BIND and BDIV have positive influence n the ESGQ at $p<0.05$. ESGQ is favourable influenced by CSRCOM at $p<0.05$. Also, the firm size (FSIZE) has a positive influence on the ESGQ, with a $p<0.05$.

Table 4: Multiple regression results

Variable	Coefficient	SE	p value	Sign.
Cons	21.124	4.783	0.000	***
ACSIZE	1.454	0.404	0.004	***
ACIND	0.062	0.021	0.041	**
ACEXP	1.114	1.225	0.038	
ACMEET	0.392	0.198	0.046	*
BSIZE	0.224	0.161	0.044	*
BIND	0.050	0.021	0.046	**
BDIV	0.105	0.047	0.016	**
CSRCOM	2.305	1.459	0.048	*
FPROF	0.042	0.034	0.218	
FSIZE	0.514	0.018	0.036	**

FAGE	0.005	1.015	0.594
ESEN	1.516	1.402	0.126
N	225		
Adjusted R^2	0.384		

Source: Author(s) calculation.

6. FINDINGS AND DISCUSSION

Based on the sample of 225 firms listed in stock exchanges in India, this study investigates the role of AC's characteristics such as size, independence, meeting frequency and financial expertise of the members on the quality of ESG reporting by companies. The results indicate that AC's attributes positive and significant influence on the ESG reporting. AC helps in reducing the agency costs and legitimacy concerns by exercising the supervision and monitoring of the actions of the companies by safeguarding the interest of the stakeholders.

Firstly, the increase in the size of the AC positively influences the ESG reporting. The members with diverse range of ideas, perspectives and talents help in enhancing and improving the quality of ESG reports. Adequate AC size enhance the firm value by maintaining the reliability and creditability of information contained in such reports.

Secondly, the presence of large numbers of independent directors influence the ESG reports. Since independent directors work objectively without any personal or financial or economic relationship with the management, the independent directors are better able to exercise their moral and social responsibilities to reduce the unethical behaviours and monitor the overall functioning of an organization.

Thirdly, the proactive AC which meets regularly influence the ESG reports by timely addressing the business concerns and reporting the changes in the dynamic business environment proactively.

Lastly, the educational background in finance or the financial expertise of the members of the AC enhances the quality of ESG reports and they are better able to understand the consequences of misreporting and understand their social responsibilities, while generating profits for the firm.

7. CONCLUSION AND IMPLICATIONS

Based on the sample of 225 public companies listed on the stock exchanges in India and employing regression analysis, the results indicate that the AC's characteristics such as size, independence, meeting frequency and financial expertise of the members of the AC have favourable influence on the ESG reporting. This indicates that AC improves the transparency, promotes accountability and fosters trusts among the stakeholders through effective ESG reports. The company's AC must be restructured to promote ethical transparency. Furthermore, ESG quality reporting can also help companies to attract and retain socially responsible investors. As the demand for sustainable investing grows, companies that have good ESG performance and reporting are likely to be more attractive to these investors, which can provide additional capital and resources to innovate and grow sustainably.

Corporate audit committees should be expanded to include more people, more expertise, and more experience, all of which improve the quality of ESG reports that are disseminated as a result. Independent members should be encouraged to join audit committees, as it increases the group's ability to conduct supervision and monitoring obligations, as well as the quality of its ESG reports. A dynamic audit committee is more capable of supervising and monitoring

financial reporting, thus, companies should add more members to their audit committees. This, in turn, will lead to better ESG reports.

Further, the board size, board independence board gender diversity also favourably influences the ESG reporting quality of companies. This implies to have active participation of board in improving the ESG reporting in the annual reports of the companies.

The insights from this paper are useful for policy makers, legislators, and regulators. This encourages the firms to recognize the importance of ESG reporting and develop strategies that are consistent with this metric. Policymakers should suggest a standardized framework to encourage the formation of AC with large size and greater independence to promote transparency and accuracy of the information contained in the ESG reports. Also, a structured meeting schedule for AC should be in place to monitor the number of meetings to be conducted.

Further, the insights are also useful for academicians and practitioners, to enhance the role of audit committee in improving the quality of ESG reporting of firms. Academicians could use the results of this paper to understand the effectiveness of ESG reporting and its impact on financial performance, as well as on the social and environmental outcomes of companies. They can also develop new metrics and frameworks for measuring and reporting ESG performance. Additionally, academicians can provide education and training to practitioners on the importance and use of ESG reporting. By providing this valuable knowledge and expertise, academicians can help to enhance the quality and credibility of ESG reporting, and ultimately promote to the sustainable development of companies and the economy.

Lastly, there are limitations to this study. This sample is limited to only one developing country, India. Further study could be taken by increasing the sample size by combing the data from more developed countries. Also, due to the lack of standardized framework of calculating ESG scores, which vary among the different rating agencies and the results could vary depending upon the source of ESG scores.

