**Introduction**

Financial reporting is seen as a mere recording of a corporation’s transaction, although it is now perceived as a fundamental tool for managing a firm under the principle of good governance. The primary objective of preparing financial reports is to enhance the quality of decisions and to ensure accountability (Ioannou and Serafeim, 2017). However, the headlines regarding reporting corporate fraud and abuse tend to be a routine event in recent years.

The increase of incidences of the collapse and misleading financial reports, including some of the important financial institutions in U.S as well as other places around the world, for example, HIH, Enron, MCI, One Tel and Parmalat, have raised questions about how these organisations are managed, controlled, and governed. Therefore, governance of a corporation and quality financial reporting is a critical issue across the business world today (Abbadi, Hijazi and Al-Rahahleh, 2016). Most importantly, there has been extensive debate recently concerning fundamentality of strong corporate governance with numerous countries, including the United States, drafting codes and guidelines of practice to strengthen their governance. Corporate governance encompasses mechanism, procedures, and structure created by corporate body in order to control the company and serve as a direction that can increase the values of the company’s stakeholders (Larcker and Tayan, 2015).

Corporate governance and financial reporting are considerably interwoven. In particular, corporate governance is one of the elements that ensure that the concept is about organisations and businesses being adequately governed and that investors receive the return of the investment. Financial reporting, on the other hand, is a system, in which organisations convey information related to the performance in terms of finances and about their condition to the external users (De Villiers, Venter and Hsiao, 2017). At the same time, financial reporting is created forming stewardship assertion in the form of non-financial and financial statements. The report also shows the transaction data activities for a particular or specified period (McCahery, Sautner and Starks, 2016). Corporate governance is an important aspect, which influences the quality of financial reporting within an organisation. Information about the quality of financial reporting is valuable to the shareholders as it enables them to make appropriate decisions. Therefore, corporate governance is one of the aspects of an organisation that influence quality of reporting and, thereby, impact confidence of the shareholders positively. The independence and size of the board of the auditing committee are the two primary variables that have been cited for influencing the quality of financial reporting in corporations. The company size and the audit board committee influence the timeliness of reporting. However, the current trend demonstrates that, in spite of the effort by entities and government to ensure quality financial reporting by establishing structures and systems, still considerable challenges in terms of financial fraud are experienced. These are committed by various companies. In the late 1990s, the SEC became concerned with financial reporting in the United States and attempted to establish several reforms to curb the issue of financial misconduct (Call et al., 2017). However, SOX is one of the financial reporting regulating frameworks formed as a codified procedure that requires the organisation to form an independent audit committee. Therefore, the current research explored how corporate governance impacts the financial report quality in the U.S.

**Problem Statement**

The weakness of company governance is part of the critical variables considered accounting to the majority of the failure. Hutchinson, Percy and Erkurtoglu (2018) denote that, for the last ten years, the United States has experienced a considerable number of cases with misleading audited corporate financial statement. However, there have been only a few research studies conducted to explore as well as examine the effect of financial reporting framework, such as SOX. At the same time, Abbadi, Hijazi and Al-Rahahleh (2016) affirm that the quality of the information in the financial statements is significantly influenced by corporate governance, the independence of the auditing board, and committee disclosure of corporate and financial related operations. On the contrary, Habib and Jiang (2015) demonstrate that independence of the committee or board of directors is not an adequate measure for controlling and ensuring quality reporting of financial information of the company. Similarly, it is shown that detection of the fraud in the corporate financial reports usually dependent on the external auditors and not company internal auditing team. Myring and Shortridge (2010) affirm that the research that has examined the effect of policies related to corporate governance on financial reporting produces mixed evidence. Some studies indicate that a more efficient and stronger board of audit committee can results in more forecast and better management of the reporting process. However, Koehn and Ueng (2005) show that companies with inadequate systems of governance and practices provide financial data that is at least useful compared to corporations with a strong audit committee. Therefore, it is unclear whether or not stronger corporate governance influences financial reporting positively. Therefore, the current body of literature presents considerable discrepancy regarding the effect of committee independence on the financial reporting quality of companies.

