

The Impact of Board Characteristics on Financial Reporting Quality : Evidence from Listed Companies in Sri Lanka

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Abstract

The generation of quality financial or earnings information depends on a whole set of governance mechanisms in the organization. The board of directors, as the responsible party the core of corporate governance (CG), will play a key role in supervising company's financial reporting process and the quality of financial reporting. In the context of Sri Lanka several large firms had collapsed due to poor CG mechanisms. However, these failures could have been averted if the quality financial information were available on a timely basis by taking appropriate actions by the board of directors. The purpose of this study is to examine the association between board related characteristics including audit committee attributes and the degree of financial reporting quality in listed companies in Sri Lanka. Several prior studies have examined this association in both developed and developing countries. However, there is dearth of literature available in the Sri Lankan context. Moreover, the existing literature has revealed mixed results and therefore, comprehensive evidence is missing related to the subject. This study contributes to existing literature by integrating both board and audit committee characteristics on financial reporting quality which is an under-research area. This study adopts a quantitative research approach that analyses secondary data extracted from the annual reports of the companies listed in Colombo Stock Exchange (CSE) excluding banks, insurance and diversified financial industry groups for a period of five years from 2015/16 to 2019/20. Descriptive statistics, correlation analysis, ordinary least square analysis and panel version of regression analysis are used to analyze the quantitative data of the study. The findings of the study will invariably boost the investor confidence as the chances of corporate failures will be minimal and informed decision making by the investors are facilitated and provide a support basis to both professional and relevant regulatory bodies to make necessary reforms as required to the current regulatory framework for the CG mechanism in Sri Lanka.

Key words: *Board characteristics, Audit committee attributes, Financial reporting quality, CSE*