Chapter 1

Introduction
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1.1 Background to the Research

Corporate scandals, including those at Enron (2001), WorldCom (2002), Tyco (2002), and Global Crossing (2002), among others, have stunned investors, shaken their confidence and made it difficult for companies to raise funds from the stock markets (Agrawal & Chadha, 2005). A wave of corporate managers’ wrongdoings in Enron, Worldcom, Parmalat, Cirio and Marconi for example, have left sever problems of disclosure practices and reliability of financial reporting quality in capital markets (Klai & Omri, 2011; Lepadatu & Oprea, 2011; Leung & Ilsever, 2013). The financial reports that appeared in the aftermath attributed these bankruptcies to fraudulent practices of top executives, with the help of auditing firms and internal audit committees (Avci, Ross & Schipani, 2018). For instance, falsified financial statements of Enron through off-balance sheet financing made it difficult for its board of directors to disclose the manipulated financial statements because of the lacked board independence from senior executives (Deakin & Konzelmann, 2004). Further, WorldCom with the help of its senior employees and officers materially overstated its earnings and finally filed for the largest corporate bankruptcy in the US (Combrinck, 2005). Accordingly, the integrity of the financial reporting system is liable to be blamed and a firm’s governance system is being questioned because of the lacked auditor independence and oversight from the board (Rohaida, 2011).

As a result of several business failures which shocked markets and investors; the importance of corporate governance as an extensive area of research has emerged especially during the last decade to mitigate earnings management activity and increase the investor confidence (Campa & Donnelly, 2011). The existence and persistence of such cases of business failures have led many corporates, regulators, investors and academics to struggle to decrease such incidences by enhancing the effectiveness of corporate governance (Jaswadi, 2013). Good and effective system of corporate governance has become fundamental for ensuring investors’ rights, improving the investment atmosphere, enhancing firms’ performance and
encouraging economic development (Braga-Alves & Shastri, 2011; Price, R, Román & Rountree, 2011). In general, corporate governance (CG) system offers a complete base and support to serve stakeholders, to mitigate and resolve potential conflicts between them and managers, exercise their rights and protect their interests (AL-Matari, 2013). Good corporate governance ensures that corporations perform better and have a better relationship with its stakeholders (Nurul et al., 2012). Effective corporate governance in business organizations is a contributing factor to financial success and financial reporting quality. It is also a determining element in the evolution of financial reporting in emerging markets especially when they adopt and enforce new reporting regulations and standards (Ebrahim & Fattah, 2015). Effective corporate governance requires accurate and reliable financial information (Baliyan, Othata & Swami, 2012).

As a part from good and effective governance system, better investors’ protection, avoidance of business failure and in order to have uniformity in presentation of financial results of a business entity; a wide range of companies around the world have agreed to adopt one single common accounting language-IFRS (International Financial Reporting Standards). Further, a likely important determinant of the quality of accounting information is the adoption of IFRS, issued by the International Accounting Standards Board (IASB) (Nurul et al., 2012). IFRS represents the worldwide language of accountancy which aims to make the interpretation and comparison of the financial statements across the globe easier (Vinayagamoorthy, 2014). Ball (2001) argued that IFRS provides high quality accounting information in a public financial reporting and disclosure system characterized by; reform of the structure of corporate ownership and governance, establishment of a system for setting and maintaining high-quality independent accounting standards. Historically, each country has established and developed its own accounting standards; however as financial markets have become a global market, there is a need for a common set of accounting standards (Judge, Li & Pinsker, 2010). Initiatives and endeavors have been taken by both developed and developing countries to continuously enhance their system of corporate governance, increase firms’ performance, enrich financial reporting quality, and to recover investors’ confidence in financial reports (Al-matari et al., 2012). In the recent years, there is a worldwide heated argument among regulators, standard setters, policy makers, professional bodies, and corporates about the convergence of the National
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Accounting Standards with IFRS. It has been found that firms with specific corporate governance mechanisms tend to be more aligned with IFRS (Chen & Rezaee, 2012). Further, Schipper (2005) argued that the adoption of IFRS in the European Union (EU) provided a more powerful setting in which to test the determinants and economic consequences of accounting quality because accounting standards were consistent across EU countries. Moreover, from an international perspective, a number of international and professional organizations; World Bank (WB) and the International Monetary Fund (IMF), the International Federation of Accountants (IFAC) advocate that IFRS are flexible enough to respond to the needs of both developed and developing countries.

The adoption of a common set of accounting standards such as IFRS improves earnings quality because management is under pressure to provide a true and fair view and engage in fewer earnings management activities (Nurul et al., 2012). Improvement of accounting earnings quality depends upon at least two factors: high quality accounting standards and a country’s overall investor protection (Soderstrom & Sun, 2007). Accounting standards are life blood for corporate governance, for which various bodies have been thinking to strengthen the standards to make corporate governance more effective in the context of the changing corporate environment and contributed their wisdom (Baliyan, Othata & Swami, 2012). The proper practice of accounting standards is very significant, as it leads to effective disclosure and consequently good corporate governance programmes (Mohamad & Shankaraiah, 2004). Lack of proper accounting information may lead to corporate collapse. Hence, the practice of proper accounting standards is more relevant issue of good corporate governance in the present competitive era as the standards provide a useful mechanism to restructure the core corporate values (Mohamad & Shankaraiah, 2004).

Corporate governance has attracted considerable attention of academic researchers across the globe (Aggarwal, Schloetzer & Williamson, 2016; Aguilera & Crespi-Cladera, 2015; Akbar et al., 2016; Al-najjar & Clark, 2017; Anokhin, Peck & Wincent, 2016; Ducassy & Guyot, 2017; Hamid, Ting & Kweh, 2016; Janggu et al., 2014; Kamalluarifin, 2016; Kim, Sung & Wei, 2017; Ramli & Ramli, 2016; Shawtari et al., 2015; Sivathaasan et al., 2016; Themmozhi & Narayanan, 2016). It has become a widely discussed and evolving topic in both developed and developing countries (Alagha, 2016). Although attention has been given to corporate governance in developing countries, many of these countries still extensively suffer from a lack of
appropriate governance system (Ekanayake, Perera & Perera, 2010). The effectiveness of corporate governance in emerging markets may be influenced by a set of factors different from those in Anglo-Saxon countries (Lazarides & Drimpetas, 2011). Prior studies concluded that developing countries are different from developed countries in areas such as transparency, volatility, governance and taxes (Bruner et al., 2002). Despite the plenteous studies of corporate governance and financial reporting in developed countries but there is little evidence about this topic in emerging markets.