References

1. Appuhami, R., & Tashakor, S. (2017). The impact of audit committee characteristics on CSR disclosure: an analysis of Australian firms. Australian Accounting Review, Vol. 27, No. 4, pp. 400-420.
2. Alcaide, G. M. A., De La Poza, P. E., & Guadalajara, O. N. (2020). The impact of corporate social responsibility transparency on the financial performance, brand value, and sustainability level of IT companies. Corporate Social Responsibility and Environmental Management, Vol. 27, No. 2, pp. 642-654.
3. Al-Awadhi, A.M., Alsaifi, K., Al-Awadhi, A., & Alhammadi, S. (2020). Death and contagious infectious diseases: Impact of the COVID-19 virus on stock market returns. Journal of Behavioral and Experimental Finance, 27, pp.100326.
4. Ahmed, H. A. (2015). The role of audit committee attributes in intellectual capital disclosures. Managerial Auditing Journal, 30(8/9), pp. 756–784.
5. Ahmed, H. A., & Anifowose, M. (2016). Audit committee and integrated reporting practice: Does internal assurance matter? Managerial Auditing Journal, 31(8/9), pp. 915–948.
6. Ahmed, H. A., & Ghazali, N. A. M. (2013). A longitudinal examination of intellectual capital disclosures and corporate governance attributes in Malaysia. Asian Review of Accounting, 21(1), pp. 27–52.
7. Akhtaruddin, M., & Haron, H. (2010). Board ownership, audit committees' effectiveness and corporate voluntary disclosures. Asian Review of Accounting, 18(1), pp. 68–82.
8. Abbott, L. J., Park, Y., & Parker, S. (2000). The effects of audit committee activity and independence on corporate fraud. Managerial Finance, 26(11), pp. 55–68.

9. Ball, A., Owen, D.L., & Gray, R. (2000). External transparency or internal capture? The role of third party statements in adding value to corporate environmental reports. Business Strategy and the Environment, Vol. 9 No. 1, pp. 1-23.
10. Bauer, R., & Hann, D. (2010). Corporate environmental management and credit risk. Available at SSRN 1660470.
11. Bedard, J., Chtourou, S. M., & Courteau, L. (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. Auditing: A Journal of Practice & Theory, 23(2), pp. 13–35.
12. Bedard, J., Coulombe, D., & Courteau, L. (2008). Audit committee, underpricing of IPOs, and accuracy of management earnings forecasts. Corporate Governance: An International Review, Vol. 16No. 6, pp. 519-535.
13. Benlemlih, M., Jaballah, J., & Peillex, J. (2018). Does it really pay to do better? Exploring the financial effects of changes in CSR ratings. Applied Economics, 50(51), pp.5464-5482.
14. Bronson, S. N., Carcello, J. V., Hollingsworth, C. W., & Neal, T. L. (2009). Are fully independent audit committees really necessary? Journal of Accounting and Public Policy, 28(4), pp. 265–280.
15. Buallay, A., & Aldhaen, E. (2018). The relationship between audit committee characteristics and the level of sustainability report disclosure. 17th IFIPWG 6.11 Conference on e-Business, e-Services, and e-Society, I3E 2018, Kuwait City, pp. 492-503.
16. Campbell, D. (2003). Intra-and intersectoral effects in environmental disclosures: evidence for legitimacy theory? Business Strategy and the Environment, 12(6), pp.357-371.
17. Camilleri, M.A. (2015). Environmental, social and governance disclosures in Europe. Sustainability Accounting, Management and Policy Journal, Vol. 6, No. 2, pp. 224-242.
18. Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. Strategic Management Journal, Vol. 35, No. 1, pp. 1-23.
19. Darbyshire, M. (2020). ESG funds continue to outperform wider market. Financial Times, 3.
20. Díaz, A., Esparcia, C., & López, R. (2022). The diversifying role of socially responsible investments during the COVID-19 crisis: A risk management and portfolio performance analysis. Economic Analysis and Policy.
21. DeZoort, F. T., Hermanson, D. R., Archambeault, D. S., & Reed, S. A. (2002). Audit committee effectiveness: A synthesis of the empirical audit committee literature. Journal of Accounting Literature, 21, pp. 38–75.
22. Donnelly, R., & Mulcahy, M. (2008). Board structure, ownership, and voluntary disclosure in Ireland. Corporate Governance: An International Review, 16(5), pp. 416-429.
23. Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. Pacific Sociological Review, 18(1), pp.122-136.
24. Elgergeni, S., Khan, N., & Kakabadse, N.K. (2018). Firm ownership structure impact on corporate social responsibility: evidence from austerity UK. International Journal of Sustainable Development &World Ecology, Vol. 25 No. 7, pp. 602-618.
25. Edmans, A. (2012). The link between job satisfaction and firm value, with implications for corporate social responsibility. Academy of Management Perspectives, 26(4), pp.1-19.
26. FRC. (2010). The UK Corporate Governance Code. Retrieved from: https://www.frc.org.uk/getattachment/31631a7a-bc5c-4e7b-bc3a-972b7f17d5e2/UK-Corp-Gov-Code-June-2010.pdf
27. Gregory, R.P. (2022). ESG scores and the response of the S&P 1500 to monetary and fiscal policy during the Covid-19 pandemic. International Review of Economics & Finance, 78, pp.446-456.
28. Goel, P. (2018). Rising standards of sustainability reporting in India: a study of impact of reforms in disclosure norms on corporate performance. Journal of Indian Business Research, doi: 10.1108/JIBR-06-2018-0166
29. Garcia, A.S., Mendes-Da-Silva, W., & Orsato, R.J. (2017). Sensitive industries produce better ESG performance: evidence from emerging markets. Journal of Cleaner Production, Vol. 150, pp. 135-147.
30. Gerwanski, J. (2020). Does it pay off? Integrated reporting and cost of debt: European evidence. Corporate Social Responsibility and Environmental Management, Vol. 27, No. 5, pp. 2299-2319.

