

AUDIT COMMITTEES: HOW THEY AFFECT FINANCIAL REPORTING IN SRI LANKA

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This study examines whether audit committees are associated with improved financial reporting quality for a sample of Sri Lankan listed companies. Using a sample of 70 companies listed on the Colombo Stock Exchange, this study uses archival data in the form of companies' annual reports to measure the association between audit committees and improved financial reporting quality. Dechow and Dichev (2002)'s model was used to measure earnings as a proxy for financial reporting quality. The results indicate that formation of audit committees was positively associated with improved financial reporting quality. It was also found that audit committees having an independent chair and audit committee expertise were positively associated with financial reporting quality. Other audit committee characteristics examined were found to be insignificantly related to financial reporting quality.

Keywords: Audit committees, CSE listed companies, Financial reporting quality