Recently, attention turned to the study of the relationship of corporate governance mechanisms and financial reporting quality (FRQ) under IFRS. With the increasing harmonization of global financial reporting standards and the global trend to adopt and enforce some version of IFRS, it is critical to examine how different corporate governance factors affect the initial adoption and enforcement of IFRS in individual emerging economies (Ebrahim & Fattah, 2015). Number of studies evaluating FRQ or focusing on IFRS adoption from different aspects and areas of research in emerging economies. However, evidence and findings on the relationship of corporate governance mechanisms and IFRS adoption in prior literature are very limited.

The effect of corporate governance on financial reporting quality represented by IFRS has not yet been studied comprehensively. Many studies have investigated the relationship between corporate governance and IFRS adoption or convergence of IFRS with local GAAP\(^1\) in other countries other than India and Gulf Cooperation Council (GCC) (e.g. Bouchareb, Ajina & Souid, 2014; Campa & Donnelly, 2011; Chen & Rezaee, 2012; Cormier, 2014; Ebrahim & Fattah, 2015; Kao & Wei, 2014; Kent & Stewart, 2008; Major & Marques, 2009; Marra, Mazzola & Prencipe, 2011; Nurul et al., 2012; Smaili & Labelle, 2016; Wardhani, 2010). In contrast, this study is intended to explore the impact of corporate governance on the adoption of IFRS. There is a dearth of empirical studies that examines the data from developing countries and in particular India and GCC. In fact, recent developments and reforms in corporate governance, in addition the current debate on the adoption of IFRS in the international accounting literature, have raised various serious gaps that have not yet been looked at.

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\(^1\) Generally Accepted Accounting Principles (GAAP) indicates to a common set of accounting principles, standards, and rules that firms and auditors must follow for financial reporting. The main purpose of GAAP is to ensure the transparency and consistency of financial reports from one firm to another. There is no universal GAAP standard and the specifics vary from one jurisdiction or industry to another. The Indian GAAP includes similar provisions as IFRS/ Ind. ASs with respect of profitability of economic benefits and reliability of measurements of revenues (PWC, 2017).
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The focus of this study is mainly made on India and some GCC countries; KSA, Oman, and UAE. This study is the first study to comprehensively investigate the impact of corporate governance mechanisms on the adoption of IFRS in India and GCC countries especially, after the adoption and convergence with IFRS by both India and KSA. The privilege advantage of this study is the comparison in terms of corporate governance mechanisms and IFRS between India and Gulf member states which are heterogeneous in their nature. In this regard, this study compares between these countries in term the impact of corporate governance on IFRS adoption. This study focuses on many issues; corporate governance mechanisms and two main issues of IFRS adoption which are compliance with IFRS and financial reporting quality under IFRS. In this study, the focus is based around four key characteristics of corporate governance, namely, board of directors’ effectiveness, audit committee effectiveness, ownership structure, and audit quality. Firstly, board effectiveness play an important role in financial reporting so, board characteristics namely; size, independence, expertise, and diligence will be evaluated to find their impact on compliance with IFRS and financial reporting quality of IFRS as compared to the local GAAP. Secondly, as audit committee has an oversight on financial matters of a firm; audit committee characteristics such as size, independence, expertise, and diligence will be investigated to determine its impact on compliance with IFRS and the role of audit committee in financial reporting quality under IFRS. Thirdly, ownership, particularly, foreign ownership, which varies significantly from firm to another firm, and it is likely to play an important role in the adoption of IFRS by compliance with IFRS and the quality of financial reporting. Fourthly, the auditor choice as a parameter of audit quality will be studied to examine its impact on compliance with IFRS and financial reporting quality. The importance of this study lies in the issues that the study pursues through and the comparative analysis between the selected countries especially, India and Saudi Arabia as both of the countries are members of the Group of Twenty (G-20)\(^2\) and they are in the process of IFRS adoption and convergence.

\(^2\) The G20 or also called Group of Twenty is an international forum for the governments and central bank governors from different largest advanced and emerging economies. These countries represent about two-thirds of the world’s population. G-20 comprises Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States (IMF, 2015).
1.2 Research Motivation and Justification

The reformation of corporate governance mechanisms in some GCC member states and India are expected to enhance the auditing and accounting profession and then contribute to the adoption of IFRS. However, to date, there is no evidence that such mechanisms and reforms have influenced adoption of IFRS. Many questions remain unanswered about the impact of corporate governance on the adoption of IFRS especially in the GCC member states and India. Almost all previous studies on the impact and relationship of corporate governance and IFRS adoption have been carried out in developed countries (e.g., Bayerlein & AlFarooque, 2012; Chamisa, Mangena & Ye, 2012; Cieslewicz, 2014; Fifield et al., 2012; Kent & Stewart, 2008; Palea, 2013; Persakis & Iatridis, 2016) but very few studies that carried out on this topic either in India or any Gulf member states.

A variety of factors that motivate the present study to be conducted and extend prior literature on the impact of corporate governance on IFRS adoption from some developed countries to developing countries; GCC member states and India. The studies conducted on the impact or relationship of corporate governance and IFRS adoption in India and GCC member states are with very limited scope. This is not the only case that motivated the present study but some other factors including: inconclusive findings evidenced by prior research, dearth of research in this topic in the GCC and India, the recent reforms of corporate governance codes in the GCC and India (e.g. Saudi Arabia: 2017 and India: 2014), financial reporting issues, and some other cultural, regulatory and institutional factors. In light of these deficiencies, corporate governance and IFRS issues seem to require further empirical investigation especially in Saudi Arabia and India as both of the countries are members of the G 20 but they did not adopt IFRS till 2015. Yet, to the best of the researcher’s knowledge, no empirical conclusive evidence exists that allows conclusive determinations to be made of how corporate governance mechanisms in India and GCC member states affects compliance with IFRS and financial reporting quality based on IFRS adoption. In particular, what are the differences among GCC member states from one side and between GCC member states and India from the other? Further, what differentiate them from other developed countries may, in turn, lead to new empirical analysis of this issue and provide additional evidence in the debate.
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Post-2011, perceivable attention made by professionals and companies in India with the issuing of the road map of IFRS convergence. Even though, the road map postponed many times and there was no mandatory adoption of IFRS in India upto 2015 but there is a considerable debate on the issue of IFRS adoption in the academic literature in India (Abhilasha, 2014; Kaur & Kumar, 2014; Sambaru & Kavitha, 2014; Shrivastava, Rawat, & Deepti, 2015). Similarly, IFRS adoption in Saudi Arabia is ongoing whereas IFRS standards will be the financial reporting framework for all listed companies in Saudi Arabia starting from 2017 (Manduca, 2016). Accordingly, there is a wide consideration among practitioners, regulators, investors, and firms for the issue of IFRS adoption and its suitability to the Saudi business environment. Importantly, the factors that affect IFRS adoption namely; political, religious, cultural, economic, legal, and country specific factors have been a matter of debate in IFRS adoption literature. In this quest, the present study has chosen different countries with different systems, cultures, laws, and business environments to assess the issue of IFRS adoption with its relation to corporate governance mechanisms. Moreover, some guidelines, in terms of professional ethics, accounting and auditing, and other institutional infrastructure in these different countries aimed at the adoption of IFRS, have motivated the present study to be conducted on this topic.

