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Original Research

Corporate Governance Characteristics and Discretionary Accruals Among Non-Financial Firms Listed in Nairobi Securities Exchange

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Abstract

This study explores the relationship between corporate governance traits and discretionary accruals among non-financial firms listed in NSE. Our study discovered that the board size has a relatively insignificant negative impact on the discretionary accruals of non-financial firms listed in the NSE using a sample of 44 publicly traded non-financial firms based on 2012-2021 data. The findings on board independence indicate a significant positive relationship at 10% significance. The results suggest that board independence doesn't reduce discretionary accruals in non-financial firms listed in NSE Kenya. The CEO duality, on the other hand, revealed a statistically positive insignificant effect on discretionary accruals, contrary to expectations. The research findings also pointed to income-decreasing accruals earnings management as depicted by a mean of -.083 discretionary accruals in the descriptive statistics. On the effects of board meetings on discretionary accruals, the study found an insignificant negative relationship. The findings of this study may be useful for regulators to re-evaluate their laws and mandates regarding firms and their corporate governance structure, as well as for legislators who have the power to nominate board members to select competent and knowledgeable personnel.

Keywords: Board Size, Board Meetings, Board independence, Corporate Governance, discretionary accruals.

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Introduction

Corporate governance has generated many changes in the business environment and the accounting and auditing profession. In the past few years, there has been an interest and focus on audit committees' role as it is a tool of corporate governance to increase the questioning of management and increase auditors' independence (Hamdan & Mushtaha, 2011). In recent years, the interest in audit committees' role has expanded in terms of their role in preparing financial statements. Bédard and Gendron (2010) found that an audit committee is more dynamic in reviewing financial statements and decreasing 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 non-commitment to accounting standards. Audit committees have a role in monitoring internal control systems through associations with internal auditors, as external auditors complete external reporting and compliance. Audit committees have a crucial role in all relationships between internal auditors, external auditors, and the board of directors (Saibaba & Ansari, 2013).

For many years, internal auditing's primary role has been to assist organizations in safeguarding assets and checking established control procedures. As a subcommittee of the governing body, an audit committee seeks to ensure financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve as an advisory function aimed at performance improvement within the organization. Audits serve a vital economic purpose and play an essential role in helping the public interest to strengthen accountability and reinforce trust and confidence in financial reporting (Asare, 2009). However, in recent years, and considering corporate scandals, there is growing global demand for improving audit quality.

In Kenya, CMA issued guidelines on good CG practices by public listed companies in Kenya in 2002. The guidelines were prepared in recognition of the role of good CG in corporate performance, capital formation and maximization of shareholders' value as well as the protection of investor's rights (CMA, 2002). According to these guidelines, all listed companies should establish at least an audit and nominating board committee. The AC is charged with the responsibility of overseeing the internal and external audit functions and reviewing of quarterly, half yearly and year-end financial statements of the company. The AC should have at least three independent and non-executive directors, one of who should have basic financial accounting knowledge (CMA, 2002).

General conclusions from prior research show that corporate governance facets like the composition of the board of directors, CEO duality, the composition of the audit committee, and auditor independence have an impact on discretionary accruals (Al-Haddad & Whittington, 2019; Asogwa, Ofoegbu, Nnam, & Chukwunwike, 2019; Gulzar, 2011; Man, 2013). There are several ways to measure board characteristics. The characteristics are determined by the board's composition, including the size of the board, the number of independent directors, the dual role of CEO, and the tenure of the board (Nugroho & Eko, 2012).

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Statement of the Problem

Although GAAP mandates that businesses use accrual accounting, this also gives management the ability to manage the timing of accrual expenditures (Xie, Davidson III, & DaDalt, 2003). Unfortunately, non-executive directors may not be effective monitors if they have a substantial financial interest in the company (Luan & Tang, 2007; Peasnell, Pope, & Young, 2005; Tosi, Shen, & Gentry, 2003). A large board may have several independent directors, but this could also mean that the board functions less effectively than a board with a smaller number of members. However, a large board with more independent directors is better positioned to prevent earnings management (Xie, Davidson III, & DaDalt, 2003).

