

Board Leadership Structure, Audit Committee and Audit Quality: Evidence from Manufacturing Companies in Sri Lanka.

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Abstract

Purpose: This paper aims to analyze whether the corporate governance attributes such as board leadership structure, audit committee meetings held, size of independent non-executive directors and size of non-executive directors have significant impact on audit quality of manufacturing companies listed on Colombo Stock Exchange, Sri Lanka during 2011 to 2013.

Research Design: The study takes 32 manufacturing companies listed in Sri Lanka out of 36 as sample and employs binary logistic regression method for modeling the association between a binary dependent variable such as audit quality and multiple independent variables such as board leadership structure, audit committee meetings held, size of independent non-executive directors, and size of non-executive directors.

Findings: The study finds the logistic regression model for overall evaluation, statistical tests of individual predictors and goodness-of-fit. As per the output, Hosmer and Lemeshow test reveals the model for goodness of fit with chi-square of 17.503 and with probability value of 0.008, which is significant at five percent levels. Cox & Snell R Square reveal 56.2 % of the variance in audit quality. Whereas board leadership structure and audit committee meetings held have significant relationship with audit quality, size of non-executive directors and size of independent non-executive directors have shown insignificant association.

Research Limitation-As sample size is relatively small, there may be a challenge to generalize the results of this study widely.

Originality-This research contributes to the literature by adding the significant association between some corporate governance variables and audit quality. The findings from this research could be generalized to the companies similar to this category.

Keywords: board leadership structure (BLS), audit committee (AC), audit quality (AQ), corporate governance (CG), binary logistic regression (BLR)