

“Impact of corporate governance mechanisms on financial reporting quality: a study of Indian GAAP and Indian Accounting Standards”

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IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON FINANCIAL REPORTING QUALITY: A STUDY OF INDIAN GAAP AND INDIAN ACCOUNTING STANDARDS

Abstract

The present study examines the impact of corporate governance mechanisms on financial reporting quality under Indian GAAP and Indian Accounting Standards (Ind. AS). A sample of 97 companies listed on the Bombay Stock Exchange is selected. Corporate governance mechanisms have been considered as independent variables, and financial reporting quality is the dependent variable. Corporate governance is measured by board effectiveness (board size, independence, diligence, and expertise), audit committee attributes (size, independence, diligence, and expertise), foreign ownership, and audit quality. Descriptive statistics, correlation, and OLS regression are conducted to estimate the results. The study results reveal that board characteristics and audit committee attributes, except for audit committee diligence, have a significant effect on financial reporting quality. However, the impact of board diligence and audit committee attributes is negative. Foreign ownership has no contribution to financial reporting quality, but audit quality has a significant effect. The findings of the study have considerable implications for regulators, policymakers, managers, investors, analysts, and academicians. More emphasis should be given to compliance with Ind. AS, and an oversight body for compliance with Ind. AS should be established.

Keywords

corporate governance, GAAP, Ind. AS, financial
reporting, board effectiveness, audit committee
effectiveness, foreign ownership, audit quality, India

JEL Classification

M10, M40, M41

INTRODUCTION

India represents a distinctive environment to tackle corporate governance (CG) issues and comply with the latest converged IFRS requirements. It represents an interesting and important context to assess the influence of CG on IFRS converged standards, Ind. AS (Almaqtari, Al-Hattami et al., 2020). To ensure a smooth transition to IFRS in India from 1st April 2016, the Institute of Chartered Accountants of India (ICAI) announced a road map for the adoption of Indian Accounting Standards (Ind. AS) (Deloitte, 2017). The convergence of the Indian GAAP to Ind. AS is considered as an extraordinary and essential event in India. This convergence aims to align the local GAAP (Indian GAAP) with international standards (IFRS) and enhance financial reporting quality (FRQ) (Almaqtari, Farhan, et al., 2020). On 16th February 2015, the Ministry of Corporate Affairs (MCA) notified the adoption of Ind. AS in the Gazette effective from 1st April 2015. Accordingly, 35 Indian GAAP standards are notified by the MCA as Ind. AS (KPMG, 2015). Ind. AS are named and numbered in the same

manner as IFRS standards. A road map was released by the MCA to require companies that have a net worth of Rs. 500 crore or more to prepare their financial statements based on Ind. AS from 1st April 2016. Further, another class of companies listed or in the process of listing with a net worth of less than Rs. 500 or Rs. 250 crore or more will have to mandatorily implement Ind. AS from 1st April 2017 (Deloitte, 2017). Recent studies (e.g., Almaqtari, Farhan, et al., 2020; Almaqtari, Shamim, et al., 2020) state that there is a dearth of studies that examine the impact of corporate governance on accounting standards issues, especially after IFRS convergence in India. Accordingly, the present study investigates the influence of CG on FRQ pre- and post-convergence to Ind. AS.

1. LITERATURE REVIEW

1.1. Board effectiveness

Prior studies have documented evidence of the effect of board size on FRQ. For example, Onuorah et al. (2016) state that a small board size will promote the level of cohesion and coordination among them and managers, which is expected to enhance FRQ. Similarly, Ditropoulos and Asteriou (2010) report a relationship between FRQ and CG attributes, including board size. Contradictory, some other studies report no correlation between board size and FRQ (Xie et al., 2003; Chalaki et al., 2012; Ahmed & Duellman, 2006). Concerning board independence, Ahmed and Duellman (2006) advocate a definite relationship between CG characteristics, including board independence, and FRQ. Further, Koh et al. (2007) argue that a higher portion of independent members of the board contributes to enhancing FRQ. However, Onuorah et al. (2016) state that board independence is negatively associated with FRQ. Petra (2007) found that independent board members are not sufficiently qualified to control the managers. Further, independent members' presence makes no effort to guarantee FRQ (Ahmed et al. 2006). Concerning board meetings, Sarkar et al. (2008) report that board meetings' higher attendance contributes to information quality. Similarly, Chou et al. (2010) found that higher board diligence represented by regular attendance of board meetings is an essential vehicle for the supervising role. In the same line, Xie et al. (2003) and Sarkar et al. (2008) report an association between meeting frequency of boards and lower levels of earnings management. This is also similar to Cho and Rui (2009) and Firth et al. (2007), who stated that earnings responsive coefficient increases with a high meeting frequen-