The non-financial firms listed in the NSE Kenya are critical drivers considered to accelerate the future economy. However, these firms have been experiencing challenges leading to buy-outs, restructuring, and poor performance. Thus, it is pertinent to gauge the effectiveness of board members in these firms concerning their oversight activities in promoting good corporate governance. However, more empirical evidence needs to examine how corporate governance characteristics influence the financial reporting quality of these firms. As a result, corporate governance practices are designed to enhance earnings quality and reduce the incentive for earnings manipulation.

However, the quality of financial reporting has been impacted by cases of bankruptcy, distress, and fraud that have been accurately reported (Olowokureet al.,2016). A strong financial reporting process, according to Cohen et al. (2017), includes preparation and oversight by parties like the Audit Committee (AC) and auditors to provide accurate and transparent financial reports and related disclosures. Most empirical studies on corporate governance and reporting quality, according to Zoysa and Rudkin (2010), have been carried out in nations with developed capital markets, and studies in nations with emerging capital markets are incredibly rare. Theoretically, this study contributes to prior research by placing these relationships into a particular context: the corporate governance act 2002 within the listed non-financial firms in the Nairobi securities exchange.

Literature Review and Hypothesis Development

Corporate governance lies at the top of the control system of the board of directors and its committees. They are entrusted by owners (shareholders) to approve and oversee important decisions made by top managers who initiate and implement them, ensuring that decision management and decision control are kept apart. The expenses related to the board of directors' and its committees' monitoring obligations as well as the hiring of external auditors are a portion of the monitoring agency costs incurred by shareholders "to limit the abnormal activities of managers" (Meckling & Jensen, 1976). The board's and its audit committee's role is to oversee management decisions and make sure they are consistent with the interests of the shareholders from an agency perspective. An effective board of directors must be part of any good governance mechanism. As in earlier studies, the size of the board of directors is determined by this study using the number of directors as a proxy for board characteristics (Neifar, Halioui, & Abdelaziz, 2016; Xie, Davidson, & DaDalt, 2003). The Board of Directors is a team of individuals chosen to oversee, direct, and conduct business in accordance with the company objectives. Larger boards

are associated with more earnings management behavior, according to research on the relationship between corporate governance and earnings management (Swastika, 2013).

Empirical evidence revealed that a large board-size vision failed the board advisory and monitoring role and negatively influenced firm performance (Guest, 2009). A positive relationship between board size and earnings management appears as board members increase up to seven members (Geraldes Alves , 2011). By categorizing board size, the research found that a board size of nine to twelve members involves higher earnings management behavior (Epps & Ismail, 2009). These findings suggest that a smaller board provides a more effective monitoring role than a large board. An unduly large board will cause the monitoring mechanism to become ineffective (Veronica Siregar & Bachtiar, 2010).

Gulzar (2011) investigated the effectiveness of board size in mitigating and reducing EM behavior in Chinese publicly traded companies. He concluded that a smaller board is associated with a low EM level. According to other studies by Beasley, Carcillo, Hermanson, and Neal (2009); Man (2013); Sáenz González and García-Meca (2014), a big board causes coordination issues that make it harder to monitor management. Hence, it is hypothesized that:

Hypothesis 1 (H01): There is no significant effect between board size and discretionary accruals among listed non-financial firms in NSE, Kenya.

Board independence is a fundamental factor for sound corporate governance practices. By minimizing managerial self-interest and overseeing and controlling management's production of financial statements, independent directors on the board may improve earnings quality. As a result, boards with more independent directors tend to monitor companies more closely and demand higher-quality earnings (Alves, 2014). Alves (2014) found evidence that independent board members increase earnings quality by reducing earnings management in a sample of 33 Euronext Lisbon non-financial firms over an eight-year period (2003 to 2010). As a result, independent board members efficiently oversee the management of earnings in Portuguese-listed companies.

In their analysis of 434 publicly traded Australian companies, Davidson, Goodwin, and Kent (2005) contend that most non-executive directors on the board and the audit committee are successful in minimizing earnings manipulation. Hence, it is hypothesized that:

Hypothesis 2 (H02): There is no significant effect between board independence and discretionary accruals of non-financial firms listed in NSE Kenya.

