

*Original Research*

# The Relationship between Audit Committee Attributes and Financial Reporting Quality among Manufacturing Firms in Kenya

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## Abstract

This study examines the relationship between Audit Committee Attributes and Changes in Financial Reporting Quality Among Manufacturing Firms in Kenya. Using a sample of publicly listed firms based on 2010-2018 data, our study finds that the expertise of the Audit Committee has an insignificant positive impact on the financial reporting quality of financial reports, measured by accrual quality. Audit committee size and financial reporting quality show mixed findings for two measures of financial reporting quality. The results show a positive, statistically significant effect between the size of the audit committee and discretionary accruals. On the contrary, the size of the audit committee shows a statistically positive insignificant relationship with accruals quality. Audit committee independence has a statistically significant effect on both accruals' quality and discretionary accruals as measures of financial reporting quality. Finally, audit committee meetings on the financial reporting quality show a negative nonsignificant relationship between audit committee meetings on both accruals' quality and discretionary accruals. The results of this research may be of interest for policymakers who have the authority over the appointment of audit committee members to choose independent and expert individuals, for regulators to reconsider their rules and mandate concerning corporations and their corporate governance structure.

**Keywords:** Audit committee expertise, accruals quality, Audit committee independence, financial reporting quality, discretionary accruals, Audit committee meetings.

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## Introduction

The audit committee is "a committee established by and amongst the board of directors of an issuer to oversee the issuer's accounting and financial reporting processes and audits of the financial statements of the issuer." It forms part of a company's governance structure and is arguably the most critical and challenging subcommittee of any company's board of directors. One of the primary functions of audit committees is to monitor the firm's financial reporting system.

The Code of Corporate Governance for Listed Companies in Kenya stipulates that listed companies "may set up an audit committee on board under the resolutions of the shareholders' meeting" to boost the board's decision-making and supervision capabilities. The same Corporate Governance Code requires that audit committees comprise at least three independent and nonexecutive directors (Mwangi, 2018).

Dobija (2015) notes that while all company directors need to act in the company's interest, the audit committee has an even more focused role in ensuring, independently from the executive, that the interests of the shareholders concerning financial reporting quality are protected. One way to ensure financial statements is 'true and fair' is by assessing the quality of earnings presented in these statements. The quality will not be compromised if the audit committee is effective in its role. The quality of earnings is an indirect measure of the efficiency of the audit committee. Thus assessing earnings quality is the right way of investigating the audit committee's (including different characteristics) efficiency (Bédard & Gendron, 2010).

### *Statement of the Problem*

An audit committee's role is to oversee the process of preparing financial statements under accounting policies and judgments and ensuring the quality of the overall financial statements. To achieve this, the auditing committee must have the discretion to defend shareholders' interest through a quality audit report strongly. Moreover, in the recent past years, the audit committee role is becoming more dynamic in reviewing financial statements and reducing the differences between managers and external auditors. This lessens the likelihood of a firm having qualified opinions from the external auditor resulting from accounting errors and noncommitment to accounting standards. However, in the developing economies context, the independence and composition of the audit committees are influenced by recruiting unqualified members of the board with strong connections of the management. This is done exclusively to promote the interest of the management through embezzlement of funds and corrupt activities (Mahadeo, Soobaroyen, & Hanuman, 2012).

The manufacturing sector in Kenya is one of the critical drivers that is considered to accelerate the future economy. However, the industry has experienced challenges leading to buy-outs, restructuring, and poor performance. Thus, it is pertinent to gauge the effectiveness of audit committees in these firms concerning their oversight activities in promoting good corporate governance. However, there has been little empirical evidence that examined how audit committee characteristics influence the audit expectation gap in Kenya's manufacturing sector, which makes this study.