cy level. As far as board expertise is concerned, the evidence of the effect of board expertise on FRQ is established by different studies. Xie et al. (2003) find that earnings management is unlikely to happen in firms that maintain a higher portion of independent and finally literate members. Consistently, García-Meca and García-Sánchez (2018) confirmed that management expertise plays a vital role in FRQ and that capable managers are less possibly to commit opportunistic earnings management to meet bank short-term earnings benchmarks. Similarly, Onuorah et al. (2016) reported that board experience positively affects FRQ proxied by the discretionary accruals. Further, Krishnan and Visvanathan (2008) indicate that board financial expertise enhances board members' efficiency in carrying their monitoring role and accordingly enhances the level of FRQ.

1.2. Audit committee effectiveness

Felo et al. (2003) report that the large size of AC positively influences FRQ. In the same context, Bedard et al. (2004) conclude that the likelihood of aggressive earnings management has no significant relationship with AC size. In the same line, Yang and Krishnan (2005) indicate that a larger AC is less possibly to manipulate earnings. Likewise, Choi et al. (2004) indicate that a large size of AC is more likely to comprise different qualified and varied expertise members, which could be an efficient driver to enhance FRQ. Contradictory to the evidence mentioned above, Davidson et al. (2005) concluded insignificant evidence of the positive association between FRQ and AC size. Concerning AC independence, Bedard et al. (2004) and Abbott et al. (2000) report a significant relationship between low levels of earnings management and fraudulent financial reporting, on the one hand, and a higher propor-

tion of independent members in AC. However, Yang and Krishnan (2005) and Rahman and Ali (2006) demonstrate the insignificant association between the level of earnings management and the existence of independent members in the AC. In the same context, Beasley et al. (1996) and Abbott et al. (2004) agree that financial statement fraud or earning restatements is linked with the independence of the AC. Regarding AC meetings, Bedard et al. (2004) conclude that there is no significant association between AC meetings' frequency with the likelihood of aggressive earnings management. Consistently, Xie et al. (2003) report a significant association between the AC's activities and the quality of earnings. Further, Van der Zahn and Tower (2004) indicate that earnings management is less likely to occur with the existence of more efficient AC. Likewise, Beasley et al. (1996) indicated that fraud companies in specific industries had fewer AC meetings. In the context of AC expertise, numerous literature is in favor of a higher number of AC expert members for better FRQ. Beasley et al. (2009) and Chen et al. (2006) found that expertise in the face of increasingly complex information assures FRQ. In the same vein, Cohen et al. (2013) advocate that AC expertise positively influences FRQ. Alike, Cohen et al. (2013) stated that investors should appoint an accounting and financial expert director on the AC for positive FRQ and AC effectiveness. In the same way, Cohen et al. (2013) argued that industry experts' attendance on AC enhances FRQ. Further, Carcello and Neal (2003) state that apart from AC members' independence, their financial expertise is another determinant of FRQ.

1.3. Foreign ownership

Lee et al. (2013) reveal that listed firms in China have a greater percentage of foreign ownership, expected to enhance their FRQ more under IFRS-converged CAS. Similarly, subsequent research indicates a positive correlation between the increase in foreign ownership, governance transparency, and earning a responsive coefficient (Dong & Xue, 2010). Some other studies suggest that foreign ownership is related to greater corporate accountability and less to information asymmetry (Aggarwal et al., 2011). In contrast, Chalaki et al. (2012) indicated no relationship between CG attributes, including ownership concentration, institutional ownership, and FRQ.

1.4. Audit quality

Onuorah et al. (2016) revealed that external audit quality has a positive effect on the FRQ proxied by the discretionary accruals of a firm. Further, Davidson et al. (2005) state that there is no relationship between the presence of Big 5 auditor and earnings management. It was also found that the external audit plays a vital role in monitoring management and enhancing FRQ (Watts & Zimmerman, 1983). In the same vein, financial information is more reliable for Big 4 firms than other companies (Becker et al., 1998).

2. AIM OF THE STUDY

The present study investigates the impact of corporate governance mechanisms on financial reporting quality under Indian GAAP and Ind. AS.

2.1. Hypotheses of the study

Based on the arguments presented in the literature review and the aim of the study, the hypotheses of the study are as follows:

H₀₁: There is no significant difference in the impact of board size on financial reporting quality between Ind. AS and Indian GAAP.