CEO duality—where the CEO also serves as the board of directors' chair—creates a setting that supports independent judgment in managing earnings. The CEO's dual role disrupts the board's power dynamic and may limit the board's ability to effectively oversee managerial decisions and actions (Arslan, Zaman, Malik, & Mehmood, 2014). According to proponents of the agency theory, separating the two responsibilities is essential for ensuring that the board has control over management by providing evidence that can be compared to any potential for the CEO to have overly ambitious plans. Because they are

more likely to pursue strategies that advance their own personal interests over those of the business when a single person holds two crucial positions.

Due to the separation of ownership and control, agency theory contends that managers use firm resources to further their own interests rather than maximizing shareholder wealth (Meckling & Jensen, 1976). Since the same person will be overseeing his actions, CEO duality is bad for the company. Since it is unlikely that CEOs can directly affect stock market performance, they may try to influence accounting-based measures. Prior research has shown a connection between duality and more managerial discretion (Asogwa, Ofoegbu, Nnam, & Chukwunwike, 2019; Chakroun & Amar, 2021; Chatterjee, 2020). Additionally, CEO-dominated boards are less likely to reliably identify reporting process flaws and are more likely to overlook internal control weaknesses. However, the level of board independence is likely to be a determining factor in how much CEO duality could rule a board (Alves, 2021). Hence, it is hypothesized that:

Hypothesis 3 (H03): There is no significant effect between CEO Duality and the discretionary accruals of listed non-financial firms listed in NS, Kenya.

According to Beasley et al. (2009), board members committed to meaningful and substantive meetings result in better monitoring and improved financial reporting processes, which is in line with agency theory. According to agency theory, good monitoring can make agents less opportunistic and more inclined to act in their principals' best interests. When board members get together frequently and regularly, monitoring may become more effective. Board members will benefit from regularly scheduled meetings as they monitor accounting records and internal control systems (Abbadi, Hijazi, & Al-Rahahleh, 2016). According to Hoque, Islam, and Azam (2013), frequent meetings help the directors monitor the internal control system and financial reporting procedure more successfully and raise the caliber of the accounting data and audit. Compared to directors who do not regularly meet, those who do so perform better in their supervisory duties for financial reporting. (Hoque, Islam, & Azam, 2013; Munro & Buckby, 2008)

The number of board meetings required annually is outlined in the Kenyan Code of Corporate Governance. In order for the board to effectively perform its duties, it is required that the members meet at least four times annually or once every three months. Gulzar (2011) discovered that as board meeting frequency increases, the value of discretionary accruals decreases; they claimed that increased board meeting frequency would enhance board oversight. Hence, it is hypothesized that:

Hypothesis 4 (H04): There is no significant effect between board meeting frequency and the discretionary accruals of non-financial firms listed in NSE, Kenya.

Data and Methods

The 44 non-financial firms listed at the NSE, Kenya, were selected from the total of 62 companies listed in the NSE for this study. Bank and insurance companies were excluded from this study because of the additional distinct regulations and disclosures and the complexity of determining accruals (Klein, 2002).

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Variables and Measures

Variable	Measure	Data	Source
Discretionary Accruals	Determining coefficient from accrual regression. Discretionary accrual is the difference between total accrual (TACC) and non-discretionary accrual (NDACC). Modified Jones modified by Dechow et al. (1995)	▪ Total assets at each year end ▪ Annual sales ▪ Current Assets Book Values of plant property and equipment.	-Annual Company statement of financial position -Annual Company statement of comprehensive income -Annual Company statement of cash flows.
Board size	0 if the board directors are not between three and seven members and otherwise 1 (Garcia et al., 2012 - Davidson et al. Al,2005 – Ghosh et al., 2010)	▪ Number of Board directors	Annual corporate reports
CEO Duality	0 where the CEO has this dual role, 1 otherwise	▪ Role of CEO and chair of Board	Annual corporate reports
Board Independence	0 if the board members are not controlled by more than 50% independent outside members, and 1 otherwise (Abbott et al., 2004; Davidson et.al, 2005 – Garcia et.al, 2012)	▪ Number of independent board members	Annual corporate reports
Board meetings	0 if the board members meet fewer than five times in a year and 1 otherwise	▪ Number of meetings held by the board members	Annual corporate reports

To measure the value of discretionary accruals, the modified Jones modified by Dechow et al. (1995) will be adopted using the following regression:

a. Determine Normal Accruals (Total Accruals)

