

# Audit Committee Performance Gaps and Corporate Governance Risk Mitigation Under China's New Regulatory Regime: A Conceptual Framework

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## ABSTRACT

Against the backdrop of strengthened corporate governance standards and regulatory oversight in China's capital markets, audit committees play a critical role in supervising financial reporting, internal controls, risk management, and information disclosure. However, a gap often exists between their formal establishment and substantive governance performance. Drawing on agency theory and institutional theory, this study develops a conceptual framework linking audit committee performance gaps to corporate governance risks, risk mitigation mechanisms, and improved governance outcomes under China's evolving regulatory context. The study identifies key gaps, including insufficient independence, inadequate professional expertise, formalistic operation, limited authority and information access, and weak engagement and accountability. These gaps may weaken monitoring effectiveness, increase information asymmetry and managerial opportunism, and consequently heighten financial reporting, internal control, disclosure, and compliance risks. To address these risks, the study proposes a risk mitigation plan centered on strengthening audit committee independence, professional competence, substantive engagement, authority, information access, and accountability. China's evolving regulatory regime, characterized by stricter disclosure requirements and stronger enforcement, further supports these governance improvements. The framework therefore connects governance gaps with risk assessment and actionable responses, demonstrating how internal audit committee capabilities and external regulatory pressure can jointly enhance corporate governance effectiveness. The study provides theoretical and policy implications for improving audit committee effectiveness and corporate governance in emerging markets.

**Keywords:** audit committee; corporate governance risk; regulatory regime; Agency Theory; Institutional Theory

## INTRODUCTION

In recent years, corporate governance has become an increasingly important issue in global capital markets, particularly under the growing trend of regulatory strengthening and governance accountability (Aguilera & Ruiz Castillo, 2025; Khatib, 2025). As a core governance mechanism within modern corporations, audit committees play a critical role in supervising financial reporting, internal control systems, risk management, and information disclosure (Braun & Mueller, 2025). Effective audit committee governance can reduce information asymmetry, constrain opportunistic managerial behavior, and improve corporate transparency and accountability (Brogi & Lagasio, 2025). Consequently, audit committees have gradually become an indispensable component of governance structures in listed companies worldwide.

Against the backdrop of economic transformation and capital market reform, China has continuously strengthened its corporate governance regulatory framework. In particular, the implementation of the revised Securities Law, reforms to the independent director system, stricter disclosure requirements, and enhanced supervision by regulatory authorities have collectively accelerated the transition toward a stronger regulatory governance regime (Cheng & Pan, 2025). The China Securities Regulatory Commission (CSRC) has also strengthened audit committee requirements for listed companies, particularly regarding independent directors, financial reporting, internal control, and audit supervision (Chen et al., 2024). These requirements provide an important institutional basis for evaluating whether audit committees perform their governance responsibilities substantively rather than formally (Komal et al., 2022). These reforms reflect China's efforts to improve market transparency, protect investors' interests, and reduce governance failures in listed firms. Under this new regulatory environment, audit committees are expected not only to fulfill traditional supervisory functions but also to assume greater governance accountability and risk oversight responsibilities.

Despite continuous regulatory reforms, governance risks in Chinese listed companies remain a major concern. Financial restatements, internal control deficiencies, disclosure violations, and compliance failures continue to emerge in various sectors, indicating that formal governance structures do not necessarily guarantee substantive governance effectiveness (Mayeputh & Beebeejaun, 2026; Yahaya, 2026b). In many firms, audit committees still exhibit significant deficiencies in performance, including insufficient independence, lack of financial expertise, ineffective supervision, and formalistic governance practices (Babalola et al., 2025). Some audit committees function primarily as symbolic governance bodies rather than effective monitoring mechanisms, weakening their ability to identify and mitigate governance risks in a timely manner.

Existing studies have extensively examined the relationship between audit committee characteristics and corporate governance outcomes. Prior research has mainly focused on issues such as audit committee independence, financial expertise, meeting frequency, earnings management, financial reporting quality, and internal control effectiveness (Johari et al., 2025; Mohamed Alshawadfy Aladwey & Zehri, 2026). Meanwhile, another stream of literature has explored the impact of regulatory reforms on governance improvement and market discipline. However, these studies are often fragmented and largely empirical in orientation (Hadad et al., 2011; Jiang & Liu, 2025), with limited attention paid to the conceptual interaction between audit committee performance deficiencies and governance risk mitigation under a strengthened regulatory regime. In particular, insufficient research has examined how China's new regulatory environment reshapes the governance role of audit committees and influences the mitigation of governance risks arising from weak internal oversight.