H₀₂: There is no significant difference in the impact of board independence on financial reporting quality between Ind. AS and Indian GAAP.

H₀₃: There is no significant difference in the impact of board diligence on financial reporting quality between Ind. AS and Indian GAAP.

H₀₄: There is no significant difference in the impact of board expertise on financial reporting quality between Ind. AS and Indian GAAP.

H₀₅: There is no significant difference in the impact of AC size on financial reporting quality between Ind. AS and Indian GAAP.

H₀₆: There is no significant difference in the impact of AC independence on financial reporting quality between Ind. AS and Indian

GAAP.

- H_{07} : There is no significant difference in the impact of AC diligence on financial reporting quality between Ind. AS and Indian GAAP.
- H_{08} : There is no significant difference in the impact of AC expertise on financial reporting quality between Ind. AS and Indian GAAP.
- H_{09} : There is no significant difference in the impact of foreign ownership on financial reporting quality between Ind. AS and Indian GAAP.
- H_{010} : There is no significant difference in the impact of audit quality on financial reporting quality between Ind. AS and Indian GAAP.

3. METHOD

3.1. Sample selection

The sample for the present study includes 97 listed firms listed in the BSE based on using Ind. AS, availability of data, and higher capitalization. The study covers the period from 2014 to 2018 as it is the most recent years in which companies started shifting to Ind. AS. The data required for CG,

Ind. AS, and firm-specific variables are manually collected from firms' published annual reports using content analysis. Data for firms' specific and some other financial variables were also extracted from audited firms' financial statements, which are available in the stock market database or the websites of the respected companies.

3.2. Operational definitions of variables

3.2.1. Independent variables of corporate governance mechanisms

The present study covers four categories of independent variables: board of directors' effectiveness, AC effectiveness, foreign ownership, and audit quality as a measurement of CG mechanism. Appendix A illustrates the variables, definitions, and measurements.

3.2.2. Dependent variable

Following Chalaki et al. (2012), the present study measures FRQ using the McNichols (2002) model. McNichols (2002) considered that the standard deviation of the residuals or the error terms could indicate and measure financial reporting quality. The higher output of the estimated residuals signifies greater discretionary accruals and so a low

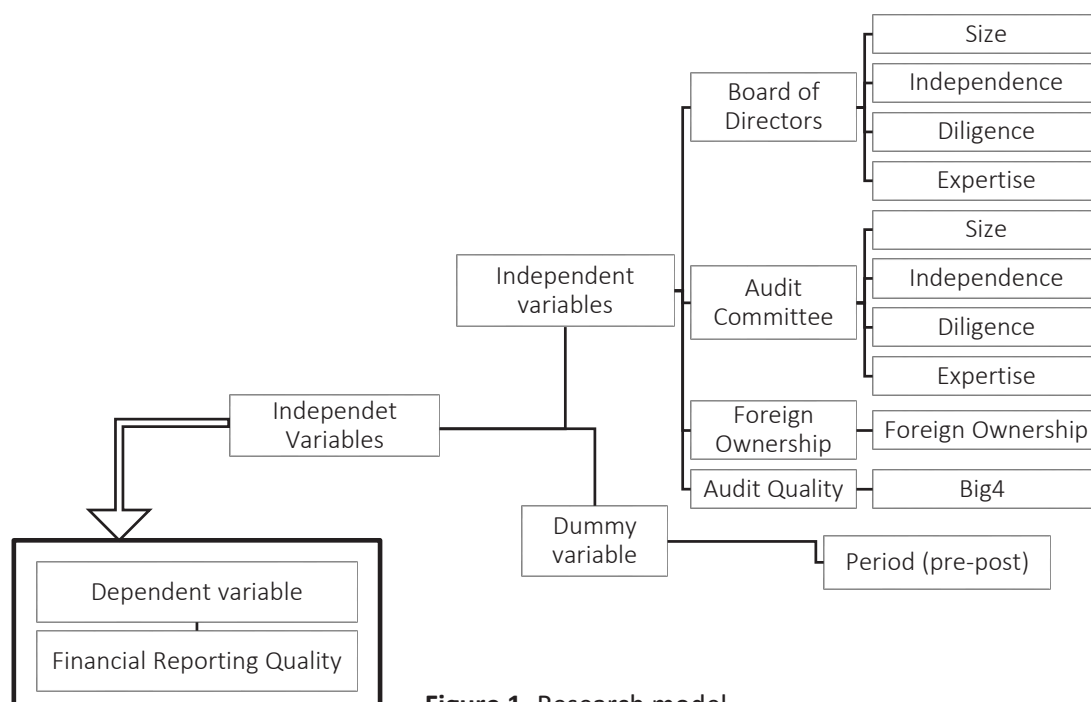


Figure 1. Research model

financial information quality. Following is the equation:

$$\begin{aligned} \frac{TCA_{j,t}}{AS_{j,t}} = & \beta_{0j} + \beta_{1j} \frac{CFO_{j,t-1}}{AS_{j,t}} + \\ & + \beta_{2j} \frac{CFO_{j,t}}{AS_{j,t}} + \beta_{3j} \frac{CFO_{j,t+1}}{AS_{j,t}} + \\ & + \beta_{4j} \frac{REV_{j,t}}{AS_{j,t}} + \beta_{5j} \frac{PPE_{j,t}}{AS_{j,t}} + \varepsilon_{j,t} \end{aligned} \quad (1)$$

where $TCA_{j,t}$ of a firm j is aggregate current accruals in year t , $CFO_{j,t}$ is the operating cash flows (OCF) of the current period, $CFO_{j,t-1}$ is the OCF of the prior period, $CFO_{j,t+1}$ is the OCF of the coming period, ΔREV is the change in revenues, and $PPE_{j,t}$ is the level of property, plant, and equipment. All the variables in the equation are scaled by lagged by assets. The variables of the study measure the impact of CG on FRQ under Ind. AS (see Figure 1).

3.3. Model specification

Following is the research model that examines the impact of CG mechanisms on FRQ:

$$\begin{aligned} FRQ_{it} = & \beta_0 + \beta_1 BSIZE_{it} + \\ & + \beta_2 BIND_{it} + \beta_3 BDEL_{it} + \\ & + \beta_4 BEXP_{it} + \beta_5 ACSIZE_{it} + \\ & + \beta_6 ACIND_{it} + \beta_7 DEL_{it} + \\ & + \beta_8 ACEXP_{it} + \beta_9 FOWN_{it} + \\ & + \beta_{10} Big - Four_{it} + \\ & + \beta_{11} Period_{it} + \varepsilon_{it}, \end{aligned} \quad (2)$$

where all variables are defined as mentioned above: FRQ is the residual value of the McNichols (2002) model, $Period$ is a dummy variable of 0 for the pre-IFRS adoption period and 1 for the post-IFRS adoption period.

4. EMPIRICAL ANALYSIS

4.1. Descriptive analysis

Table 1 summarizes descriptive statistics for the present study variables over three years from 2014 to 2018. Concerning board mechanisms, the results

show that the range of board size ($BSIZE$) is between a minimum of 5 and 21 members setting in the board with a mean of 11 and standard deviation (SD) of 2.38. This indicates that the minimum number of board sizes is five members on the board, and the largest or maximum board size is 21, with an average of 11 board members. Further, the portion of independent members ($BIND$) in the board ranges between a minimum of 13% and a maximum of 83% of the total number of board members with a mean of 51% and SD of 13%. This demonstrates that at least 13% of the listed companies' board members are independent members with an average of 51%. Concerning board diligence ($BDEL$), the results demonstrate that board diligence is at least 66%, with a maximum of 100% and a mean of 87%. This indicates that the attendance of board meetings by board members has a minimum of 66%. Likewise, board financial expertise ($BEXP$) is between a minimum of 50% and a maximum of 90% of board members who are financially literate in the field of accounting, management, and finance or related areas with a mean of 57% and SD of 15% (see Table 1 and Figure 2).

Table 1. Descriptive statistics of CG attributes

Variables	Mean	Maximum	Minimum	Std. dev.
FRQ	0.15	3.18	-1.15	0.75
BSIZE	10.99	21	5	2.38
BIND	0.51	0.83	0.13	0.13
BDEL	0.87	1	0.66	0.07
BEXP	0.57	.90	0.50	0.15
ACSIZE	3.91	7	3	0.91
ACIND	0.83	1	0.33	0.16
ACEXP	0.76	1	0.33	0.18
ACDEL	0.90	1	0.72	0.08
FOWN	38.51	83	2.30	79.58
BIG4	0.3125	1	0.00	0.46

Note: $BSIZE$: board size; $BIND$: board independence; $BDEL$: board diligence; $BEXP$: board expertise; $ACSIZE$: audit committee size; $ACIND$: audit committee independence; $ACDEL$: audit committee diligence; $ACEXP$: audit committee expertise; $FOWN$: foreign ownership; $BIG4$: audit quality.