**Significance of the Study**

Therefore, the primary goals of this investigation are to fill this knowledge gap by determining the correlation between organisation governance and quality of financial reporting. At the same time, the study uses data regarding the size of companies auditing and board groups independence to avoid inconclusiveness and ambiguity, as noted in this paper. More specifically, board group independence and auditing committee are used to examine the quality of governance in the company. The study takes into account factors such as board group and auditing committee independence to measure the effectiveness of the organisation’s governance to ensure quality reporting.

**Literature Review**

Brickley and Zimmerman (2010) conducted a study on the impacts of an organisation’s management on the effectiveness of their financial reporting. The authors pointed out that the characteristics of a firm’s corporate governance has had a significant impact on their financial reporting. Armstrong et al. (2010) also researched the correlation between corporate management and financial reporting of companies. Armstrong et al. (2010) as well discovered that there is a strong link between the two and inefficient company governance often led to poor financial reporting. However, Brickley and Zimmerman (2010) highlight that a majority of publications have failed to indicate that there is a direct link between poor company governance and inefficient financial reporting. The authors explain that some variables are affecting both company governance and financial reporting. Thus, scholars fail to state that the two are significantly linked clearly.

Cheng and Warfield (2005) also researched how administration compensation affects financial reporting. Cheng and Warfield (2005) study failed to discover a conclusive correlation between the two factors as other variables such as motivation, policies and others influenced their relationship. Cheng and Warfield (2005) inconclusive results showcase what Brickley and Zimmerman (2010) explained that due to high influence by other variables it was difficult to state a definitive relationship between financial reporting and company governance. However, Bergstresser and Philippon (2006) researched on the correlation between financial reporting and managerial compensation, same as Cheng and Warfield (2005), but they were able to indicate that there was a negative correlation between inefficient management incentives and financial reporting. Baber et al. (2012) conducted similar research on how managerial equity incentives affect financial reporting, and their findings contradict those of Bergstresser and Philippon (2006). The authors found that there was no negative correlation between managerial equity incentives and financial reporting as no such relationship existed in the first place. Erickson et al. (2006) conducted similar research to that of Baber et al. (2012) and supported their findings that there was no correlation between financial reporting and managerial equity incentives. Therefore, scholars provide mixed results when they assess the association between company governance and financial reporting. The phenomena can be attributed to the research design that the authors use as some incorporate more variables and fail to make conclusive findings unlike those with fewer variables that discover definitive correlations.

According to Efendi et al. (2007), who researched the impact of board directors on financial reporting, independent board directors and members are associated with quality financial reporting. Efendi et al. (2007) research support a previous similar investigation conducted by Klein (2002) on how company board groups affect financial reporting. Klein (2002) discovered that board groups that were more independent and transformative had a higher likelihood of providing quality financial reporting. Nonetheless, Larcker et al. (2007) also researched on the impact of board characteristics on financial reporting and made a contradictory discovery to that of Efendi et al. (2007) and Klein (2002). Larcker et al. (2007) found that company board groups that were independent had no significant impact on the quality of financial reporting. Larcker et al. (2007) research findings were backed up by Agarawal and Chadha (2005) who also found that independent board groups had no impact on the quality of financial reporting as there was a myriad of factors affecting the reports.

Baber et al. (2012) researched the effects of company managers adopting anti-takeover measures in an attempt to block take-over attempts by other businesses. Baber et al. (2012) found that adopting anti-takeover measures by company governance led to a lowered financial reporting quality. However, Larcker et al. (2007) reject Baber et al. (2012) findings when they noted that a company that had a quality financial reporting showcased no reduction on their documentation quality even after adopting the anti-takeover policies. Again, in this scenario, mixed results are being achieved by the various scholars. Armstrong et al. (2010) researched on this mixed result phenomena in an attempt to explain this occurrence of contradictory discoveries. Armstrong et al. (2010) found that many factors affect the choice of company governance. The authors noted that some of the significant factors included administration characteristics, communication traits of the firm, perceptions of the company, and others. Armstrong et al. (2010) found that these other factors had a significant impact on financial reporting quality. Therefore, authors that factored them in could not find a definitive correlation between financial reporting and company governance. Brickley and Zimmerman (2010) also agree with Armstrong et al. (2010) findings regarding the problems that scholars often face when trying to find a correlation between financial reporting and company governance. Brickley and Zimmerman (2010) therefore request future research to investigate and find clear relationships between company governance and financial reporting to reduce the knowledge gap and confusion noted in the area.