From a theoretical perspective, the governance role of audit committees can be explained through both agency theory and institutional theory. Agency theory emphasizes that the separation of ownership and control creates principal agent conflicts, thereby necessitating effective monitoring mechanisms to constrain managerial opportunism. Audit committees serve as an important internal governance mechanism designed to reduce information asymmetry and strengthen governance oversight. However, when audit committees fail to perform their duties effectively, governance monitoring becomes weakened, increasing the likelihood of governance failures and corporate risks. At the same time, institutional theory suggests that governance structures and organizational behaviors are shaped by external institutional pressures, including regulatory reforms, compliance requirements, and supervisory enforcement. Under China's strengthened regulatory regime, firms face increasing pressure to improve governance quality and accountability, making audit committee effectiveness more important than ever before.

Against this background, this study develops a conceptual framework that moves beyond simply identifying audit committee performance deficiencies. The framework follows a sequential analytical logic: (1) identifying issues and gaps in current audit committee practice; (2) examining how these gaps affect corporate governance and generate governance risks; (3) identifying a risk mitigation plan based on effective audit

committee capabilities; and (4) considering how China's new regulatory regime provides institutional support for implementing these mitigation mechanisms and improving governance outcomes. This logic allows the study to move from diagnosis to risk assessment and ultimately to actionable governance recommendations.

This study contributes to the literature in several ways. First, it synthesizes fragmented research on audit committee governance by connecting current governance gaps with their consequences for corporate governance and with potential risk mitigation mechanisms. Second, it enriches the literature on regulatory governance by highlighting the role of external institutional pressure in mitigating governance risks under emerging market conditions. Third, rather than treating lack of independence, weak expertise, or ineffective supervision as elements of a normative governance framework, this study transforms these problems into a set of positive governance capabilities that can be developed and implemented by listed companies. Finally, the study also provides practical implications for regulators, listed firms, and investors seeking to strengthen governance accountability and reduce governance risks in the context of China's ongoing regulatory transformation.

## LITERATURE REVIEW

### Audit committee performance and Corporate Governance

Audit committees are widely recognized as a cornerstone of modern corporate governance systems, particularly in mitigating agency conflicts and enhancing internal monitoring effectiveness (Fariha et al., 2022; Singhanian & Panda, 2024). Grounded in agency theory, audit committees are designed to reduce information asymmetry between shareholders and management by overseeing financial reporting processes, internal control systems, external audit functions, and corporate disclosure practices. A substantial body of literature suggests that well-functioning audit committees contribute to improved financial reporting quality, stronger internal governance structures, and enhanced investor confidence (Al-Sanasleh et al., 2025; Babalola et al., 2025). In this sense, audit committees serve as a key internal mechanism for ensuring accountability and transparency within listed firms.

However, the effectiveness of audit committees is not determined solely by their formal establishment but more critically by their actual performance. Prior studies emphasize that audit committee effectiveness is shaped by structural and behavioral characteristics, including independence, financial expertise, authority, diligence, and communication quality with management and external auditors (Alrudayni, 2023; Bananuka & Nkundabanyanga, 2023; Ng, 2024). Independent members are generally more capable of exercising objective judgment and resisting managerial influence, while financial expertise enhances the ability to interpret complex accounting information and identify potential irregularities. Furthermore, active engagement through frequent and substantive meetings strengthens oversight intensity and improves decision-making quality.

Nevertheless, in many firms, especially in emerging markets, audit committees may exist more as formal governance structures than as effective monitoring bodies. This gap between formal institutional design and actual governance effectiveness provides an important theoretical foundation for examining audit committee-related governance deficiencies.

### Issues and gaps in Audit committee performance

Despite the widespread institutionalization of audit committees across listed companies, extensive literature highlights persistent deficiencies in their actual functioning. One major issue is the lack of genuine independence. In firms with concentrated ownership structures, controlling shareholders or dominant executives may indirectly influence the selection and behavior of audit committee members, thereby weakening their ability to provide objective oversight (Yahaya, 2026a). This compromised independence reduces the committee's effectiveness in monitoring managerial actions and safeguarding shareholder interests.

Another critical deficiency relates to insufficient financial and accounting expertise among audit committee members (Krishnamoorthy et al., 2023). Although regulatory frameworks often require the inclusion of financial experts, in practice such expertise may be symbolic rather than substantive. This limits the committee's ability to understand complex financial transactions, evaluate accounting judgments, and detect earnings manipulation or fraud risks. In addition, audit committees frequently suffer from low engagement and formalistic operation. Meetings may be held primarily to meet regulatory requirements rather than to conduct meaningful governance discussions, resulting in limited scrutiny of financial reporting and internal control systems.

