Board Monitoring, Audit Committee Effectiveness, and Financial Reporting Quality: Review and Synthesis of Empirical Evidence

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Abstract

We review and synthesize the results of empirical studies of associations between corporate oversight measures and financial reporting quality (FRQ). We examine two oversight components, board characteristics and audit committee characteristics. For each component, we summarize associations between variables contributing to monitoring effectiveness and three presumptive FRQ monitoring outcomes: (1) ex post consequences of low FRQ, such as financial reporting fraud; (2) earnings management measures, such as abnormal accruals; and (3) perceived informativeness of financial reports, manifest in earnings-returns associations, earnings response coefficients, and analyst perceptions of FRQ. Our classification scheme provides a coherent framework for synthesizing the implications of empirical findings, highlighting the role of different corporate governance variables in enhancing different aspects of FRQ. This synthesis has the potential to inform regulators, boards of directors, and forensic accountants who are concerned with improving the oversight of public corporations and reducing opportunities for managers and others to engage in financial fraud.

Keywords: Audit Committees, Board of Directors, Earnings Management, Financial Reporting Quality, Fraud, Value Relevance of Earnings.

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