Discretionary accrual is the difference between total accrual (TACC) and non-discretionary accrual (NDACC). Determining non-discretionary accrual by doing this regression:

$$\frac{TACC_{i,t}}{TA_{i,t-1}} = \beta_1 \frac{1}{TA_{i,t-1}} + \beta_2 \frac{\Delta \mathrm{Re}v_{i,t}}{TA_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t}$$

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Where;

$TACC_{i,t}$ = Total accrual of the company i in year t

$TA_{i,t-1}$ = Total asset of the company i in the end year t-1

$\Delta Rev_{i,t}$ = Change in sales revenue of the sales company i in year t -1

$PPE_{i,t}$ = Property, plant, equipment of company i in year t

= Change in net receivable company i in year t -1

$\varepsilon_{i,t}$ = Error

b. Determining Non-discretionary accrual.

Equation (2) regression resulted from coefficients β1, β2, dan β3. Those

the coefficient is used to predict non-discretionary accrual through the Equation:

$$NDACC_{i,t} = \beta_1 \frac{1}{TA_{i,t-1}} + \beta_2 \frac{\Delta Rev_{i,t} - \Delta Rec_{i,t}}{TA_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t}$$

c. **Determining discretionary accrual**. Discretionary accrual is calculated by total accrual (result from Equation (a)) minus non-discretionary accrual (result from Equation (c)).

$$DACC_{i,t} = \frac{TACC_{i,t}}{TA_{i,t-1}} - NDACC_{i,t}$$

Where: Discretionary Accrual Company (DACC) I did an absolute value conversion in the year t. Because not all discretionary accruals have a positive value, they were converted to absolute value. The value of discretionary accrual may equal zero when the positive and negative values are added. Zero indicates that there is no discretionary accrual for managing earnings, but it is already known that the company always uses a positive or negative value. Consequently, the negative value needs to be changed to a positive.

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. According to this study, there is a negative correlation between leverage and the accuracy of financial reporting. In earnings

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management research, accounting for firm size is a common practice. Since a large firm typically has diversified or decentralized management decision-making, it is expected that it will have relatively higher discretionary accruals than a small firm. As a result, this study anticipates that there will be a converse in the relationship between firm size and financial reporting quality. The natural logarithm of the total assets at the end of the period is used to calculate the size (Ln it = log (Ai,t)).

Empirical Regression Models

To test our hypothesis on whether corporate governance characteristics in year *t* affect discretionary accruals in year *t* + 1, we estimate the OLS regression as shown in the Equation.

$$DD_i = \alpha_{i,t} + \alpha_1 BSE_{i,t} + \alpha_2 BIND_{i,t} + \alpha_3 BCE_{i,t} + \alpha_4 BCM_{i,t} + Control\ \text{variable}_{t,1} + \varepsilon_{i,t} \ldots\ldots\ldots\ldots \text{Model1}$$

EMPIRICAL RESULTS

Descriptive Statistics

These descriptive statistics are based on ten-year observations of the listed non-financial firms in Kenya. The data span from 2012 to 2021, leading to 407 observations of all the measures under observation. The average absolute discretionary accruals were -0.083, with a maximum value of 0.0620, a minimum value of -6.4 and a maximum value of 1.3. These values indicate that, in their earning management practices, the companies tend more towards income-decreasing earnings management. This finding conflicts with that of Waweru and Riro's (2013) study, which indicated an average income-increasing earnings management of 3% in Kenya. This may be the case because it has been suggested that increased accounting choices with more latitude and an unclear IFRS may have increased the use of discretionary accruals (Soenarno, 2016).