Moreover, audit committees often lack sufficient authority within the broader governance structure of the firm (Ghafran & O'Sullivan, 2013). Even when potential governance issues are identified, committees may face constraints in enforcing corrective actions or challenging managerial decisions. This is particularly evident in environments where managerial dominance is strong or board structures are heavily influenced by controlling shareholders. As a result, audit committees may become symbolic governance mechanisms rather than effective monitoring institutions. Such deficiencies significantly weaken their role in corporate governance and increase the likelihood of governance failures.

Taken together, the literature indicates that the central problem is not necessarily the formal absence of audit committees, but the gap between formal institutional arrangements and substantive governance performance. The major issues can therefore be understood as five interconnected gaps: insufficient independence, inadequate financial and accounting expertise, formalistic operation, limited authority and information access, and weak engagement and accountability. These issues constitute the diagnostic starting point of the present study rather than the proposed governance solution.

### **Corporate Governance Risks**

For this study, governance risks are conceptualized as the potential consequences through which weaknesses in audit committee performance can affect the broader corporate governance system. This distinction is important because the deficiencies identified above represent problems in current practice, whereas financial reporting, internal control, disclosure, and compliance risks represent potential governance consequences arising from those problems.

Corporate governance risks refer to the potential adverse outcomes arising from ineffective governance structures, weak internal controls, and insufficient monitoring mechanisms (Del Sarto, 2025; Wang et al., 2025). These risks can manifest in various forms, including financial reporting risks, internal control failures, compliance violations, disclosure irregularities, and reputational damage. Prior literature emphasizes that governance risks are systemic in nature and often reflect deep-rooted deficiencies in a firm's internal governance architecture rather than isolated incidents of misconduct (Wang et al., 2025).

Financial reporting risk is one of the most widely studied dimensions of governance risk. It typically involves earnings management, accounting manipulation, or misrepresentation of financial performance, which can distort investors' perceptions and lead to inefficient capital allocation (Shi et al., 2025). Internal control failure represents another critical dimension, where weak supervisory systems and inadequate procedures increase the likelihood of operational inefficiencies, asset misappropriation, or fraud. Compliance and disclosure risks are particularly important in regulated markets, where firms are required to adhere to strict reporting standards and regulatory requirements. Failure to comply with such requirements may result in regulatory sanctions, legal liabilities, or loss of market credibility. Importantly, governance risks are often interrelated and mutually reinforcing. Weak internal controls can facilitate financial misreporting, while poor disclosure practices may conceal underlying governance problems. Over time, these risks may accumulate and escalate into severe governance failures, including financial restatements, regulatory penalties, investor litigation, and even

corporate collapse. Therefore, understanding the formation and transmission mechanisms of governance risks is essential for improving corporate governance effectiveness and ensuring sustainable corporate development.

### **China's New Regulatory Regime and Governance Reform**

China's corporate governance system has undergone a series of profound regulatory reforms, particularly since the late 2010s, marking a clear shift toward a more rule-based and enforcement-oriented capital market system. A landmark development was the revision of the Securities Law of the People's Republic of China in December 2019, which came into effect in March 2020 (Yang et al., 2021). The revised law significantly strengthened information disclosure requirements, increased penalties for violations, and introduced a registration-based IPO system to improve market efficiency and transparency, reflecting a broader shift toward market-oriented governance reform. This reform laid the legal foundation for stricter corporate governance supervision in China's capital markets.

In parallel, China has continuously deepened reforms of its corporate governance structure, particularly the independent director system, which is closely related to audit committee effectiveness. In 2023, the State Council issued the Opinions on the Reform of the Independent Director System of Listed Companies (Chen & Ke, 2025), which systematically clarified the responsibilities, authority, and accountability mechanisms of independent directors, aiming to address issues such as weak supervision, unclear responsibilities, and insufficient enforcement capacity. Supporting rules issued by stock exchanges such as the Shanghai Stock Exchange further strengthened governance procedures, including performance evaluation, execution standards, and regulatory coordination mechanisms. At the enforcement level, the China Securities Regulatory Commission (CSRC) has increasingly emphasized strict supervision and legal accountability in capital market governance (Zhang & Lin, 2025). In addition, Chinese auditing standards emphasize communication between auditors and those charged with governance, providing further support for audit committee oversight of financial reporting, internal controls, and audit-related issues. Since 2020, regulatory authorities have intensified penalties for financial fraud, information disclosure violations, and governance misconduct, significantly increasing the cost of non-compliance. This reflects a broader institutional shift from passive supervision to active enforcement, with governance quality increasingly linked to regulatory sanctions and market access conditions. In addition, recent policy statements have repeatedly stressed the need to improve listed company quality and strengthen investor protection through stricter governance oversight and continuous regulatory intervention.

