



The Influence of Audit Committee Independence on Financial Reporting Quality: A Moderating Role of Audit Quality

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Abstract

Financial reporting ensures corporate accountability and transparency, which are fundamental for capital markets. It provides essential information for stakeholder decision-making. Audit committee independence prevents misstatements, improving financial statement value. Despite reforms and studies, gaps remain in understanding its effect on financial reporting quality. Prior studies addressed direct relationships but needed more research on audit quality's role in the Sri Lankan context. The key research objective is to determine the moderating effect of how audit quality influences the connection between audit committee independence and financial reporting quality in eight selected audit companies in Sri Lanka. A quantitative cross-sectional survey was used in this study. A questionnaire was administered to 301 auditors, who were selected using stratified random selection from a population of 1,370, with responses of 282. Data were analyzed using correlation analysis to examine relationships and multiple regression to explore moderation among audit committee independence, financial reporting quality, and audit quality. The findings indicate positive relationships among the study variables, and the multiple regression model with moderation suggests that audit quality not only directly influences financial reporting quality but also alters the relationship between audit committee independence and financial reporting quality. It improves the favourable influence of audit committee independence, emphasizing the crucial importance of solid audit quality standards in guaranteeing the dependability of financial reporting. The practical implications of this study indicate that regulatory firms should prioritize enhancing the value of audits and upholding the independence of audit committees to maximize the effectiveness of internal controls.

Keywords: Audit quality, Audit committee independence, Financial reporting quality, Moderating effect