31. Hąbek, P. (2017). CSR reporting practices in Visegrad group countries and the quality of disclosure. Sustainability, Vol. 9, No. 12, pp. 1-18.
32. Hammami, A., & Hendijani, Z., M. (2019). Audit quality, media coverage, environmental, social,and governance disclosure and firm investment efficiency: evidence from Canada. International Journal of Accounting & Information Management, Vol. 28, No. 1, pp. 45-72.
33. Husted, B.W., & De Sousa-Filho, J.M. (2019). Board structure and environmental, social, and governance disclosure in Latin America. Journal of Business Research, Vol. 102, No. 6, pp. 220-227.
34. Hopwood, A.G. (2009). Accounting and the environment. Accounting, Organizations and Society, Vol. 34, Nos 3/4, pp. 433-439.
35. Hoang, T. (2018). The role of the integrated reporting in raising awareness of environmental, social and corporate governance (ESG) performance. Stakeholders, Governance and Responsibility (Developments in Corporate Governance and Responsibility), Vol. 14, pp. 47-69.
36. Helfaya, A., & Moussa, T. (2017). Do board's corporate social responsibility strategy and orientation influence environmental sustainability disclosure? UK Evidence. Business Strategy and the Environment, 26(8), pp. 1061–1077.
37. Hyunjung, C., Byungchul, C., & Jungyoon, B., (2018). The relationship between corporate social responsibility and earnings management: accounting for endogeneity. Investment Management and Financial Innovations, 15(4), pp. 69-84.
38. Ika, S. R., & Ghazali, N. A. M. (2012). Audit committee effectiveness and timeliness of reporting: Indonesian evidence. Managerial Auditing Journal, 27(4), pp. 403–424.
39. ecclsJamali, D., Safieddine, A.M., & Rabbath, M. (2008). Corporate governance and corporate social responsibility synergies and interrelationships. Corporate Governance: An International Review, Vol. 16(5), pp. 443-459.
40. Jensen, M. C., & Meckling, W.H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. Journal of Financial Economics, Vol. 3, No. 4, pp. 305-360.
41. Jizi, M. (2017). The influence of board composition on sustainable development disclosure. Business Strategy and the Environment, 26(5), pp. 640-655.
42. Jung, H., Ho-Young, L., & Hansol, L., (2018). The association between foreign directors and opportunistic financial reporting. Investment Management and Financial Innovations, 15(4), pp. 98-112.
43. Kolk, A. (2008). Sustainability, accountability and corporate governance: exploring multinationals' reporting practices. Business Strategy and the Environment, Vol. 17, No. 1, pp. 1-15.
44. Kang, W. S., Kilgore, A., & Wright, S. (2011). The effectiveness of audit committees for low- and mid-cap firms. Managerial Auditing Journal, 26(7), pp. 623–650.
45. Krishnan, J. (2005). Audit committee quality and internal control: An empirical analysis. The Accounting Review, 80(2), pp. 649–675.
46. King III (2009). King report on governance for South Africa. Retrieved from: https://cdn.ymaws.com/www.iodsa.co.za/resource/resmgr/king_iii/King_Report_on_Governance_fo.pdf.
47. Kriva_ci_c, D. (2017). Sustainability reporting quality: the analysis of companies in Croatia. Journal of Accounting and Management, Vol. 7, No. 1, pp. 1-14.
48. Karamanou, I., & Vafeas, N. (2005). The association between corporate boards, audit committees, and management earnings forecasts: an empirical analysis. Journal of Accounting Research, Vol. 43, No. 3, pp. 453-486.
49. Lokuwaduge, C.S.D.S., & Heenetigala, K. (2017). Integrating environmental, social and governance (ESG) disclosure for a sustainable development: an Australian study. Business Strategy and the Environment, Vol. 26, No. 4, pp. 438-450.
50. Li, J., Mangena, M., & Pike, R. (2012). The effect of audit committee characteristics on intellectual capital disclosure. The British Accounting Review, Vol. 44, No. 2, pp. 98-110.
51. Matta, R., & Mohapatra, A. K. (2021). Do content elements and capitals of integrated reporting framework require rethinking amid COVID-19? Empirical Economics Letters, 20, (July Special Issue 1), pp. 13-25.