In addition to the above mentioned, the present study is also motivated by several considerations. Corporate governance in some developing countries may be less effective and have some deficiencies due to several factors, such as insufficient independence of directors, duality of Chief Executive Officer (CEO) and ownership concentration (Alghamdi, 2012). Leuz, Nanda and Wysocki (2003) founded that developing countries characterized by weakening economies exhibit inactive regulations, low investor rights and higher-level earnings management. Accordingly, this study sheds light and draw an evidence on the impact of corporate governance on IFRS adoption from developing countries. Despite Saudi Arabia’s vital role in the global economy as the largest exporter of petroleum in the world and India as the fastest growing economy in the world, the GCC member states and Indian environments have not been yet the subject of academic studies which would inevitably play a significant role in improving corporate governance mechanisms and
increasing IFRS adoption. Thus, the main focus of this study is to investigate the main motivations of IFRS adoption by corporate governance.

Despite the rapid growth of IFRS adoption in the international hub, there is limited empirical research in the impact of corporate governance on IFRS adoption especially in the GCC member states and India. Most of the past published researches in IFRS adoption with its relationship to corporate governance comprises either theoretical or normative papers that do not examine empirically the current practices or trends of IFRS adoption. The findings from this study may provide input on how to strengthen CG that may enhance IFRS adoption. Hence, it is important to consider the nature and extent of CG and its impact on IFRS adoption. In addition, the debate on the role of CG in financial reporting quality either by its internal or external mechanisms (e.g., Bonetti, Magnan & Parbonetti, 2016; Botti et al., 2013; Chalaki, Didar, & Riahinezhad, 2012; Chandar, Chang, & Zheng, 2012; Cheung, Evans, & Wright, 2013; Cohen, Krishnamoorthy, & Wright, 2008; Daugherty & Dickins, 2015; Fairuz, 2009; Goodwina & Seow, 2002; Habib & Hossain, 2013; Habib & Jiang, 2015; Iatridis, 2010; Onuorah, Chi-chi, & Friday, 2016) which has increased recently due to many corporate collapses and scandals across the world have motivated this study. Firms in the GCC member states or India are not immune to either financial scandals or failure, as evidenced by the collapse of Satyam Computers in India (Gill, 2014). This failure has reinforced the importance of investigating the role of corporate governance in the quality and creditability of financial reporting.

Moreover, GCC member states and India have witnessed considerable economic growth in the recent years. These countries are recently started adopting several economic reforms such as paving the way to stimulate the activity of the stock markets, improve corporate governance and economic growth and foster international integration. As a result, the institutional ownership level and foreign direct investment (FDI) have increased substantially among these countries. Hence, it becomes important to investigate corporate governance practices and IFRS adoption as they are very important and substantial for economic reforms. Finally, publicly traded companies in these countries have a variety of corporate governance characteristics that make them especially suited to investigate IFRS adoption and corporate governance characteristics in different settings. Consequently, investigation the impact of corporate governance practices on compliance with IFRS after the adoption...
of IFRS from one hand and the impact of such practices on the quality of financial reporting under IFRS on the other is worthwhile and contributory to the existing literature, especially when the evidence derived from some developing countries and are members of the G 20 such as Saudi Arabia and India which have different aspects of systems, economies, regulations and cultures. Hence, this study includes an empirical examination of how corporate governance affects compliance with IFRS and financial reporting quality in the GCC member states and India.

1.3 Statement of the Problems

Many international organizations including the International Federation of Accountants, the International Organization of Securities Commissions (IOSCO), the G-20, the World Bank, the International Monetary Fund and Basel Committee have supported the vision of IFRS (IFRS, 2016). Over the past few years, the number of jurisdictions to allow and/or require adoption of IFRS for financial reporting has continuously increased (Lourenço & Branco, 2015). Recently, it is more than 140 jurisdictions around the world that require or permit IFRS, including big countries such as Europe (EU), Russia, China, Australia, South Korea, etc. (Zakari, 2014). At the end of 2014, among the biggest economies in the world, India, KSA, Japan and the U.S. have not adopted IFRS or standards substantially converged with them yet. However, as of 2016, some jurisdictions continue to enforce domestically developed accounting standards over IFRS and this list includes some large economies like Brazil, Canada and the US (Ramanna & Sletten, 2009).

Looking at the Indian scenario, unlike other countries which took about one year to complete IFRS transition, India has delayed its convergence for some years since its first road map in 2011 (Sharma, 2012). Despite commitment of the Government of India (GOI) to convergence of the Indian GAAP with IFRS from April 1, 2011 but, the process of convergence of the Indian GAAP to IFRS faced many challenges such as fair value accounting, taxation, training, auditing, management compensation plan, amendments to the existing law, awareness of international practices, reporting systems, complexity in adoption, risk in adoption, time and cost (Raj, 2014; Ray, 2012; Sambaru & Kavitha, 2014; Sharma, 2012; Shrivastava, Rawat & Deepti, 2015). Further, On 16 February 2015, the Ministry of Corporate Affairs of India (MCAI) notified the adoption of the Indian Accounting Standards (Ind. AS) which are in line with IFRS in the Gazette effective from 1st
April 2015 as a new road map toward its convergence with IFRS. The Indian GAAP (thirty five Accounting Standards (ASs)) converged with IFRS were notified by the MCAI (Ray, 2012; Sambaru & Kavitha, 2014; KPMG, 2015). The Ind. ASs are named and numbered in the same way to be harmonized with IFRS.

In the Indian scenario, there are some companies that follow both accounting standards; Ind. ASs and IFRS. Most of these companies are listed abroad. Accordingly, these companies must follow the two set of accounts; the Ind. ASs as a requirement of the origin country and IFRS as a requirement of abroad stock markets. This dual set of standards creates a burden cost for this companies but in the same time they cannot forgo IFRS and only follow the Ind. ASs because they have some benefits from listing abroad. Some other Indian companies may follow these companies and apply IFRS to get some benefits of listing abroad. These companies may exercise some pressure on the regulatory bodies to adopt IFRS, same way it happened with corporate governance issue when the Corporate Governance Code proposed by Confederation of Indian Industry (CII). CII set up a task force in 1995 under Rahul Bajaj, a reputed industrialist. In 1998, the CII released the code called “Desirable Corporate Governance” (Dalei, Tulsyan & Maravi, 2012) and later on in 2002, the code of corporate governance in India was issued.