Brickley and Zimmerman (2010) also researched on the reasons that led to mixed results findings by other scholars. The authors provided more information to that of Armstrong et al. (2010) when they discovered that there are no theories that can help scholars differentiate efficient company governance from an inefficient one. Moreover, the other factors affecting company governance noted by Armstrong et al. (2010), administration characteristics, communication traits of the firm, perceptions of the company, and others, could have a mixed impact on different firms. For example, one business could adopt a hierarchical structure that enhances their company governance, but the same choice could be detrimental to another firm. Thus, Brickley and Zimmerman (2010) contribute to Armstrong et al. (2010) recommendations by stating there is a need for theories that help researchers definitively identify the quality of a firm’s company governance.

According to Sharfman (2016), shareholders also have a significant impact on the quality of company governance and initiate audit policies that are aimed at improving the firm’s leadership. Consequently, their influence impacts the financial reporting quality of the company. Moreover, according to U.S. Government Publishing Office (2019) the Securities Exchange Act of 1934, 14a-8, shows that shareholders that have 1% and above ownership of the company can make proposals for changes in the firm’s management. Padfield (2016) showed that shareholder proposals are used to make changes in management, social responsibility, anti-takeover policies, and others. Therefore, they can directly influence company governance to change their quality of financial reporting. Ertimur et al. (2010) researched the significance of these shareholder proposals. The authors found that 40% of shareholder proposals are implemented by the management. Ferri and Sandino (2009) also researched on this shareholder concept. The authors noted that the company governance could be compelled by these shareholder proposals to change their accounting and financial reporting methods. Ferri and Sandino (2009) further indicate that larger companies have their financial reporting significantly impacted through this method than smaller companies. Ertimur et al. (2010) agreed with Ferri and Sandino (2009) finding when they noted that shareholders stand to benefit from quality financial reporting. Ertimur et al. (2010) explain that shareholders can make better investment decisions and incentives inquiry when the company’s governance uses quality financial reporting. Thus, larger companies with many shareholders with voting power cause the company to improve their company governance and financial reporting quality.

**Research Gap and Reflection**

The literature review indicates that there is a considerable lack of information about how company governance affects financial reporting. The publications available in this research area provide mixed results with a high rate of contradictory findings. Brickley and Zimmerman (2010) and Armstrong et al. (2010) found that the myriad of variables affecting both company governance and financial reporting has led to these inconclusive findings. Thus, the research will aim at filling this knowledge gap by finding a conclusive correlation between company governance and financial reporting quality. In addition, the research will utilise information about company size plus auditing and board groups’ independence to avoid the ambiguity and inconclusiveness noted in other previous research. The use of the auditing committee and board group independence will be used to assess the quality of the company governance. Armstrong et al. (2010) discovered that there are no theories that can help scholars differentiate efficient company governance from an inefficient one. Therefore, the research will utilise these factors, auditing committee, and board group independence, as a measure of the effectiveness of the company governance since there are no theories to help in this endeavour.

**Research Aim**

The research will aim to find a conclusive correlation between company governance and financial reporting quality in the U.S using organizational independence and board size as factors of consideration.

**Research Objectives**

The study will focus on the following three major objectives:

1. To identify the link between board independence and the quality of financial reporting among companies in the United States.
2. To determine how the board size correlate with the quality of financial reporting of firms in the U.S.
3. To identify the correlation between the audit committee independence and quality of financial reporting in U.S’ companies.

**Research Questions**

1. Does the board independence have a significant impact on the quality of financial reporting of organisations in the United States?
2. Does the size of the board affect the quality of the financial reporting of the corporation in the U.S?
3. Does the audit committee independence affect the quality of financial reporting in the U.S. significantly?