Concerning AC attributes, the results illustrate that $ACSIZE$ ranges between a minimum of 3 members and a maximum of 7 members in the committee with an average of 4 members. Further, AC independence ($ACIND$), which is one of the most important mechanisms of CG, has a minimum of 33% members as independent members in the AC and a maximum of 100% with an average of 83%. This means that AC in listed companies have at least

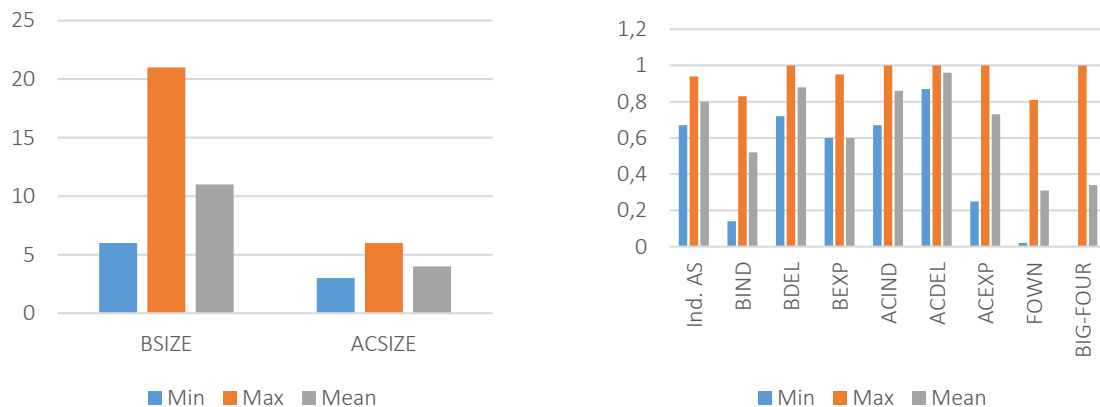


Figure 2. Descriptive statistics for CG attributes

two independent members out of three members setting in the AC with an average of 4 independent members out of 5 members of the total number of AC members. The results also indicate that the attendance of AC members (*ACDEL*) in the meeting of the committee conducted is scoring a minimum of 72% attendance and a maximum of 100% with an average of 90%. AC expertise (*ACEXP*) is also between a minimum of 33% and a maximum of 100 %, with an average of 76% of the AC members who are financially literate. This suggests that the AC members' financial expertise in the listed companies from India in the field of accounting, finance, CG, and other related areas is at least one-fourth of the total number of AC members or they are fully financially literate.

In terms of foreign ownership, the results indicate that the minimum percentage of foreign shares is 2.3%, with an average of 39%. Regarding audit quality measured by Big 4 international auditors, the results show that about 31% of the selected companies from India are audited by Big 4 against 69% audited by non-Big 4.

4.2. Correlation analysis

The correlation results show a positive correlation of FRQ with *BSIZE*, *BIND*, *BEXP*, and *ACEXP* but a negative correlation with other variables. Besides, positive and negative relationships are observed between the independent variables. Further, the correlation coefficients indicate that FRQ has a positive association with all variables, except for *BDEL*, *ACSIZE*, *FOWN*, and *BIG4*. In contrast, in the case of Indian GAAP, the results

show a negative correlation between FRQ and other variables except for *BSIZE* and *BEXP*. This indicates an improvement in the relationship between CG mechanisms and FRQ under Ind. AS, which is better than Indian GAAP. Overall, the correlation among the independent variables does not exceed 0.70, which means that multicollinearity issues do not exist among the independent variables. The results of the correlation are available on request.

4.3. Results and discussion

Table 2 demonstrates the regression estimation of the results. The results show that the models are fit, indicated by a probability of 0.00 ($p < 0.01$) and a confidence interval of 99%. Further, the adjusted R^2 is 0.21, which means that variables used in the model contribute about 21% of the variability of the dependent variable (FRQ). It indicates that CG variables contribute about 21% to FRQ. Concerning the adjusted R -squared of accounting standards wise model in Table 3, it shows that the adjusted R -squared of the new accounting standards in India; Ind. AS (0.19) is less than the adjusted R -squared of the old accounting standards (local GAAP).