More recently, the regulatory regime has continued to strengthen information disclosure governance. In March 2025, the CSRC issued the revised Administrative Measures for Information Disclosure by Listed Companies, which took effect on 1 July 2025. The revised regime further emphasizes the quality, timeliness, and governance responsibilities associated with information disclosure. This development indicates that China's regulatory approach is increasingly concerned not only with whether firms disclose information, but also with the quality of internal processes supporting disclosure.

Overall, China's new regulatory regime represents a transition from traditional administrative supervision to a hybrid governance system combining legal enforcement, institutional constraints, and market discipline. Under this regime, corporate governance is no longer driven solely by internal board structures but is increasingly shaped by external regulatory pressure and compliance expectations. This institutional transformation therefore provides the China-specific context within which audit committee governance gaps can be identified, their governance risks assessed, and appropriate risk mitigation mechanisms developed.

Recent regulatory developments and enforcement cases provide concrete evidence for the proposed framework. The 2023 reform of China's independent director system explicitly strengthened the role of audit committees by requiring listed companies to establish audit committees composed entirely of non-executive

directors, with independent directors constituting a majority, and by assigning responsibilities for reviewing financial information and disclosures, supervising internal and external audits, and overseeing internal controls. This reform provides institutional support for strengthening audit committee independence, authority, and substantive engagement.

The practical relevance of these reforms is also illustrated by recent CSRC enforcement actions. In 2025, the CSRC imposed administrative penalties on Dongfang Group for information disclosure violations, involving failures related to the disclosure of financial information and responsibilities of relevant directors and senior executives. Similarly, in the 2025 enforcement case involving Shouhang Hi-Tech, the CSRC identified the company's failure to disclose the use of raised funds to provide guarantees for the controlling shareholder, involving a cumulative amount of RMB 1.1 billion. These cases illustrate how weaknesses in information access, internal control, disclosure oversight, and board-level accountability can translate into concrete corporate governance and compliance risks.

## RESEARCH GAP

Although existing studies have examined audit committees, corporate governance risks, and regulatory reforms, these themes are often investigated separately. Limited research has systematically examined how audit committee deficiencies contribute to corporate governance risks under evolving regulatory environments. In particular, the interaction between internal governance mechanisms and external regulation remains insufficiently explored in China's strengthened regulatory regime. This gap limits understanding of how governance risks emerge and can be mitigated in emerging markets.

More specifically, existing research provides limited conceptual synthesis linking four elements: the gaps that exist in current audit committee practice, the mechanisms through which these gaps generate corporate governance risks, the organizational measures that can mitigate those risks, and the role of China's evolving regulatory environment in supporting such mitigation. Consequently, the literature provides considerable evidence on individual governance characteristics but offers less integrated guidance on how identified governance problems can be transformed into a coherent risk mitigation framework.

Therefore, the research gap addressed by this study is not simply the lack of research on audit committee deficiencies. Rather, it is the insufficient integration of governance diagnosis, risk transmission, risk mitigation, and institutional support into a single conceptual framework. Addressing this gap allows the study to move beyond identifying what is wrong with current audit committee practice toward explaining what should be improved and how such improvement can be supported within China's regulatory environment.

## THEORETICAL FRAMEWORK AND CONCEPTUAL MODEL

### Agency Theory

Agency theory provides the primary theoretical foundation for understanding corporate governance mechanisms in modern firms (Shaw, 2025; Skachkova et al., 2022). It argues that the separation of ownership and control creates inherent conflicts of interest between principals (shareholders) and agents (managers). Managers may pursue private benefits such as empire building, earnings manipulation, or opportunistic decision-making, which can undermine shareholder value. To mitigate these agency problems, firms establish internal governance mechanisms, among which audit committees play a central role. Audit committees are expected to function as an effective monitoring mechanism that oversees financial reporting quality, internal control systems, and external audit processes. By enhancing supervision over managerial behavior, audit committees reduce information asymmetry and constrain opportunistic actions. However, when audit committee performance is weak or symbolic, the effectiveness of this monitoring mechanism is significantly

weakened. In such cases, agency conflicts are more likely to escalate into governance failures, including financial misreporting, weak internal controls, and regulatory violations (Naz et al., 2022). Therefore, from an agency theory perspective, audit committee effectiveness is directly linked to the firm's ability to control governance risks.