52. Matta, R., Kochhar, K., Mohapatra, A. K., & Mohanty, D. (2022). Board characteristics and risk disclosure quality by integrated reporters: Evidence from Indian banks. Prabandhan: Indian Journal of Management, Vol. 15, No. 5, pp. 27-42.
53. Mangena, M., & Pike, R. (2005). The effect of audit committee shareholding, financial expertise and size on interim financial disclosures. Accounting and Business Research, Vol. 35, No. 4, pp. 327-349.
54. Madi, H., Ishak, Z., & Manaf, N. A. A. (2014). The impact of audit committee characteristics on corporate voluntary disclosure. Procedia-Social and Behavioral Sciences, 164, pp. 486–492.
55. Michelon, G., & Rodrigue, M. (2015). Demand for CSR: insights from shareholder proposals. Social and Environmental Accountability Journal, Vol. 35, No. 3, pp. 157-175.
56. Minor, D., & Morgan, J. (2011). CSR as reputation insurance: Primum non nocere. California Management Review, 53(3), pp.40-59.
57. Masulis, R.W., & Reza, S.W. (2015). Agency problems of corporate philanthropy. Review of Financial Studies, Vol. 28, No. 2, pp. 592-636.
58. Myers, R. H. (1990). Classical and modern regression with applications (Seconded). Belmont, CA: Duxbury Press.
59. Nazari, J.A., Herremans, I.M., & Warsame, H.A. (2015). Sustainability reporting: external motivators and internal facilitators. Corporate Governance: The International Journal of Business in Society, Vol. 15, No. 3, pp. 375-390.
60. Olson, E. G. (2010). Challenges and opportunities from greenhouse gas emissions reporting and independent auditing. Managerial Auditing Journal, Vol. 25, No. 9, pp. 934-942.
61. Pisani, F., & Russo, G. (2021). Sustainable finance and COVID-19: The reaction of ESG funds to the 2020 crisis. Sustainability, 13(23), pp.13253.
62. Raghunandan, K., & Rama, D. V. (2007). Determinants of audit committee diligence. Accounting Horizons, 21(3), pp. 265–279.
63. Raimo N, Vitolla F, Marrone A, Rubino M. (2020). Do audit committee attributes influence integrated reporting quality? An agency theory viewpoint. Business Strategy and the Environment, 30(6), pp. 522–534.
64. Kumar, R., Bhatia, P., & Gupta D. (2021). The impact of the COVID-19 outbreak on the Indian stock market – A sectoral analysis. Investment Management and Financial Innovations, 18(3), pp. 334-346.
65. Sattar, U., Javeed, S., & Latief, R. (2020). How audit quality affects the firm performance with the moderating role of the product market competition: empirical evidence from Pakistani manufacturing firms. Sustainability, Vol. 12, No. 10, pp. 1-20.
66. Saibaba, M., & Ansari, V.A. (2011). Audit committees and corporate governance: a study of select companies listed in the Indian bourses. IUP Journal of Accounting Research and Audit Practices, Vol. 10, No. 3, pp. 46-54.
67. Song, J., & Windram, B. (2004). Benchmarking audit committee effectiveness in financial reporting. International Journal of Auditing, 8(3), pp. 195–205.
68. Velte, P. (2018). Is audit committee expertise connected with increased readability of integrated reports: Evidence from EU companies? Problems and Perspectives in Management, 16(2), pp. 23–41.
69. Vitolla, F., Raimo, N., & Rubino, M. (2020). Board characteristics and integrated reporting quality: An agency theory perspective. Corporate Social Responsibility and Environmental Management, 27(2), pp. 1152-1163.
70. Yang, J. S., & Krishnan, J. (2005). Audit committees and quarterly earnings management, International Journal of Auditing, 9(3), pp. 201–219.
71. Yu, E. P. Y., Guo, C. Q., & Luu, B. V. (2018). Environmental, social and governance transparency and firm value. Business Strategy and the Environment, 27(7), pp. 987-1004.