## Literature Review and Hypothesis Development

The board of directors and its committees are at the top of this control system. They are delegated by owners (shareholders) to ratify and monitor critical decisions taken by top managers who initiate and implement them, thus ensuring that decision management and decision control are separated. The costs associated with the monitoring roles of the board of directors and its committees and with the appointment of external auditors represent part of the monitoring agency costs incurred by shareholders "to limit the aberrant activities of managers" (Meckling & Jensen, 1976). From an agency perspective, the board and its audit committee's role is to monitor management actions and ensure their alignment with shareholders' interests. The board and its audit committee will not be considered an effective monitoring mechanism unless they can limit top-level managers' discretionary decisions (Fama & Jensen, 1983).

One of the essential attributes of the audit committee is its independence, which plays a decisive role in exercising effective financial reporting (Fakhari & Pitenoei, 2017). The independence of the audit committee is often considered an essential characteristic in influencing the effectiveness in overseeing the financial reporting process. Independent directors bring their expertise and knowledge, provide continuity, and help recognize alliances and acquisitions; those directors help sustain a morally ethical climate within the organization. According to CMA (2015), the Kenya Corporate Governance Code requires that audit committees comprise at least three independent and non-executive directors. Additionally, the CMA states that it is critical for audit committees to have a clear separation between their roles as board members and audit committee members. Thus, we hypothesize in H01 that there is no significant effect between Audit committee independence and financial reporting quality among Manufacturing Firms in Kenya.

Audit committee size is a fundamental factor for an audit committee to oversee corporate disclosure practices (Persons, 2009). A more extensive audit committee is more effective because it comprises members with diverse knowledge and expertise to perform more reliable monitoring of financial practices (Hamdan & Mushtaha, 2011). Concerning resource dependence theory, AC size has been considered highly resourceful, improving the financial reporting quality because of their diverse skills, expertise, and experience. Thus, we hypothesize in H02 that there is no significant effect between Audit committee size and financial reporting quality of manufacturing firms in Kenya.

The experience and expertise of the audit committee members is an essential aspect of the effectiveness of the audit committee in overseeing the financial reporting process. Theoretically, the experience of AC in general and financial accounting expertise play a vital role in mitigating agency costs. AC accounting experts provide such committees with an effective means of monitoring management's FR practices and reducing agency costs (Salehi & Shirazi, 2016). However, Lisic et al. (2011) suggested that the presence of a financial expert on the audit committee does not mean more effective monitoring. Instead, monitoring the audit committee's financial expertise's effectiveness depends on top management's authority. Thorough financial expertise allows audit committee members to categorize and debate questions that challenge managers and external auditors to a more extensive scope of

financial reporting quality (Bédard & Gendron, 2010). Thus, we hypothesize in H03 that there is no significant effect between Audit committee expertise and financial reporting quality of manufacturing firms in Kenya.

Consistent with agency theory, Beasley, Carcello, Hermanson, and Neal (2009) argued that members of the Audit committee are committed to meaningful and substantive meetings which still lead to better monitoring and improved the financial reporting processes. Effective monitoring may increase when audit committee members meet regularly and frequently. Regularly scheduled meetings will assist audit committees in monitoring accounting records and internal control systems (Lisic et al., 2015). The frequency of meetings is a core element in the reliability and efficiency of a company's activities and processes. However, few studies acknowledge the connection between the company's performance and the number of meetings (Ghazali & Shafie, 2019). The frequency of meetings is an essential characteristic of audit committees. Board members who regularly meet are more likely to accomplish their work and responsibilities with attention and successfully. An increase in frequency indicates that the committee is more efficient and committed to producing quality performance Abbott, Parker, and Peters (2004). Thus, we hypothesize in H04 that there is no significant effect between Audit committee meetings and the financial reporting quality of manufacturing firms in Kenya.