### **Institutional Theory**

Institutional theory emphasizes that organizational behavior is shaped not only by internal structures but also by external institutional environments, including laws, regulations, norms, and enforcement mechanisms (Risi et al., 2023; Sahin & Mert, 2023). In the context of corporate governance, firms are subject to institutional pressure from regulatory authorities, capital markets, and other external stakeholders. These pressures influence governance structures and encourage firms to adopt practices that enhance legitimacy and compliance. Under China's evolving regulatory regime, institutional pressure has significantly increased due to strengthened enforcement by regulatory bodies such as the China Securities Regulatory Commission (CSRC), stricter disclosure requirements, and reforms in the independent director system. These institutional changes create stronger compliance incentives for listed firms and reshape the governance role of internal mechanisms, particularly audit committees. As regulatory expectations rise, audit committees are required to move beyond symbolic compliance and assume substantive monitoring responsibilities. Therefore, institutional theory provides a macro-level explanation of how external regulatory forces reshape internal governance behavior and improve governance accountability.

### **Issues and Gaps in Current Audit Committee Practice**

The first stage of the conceptual framework identifies the critical issues and gaps in current audit committee practice. These include insufficient independence, inadequate financial and accounting expertise, formalistic operation, limited authority and information access, and weak engagement and accountability. These conditions may prevent audit committees from fully performing their monitoring responsibilities. Importantly, these issues are not presented as components of the normative governance framework. Instead, they represent the problems that the proposed framework seeks to address. Their analytical significance lies in explaining why the formal existence of an audit committee may not necessarily produce effective corporate governance.

### **Adverse Effects on Corporate Governance**

The second stage of the framework examines how the identified gaps affect corporate governance. When audit committee members lack substantive independence or professional expertise, they may be less capable of challenging management, evaluating complex financial information, or identifying irregularities. When committee operations are formalistic or authority is limited, identified governance problems may remain unresolved. Weak engagement can further reduce the timeliness and effectiveness of monitoring.

These weaknesses can increase the likelihood of managerial opportunism and information asymmetry and may subsequently generate several forms of corporate governance risk. Financial reporting risks may emerge through earnings management, accounting manipulation, or misstatement. Internal control risks may arise when control weaknesses are not adequately identified or corrected. Disclosure risks may increase when corporate information is not sufficiently scrutinized, while compliance risks may emerge when firms fail to meet regulatory and governance requirements. This risk-transmission mechanism constitutes the analytical bridge between the identification of current governance problems and the development of the risk mitigation plan.

### **Risk Mitigation Plan for Effective Audit Committee Governance**

The third stage of the conceptual framework shifts from diagnosis to solution. Rather than treating audit

committee deficiencies as fixed characteristics of corporate governance, this study proposes a forward-looking risk mitigation plan based on positive governance capabilities that listed companies can develop and implement. First, audit committee independence should be strengthened. The selection and appointment of committee members should minimize potential conflicts of interest and undue influence from controlling shareholders and senior management. This recommendation is consistent with China's regulatory requirements that independent directors constitute a majority of the audit committee and that audit committee members should exercise their duties independently from major shareholders, actual controllers, and senior management (Jia & Gao, 2025). Second, professional competence should be improved. Audit committee members should possess sufficient financial and accounting knowledge to evaluate financial statements, accounting judgments, internal controls, audit findings, and emerging financial risks. Continuous professional development can further enhance their ability to respond to increasingly complex governance challenges.

Third, substantive engagement should replace formalistic operation. Audit committee meetings should focus on meaningful examination of financial reporting, internal controls, risk management, audit findings, and significant governance concerns. Committee effectiveness should therefore be assessed not merely through meeting frequency or attendance, but through the quality of deliberation, follow-up, and corrective action. Fourth, audit committee authority and information access should be strengthened. Effective monitoring requires timely access to relevant information and appropriate communication channels with internal auditors, external auditors, management, and other governance bodies. Where significant weaknesses are identified, audit committees should have sufficient authority to request explanations, recommend corrective actions, and monitor implementation.