The adoption of India for IFRS will offer great opportunities for such companies and also will attract some other foreign companies to be listed in the Indian stock markets or more investments in India. Adoption of IFRS by some companies in India may be justified by the benefits that they get from listing abroad. But in the same time the non-adoption of IFRS by other Indian companies or by the Indian Government may be justified by the costs and challenges that face IFRS adoption. This may be supported by the adoption of Satyam Company which was one of the biggest and leading companies in India. It was the first Indian company to prepare IFRS-based financial statements (Narayanaswamy, Raghunandan & Rama, 2015). More interestingly, Satyam received a Golden Peacock award from a group of Indian directors for excellence in corporate governance (Reuters, 2009). But it was turned to a corporate scandal affecting India-based company in 2009 and was considered as India’s Enron. This may raise a question of why companies adopt IFRS? And wither companies adopt IFRS to get benefits and improve their financial reporting quality or to make income smoothing?
With regard to Gulf countries, in June 2003, the Gulf Co-Operation Council Accounting and Auditing Organisation (GCCAAP) agreed to adopt IFRS into their listed firms (Al-shammarri, 2005). Till 2015, all Gulf countries except the KSA have adopted IFRS for all financial reporting purposes. Adoption of IFRS was in 1996 for Oman and in 1999 for UAE (Ramady, 2012, p. 180). In the case of KSA, in 2013, SOCPA approved an IFRS convergence plan by which listed entities other than banks and insurance companies would be required to report under SOCPA standards that will be IFRS with some modifications (PWC, 2014). Saudi Organization for Certified Public Accountants (SOCPA) adopted an IFRS Convergence project, called the “(SOCPA) Project for Transition to International Accounting & Auditing Standards”. (Manduca, 2016). Two kinds of accounting and auditing standards in Saudi Arabia are adopted: IFRS and International Auditing Standards (IAS), which are used for the financial sector (banks and insurance companies) and the Saudi Accounting Standards and Saudi Auditing Standards, adopted by other companies. This leads to a “noisy” environment in the accounting and auditing profession (Zureigat, 2014).

The study investigates the impact of CG mechanisms on IFRS adoption in India and GCC countries namely; the Kingdom of Saudi Arabia (KSA), Oman and the United Arab Emirates (UAE). The study investigates why there is heterogeneity in countries’ decisions to adopt IFRS; in other words, why some countries adopt IFRS while others do not. Understanding countries’ adoption decisions can provide insights into the benefits and costs of IFRS adoption (Ramanna & Sletten, 2009). Comparison between India and GCC is justified by the economic theory of network which stated that developing countries are likely to adopt IFRS standards if their trade partners or countries within their geographical region are IFRS adopters (Ramanna & Sletten, 2009). An illustrative example here is for all developing markets that share close relationships with the European countries that have adopted IFRS in 2005 (Samaha & Khlif, 2016). This further supported by memetic isomorphism which refers to the tendency of nations to imitate other nations viewed as legitimate or successful (Pricope, 2016). As such, less developed countries may adopt IFRS in order to imitate the more developed nations (Pricope, 2015). As the number of adopters’ increases, the pressure of non-adopters also rises alongside the rate of diffusion (Pricope, 2016).

With the growing interest of IFRS adoption by India and KSA and the increasing number of companies that apply IFRS along with the local accounting
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This study focuses on the issue of IFRS adoption in the context of CG. This study is an attempt to investigate the impact of CG on compliance with IFRS after the adoption of IFRS and financial reporting quality under IFRS in India and GCC. The study revolves around how corporate governance mechanisms affect compliance with IFRS and financial reporting quality in an environment that requires other accounting standards other than IFRS. The study analyses four aspects of CG namely; board of directors, audit committee, foreign ownership and audit quality and their impact on two aspects of IFRS namely; compliance with IFRS and financial reporting quality.

In brief, the following points summarizing the problems of the study:

- A problem of dual sets of accounting standards used by some Indian companies especially, those companies that have their shares listed abroad which make a burden cost for those companies to prepare two sets of financial statements to meet the requirements of the origin country as well as the country that have their shares listed in.
- A lack of understanding of IFRS adoption especially at the first stage of shifting to IFRS which may lead to artificial compliance with IFRS by adopting companies.
- An increased reliance on corporate governance mechanisms including board of directors, audit committee, share owners and external auditors to act in good faith when adopting IFRS is potentially risky. They may have some incentives for poor compliance with IFRS such as low costs of non-compliance.
- Different studies reported that there are high volatility and high levels of non-compliance with IFRS across firms. This includes low quality of financial reporting being far below the average and increasing trend of fraud cases committed by the management with the help of external auditors in some cases.
- When shifting from one set (Local GAAP) to another set (IFRS) of accounting standards, the problem that may arise in this concern is the level of compliance with the new accounting standards (IFRS) and its perceived quality of financial reporting. Further, a comparison of the quality of financial reporting under the two sets of accounting standards is still a matter of debate.
1.4 Research Questions

This study concentrates on whether CG mechanisms (board of directors, audit committee, foreign ownership and audit quality) affect compliance with IFRS after the adoption and financial reporting quality in the GCC member states and India. This study proposes five research questions to correspond with the research objectives. The first is:

1- To what extent there is an impact of corporate governance mechanisms on compliance with IFRS in India and GCC countries?

To investigate this question, this research examines four elements of corporate governance: board of directors, audit committee, foreign ownership and audit quality. The answer on this question will determine the extent to which corporate governance mechanisms have an impact on compliance with IFRS after IFRS adoption. This leads to determine and highlight the role of every mechanism of corporate governance in IFRS adoption for the Indian and GCC listed companies. In this quest, the question that can be asked is: Do board of directors as a controlling mechanism of corporate governance, audit committee as an oversight mechanisms of corporate governance, foreign shareholders and external auditors as an external mechanism of corporate governance in India and some selected GCC countries have an impact on compliance with IFRS? Besides, the question of the impact of corporate governance mechanisms on IFRS adoption in homogeneous and heterogeneous business environments under different settings of IFRS adoption is frequently asked and remain debated in previous literature.

Further, this question looks at the differences in the impact of CG mechanisms on compliance with IFRS among India and GCC countries taking in consideration the homogeneity and heterogeneity of business environments. It questions whether there is any significant impact of corporate governance on compliance with IFRS in a uniform, a like characteristics and similar business environments such as GCC member states from one hand and between different or heterogeneous countries; India and GCC member states from the other. Further, the question of the differences between the early adopters of IFRS (Oman and the UAE) and late of IFRS adopters (India and KSA) is also investigated.