The impact of *BSIZE* on FRQ is statistically significant at the level of 1% (p -value = 0.00 < 0.01). This means that the size of the board has a statistically significant positive impact on the FRQ. Further, the impact of *BSIZE* on FRQ under the two sets of accounting standards demonstrates that *BSIZE* has a statistically significant impact on FRQ under both sets of accounting standards at the level of 1% (p -value = 0.00 < 0.01). Thus, this leads to accept-

Table 2. OLS regression analysis

Variable	Coefficient	Std. error	t-statistic	Prob.
C	0.953	0.591	1.611	0.108
<i>BSIZE</i>	0.093	0.016	5.953	0.000
<i>BIND</i>	0.732	0.326	2.246	0.025
<i>BDEL</i>	-1.320	0.545	-2.421	0.016
<i>BEXP</i>	1.466	0.270	5.434	0.000
<i>ACSIZE</i>	-0.220	0.041	-5.427	0.000
<i>ACIND</i>	-1.047	0.254	-4.115	0.000
<i>ACEXP</i>	-0.456	0.240	-1.900	0.058
<i>ACDEL</i>	0.277	0.509	0.544	0.587
<i>FOWN</i>	0.000	0.000	-0.351	0.726
<i>BIG4</i>	-0.194	0.078	-2.480	0.014
R-squared		—	—	0.233
Adjusted R-squared		—	—	0.212
F-statistic		—	—	11.314
Prob. (F-statistic)		—	—	0.000

ing H_01 . This means that there no significant difference in the impact of board size on FRQ under both sets of accounting standards. Previous studies have also documented evidence of the impact of board size on FRQ. Onuorah et al. (2016) noted that a small board size would enhance its effectiveness and promote its communication among them and improve FRQ. However, Chalaki et al. (2012) and Ahmed and Duellman (2006) stated no connection between board size and FRQ.

Considering board independence (*BIND*), the results in Table 3 show that *BIND* has a statistically significant impact on FRQ at the level of 5% (p -value = $0.03 < 0.02$). This indicates that board independence contributes to FRQ. Concerning the impact of *BIND* under the different sets of accounting standards, the results show no statistical evidence to support the difference between both accounting standards (Ind. AS and Indian GAAP) (p -value for both > 0.05). This means that *eBIND* effect on FRQ has not changed from Ind. AS to Indian GAAP. Thus, this leads to accepting the null hypothesis H_02 . In contrast, Petra (2007) showed no relationship between CG attributes and FRQ.

Board diligence (*BDEL*) indicates statistically significant effect at the level of 5% ($p = 0.02 < 0.05$) on FRQ. This impact is negative, which indicates that board diligence contributes negatively to FRQ. However, one believes that the absolute number of meetings cannot evaluate *BDEL*; rather, board decisions and meetings minutes of books are a suit-

able measure to evaluate the contribution of *BDEL* to FRQ. Further, the impact of *BDEL* on FRQ has changed from a significant effect under Indian GAAP to an insignificant effect under Ind. AS. Therefore, H_03 is supported as the impact of *BDEL* on FRQ has changed from local GAAP to Ind. AS. Sarkar et al. (2008) stated that more attentive boards consider the directors' participation, raising the level of earnings management and thus increasing the quality of knowledge.

The results in Table 3 show a statistically significant impact of *BEXP* on FRQ. It has a positive significant effect on FRQ at the level of 1% ($p = 0.00 < 0.01$). However, the impact of *BEXP* on RFQ under the two sets of accounting standards remained unchanged. While it has a statistically significant effect at the level of 1% ($p = 0.00 < 0.1$) in the case of Ind. AS, it has the same impact in the case of the Indian GAAP. Accordingly, H_04 is supported. Consistently, García-Meca and Garcia-Sanchez (2018) confirmed that management skills play a crucial role in enhancing FRQ and that capable managers are less possibly to manipulate earnings on time to meet the bank's short-term earnings benchmarks.

AC size (*ACSIZE*) exhibits a significant but negative impact on FRQ at the level of 1%. The significant impact of AC size on FRQ could be attributed to the range of AC size, ranging between a minimum of 3 and a maximum of 7 members in the committee with an average of 4 members. Concerning the impact of AC size on FRQ under