### **Governance Risk Mitigation under China's New Regulatory Regime**

China's new regulatory regime plays a critical role in mitigating corporate governance risks, particularly those arising from audit committee performance deficiencies. Through strengthened legal frameworks, stricter enforcement mechanisms, and enhanced disclosure requirements, regulatory authorities aim to improve corporate governance quality and reduce systemic risks in capital markets. The CSRC provides the principal securities regulatory framework, while stock exchanges translate these requirements into more operational self-regulatory rules for listed companies (Huang, 2022). This represents a shift from passive oversight to active and continuous governance supervision. Under this regime, regulatory authorities such as the CSRC impose higher compliance standards and increase penalties for governance violations, thereby raising the cost of misconduct (Cai et al., 2026). Enhanced disclosure requirements improve transparency and reduce information asymmetry, while reforms in the independent director system strengthen board-level oversight. These institutional changes collectively create stronger external constraints on corporate behavior.

However, within the proposed framework, China's regulatory regime is not treated as a substitute for effective internal governance. Instead, it functions as an external institutional support mechanism that reinforces the risk mitigation plan. Regulatory requirements, supervision, disclosure obligations, and enforcement can encourage listed firms to strengthen audit committee independence, professional competence, substantive engagement, authority, information access, and accountability. From this perspective, governance risk mitigation occurs through the interaction between internal governance capabilities and external regulatory pressure. Effective internal audit committee mechanisms strengthen monitoring from within the firm, while external regulation provides institutional incentives, supervision, and accountability. The combination of these mechanisms can reduce the probability that governance gaps develop into severe corporate governance risks.

## **CONCEPTUAL FRAMEWORK**

Based on the theoretical analysis above, this study proposes a conceptual framework (Figure 1) that follows a

four-stage analytical logic: (1) issues and gaps in current audit committee practice; (2) effects and risks on corporate governance; (3) internal risk mitigation mechanisms reinforced by external regulatory pressure; and (4) improved corporate governance outcomes. China's new regulatory regime is positioned as the external institutional context that interacts with internal governance mechanisms throughout the mitigation process.

The first component identifies the issues and gaps in current audit committee practice, including insufficient independence, inadequate financial expertise, formalistic operation, limited authority and information access, and weak engagement and accountability. These conditions weaken the substantive monitoring capacity of audit committees. The second component concerns the effects and risks generated by these governance gaps. Weakened monitoring can increase information asymmetry and managerial opportunism and consequently increase financial reporting, internal control, disclosure, and compliance risks.

The third component is the risk mitigation plan. Strengthening independence, professional competence, substantive engagement, authority, information access, and accountability can improve monitoring effectiveness and reduce governance risks. At this stage, internal governance capabilities interact with external regulatory pressure, including disclosure requirements, regulatory supervision, enforcement, and accountability mechanisms. This interaction is expected to reduce the likelihood that formal compliance remains merely symbolic.

The fourth component is improved corporate governance outcomes, including more effective monitoring, greater transparency, stronger accountability, enhanced investor protection, and reduced governance risks. China's new regulatory regime provides external institutional support throughout this process. Thus, the framework does not assume that regulation automatically produces better governance; rather, regulatory pressure is expected to reinforce firms' internal capacity to convert formal governance requirements into substantive monitoring practices.

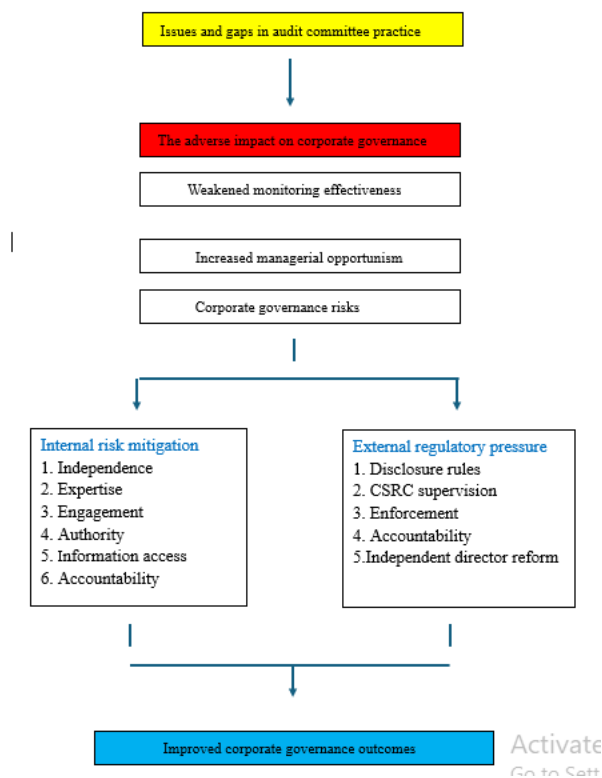


Figure 1. Conceptual framework of audit committee performance gaps, governance risks, and risk mitigation under China's new regulatory regime