Furthermore, the question of why companies adopting IFRS is justified by previous studies in different counters that IFRS have financial reporting quality (e.g. Maulana Azad Library, Aligarh Muslim University).
Even though, the positive results of IFRS adoption are reported by prior literature but, still there are numerous studies that report negative results and question about the quality of financial reporting under IFRS especially in the context of corporate governance mechanisms. The second question asks:

2- What is the role of corporate governance mechanisms in financial reporting quality under IFRS in India and some selected GCC countries.

This question examines the role of corporate governance mechanisms in financial reporting quality under IFRS. It examines the role played by board of directors, audit committee, ownership structure and audit quality to improve financial reporting quality under IFRS. In a different way, the above question can be asked as: *DO board of directors as a controlling mechanism of corporate governance, audit committee as an oversight mechanism of corporate governance, foreign shareholders and external auditors as an external mechanism of corporate governance in India and some selected GCC countries contribute positively to the quality of financial reporting under IFRS?*

The significant differences among the selected countries on the role of corporate governance mechanisms in financial reporting quality under IFRS is also questioned. The third question asks:

3- Is there any significant difference in the impact of corporate governance mechanisms on financial reporting quality under IFRS adoption among India and GCC?

More specifically, the question of whether the quality of financial reporting in India and some selected GCC countries has improved from Pre (Local GAAP) to Post-IFRS adoption (converged or adopted IFRS) as a result of IFRS adoption remain unanswered. Accordingly, the forth question asks:

4- Is there any significant difference in the impact of corporate governance mechanisms on financial reporting quality from Pre (Local GAAP) to Post-IFRS adoption (converged or adopted IFRS)?
1.5 Objectives of the Study

The main objective of this study is to provide a comprehensive investigation of the impact of CG mechanisms on IFRS adoption in the GCC member states and India. This objective can be divided into the following objectives:

1. **To investigate the extent and nature of the impact of corporate governance mechanisms on compliance with IFRS after the convergence and adoption of IFRS in India and some selected GCC countries.**

This objective aims to determine which corporate governance mechanism is the most important determinant of IFRS compliance for the Indian and GCC listed companies. This objective can be achieved by the following sub-objectives:

   a. To examine the impact of board of directors’ effectiveness as a controlling mechanism of corporate governance on compliance with IFRS.

   b. To assess the impact of audit committee effectiveness as an oversight mechanism of corporate governance on compliance with IFRS.

   c. To investigate the extent to which IFRS adoption is an important requirement for foreign shareholders by assessing the impact of foreign ownership as a major ownership structure of corporate governance mechanisms on compliance with IFRS.

   d. To study the role of external auditors as an external mechanism of corporate governance on compliance with IFRS.

2. **To investigate the impact of corporate governance mechanisms on financial reporting quality under IFRS adoption in India and some selected GCC countries.**

These objectives point the role of each mechanism of corporate governance in financial reporting quality for the Indian and GCC listed companies. This objective is further classified into the following sub-objectives:

   a. To explore the role of board of directors on financial reporting quality in India and some selected GCC countries.

   b. To study the role of audit committee on financial reporting quality in India and some selected GCC countries.
c. To inspect the extent to which the presence of foreign shareholders in the ownership list of a firm contribute to financial reporting quality in India and some selected GCC countries.

d. To examine the role of external auditors in financial reporting quality in India and some selected GCC countries.

3. **To find if there is any significant difference in the impact of corporate governance mechanisms on financial reporting quality among the Indian and GCC countries listed firms.**

This objective can be attained by the following sub-objectives:

a. To study if there is any significant difference in the impact of corporate governance mechanisms on financial reporting quality among the selected countries.

b. To examine the differences in the impact of corporate governance mechanisms on financial reporting quality Pre (Local GAAP) and Post-IFRS adoption (IFRS converged or adopted standards) in India and KSA.

In order to keep a consistent approach, smooth and systematic methodological design for this study, all research questions framed in section 1.4 are met with the above objectives. The following Figure 1.1 links between the set of the research questions and the objectives outlined for this study.
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Figure 1.1: Link Between the Research Questions and the Objectives of the Study

<table>
<thead>
<tr>
<th>Set</th>
<th>Questions</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 = Obj.1</td>
<td>To what extent there is an impact of corporate governance mechanisms on compliance with IFRS in India and GCC countries?</td>
<td>To investigate the extent and nature of the impact of corporate governance mechanisms on compliance with IFRS after the convergence and adoption of IFRS in India and some selected GCC countries.</td>
</tr>
<tr>
<td>Q3 = Obj.3</td>
<td>What is the role of corporate governance mechanisms in financial reporting quality under IFRS in India and some selected GCC.</td>
<td>To investigate the impact of corporate governance mechanisms on financial reporting quality under IFRS adoption in India and some selected GCC.</td>
</tr>
<tr>
<td>Q4 = Obj.4</td>
<td>Is there any significant difference in the impact of corporate governance mechanisms on financial reporting quality among selected countries?</td>
<td>To find if there is any significant difference in the impact of corporate governance mechanisms on financial reporting quality in India and some selected GCC countries.</td>
</tr>
<tr>
<td>Q5 = Obj.4</td>
<td>Is there any significant difference in the impact of corporate governance mechanisms on financial reporting quality under IFRS adoption between India and KSA from Pre to Post-IFRS adoption?</td>
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1.6 Research Framework

Based on the objectives outlined for this study; a research framework has been developed. It shows the relationship between the independent and dependent variables. Corporate governance mechanisms namely; board of directors’ effectiveness, audit committee effectiveness, foreign ownership and audit quality have been considered as independent variables while IFRS adoption by compliance with IFRS and financial reporting quality are the dependent variables. Figure 1.2 illustrates that board of directors and audit committee are measured by four measures which are: size, composition (independence), diligence and expertise. Similarly, foreign ownership is measured by the percentage of foreign ownership and Big-Four is a proxy for audit quality. Following is Figure 1.2 showing the research framework. Further discussion of the theoretical framework will be provided in chapter 4 of this study.
1.7 Contributions to Knowledge and Significance of the Study

This study makes several contributions to knowledge. The contributions of this study have been divided into three-fold contributions. First, unlike other prior studies that investigate IFRS adoption, this study has made theoretical contribution relating the imperial analysis with theories of corporate governance and the existing stock of knowledge. Second, methodological contribution which provides an explanation of multiple comparisons in different sets and the tools of analysis used by this study. Finally, practical contribution which discusses the implications of the findings and how they are important for practice and practitioners. Following is the discussion of the contributions of this study.