The board size in this sample have, on average, 2.38; this represents the range of board size of 6 to a maximum of 8 members. Most of the companies in this study meet the recommended Kenyan corporate governance code of board size of more than three members. On average, the board in the sample meet 0.447 times per year, with the recommended number of meetings at least 4-6 times per year. On average, the independence of the board members represents 0.942 of the reaction between independent non-executives and independent executive members. Thus, it is evident that most board members are independent. The descriptive statistics in Table 4.1 also show that, on average, 0.927 of the firms have the CEO and Chairman as different individuals with clear roles.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
BSE	407	2.375	.687	1	3
Boardindependence	407	.942	.234	0	1

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Variable	Obs	Mean	Std. Dev.	Min	Max
CEODuality	407	.927	.26	0	1
BoardMeetings	407	.477	.5	0	1
firmsize	407	15.715	2.167	8.791	20.997
Leverage	407	1.865	2.044	.03	5.94
DACC	407	-.083	1.328e+08	-6.3919260	1.262e+09

Correlation Analysis

Table 3.3 shows the correlation matrix for all model variables, with Pearson coefficients of correlations as appropriate. Correlation above 0.8 between independent variables indicates that multi-collinearity is present and might affect the results (Carcello, Neal, Palmrose, & Scholz, 2011). However, the correlation coefficients in Table 3.3 show that there is no multi-collinearity between the variables in the study. This is in line with Gujarati (2009), who suggested that the correlation matrix should not exceed 80% to ensure any self-association problems.

Table 2: Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) DACC	1.000						
(2) BoardSize	-0.126**	1.000					
(3) Boardindepende~e	0.031	0.450***	1.000				
(4) CEODuality	0.037	0.210***	0.303***	1.000			
(5) BoardMeetings	-0.165***	0.093*	0.215***	0.036	1.000		
(6) firmsize	0.546***	0.213***	0.150***	0.220***	0.066	1.000	
(7) Leverage	-0.068	0.005	-0.122**	-0.065	0.012	-0.023	1.000
*** $p<0.01$, ** $p<0.05$, * $p<0.1$							

Multivariate Analysis

The Breusch-Pagan Lagrange Multiplier (LM) test, followed by the Hausman test, determines whether to use a random-effect regression or a simple OLS. The Hausman test is then used to distinguish between random and fixed effects. Finally, the association between the dependent variables (corporate governance characteristics) and the independent variables (discretionary accruals) is estimated using panel regression with a random effect model.

Table 3: Corporate Governance Characteristics and Discretionary Accruals Model

	(1)	(2)	(3)	(4)	(5)	(6)
	DACC	DACC	DACC	DACC	DACC	DACC
BSE	2.864	2.565	2.837	2.826	-3.465	-1.895
	(0.128)	(0.110)	(0.122)	(0.121)	(-0.141)	(-0.077)
Boardindependence		3.795	10.422	11.003	16.760	17.375*
		(0.051)	(0.130)	(0.135)	(0.198)	(0.206)

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	(1)	(2)	(3)	(4)	(5)	(6)
CEODuality			14.048	14.074	4.795	7.629
			(0.212)	(0.212)	(0.069)	(0.110)
BoardMeetings				-1.633	-4.500	-2.996
				(-0.059)	(-0.156)	(-0.104)
firmsize					21.259**	21.618**
					(2.026)	(2.057)
Leverage						-3.818
						(-0.776)
_cons	-184.401	-187.226	-206.927	-206.701	-522.604**	-528.672**
	(-1.134)	(-1.084)	(-1.048)	(-1.054)	(-2.244)	(-2.266)
Observations	357	357	357	357	355	355
r2_w	0.000	0.000	0.000	0.000	0.005	0.006
P-values are in parentheses						
*** p<.01, ** p<.05, * p<.1*						

The overall number of board members serves as a proxy for board size. As anticipated, the research's findings indicate a relatively insignificant link between the size of the board and discretionary accruals. The level of earnings management practices in listed companies in the study sample could be predicted to be significantly impacted by board size, whether it is large or small, at the 0.01 level of significance. This result is in line with studies by Ibrahim et al. (2018) that show comparable evidence between board size and discretionary accruals. Nevertheless, some contradictory results were shown in Kankanamge, Madhushani, Jayarathna, and Jayasinghe (2015) studies and Phuong and Hung (2020). Based on the results, H_{01} test specifications provide evidence that board size has a negative (1.895) insignificant coefficient with discretionary accruals at a 5% significance level. Thus, we fail to reject the null hypothesis $H_{01.}$

The board independence as a ratio measure between independent and non-independent board directors shows a positive significant relationship at 10% significance. According to the findings, the high percentage of independent directors on boards of non-financial companies listed on the Nairobi Stock Exchange (NSE Kenya) does not have an adverse effect on earnings management. Alves (2014) and Waweru (2018) reported a negative and significant relationship between board independence and discretionary accruals, which contrasts with these findings. We contend that despite the presence of "grey" directors Mangena and Chamisa (2008), boards in Kenya are only nominally independent. The null hypothesis (H02) is thus rejected, and we draw the conclusion that there is a positive statistically significant relationship between board independence and discretionary accruals, with a coefficient of 17.37.