## DISCUSSION

### Theoretical Implications

This study develops a conceptual framework that integrates governance diagnosis, risk transmission, risk mitigation, and China's regulatory context. Theoretically, it extends existing corporate governance literature in several important ways. First, it shifts the analytical focus from simply identifying audit committee deficiencies to explaining how governance gaps can be transformed into a structured risk mitigation logic. Existing studies frequently examine individual audit committee characteristics, such as independence or financial expertise, and their effects on specific firm outcomes. This study synthesizes these fragmented findings into a sequential conceptual process: current governance gaps weaken monitoring, weakened monitoring increases governance risks, and appropriate governance capabilities can mitigate those risks. Second, the study enriches agency theory by emphasizing that monitoring mechanisms such as audit committees are not inherently effective, but conditional on their actual functioning. Weak audit committee performance intensifies agency conflicts and increases the likelihood of managerial opportunism, thereby amplifying governance risks. This adds a more realistic behavioral dimension to classical agency assumptions, particularly in emerging market contexts where governance structures may be formally established but weakly enforced. Third, the integration of institutional theory highlights the critical role of external regulatory environments in shaping governance outcomes. China's new regulatory regime is conceptualized not only as a background institutional setting but as an active governance force that directly influences risk mitigation. This contributes to the literature by emphasizing the interaction between internal governance mechanisms and external regulatory constraints, rather than treating them as separate analytical domains.

Importantly, the framework conceptualizes internal governance capabilities and external regulatory pressure as complementary rather than independent mechanisms. Internal capabilities provide the organizational capacity for substantive monitoring, while regulatory pressure provides external incentives and accountability. Their interaction therefore helps explain how firms may move from formal compliance toward substantive governance under institutional change.

### Practical Implications

From a practical perspective, the findings of this conceptual model offer meaningful implications for regulators, corporate boards, and investors.

For the CSRC and other relevant regulatory and self-regulatory bodies, the study highlights that the effectiveness of audit committee regulation depends not only on establishing formal requirements but also on monitoring whether these requirements are substantively implemented. Regulatory authorities should therefore pay greater attention to audit committee independence, professional competence, meeting quality, access to information, communication with auditors, and follow-up on identified governance problems (Almasria, 2022). Simply establishing formal governance requirements is insufficient; continuous supervision and credible enforcement are essential to ensure that audit committees perform substantive rather than symbolic roles. For corporate boards, the study suggests that improving audit committee effectiveness is crucial for mitigating governance risks. Firms should prioritize enhancing the independence of audit committee members, improving their financial and accounting expertise, and ensuring that committee meetings are substantive rather than procedural (Murhaban, 2025). In addition, boards should empower audit committees with sufficient authority to question management decisions and enforce corrective actions when necessary. For investors and other external stakeholders, the conceptual framework provides a useful lens for evaluating governance quality. Rather than relying solely on formal governance indicators, investors should pay closer attention to the actual functioning of audit committees and the strength of regulatory enforcement

in the institutional environment. This can improve investment decision-making and better identify firms with potential governance risks.

### **Governance Challenges under China's New Regulatory Regime**

Although China's new regulatory regime significantly strengthens corporate governance requirements, several practical challenges remain in its implementation. One key issue is the persistence of formalistic governance behavior. In some firms, compliance with regulatory requirements is achieved at a procedural level without substantive improvements in governance quality. Audit committees may still operate in a symbolic manner, limiting the effectiveness of governance reforms.

Another challenge lies in the uneven enforcement of regulatory policies. While regulatory authorities have increased supervision intensity, differences in regional enforcement capacity and institutional development may lead to inconsistent governance outcomes across firms. This heterogeneity may weaken the overall effectiveness of the regulatory regime in mitigating governance risks. Furthermore, the interaction between internal governance mechanisms and external regulatory pressures is not always perfectly aligned. In some cases, strong regulatory pressure may lead to compliance-driven behavior rather than genuine governance improvement, resulting in a form of forced compliance rather than effective governance. This raises important questions about the long-term sustainability of governance reforms and the need for deeper institutional development.

### **Synthesis of the Conceptual Framework**

The synthesis of this study is that effective audit committee governance should be understood as a process of moving from governance diagnosis to risk mitigation. The first step is to identify the issues and gaps in current practice. The second is to examine how these gaps weaken monitoring effectiveness and generate risks for corporate governance. The third is to develop positive and actionable risk mitigation mechanisms. The fourth is to consider how China's regulatory and institutional environment can support the implementation of these mechanisms.