## Data and Methods

The study will adopt a quantitative research design. The research will adopt a descriptive research approach. Descriptive research aims to become more familiar with the phenomena, gain new insight, and formulate a more specific research problem or hypothesis. Thus, it will be helpful for our study to determine the effects of audit committee attributes on the reporting frameworks of companies identified for this research. The study population is Nine firms listed under the manufacturing and allied sector of the main investment market segment at the NSE. The research period will be restricted to 8 years, from 2010 to 2018. Listed companies will be preferred due to readily available financial statements from the NSE handbook and the CMA website. The study will involve collecting secondary data from annual reports provided by the companies in every AGM and from the financial statements of companies filed with the registrar of companies. Also, Table 1. indicates the operationalization of research variables.

Table 1. Operationalization of Variables

Variable	Measure	Data	Source
Audit committee size	0 if the Audit committee members are not between three and seven-members and otherwise 1 (Garcia et al.,2012 – Davidson et al.,2005 – Ghosh et al., 2010)	Number of Audit committee members in each company	Annual corporate reports
Audit committee composition	0 if a member has less than five years of experience as an audit committee member one otherwise	Number of years of experience in the audit committee	Annual corporate reports
Audit Committee Independence	0 if the audit committee members are not controlled by more than 50% independent outside members and one otherwise (Abbott et al., 2004; Davidson et.al, 2005 – Garcia et.al, 2012)	Number of independent committee members	Annual corporate reports
Audit committee meetings	0 if the audit committee meets fewer than five times in a year and 1 otherwise	Number of meetings held by the audit committee	Annual corporate reports

### *Accrual Quality*

To measure financial reporting quality, the research adopted modified McNichols (2002) and Francis et al. (2005) accrual estimation error. This measure defines the quality of accruals as the extent to which they map past, current, and future cash flows. The model is a regression of working capital accruals on lagged, current, and future cash flows plus the change in revenue and PPE. All variables are scaled by average total assets:

$$\Delta WC = \beta_0 + \beta_1 CFO_{t-1} + \beta_2 CFO_t + \beta_3 CFO_{t+1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

Where;

that is, the change in the current assets minus the change in current liabilities

CFO = CFO is the cash flows from operating activities of a firm measured at  $t-1, t, t+1$

REV = change in revenue between year t-1 and year t

PPE is the gross value of plant, property, and equipment

### *Discretionary Accruals*

To measure financial reporting quality, the research adopted performance-adjusted discretionary accruals developed by Kothari et al. (2005). Therefore, the study estimates the following model.

$$TACC_{i,t} = \alpha_0 + \alpha_1 \frac{1}{Assets_{i,t-1}} + \alpha_2 \Delta Rev_{i,t} + \alpha_3 PPE_{i,t} + \alpha_4 ROA_{i,t} + \varepsilon_{i,t}$$

Where is  $TACC_{i,t}$  total accruals, measured as the change in non-cash current assets minus the change in current non-interest-bearing liabilities, minus depreciation and amortization expense for firm i at year t, scaled by lagged total assets  $Assets_{i,t-1}$ ,  $\Delta Rev_{i,t}$  is the annual change in revenues scaled by lagged total assets;  $PPE_{i,t}$  is property, plant, and equipment for firm i at year t, scaled by lagged total assets;  $ROA_{i,t}$  is the return on assets for firm i at year t. The residuals from the regression model are discretionary accruals. In our tests, we use the absolute values of discretionary accruals as a proxy for financial reporting quality.

### *Measures of control variables*

The research adopted leverage as a control measure due to the hypothesis that highly leveraged firms are likely to engage in opportunistic activities and manipulation to avoid breach of the debt covenant violation. This study predicts that leverage has a negative association with financial reporting quality. Controlling for firm size is common in earnings management research. It is expected that a large firm will have relatively higher discretionary accruals compared to a small firm since a large firm generally will have diversified or decentralized management decision-making. Therefore, this study expects the size of the firm to exhibit a converse relationship with the quality of financial reporting quality. The size is determined as the natural logarithm of the total assets at the end of the period ( $\ln it = \log(Ai,t)$ ). In addition, the firm age is included, which impacts the firms' financial reporting quality. Past research alludes to growing companies are more likely to engage in opportunistic activities and manipulate accounting numbers than companies in the stagnant growth stage. Therefore, this study predicts firm age to affect financial reporting quality positively.  $Firm\ Age = \log(size_{i,t}) - \log(size_{i,t-1})$

### *Empirical Regression Models*

To test our hypothesis on whether Audit committee attributes in year t affect financial reporting quality in year t + 1, we estimate the OLS regression as shown in the equation.