**Audit committee independence**

According to Kibiya (2016), the United States of America passed the Sarbanes - Oxley Act (SOX) bill that sought to address the rampant company scandals that occurred during the early 21st century. The authors found that the United States of America congress saw the need to improve the efficiency of the nation’s audit committees to avoid them from reporting on false information to protect companies at the risk of the shareholders and their employees. Bhaskar and Flower (2019) concurred with Kibiya (2016) and showed that the case of the Enron scandal in the United States of America was a case example of why the audit committees needed to be efficient in their operations to avoid hiding illegal activities from the law enforcement. Tepalagul and Lin (2015) also agreed with Kibiya (2016) and showed that for quality financial reporting to occur, there was a need to ensure that the audit committees were independent, especially by the individual auditors engaging the companies in the United States of America. The authors also found that the independence factor of audit committees increased when the companies outsourced the auditors as their bias probability towards the company that hired them reduces.

He, Pittman, and Rui (2016) also agreed with Kibiya (2016) and showed that audit committees that were more biased towards the company were prone to hiding figures that would create a negative perspective of the firm’s financial reporting. As such, the authors recommended that the policies formed for the audit committee departments created an independent aspect with reduced oversight by the company managers. Tepalagul and Lin (2015) also supported He, Pittman, and Rui (2016) and argued that it was vital that the companies allow the internal audit committees to engage with external and state auditors freely without discrimination or pressures. The authors argued that this ensured information sharing between the different auditors was effective and led to quality financial reporting. Abbott, Brown, and Higgs (2016) agreed with Tepalagul and Lin (2015) and showed that part of making audit committees independent was also ensuring that they had vast knowledge on accounting policies, oversight performance, financial factors, and relevant experience. The authors found that with this knowledge, the independent of the audit committees increased and led to a positive correlation with quality financial reporting.

**Agency theory**

Appiah and Amon (2017) explained that the agency theory was used to define the relationship between the principles and agents where the principles delegate their decision-making abilities to the agents to ensure that the company prospers. The authors, however, found that this led to a conflict of interest as the agents failed to share the same prosperity aspects with the shareholders that sees them make risky and irregular decisions that satisfied their personal needs. Haji and Anifowose (2016) concurred with Appiah and Amon (2017) and showed as per the agency theory, it was vital for the principles to enact control over the agents' decision-making process, and those audit committees were the best option for this purpose. However, Haji and Anifowose (2016) explained that the audit committees needed to be independent of the agents to avoid replicating the conflict of interest problem. Bhaskar and Flower (2019) supported Haji and Anifowose (2016) statement when they showcased how Enron Company used their internal audit committees to manipulate data to look profitable to shareholders as the managers had more control over them. As such, it is vital to ensure that the independence of the audit committees is safeguarded to improve the quality of financial reporting in the United States of America.

**Board Independence**

According to Terjesen, Couto, and Francisco (2015), the quality of financial reporting in the United States of America and other regions is affected by numerous factors such as legal conditions, company culture, and others. Terjesen, Couto, and Francisco (2015), however, found that board independence also had a significant impact on quality financial reporting. The authors found that board independence led to improved oversight on internal operations in the United States of America, and this translated to quality financial reporting. Terjesen, Couto, and Francisco (2015) showed that when the board members were more independent and less inclined with the management of the company, they were willing to disclose operational data of the company more openly, translating to quality financial reporting. Rao and Tilt (2015) and Duru, Iyengar, and Zampelli (2016) agreed with Terjesen, Couto, and Francisco (2015) when they noted that independent boards were more likely to publish their audit committees reports irrespective of irregularities found undertaken by their managers. As such, it is vital to develop an organisational structure where board members are independent to ensure that the quality of financial reporting is safeguarded.

Herda, Taylor, and Winterbotham (2012) concurred with Terjesen, Couto, and Francisco (2015) and showed that in the United States of America companies with more independent board members attracted more investors as they were sure of gaining quality financial reporting about their operations to assure of their decisions to invest. Chen, Cheng, and Wang (2015) agreed with Duru, Iyengar, and Zampelli (2016) and showed that board members played a crucial role in the management of the companies in the United States of America especially concerning transparency, policy development, and others that affected the daily operations and quality financial reporting. The authors also found that there was a need to properly balance executive and non-executive board members to promote board independence and quality financial reporting. Elshawarby (2018) agreed with Chen, Cheng, and Wang (2015) and showed that companies with board members that were mainly executives had a lowered board independence rate as their involvement with the management was higher and were more likely to hide irregular or negative financial reports. The authors found that when the board members were aligned towards one view, they were more likely to forego the interest of the companies and focus on their personalised needs. As such, Elshawarby (2018) explained that the board independence needed to be improved by having a diverse membership group that eliminated any bias towards quality financial reporting.