1.7.1 Theoretical Contributions and Significance

From the theoretical perspective, this study brings reflective insights related to corporate governance mechanisms and IFRS adoption, particularly from developing countries context, i.e. GCC member states and India. Since developing countries are different from that of developed countries, the factors that affect corporate governance in developing countries could be different than the ones that operate in developed countries. Accordingly, as a theoretical contributions of this study, it provides theoretical insights to the existing stock of knowledge from different aspects. First, it provides a useful investigation and test of whether the outcome of the impact of corporate governance mechanisms on IFRS adoption that have been applicable in developed countries are applicable to developing countries or not. The pertinent literature review points to the existence of a gap in understanding, not only in the issues of corporate governance mechanisms and their impact on IFRS adoption but also the developing countries evidence is limited especially in the GCC member states and India. Therefore, the present study adds to this existing stock of knowledge and the body of literature through providing an opportunity to understand the impact of corporate governance on IFRS adoption in different regulatory settings and practices in developing countries. Moreover, this study adds to the pertinent literature by investigating and linking board of directors, audit committee effectiveness, ownership structure and audit quality with IFRS adoption. The uniqueness of this study over other studies is the comprehensive approach by linking the impact of each mechanism of corporate governance on IFRS adoption.
Second, this study uses mixed theories of corporate governance and IFRS adoption. Agency, institutional and stewardship theories of corporate governance were used. Further, this study uses the theoretical frameworks of the economic theory of network, isomorphism and positive accounting theories of IFRS adoption to explain the impact of corporate governance mechanisms on IFRS adoption. In addition, this study extends these theories to emerging economies from different business environments. The cultural and institutional factors in India and GCC member states are crucial for shaping financial reporting and corporate governance practices of companies. Therefore, this study extends the application of such theories derived from mature and developed business environments which may only partially represent financial reporting quality and corporate governance practices in emerging economies especially with different legal, cultural and institutional settings. Inclusion of some variables of World Wide Corporate Governance Indicator of Corporate Governance of the World Bank represents the complexity of the role of low and institutional differences between these countries. This study also introduces the firm-specific and country specific characteristics of corporate governance that have not been empirically linked with the IFRS adoption in the studies conducted in some other countries.

Third, while the literature on IFRS adoption and corporate governance mechanisms has rapidly developed over the past few years but it still relatively immature and most of the studies conducted are either reported mixed results or from developed countries which implies several caveats with regard to implication of their results to developing countries. In this regard, the question may raise in this context is that to what extent these studies will make substantial contributions of their results in the context of developing countries. Most of prior research documented that IFRS adoption is associated with economic consequences which may differ from country to another depending on the cultural, legal and institutional settings. As a result, cautions should be made in implementation of IFRS in developing countries. Further, this study contributes to the international debate on whether harmonizing of local GAAP with IFRS is effective in achieving regulatory objectives. This study provides evidence that certain CG mechanisms are important in explaining the extent of IFRS adoption especially in developing countries. Due to mixed and inconclusive findings amongst prior literature in the impact of corporate governance on IFRS, this study is a comprehensive and introduces new insight in this topic especially in the context of India and GCC.
1.7.2 Methodological Contributions and Significance

As methodological contributions and significance, this study provides several empirical and methodological contributions. First, the present study addresses the impact of corporate governance on IFRS adoption in the GCC member states and India. There are very few studies that investigate the impact of corporate governance on IFRS adoption in India and GCC. All studies conducted in India and GCC that linked accounting standards with corporate governance either theoretical in their nature or have limited scope in their variables and analysis. This study is different from other studies by introducing an empirical analysis of the impact of corporate governance on IFRS adoption. Second, inclusion of variables such as, board of directors’ effectiveness, audit committee effectiveness, ownership structure and audit quality and their impact on both compliance with IFRS and financial reporting quality is another contribution of this study especially in the context of India and GCC countries. Third, Ordinary Least Square regression analysis, regression by country code and comparisons based on residuals are some other contributions of this study. Fourth, different settings of comparisons are provided such as a comparison between old versus new IFRS adopter and pre (Local GAAP) versus post IFRS (IFRS converted or adopted standards). This enriches the empirical analysis and the methodological contributions of this study.

1.7.3 Practical Contributions and Significance

From the practical perspective, this study has several practical contributions and significance. Firstly, the expected results of the present study can guide professional, regulators, academicians and firms on the implementation of IFRS especially with regard to corporate governance practices. Further, as a practical contribution, this research can provide some significant insights to regulators such as stock markets, accounting and auditing bodies, professionals, CEOs, investors and other interested parties. Lessons from the findings of the present study can be learned for practice to guide improvements in the adoption and convergence with IFRS, corporate governance reforms and financial reporting quality. Finally, the findings of the present study could provide a useful template for future comparative research pertaining to other emerging and developing markets.
1.8 Definition of Key Terms

This section provides a brief discussion of some terminologies and terms that are used in the present study. Following is a definition of some key terms that are used by this study:

1.8.1 Corporate Governance Mechanisms

Corporate governance represents a framework for controlling and safeguarding the pertinent players and interested parties in the market such as board of directors, executive directors/managers, shareholders, employees, customers and suppliers (Morin & Jarrell, 2001). The maturation of corporate governance relies on various theories which elucidate the characteristics of corporate governance mechanisms and the differences in their practices between countries as a result of different political, legal, ownership and cultural systems (Larbsh, 2010). A number of corporate governance mechanisms have been suggested to mitigate the problem of principal-agent between managers and their shareholders (Ranti, 2011). Mechanisms of corporate governance represent various medium, tools, techniques and instruments via which accountability is ensured and stakeholders monitor and firm performance to bring into line with set goals and objectives (Peters & Bagshaw, 2014). Further, corporate governance mechanisms include accounting and auditing standards which are designed to control managers and enhance corporate transparency (Oman, 2001). Lin and Hwang (2010) stated that well-structured mechanisms of corporate governance are expected to decrease income smoothening because they introduce efficient monitoring and controlling of management in the process of financial reporting. Further, better mechanisms of corporate governance are essential for every organization and should be supported for the benefits of the investors and other stakeholders (Arouri & Hossain, 2014). For the purpose of this study, corporate governance mechanisms includes the following:

1.8.1.1 Board of Directors Effectiveness

A well-organized, active and liable board of directors is not only vital to every single company but is now required by the Code of Corporate Governance in nearly all civilized jurisdictions of the world (Aina, 2013). The board of directors is fundamentally a monitoring mechanism to safeguard principals‘ interests (Jensen & Meckling, 1976). The board of directors indeed is the most imperative organ of a firm
solely responsible for the management of the company (Aina, 2013). According to Fama (1980), the board of directors is perceived as a significant instrument to inspect the company manager’s decisions. The board is generally deemed a shareholder resource and should be encouraged to safeguard managerial performance (Wellalage, 2012). The main objective and function of the board is to ensure that the company is properly managed. The board must act responsibly and dutifully in safeguarding a better performance of the management in order to protect and elevate shareholder wealth and to meet the company’s duties and other stakeholders’ interests (Aina, 2013). Board of directors effectiveness includes the following:

1.8.1.1 Board Size

Board size denotes to the total number of directors setting in the board of any corporate organization. Determining the perfect board size is very substantial for any business organization because board size may have an impact on its ability in controlling management and affect the board performance and hence the whole corporate performance as well (Bathula, 2008; Mambondiani, 2011; Ogbechie, 2012). When the notion of boards is acknowledged, it can be instinctively assumed that a larger board is desirable, as this allows the presence of more varied board members bringing diverse areas of expertise (Marashdeh, 2014).