#### *Model 1*

$$AQ_i = \alpha_{i,t} + \alpha_1 ACE_{i,t} + \alpha_2 ACS_{i,t} + \alpha_3 ACI_{i,t} + \alpha_4 ACM_{i,t} + Control\ variable_{i,t} + \varepsilon_{i,t} \dots \dots \dots Model 1$$



## Model 2

$$DD_i = \alpha_{i,t} + \alpha_1 ACE_{i,t} + \alpha_2 ACS_{i,t} + \alpha_3 ACI_{i,t} + \alpha_4 ACM_{i,t} + \text{Control variable}_{i,t} + \varepsilon_{i,t} \dots \dots \dots \text{Model 2}$$

## Empirical Results

### Descriptive Statistics

These descriptive statistics are based on eight-year observations of the listed manufacturing firms in Kenya. The data span from the year 2010 to 2018, leading to a total of 81 observations of all the measures under observation. The mean value of discretionary accruals is 0.06 while the accrual quality is 0.17 indicating a close relationship between the two models. These findings also suggest that most accruals estimation errors are associated with an intentional or discretionary part of the accruals estimation equation. These values are also consistent with recent US-based studies of Alshrife (2016) and Alkebsee, Tian, Garefalakis, Koutoupis, and Kyriakogkonas (2022), which documented mean values as .052 and .070, respectively.

Audit committees' size in this sample have, on average, 0.97; this represents the range of audit committee size of 2 to a maximum of 6 members. Most of the companies listed in this study meet the recommended Kenyan corporate governance code of audit committee size of more than three members. Audit committees in the sample meet, on average, 0.14 times per year, with the recommended number of meetings at least 4-6 times per year. On average, the independence of the audit committee represents 0.74 of the reaction between independent nonexecutives and independent executive members. The descriptive statistics in Table 2. also show that, on average, 0.90 of the composition of the audit committees are individuals with financial expertise. This shows a high proportion of individuals with accounting and finance expertise necessary for quality audit reports.

Table 2. Descriptive Statistics

Variables	(1)	(2)	(3)	(4)	(5)
	N	MEAN	SD	MIN	MAX
Audit Committee Size	81	0.975	0.156	0	1
Audit Committee meeting	81	0.136	0.345	0	1
AIndependence	81	0.741	0.441	0	1
AExpertise	81	0.901	0.300	0	1
Leverage	81	1.518	1.282	0.0140	4.682
Fsize	81	15.00	1.844	11.14	18.08
FAge	81	0.000538	0.0660	-0.258	0.362
DD	81	0.0626	0.875	-0.861	3.072
AQ	81	0.174	1.889	-2.511	12.12

## Correlation Matrix

Table 3. shows the correlation matrix for all model variables, with Pearson coefficients OF correlations as appropriate. Correlation above 0.8 between independent variables indicates that multicollinearity is present and might affect the results (Carcello, Neal, Palmrose, & Scholz, 2011). However, correlation coefficients in Table 3.3 show that there is no Multi-collinearity between the variables in the study.