Table 3. Accounting standards wise OLS regression analysis

Variable	Ind. AS				Indian GAAP			
	Coefficient	Std. error	t-statistic	Prob.	Coefficient	Std. error	t-statistic	Prob.
C	0.636	1.001	0.636	0.526	2.494	0.855	2.915	0.004
<i>BSIZE</i>	0.099	0.022	4.464	0.000	0.078	0.023	3.441	0.001
<i>BIND</i>	0.988	0.499	1.979	0.049	0.833	0.451	1.847	0.066
<i>BDEL</i>	-1.026	0.865	-1.187	0.237	-1.599	0.708	-2.258	0.025
<i>BEXP</i>	1.727	0.445	3.879	0.000	1.043	0.348	2.997	0.003
<i>ACSIZE</i>	-0.271	0.067	-4.062	0.000	-0.226	0.055	-4.127	0.000
<i>ACIND</i>	-0.862	0.415	-2.077	0.039	-1.361	0.338	-4.024	0.000
<i>ACDEL</i>	0.280	0.760	0.369	0.713	-0.384	0.748	-0.514	0.608
<i>ACEXP</i>	-0.713	0.341	-2.091	0.038	-0.523	0.369	-1.418	0.158
<i>FOWN</i>	0.000	0.001	0.235	0.814	-0.005	0.002	-2.024	0.044
<i>BIG4</i>	-0.186	0.118	-1.581	0.116	-0.177	0.107	-1.657	0.099
R-squared	–	–	–	0.232	–	–	–	0.288
Adjusted R-squared	–	–	–	0.190	–	–	–	0.249
F-statistic	–	–	–	5.420	–	–	–	7.397
Prob. (F-statistic)	–	–	–	0.000	–	–	–	0.000

the different sets of accounting standards, the results depict no change of this influence from the old accounting standards to the new accounting standards. It can also be concluded that the impact of *ACSIZE* on FRQ has not changed from Indian GAAP to Ind. AS. Thus, this leads to accepting H_05 . Consistently, Pucheta-Martinez and De Fuentez (2007) found that the size of AC significantly influences the receipt of audit reports, including non-compliance or error qualifications.

AC structure indicated by the percentage of independent members of AC (*ACIND*) has a significant negative impact on FRQ at the level of 1% ($p = 0.00 < 0.01$). This means that AC independence is significantly but negatively linked with FRQ. As far as the different sets of accounting standards are considered, the significant impact of *ACIND* on FRQ has not changed. However, the effect of *BIND* under Indian GAAP ($p = 0.00 < 0.01$) is better than the new accounting standards; Ind. AS ($p = 0.04 < 0.05$). Accordingly, H_06 is accepted. The same results were also confirmed by Kamarudin et al. (2012) who reported that the independence of an AC was related to a higher quality of earnings. However, Choi et al. (2004) provided evidence of a negative association between AC members' independence and the management of earnings.

The results in Tables 2 and 3 illustrate the effect of *ACDEL* on FRQ is insignificant ($p = 0.59 > 0.10$). This indicates that *BDEL* has no impact on FRQ. However, the impact of *ACDEL* on FRQ under the different sets of accounting standards indicates no significant difference between the old accounting standards and the new accounting standards. The impact of *ACDEL* on FRQ under the new accounting standards (Ind. AS) ($p = 0.71 > 0.10$) has not changed from the old accounting standards (Indian GAAP) ($p = 0.61 > 0.10$). Hence, this leads to accepting H_07 . This matches with Davidson et al. (2005), and Choi, Jeon, and Park (2004) found that AC attributes were not significantly associated with earnings management.

The results in Table 2 also demonstrate statistically significant effect at the level of 10% on FRQ ($p = 0.06 < 0.10$). This signifies that listed companies may increase AC effectiveness by enhancing the financial expertise or increasing the financially literate members of AC members to be more prepared for Ind. AS convergence. Further, *ACEXP* shows statistically significant effect at the level of 5% ($p = 0.04 < 0.05$) under the Ind. AS but there no significant effect in case of Indian GAAP. Thus, this leads to rejecting H_08 . Cohen et al. (2013) advocate that AC expertise positively influences FRQ.

Foreign ownership statistically exhibits insignificant effect on FRQ at any level of significance (1%, 5% and 10%) ($p = 0.73 > 0.10$). This could be as a result that India has its accounting standards and has shifted to Ind. AS, which is equivalent to IFRS, rather than shifting to the global version of IFRS, may not attract foreign investors. Further, the effect of foreign ownership on FRQ has changed from a significant effect under the Indian GAAP to be insignificant under Ind. AS. This indicates that foreign ownership may think that the new accounting standards will not contribute to FRQ. Thus, this leads to rejecting H_09 . In contrast, Chalaki et al. (2012) found no connection between CG attributes like the concentration of ownership, institutional ownership, and FRQ. Further, some

studies such as Y. Bozec and R. Bozec (2007) found that ownership concentration insignificantly affects FRQ.