There is a considerable debate among corporate governance researcher on the board size, while some researchers argue that large board size may be an ideal value maximising consequence for bigger firms and can affect firm value positively (Guest, 2009). In line with this argument, Klein (2002) advocates that there is a positive relationship between a large number of directors and the quality of work, i.e.; the work would be better if it is done by a larger number of directors. Similarly, Monks and Minow (1995) argue that larger boards are made-up to offer their firms with better monitoring as they usually have more time and expertise than smaller boards. Also Mambondiani (2011) reveal that board size should be large enough to procure enough expertise on the board but not so large that productive discussion becomes intolerable. On the other hand, some researchers have been in favour of smaller boards ( e.g., Bathula, 2008; Marashdeh, 2014; Ozkan, 2007; Yermack, 1996) they emphasize that in large boards it is more probable to be dominated by the CEO rather than board controlling and monitoring the management. This may give the managers an opportunity to follow their own interests instead of bringing into line the benefits
of the shareholders and managers leading to rise the agency problems and thereby lower firm performance. Further small boards are more efficient in decision-making because there is less agency cost among the board members.

1.8.1.1.2 Board Composition

Board composition or independence is an essential matter in the diversity of corporate governance principles of best practices that have been available at the international level (e.g. OECD Principles of Corporate Governance, World Bank Framework for Implementation).\(^3\) Wellalage (2012) indicates that there is a positive and significant relationship between highly diversified board and better decision making, i.e. the more diversified boards with certain characteristics such as expertise members, the more innovative and efficient decision making process. However, there is no single measure of board diversity.

The composition of boards has generated considerable debate among corporate governance researchers such as (Ayuso & Argandoña, 2009; Davies, 2000; Guest, 2008; Kostyuk & Koverga, 2006; Ness, Miesing, & Kang, 2010). Prior studies indicated that two categories of board; outsider (independent) and insider directors (Ranti, 2011). The supposition of the board of directors should be included of a mainstream of outside or independent directors is supported by (Alagla, 2012; Alnaif, 2014; Awan, 2012; Bhagat & Black, 1999; Boone et al., 2007). They justify that, in order to safeguard shareholders’ benefits and resolve or mitigate the agency problems, firms should have a majority of its board composition as an independent directors. This supports Cadbury’s claim (1992) which suggested that a likely composition for the board is that the board should consist of a considerable number of outside independent non-executive directors. But Al-Kahtani (2013) and Heenetigala (2011) argue that the independence of non-executive directors may diminish as the tenure of the board increases.

Board independence is one of the measurements and proxies of board effectiveness that have been used by prior studies (Alagla, 2012). Ranti (2011) and Heenetigala (2011) stated that board of directors should be constituted from majority

of independent members to make efficient decision making and create value for the shareholders. Board independence has a significant and important role to enhance the value of a firm, playing vital role in the implementation of principles of corporate governance that safeguard shareholders’ rights (Ranti, 2011). Further, board independence functions balancing and supervisory tasks and monitoring the activities of the executive directors and the board in general and safeguarding managerial accountability of shareholders (Wellalage, 2012). Similarly, internal directors are also substantial in ensuring shareholders’ interests. They provide the shareholders with significant financial information, which will reduce the information asymmetry between both stakeholders and managers (Ranti, 2011). Further their responsibility is the day-to-day operation of the business and leading the company and its affairs for the best interests of stakeholders (Heenetigala, 2011; Wellalage, 2012).

1.8.1.1.3 Board Diligence

Board diligence (meetings and attendance) is used as a proxy and parameter of board density in performing activities and a value-relevant board attribute (Vafeas, 1999). Board meetings are then generally used as a platform to discuss business affairs currently being faced by a firm, which require immediate actions (OECD, 2011). While many researchers agreed that board meetings bring benefits such as better firm performance, better cash flow rights of the largest shareholder of a company, better earning per share, set strategy, monitor management and better audit quality, perform board of directors’ duties to meet the interests of shareholders (Bathula, 2008; Chou, Chung & Yin, 2013; Francis, Hasan & Wu, 2012; Modum, Ugwoke & Onyeanu, 2013; Ntim & Osei, 2011; Vafeas, 1999). But some other researchers argue that managerial time, travel expense and directors’ fees for example are some costs associated with board meetings (Vafeas, 1999). Also Horváth and Spirollari (2012) found that there is no effect for board meetings and attendance on firm performance.

1.8.1.1.4 Board Expertise

A combination of both wide experience and expertise of the board from one hand and the quality of top management from the other would positively have a significant impact on strategic decision making and better firms’ performance (Ovidiu-Niculăe et al., 2012). Ghosh (2000) stated that board culture, directors’ expertise and knowledge, non-executive directors’ educational qualification, stockholders’ interests, business
ethics, short term and long term objectives, CEO duality, self-evaluation of the board and resources and time devoted for governance issues are ten essential board attributes which had effect on governance. Larger boards could combine more representatives from different stakeholders groups and thereby provide a greater breadth of experience, expertise and specialised skills (Williams, Fadil & Armstrong, 2005).

1.8.1.2 Audit Committee Effectiveness

According to the Cadbury Committee (1992), audit committees would be an essential mechanism of corporate governance that would ensure shareholders’ interests and safeguard transparency of financial reporting and enhancing the quality of audit. Different corporate governance codes and principles such as the OECD (2004) governance principles, the Sarbanes Oxley Act (2002) of the USA and the UK Combined Code (2003) principles of good governance have comparable matters, issues and approaches in their endeavour to organize and establish an independent mechanism represented by audit committee with financial oversight functions to monitor the management activities (Adelopo, 2010). The audit committee can be defined as the establishment of an independent sub-committee of the main board constitutes generally of independent directors or non-executive members with responsibility of auditing activities (Birckett, 1986; Cadbury, 1992; Collier, 1992). The Sarbanes-Oxley Act (SOX) section 205(a) defines the audit committee as “a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer”. Lastly, the committee has been defined in terms of its anticipated roles and responsibilities which have changed significantly over time (Adelopo, 2010).