Table 3. Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) AQ	1.000								
(2) DD	0.506***	1.000							
(3) AExpertise	0.124	-0.021	1.000						
(4) AIndependence	0.113	0.126	-0.007	1.000					
(5) ASize	0.078	0.090	0.481***	0.269**	1.000				
(6) Ameeting	-0.096	-0.134	0.010	0.070	0.063	1.000			
(7) Leverage	0.299***	0.270**	0.064	-0.116	0.148	0.260**	1.000		
(8) FAge	0.057	-0.066	0.137	0.166	0.206*	-0.083	-0.063	1.000	
(9) Fsize	-0.326***	-0.305***	0.038	0.300***	0.339***	0.341***	0.070	0.270**	1.000

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Correlation Matrix Table 3. contains correlations between the two dependent variables and the explanatory variables. The two measures of financial reporting quality do not have a significant correlation between the variables of the characteristics of the audit committee characteristics variables. However, the size and leverage significantly correlate with the measures of financial reporting quality and show a negative correlation. Audit committee size is positively correlated with the discretionary accruals measure of financial reporting at 0.0908, while accrual quality by M.Nichol is also positively correlated with Audit committee size at 0.0790. This indicates that the number of audit committee members is important to the quality of the company's financial reports. Both discretionary accruals and the accruals quality negatively correlate to the numbers of audit committees' meetings; -0.096 and -0.134 for accruals quality and discretionary accruals, respectively. The number of meetings as directed by the corporate governance code in Kenya is a minimum of 4 meetings a year, and companies vary in their meeting schedules. Thus, the inverse relationship between the two variables indicates that an increased number of audit committee meetings does not add quality to companies' financial reporting. The independence of the audit committee reveals an insignificant positive correlation of 0.113 and 0.126 between accrual quality and discretionary accruals, respectively. A high ratio of nonexecutive audit committee directors guarantees a high level of quality in the financial reporting structures of the companies. Discretionary accruals have a negative correlation of -0.021 to the audit committee finance expertise, while the accrual quality has a positive correlation of 0.125.



## Multivariate Analysis

After conducting the Breusch-Pagan Lagrange Multiplier (LM) test and the Hausman test, the LM test helps decide whether to use a random-effect regression or a simple OLS. Then the Hausman test is used to determine between random or fixed effects. Finally, the association between the dependent variables (Audit committee characteristics) and the independent variables (Financial Reporting quality) is estimated using panel regression with a random effect model.

Table 4. Breusch and Pagan Lagrangian Multiplier Test for Random Effects

Panel A: Accrual Quality model		Panel B: Discretionary Accrual model	
Hausman (1978) specification test		Hausman (1978) specification test	
	Coef.		Coef.
Chi-square test value	-25.353	Chi-square test value	11.618
P-value	1	P-value	.114

The null hypothesis in the LM test is that there is no panel effect or significant difference across entities. The results of the LM test in both panels A and B reveal acceptance of the null hypothesis and that random effect regression is appropriate due to significant differences across firms. Hausman test results for the accrual quality model and Discretionary accruals models are presented in Table 4. Panel A and Panel B, respectively. Both reveal acceptance of the null hypothesis that the difference between fixed and random coefficients is systematic and indicate the use of random-effect regression.

Table 5: Audit Committee Attribute and Accruals Quality

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	AQ	AQ	AQ	AQ	AQ	AQ	AQ
AIndependence	0.960*	0.891	0.510	0.535	0.839*	1.153**	1.106**
	(1.735)	(1.611)	(1.008)	(1.054)	(1.731)	(2.407)	(2.312)
AExpertise		1.058	0.838	0.827	0.911	0.612	0.520
		(1.574)	(1.026)	(1.012)	(1.188)	(0.845)	(0.718)
ASize			-0.214	-0.143	-1.052	0.644	0.554
			(-0.131)	(-0.088)	(-0.676)	(0.420)	(0.363)
Ameeting				-0.575	-1.115*	-0.444	-0.307