The main goals of CEO duality are to increase the independence of the board and decrease the concentration of power in the hands of one individual. According to agency theory, when there is CEO duality, the board's ability to observe management objectively is considerably reduced. Contrary to expectations, the study's findings show that CEO duality has a statistically significant positive effect on discretionary accruals. The findings concur with those of Aqlan, Alashaf, Barakat, and Zaid (2021), who discovered a favorable but negligible correlation between CEO-chair duality and discretionary accruals in Indian tourism industry firms. This outcome is consistent with the body of research. This finding is consistent with that of Asogwa, Ofoegbu, Nnam, and Chukwunwike (2019), who revealed that the firms' earnings quality is positively and significantly impacted by a board leadership model where CEOs and board chairpersons are separated. Additionally, CEO duality has a positive effect on earnings management practices, according to research by Bouaziz, Fakhfakh, and Jarboui (2020) in France.

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On the contrary, Sarkar and Sarkar (2008) and Chatterjee (2020), using a sample of Indian firms, found that CEO duality negatively affects the quality of reported earnings. Based on the results, H_{03} test specifications provide evidence that CEO duality has an insignificant coefficient with discretionary accruals at a 5% significance level. Thus, we fail to reject the null hypothesis H_{03}.

The effects of board meetings on discretionary accruals show an insignificant negative relationship. Indeed, it is hypothesized that the greater the number of board meetings held during the fiscal year, the more opportunity for dealing with the firm's potential problems (Abbott, Parker, & Peters, 2004). Nevertheless, an active board of directors could provide more accurate and better supervision for the internal and external audit functions and the firm's performance. In contrast to these results, the present study does not find evidence of the significance of this relationship. However, we show that the number of board meetings could negatively affect the quality of financial reporting as measured by discretionary accruals. This is inconsistent with expectations since board meetings more frequently are expected to be more effective and diligent monitors of the financial reporting process. Based on the results, H_{04} test specifications provide evidence that board meetings have an insignificant coefficient with discretionary accruals at a 5% significance level. Thus, we fail to reject the null hypothesis H_{04}.

The discretionary accruals of the non-financial firms listed in the NSE exhibit a strong positive relationship with firm size. Thus, firms become more vulnerable to earnings management as their size grows. The results contrast with those of Al-Haddad and Whittington (2019), who discovered a significant negative impact of firm size on Jordanian firms, indicating that larger firms in Jordan are less likely to manage earnings through sales manipulations and discretionary accruals. This outcome is affirmed by (Al-Haddad & Whittington, 2019; Ge & Kim, 2014).

Leverage exhibits a relatively insignificant negative relationship with the discretionary accruals of the non-financial firms listed on the NSE, which is consistent with Young, Peng, Ahlstrom, Bruton, and Jiang's (2008) assertion that changes in leverage may have a variety of effects on those accruals. Contrary to popular belief, high-leverage companies engage in more income-increasing earnings management activities to maintain their debt agreements. Buniamin, Alrazi, Johari, and Abd Rahman (2008) reported a similar outcome, noting that firm leverage and earnings management have a significant positive relationship in the context of Malaysia.

Summary and Conclusions

Our findings have implications for several interested parties, including auditors, institutional investors, regulators, and policymakers who oversee assessing how well corporate boards of directors supervise a company's financial reporting and disclosure procedures. According to our findings, it can be argued that when cognizant of corporate boards of directors' failure to voluntarily improve their overall effectiveness and efficiency, especially when both have the incentive and capability to do so, these interested parties would raise their external assessment of financial reporting quality and disclosure. The findings of the current paper may also be valuable to decision-makers who have the power to appoint board members by selecting independent and knowledgeable individuals. Moreover, this paper recommends adopting better strategies for corporations and their corporate governance structures when communicating with audit committees and assessing their effectiveness in improving financial reporting quality and disclosure.

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