The results in Table 2 show that Big 4 has a significant impact at the level of 5% on FRQ ($p = 0.01 < 0.5$). More importantly, when comparing the impact of Big 4 on FRQ shows that Big 4 is found to have an insignificant impact under both Indian GAAP and Ind. AS. Thus, this leads to accepting H_{010} . UAE is consistent with Onuorah et al. (2016) who revealed a positive effect of quality of external audit on FRQ measured by the discretionary accruals of the firm. Further, Davidson et al. (2005) stated that there is no association between the presence of a Big 5 auditor and earnings management.

CONCLUSION

The present research attempts to assess the influence of CG mechanisms on FRQ. CG mechanisms have been considered as independent variables, and FRQ is the dependent variable. CG mechanisms included in the model are board effectiveness (size, independence, diligence, and expertise), AC attributes (size, independence, diligence, and expertise), foreign ownership, and audit quality. Descriptive analysis was firstly provided for all independent, dependent, and control variables. Then, correlation analysis was conducted and discussed to diagnose the correlations among variables and explore multicollinearity problems. Finally, an estimation of the impact of CG mechanisms on FRQ was introduced by conducting OLS regression models. A sample of 97 firms listed on the Bombay Stock Exchange from 2014 to 2018 was used.

The results found that the size of the board has a statistically significant positive impact on the FRQ. Further, the impact of *BSIZE* on FRQ under the two sets of accounting standards demonstrated that *BSIZE* has a statistically significant impact on FRQ under both sets of accounting standards. Considering board independence (*BIND*), the results showed that *BIND* has a statistically significant impact on FRQ. Further, the impact of *BIND* under the different sets of accounting standards showed no statistical evidence to support the difference between both accounting standards (Ind. AS and Indian GAAP). Board diligence (*BDEL*) indicated a statistically significant negative effect on FRQ. However, the impact of *BDEL* on FRQ has changed from a significant effect under Indian GAAP to an insignificant effect under Ind. AS. In the same context, *BEXP* exhibited a significant positive effect on FRQ, but this effect under the two sets of accounting standards remained unchanged. AC size (*ACSIZE*) exhibited a significant but negative impact on FRQ. This effect, under the different sets of accounting standards, was found to be the same. Further, AC independence was found to have a significant negative impact on FRQ and remained unchanged under the different sets of accounting standards. The results revealed that *BDEL* has no impact on FRQ and remained unchanged under different accounting standards. *ACEXP* showed a statistically significant effect on FRQ, and it has changed from insignificant under Indian GAAP to be significant under Ind. AS. Foreign ownership exhibited an insignificant effect on FRQ; however, the effect of foreign ownership on FRQ has changed from a significant effect under the Indian GAAP to be insignificant under Ind. AS. Finally, the results reported that Big-Four has a significant impact on FRQ; however, it was found to have an insignificant impact under both Indian GAAP and Ind. AS.

Few empirical studies have investigated the impact of CG mechanisms on FRQ under the Indian GAAP and Ind. AS; however, to the best of the authors' knowledge, this study is the first attempt to investigate this issue using OLS models rather than pre- and post-analysis, which have not been considered by prior studies. Therefore, this study tries to bridge an existing gap in the body of literature on this issue. This study is limited to pre- and post-Ind. AS analysis. Future studies can increase the sample or the time frame to investigate the same issue. Besides, future research could increase and include some other variables of CG or compliance with Ind. AS.

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APPENDIX A

Table A1. Operational definition of variables

Variables	Measures	Evidence	Description
Independent variables: board of directors' effectiveness			
Size	BSZE	Arouri et al. (2014)	Total No. of the members of BOD
Independence	BIND	Al-Janadi et al. (2016)	No. of Independent board members / total No. of BOD
Diligence	BDEL	Al-matari et al. (2014)	Total No. of meetings attended by all board members/ total No. of meetings held during the year
Expertise	BEXP	Xie et al. (2003), Agrawal and Chadha (2005), AlJaaidi (2013)	No. of board with financial and managerial expertise to the total No. of board members
Size	ACSIZE	Yang and Krishnan (2005), Habbash and Alghamdi (2015)	Total No. of the members of AC
Independence	ACIND	Al-Janadi et al. (2016)	No. of independent AC members / total No. of AC members
Diligence	ACDEL	AlJaaidi (2013)	Total No. of meetings attended by all AC members / total No. of meetings held during the year
Expertise	ACEXP	Habbash and Alghamdi (2015), AlJaaidi (2013)	No. of AC members with financial and managerial expertise to the total No. of board members
Foreign ownership	FOWN	Arouri et al. (2014)	% of shares held by foreigners
Audit quality	Big4	Al-Janadi et al. (2016), Habbash and Alghamdi (2015)	1 if a firm audited by Big 4 or 0 otherwise