				(-0.930)	(-1.852)	(-0.734)	(-0.503)
Leverage					0.557***	0.567***	0.576***
					(3.367)	(3.545)	(3.612)
Fsize						-0.442***	-0.484***
						(-3.671)	(-3.902)
FAge							3.960
							(1.312)
_cons	-0.537	-1.440*	-0.750	-0.750	-0.936	4.006**	4.804**
	(-1.003)	(-1.847)	(-0.559)	(-0.558)	(-0.743)	(2.234)	(2.549)
r2_w	0.064	0.096	0.079	0.069	0.121	0.147	0.159
<i>p-values are in parentheses</i>							
*** $p < .01$ , ** $p < .05$ , * $p < .1$							

Table 6. Regression results

AQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AIndependence	1.106	.527	2.10	.036	.072	2.139	**
AExpertise	.52	.652	0.80	.425	-.757	1.797	
ASize	.554	.681	0.81	.416	-.781	1.889	
Ameeting	-.307	.385	-0.80	.425	-1.06	.447	
Leverage	.576	.314	1.83	.067	-.04	1.191	*
Fsize	-.484	.138	-3.50	0	-.755	-.213	***
FAGE	3.96	1.949	2.03	.042	.14	7.779	**
Constant	4.804	1.508	3.19	.001	1.849	7.76	***
Mean dependent var	0.181	SD dependent var		1.925			
Overall r-squared	0.325	Number of obs		78			
Chi-square	16041.851	Prob > chi2		0.000			
R-squared within	0.159	R-squared between		0.907			
*** $p<.01$ , ** $p<.05$ , * $p<.1$							

Table 7. Audit committee attributes and Discretionary accruals

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	DD	DD	DD	DD	DD	DD	DD
AIndependence	0.448*	0.458*	0.198	0.215	0.345	0.489**	0.490**
	(1.770)	(1.786)	(0.843)	(0.915)	(1.524)	(2.170)	(2.152)
AExpertise		-0.030	-0.191	-0.199	-0.162	-0.300	-0.298
		(-0.094)	(-0.504)	(-0.528)	(-0.453)	(-0.879)	(-0.865)
ASize			0.532	0.586	0.188	0.956	0.958
			(0.703)	(0.777)	(0.259)	(1.327)	(1.318)
Ameeting				-0.373	-0.606**	-0.298	-0.300
				(-1.304)	(-2.156)	(-1.046)	(-1.031)
Leverage					0.239**	0.242**	0.242**
					*	*	*
					(3.099)	(3.211)	(3.184)
Fsize						-0.200**	-0.200**
						*	*
						(-3.534)	(-3.381)
Fage							-0.062
							(-0.043)
_cons	-0.269	-0.249	-0.431	-0.438	-0.511	1.729**	1.716*
	(-1.142)	(-0.684)	(-0.691)	(-0.706)	(-0.868)	(2.049)	(1.912)
Observations	81	81	81	81	81	78	78
r <sup>2</sup> _w	0.077	0.077	0.147	0.085	0.096	0.185	0.185
<i>p-values are in parentheses</i>							
*** $p < .01$ , ** $p < .05$ , * $p < .1$							

Table 8. Regression Results

DD	Coef.	St.Err.	t-value	p-value	95% Conf	Interval	Sig
AIndependence	.49	.216	2.27	.023	.067	.914	**
AExpertise	-.298	.447	-0.67	.504	-1.174	.577	
ASize	.958	.483	1.98	.047	.011	1.905	**
Ameeting	-.3	.303	-0.99	.323	-.894	.294	
Leverage	.242	.06	4.05	0	.125	.359	***
Fsize	-.2	.065	-3.08	.002	-.327	-.073	***
Fage	-.062	1.095	-0.06	.955	-2.209	2.086	
Constant	1.716	.763	2.25	.024	.222	3.211	**

DD	Coef.	St.Err.	t-value	p-value	95% Conf	Interval	Sig
Mean dependent var	0.065	SD dependent var	0.892				
Overall r-squared	0.287	Number of obs	78				
Chi-square	650.988	Prob > chi2	0.000				
R-squared within	0.185	R-squared between	0.739				
*** $p < .01$ , ** $p < .05$ , * $p < .1$							