Duru, Iyengar, and Zampelli (2016) also found the board members had a significant impact on the policies of the company, especially those governing their internal audit committees and, as such, affected their independence as well. Duru, Iyengar, and Zampelli (2016) showed that board independence also affected audit committees, and this, in turn, impacted their quality financial reporting. Terjesen, Couto, and Francisco (2015) agreed with Duru, Iyengar, and Zampelli (2016) and showed that the board independence also affected their interactions with other external stakeholders such as investors or state and federal auditors. The authors found that independent boards were more likely to provide these groups with quality financial reporting as they had equitable interests in satisfying the external stakeholder's information needs. Elshawarby (2018) agreed with Duru, Iyengar, and Zampelli (2016) when they noted that the independence of the board was also affected by their duties and responsibilities towards the company. The authors explained that when the majority of the board members were executives, they had to factor in reducing costs and improving the profitability of the company, and this led to bias in their quality financial reporting. As such, board independence has a positive correlation to quality financial reporting.

**Board size**

According to Samaha, Khlif, and Hussainey (2015), board size has a significant impact on quality financial reporting. The authors found that small board sizes were prone to lowered quality financial reporting as bias and hiding information from the government, and shareholders were easier than in large board sizes. Elshawarby (2018) agreed with Samaha, Khlif, and Hussainey (2015) when they noted that the resource dependence theory explained that larger boards had a higher efficiency towards external relations, advisory performance, discussions, and counseling in a sociological manner. As such, based on the resource dependence theory, larger board sizes led to improved quality financial reporting. However, Elshawarby (2018) also contradicted Samaha, Khlif, and Hussainey (2015) findings using the agency theory by arguing that the theory argued that smaller board sizes were more likely to lead to quality financial reporting. The authors explained that based on the agency theory, smaller board sizes were better at financial performance, monitoring, and control from an economic view and would lead to quality financial reporting. However, as the ethics, beliefs, and personal factors of the board members come into play, the resource dependence theory becomes more viable in the assessment, and hence, larger board sizes led to quality financial reporting. Orozco, Vargas, and Galindo-Dorado (2018) concurred with Samaha, Khlif, and Hussainey (2015) and showed that larger board sizes had reduced bias and improved quality financial reporting.

Muchemwa, Padia, and Callaghan (2016) also found contradicting facts same as Elshawarby (2018) and showed that both large and small board sizes had their merits and demerits when it came to quality financial reporting. The authors found that for small board sizes, they had an increased efficiency in monitoring and control, translating to improved quality financial reporting. Muchemwa, Padia, and Callaghan (2016), however, also found that smaller board sizes led to reduced independence factors for the company management and audit committees leading to reduced quality financial reporting. The authors also found that the larger boards had increased bureaucracy, regulations, procedures that reduced the quality of financial reporting, especially concerning timely reporting. Muchemwa, Padia, and Callaghan (2016) again argued that the larger board sizes led to reduced cases of bias and illegal involvement with the management to hide financial crimes committed by the company. As such, there exists a huge research gap on whether large or small-sized board positively correlate to quality financial reporting. Tulung and Ramdani (2015) and Samaha, Khlif, and Hussainey (2015) concurred with Muchemwa, Padia, and Callaghan (2016) when they noted that larger board sizes led to improved quality financial reporting as they had adequate capacity to monitor the entire operations of the company management.

Tulung and Ramdani (2015) also found that smaller board sizes were ineffective in quality financial reporting for larger companies as they could not cover the vast decision making and daily financial operations of the company. As such, for larger companies, it was advisable to have a larger board size to improve their monitoring and control aspects over the management leading to quality financial reporting. Samaha, Khlif, and Hussainey (2015), however, argued that the composition of the board had a higher impact on the quality of financial reporting irrespective of their size. The authors found that board sizes, both large and small with diverse executive and non-executive members, had a higher rate of quality financial reporting than those with polarised members. Orozco, Vargas, and Galindo-Dorado (2018) also agreed with Tulung and Ramdani (2015) and showed that larger board members offered diverse assessments of financial operations and were more likely to provide quality financial reporting than smaller boards.

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