

THE IMPACT OF CORPORATE GOVERNANCE ON PREVENTING THE LIKELIHOOD OF FRAUDULENT FINANCIAL REPORTING: EVIDENCE FROM LISTED COMPANIES IN SRI LANKA.

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Abstract

Being a developing nation, the financial reporting quality of businesses have become extremely important to attract investments specially in the listed companies in Sri Lanka. On the other hand, financial reporting fraud causes financial reporting quality to decline, which undermines stakeholder confidence and is a known key factor in the formation of significant financial crises. Hence it is important for the development of efficient fraud detection and prevention techniques for the accuracy and transparency of financial reporting to regain the stakeholders' trust. A strong defense against corporate fraud is provided by strong corporate governance for the businesses which is the main purpose of this study to see the impact of corporate governance and its mechanisms on preventing the likelihood of fraudulent financial reporting. The existing literature shows both negative and positive impacts and the current study is expected to see that the existing results will be the same for the Sri Lankan context which is wished to analyze by taking all the Colombo stock exchange listed companies except for banks, diversified financials, and insurance companies for the years from 2017 to 2021. The Beneish M score model is used to quantify fraudulent financial reporting and nine independent variables are expected to test using a linear regression model. Descriptive statistics, correlation analysis and panel regression analysis are used to analyze the data. Accordingly, the findings of the study are important in preventing fraudulent financial reporting and reducing its negative consequences to achieve the goals of the companies. And also, the results of this study will inevitably enhance investor confidence which will help to make more informed decisions.

Key Words: *Corporate Governance, Corporate Governance Mechanism, Fraudulent Financial Reporting, Beneish M-Score Model.*