According to Table 5 to 8, Audit committee expertise has an insignificant positive impact on the financial reporting quality of financial reports as measured by accrual quality. This finding is consistent with those of Aanu, Odianonsen, and Foyeke (2014), Dobija (2015), and Carcello et al. (2011). Furthermore, Alawaqleh and Almasria (2021), show that an accounting financial expert on the Audit Committee is significantly associated with more accurate or less dispersed analyst earnings forecasts. In contrast, they find that the association between non-accounting financial expertise and analyst earnings forecasts is insignificant. However, the study found an insignificant negative effect of the expertise of audit committees on financial reporting quality measured using discretionary accruals. The findings are consistent with Fakhari and Pitenoei (2017), who found an insignificant relationship between Audit committee financial expertise and discretionary accruals.

The findings on the relationship between audit committee size and financial reporting quality show mixed findings for two measures of financial reporting quality. The results show a positive, statistically significant effect between the size of the audit committee and discretionary accruals. This is consistent with the findings of Shankaraiah and Amiri (2017), who argues that an increase in Audit Committee members is an opportunity for a mixture of different experts. Indeed, larger audit committees are more likely to behave as authoritative bodies exercising effective monitoring functions. Moreover, Ghafran, O'Sullivan, and Yasmin (2022) reveal that the Audit Committee size improves the financial reporting quality because of the diverse skills expertise, and experience they share among themselves. The study results are consistent with (Shankaraiah & Amiri, 2017). The results confirm that the effectiveness of the AC depends on the appropriate size of the AC. On the contrary, the size of the audit committee shows a statistically positive insignificant relationship with accruals quality.

Based on the study's results, audit committee independence has a statistically significant effect on both accruals quality and discretionary accruals as measures of earnings quality. This suggests that fully independent audit committees can better constrain earnings management practices. This finding is consistent with Mahadeo et al. (2012), which indicates that Audit committee independence significantly improves the financial reporting quality and suggests that independent directors are more concerned about their reputation in the market and hence more objective in their monitoring role (Fama & Jensen, 1983). This finding also contradicts the evidence provided by (Dobija,

2015). Therefore, it can be inferred that an independent audit committee may perform its oversight function within the corporate governance structure of a firm more effectively and consequently improve the quality of its financial reporting.

The effects of audit meetings on the quality of financial reporting show similar results. The research, therefore, alludes to a negative non-significant relationship between audit committee meetings and accruals quality. Nevertheless, an active Audit Committee could provide more accurate and better supervision for the internal and external audit functions and the firm's performance. Indeed, it is hypothesized that the greater the number of AC meetings held during the fiscal year, the more opportunity for dealing with the firm's potential problems (Abbott et al., 2004). In contrast to these results, the present study does not find evidence on the significance of this relationship. However, we show that the number of AC meetings could negatively affect the quality of financial reporting. This is inconsistent with expectations since audit committees meeting more frequently are expected to be more effective and diligent monitors of the financial reporting process.

## Summary and Conclusions

Our findings have implications for several interested parties, such as auditors, institutional investors, regulators, and policymakers, who are in charge of examining the effectiveness of corporate boards of directors in monitoring a firm's financial reporting and disclosure processes. Based on our results, it can be argued that these interested parties would increase their external assessment of financial reporting quality and disclosure when recognizing corporate boards of directors and audit committees' failure to make voluntary improvements in their overall effectiveness and efficiency, particularly when both have the incentive and ability to do so. In addition, the results of the present paper may be of interest for policymakers who have the authority over the appointment of audit committee members to choose independent and expert individuals, for regulators to reconsider their rules and mandate concerning corporations and their corporate governance structure, and, finally, for auditors to adopt better strategies when communicating with audit committees and assessing their effectiveness regarding the improvement of financial reporting quality and disclosure.


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