The main conceptual contribution is therefore not simply the identification of audit committee deficiencies, but the transformation of these deficiencies into a structured governance risk mitigation process. This distinction is important because a conceptual framework should provide a positive logic that organizations and regulators can potentially adopt and implement. The framework also suggests that internal and external governance mechanisms should be complementary. Effective audit committee capabilities can strengthen internal monitoring, while China's regulatory regime provides external pressure and accountability. When these mechanisms operate together, the likelihood that governance gaps will develop into severe governance risks can be reduced. Conversely, where internal governance remains weak and regulatory implementation is ineffective, governance risks may accumulate and become more difficult to control.

### **Future Research Considerations & Research Prospects**

Future research should empirically validate the conceptual framework proposed in this study by examining the relationships between audit committee governance gaps, corporate governance risks, and risk mitigation mechanisms. In particular, future studies could use firm-level data from Chinese listed companies to examine whether insufficient independence, inadequate expertise, formalistic operation, limited authority and information access, and weak engagement and accountability are associated with weaker monitoring effectiveness and higher corporate governance risks. Such research would provide empirical evidence for the relationships identified in the proposed framework. Second, future research could further examine the risk mitigation mechanisms proposed in this study. Rather than focusing only on the presence of audit committee

characteristics, researchers could investigate whether strengthening independence, professional competence, substantive engagement, authority, information access, and accountability can effectively reduce financial reporting, internal control, disclosure, and compliance risks. Mediation or moderation analysis could also be used to examine whether weakened monitoring effectiveness serves as a transmission mechanism between audit committee governance gaps and corporate governance risks.

Third, China's evolving regulatory environment provides an important setting for future research. Future studies could examine whether regulatory reforms, strengthened disclosure requirements, independent director reforms, and regulatory enforcement enhance the effectiveness of audit committees and strengthen the implementation of risk mitigation mechanisms. Longitudinal or quasi-experimental research could be particularly useful for assessing whether major regulatory changes lead to substantive improvements in audit committee performance and corporate governance outcomes. Finally, future research could extend the framework to different institutional contexts and incorporate other governance mechanisms, such as boards of directors, internal audit functions, external auditors, controlling shareholders, and institutional investors. Comparative studies across emerging and developed markets could help determine whether the relationships proposed in this framework are specific to China or applicable more broadly. These studies would further refine the framework and provide a stronger empirical foundation for understanding how audit committee effectiveness and regulatory institutions jointly contribute to corporate governance risk mitigation.

## CONCLUSION

This study develops a conceptual framework linking audit committee governance gaps to corporate governance risks and their mitigation under China's evolving regulatory regime. The findings indicate that insufficient independence, limited expertise and authority, formalistic operation, weak information access, and inadequate accountability may weaken monitoring effectiveness and increase information asymmetry, managerial opportunism, and related financial reporting, internal control, disclosure, and compliance risks. To address these risks, the study proposes strengthening audit committee independence, professional competence, substantive engagement, authority, information access, and accountability, which can enhance monitoring effectiveness and improve corporate governance. The study further highlights the supporting role of China's evolving regulatory regime in promoting stronger audit committee responsibilities, information disclosure, supervision, and accountability, thereby encouraging firms to improve substantive governance and mitigate corporate governance risks.

The findings of this conceptual model offer several important policy implications. First, for regulatory authorities, the study highlights the necessity of continuously strengthening enforcement mechanisms under China's new regulatory regime. While formal regulatory frameworks are already in place, their effectiveness depends on consistent implementation and credible enforcement. Regulators should further enhance supervision intensity, improve penalty mechanisms for governance violations, and ensure that audit committees perform substantive rather than symbolic governance functions (Suluo et al., 2025). Second, for listed firms and corporate boards, improving audit committee effectiveness should be a priority in governance reform. Firms should focus on enhancing the independence and professional competence of audit committee members, ensuring that they possess sufficient financial expertise to perform effective oversight (Kusumawati & Halim, 2026). In addition, audit committees should be granted greater authority within the governance structure to challenge managerial decisions and enforce corrective actions when necessary. Moving from formal compliance to substantive governance is essential for reducing governance risks. Third, for investors and market participants, greater attention should be paid to the actual functioning of audit committees and the strength of the regulatory environment in which firms operate (Velte, 2023). This can improve investment decision-making and better identify firms with potential governance vulnerabilities.

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