In the context of the audit committee as one important corporate governance mechanisms, Chandar, Chang and Zheng (2012) observed that firms that have higher quality of financial reporting are associated with overlapping compensation and audit committees than those without overlapping compensation and audit committees. Similarly, (Zheng, 2008) found that there is an inverted U-Shaped relationship between the magnitude of the audit committee and financial reporting quality. Further, Baxter (2007) concluded that quality of financial reporting enhanced in the year of audit committees constitution and the earnings quality was significantly
reduced. It is revealed that audit committees is effective at mitigating earnings management. But generally the study found no significant association between the quality of financial reporting and the audit committees’ characteristics.

The audit committee oversees the company’s internal control system and external financial reporting. It would be expected to include oversight of the IFRS conversion process and an understanding of the company’s activities regarding of IFRS adoption and implementation. Audit committees should ensure that the company has developed a project plan for IFRS implementation effectively (Protiviti, 2010). Audit committee should discuss the adoption of IFRS with management of a company, ensure that management understands how IFRS adoption will affect the financial reporting process and internal control, oversight the company’s plan for monitoring IFRS implementation and progress and understands and questions management’s IFRS accounting-policy choices (AICPA, 2010). Audit committee should engage with the external auditor to oversight the transition process to IFRS and discuss the quality progress of the adoption process and recommend the same to the board of directors. Audit committee should get acquainted with IFRS adoption. Accordingly, there would be need for relevant training on IFRS to satisfy itself that there are sufficient trained and skilled staff to ensure that its own members have enough and necessary training so that they are fully aware of IFRS issues and its impact on the financial reporting and company’s business. Audit committee should be aware of the requirements of IFRS (ICAEW, 2004). It is noteworthy to point out that size, independence and meeting of audit committee possibly could continue to function and act as essential elements of the corporate governance mechanism (Al-matari, Al-swidi & Fadzil, 2014). Audit committee effectiveness includes the following:

1.8.1.2.1 Audit Committee Size

Audit committee size has been considered as the first attribute of audit committee characteristics. The absolute number of members serving on the audit committee of a firm is the most accepted measure of audit committee size (Al-matari, Al-swidi & Fadzil, 2014). The precise number of audit committee members is predominantly important as it impacts the obligations and commitment of memberships to monitor management and detect fraudulent actions. A bigger size of the audit committee can lessen material differences throughout the tested equity submissions (Moses, 2016).
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The Cadbury Commission endorses that audit committees should be constituted, it is also endorsing that audit committees should have a minimum size of three members and should contain of exclusively non-executive directors (NEDs). Where a larger number of audit committee size exists, it is probably that possible challenges emerging from financial reporting issues has the possibility of being disclosed and settled (Mohamad, Shafie & Wan, 2010). Hence, the size of audit committee has been considered and agreed upon with among many researchers as one of the most examined factors and determinants of economic disclosure which positively linked and associated with higher disclosure (Eyenubo, Mohammed & Ali, 2017).

1.8.1.2.2 Audit Committee Composition

Audit Committee members are non-executive directors and will possibly serve on more than one sub-committee. So, the existence of greater number of non-executives members serving in the board is something of a precursor to the wider formation of audit committees in UK listed companies (Adelopo, 2010). The independence of audit committee is measured by the ratio of non-executive members on the committee (Kang, S. & Kim, 2011). The independence of audit committee from management has been considered as an essential and vital characteristic of an audit committee's effectiveness (Blue Ribbon Committee BRC, 1999). Audit committee members should be independent and free from personal links with the managers and economic interests of the company and are therefore efficient performance in exercising the monitoring duties and responsibilities (Fama & Jensen, 1983). Corporate governance regulators e.g. Cadbury, 1992; Smith Report, 2003; UK Corporate Governance Code, 2012 are predominantly concerned with the independence of audit committee (Haslam, 2015). SOX (2002) stipulates that all members of an audit committee should be independent from the management of the company and that audit committee should oversee and monitor the audit of the financial statements as well as the accounting and financial reporting processes. Currently in the US, publicly traded companies must have an audit committee consists solely of independent and outside directors referred to as non-executive directors (Huang & Thiruvadi, 2010). The independence nature of audit committee members indicates that it has no economic interests with the corporation that may intervene with the independence tasks of an audit committee's effectiveness on management and the corporation (BRC, 1999). Prior empirical studies primarily concentrate on the association between managerial
financial reporting decisions and the independence of audit committee but yield mixed results (Haslam, 2015). Audit committee independence is very essential and important to oversee financial reporting process (Koh, laplante & Tong, 2007). There are many empirical studies that provided empirical evidences that independence of audit committee is probably to associate with lower earning management (Davidson, Goodwin-Stewart & Kent, 2005).

1.8.1.2.3 Audit Committee Diligence

The number of audit committee meeting has been considered as a significant element of audit committee effectiveness. There is no absolute and agreed measure and proxy of audit committee diligence among prior studies. However, the most common alternative measure used in many prior studies has been the number of audit committee meetings for each year (Eyenubo, Mohammed & Ali, 2017). The number of audit committee meetings is generally considered a proxy and measure of commitment and diligence. Therefore, lower number of meetings and attendance of audit committee members is an indication and a parameter of a lack of commitment and or insufficient time devoted for effective monitoring (Farber, 2006). The frequency of audit committee meetings and attendance denotes whether the entity is active or not. Audit committee diligence and meetings commonly indicate how audit committee members active are and how they are eager to pursue their terms of reference and goals (Eyenubo, Mohammed, & Ali, 2017).

Madawaki and Amran (2013) reported mixed findings on the impact of frequency of audit committee meetings on the quality of financial reporting. While Vafes (2005) reported a negative association between earnings management and the number of audit committee meetings, Ibrahim and Jaafar (2013) stated that companies’ disclosure of more information is influenced by the frequency of audit committee meeting. Further, Bedard, Chtourou and Courtteau (2004) found no positive relationship between the quality of financial reporting and the frequency of audit committee meetings. Similarly, (Vafes, 2005) emphasized that generally audit committees call for regular and frequent meetings to enhance its effectiveness in conducting and monitoring its role in financial reporting process and internal control.
1.8.1.2.4 Audit Committee Expertise

The lack of audit committees’ accounting and financial expertise raised widespread attention by media and regulators (Hilzenrath, 2002). Albring, Robinson and Robinson (2013) stated that the sterner description of expertise is more consistently connected to proxies for audit committee effectiveness. An emphasize made by the Securities and Exchange Commission (SEC) that the effectiveness of the audit committee could be enhanced by audit committees’ financial expertise in carrying out its financial monitoring and oversight responsibilities (SEC, 1999). Prior literature suggest that audit committee effectiveness could be enhanced and improved by accounting financial expertise (Dhaliwal, Naiker & Navissi, 2010). Financially expertised and knowledgeable members of an audit committee members are more effective and active in monitoring and overseeing the financial reporting process, enhancing the responsiveness and recognitions to events denotative of failure in the financial reporting process, contributing to the improvements and increasing of financial reporting quality (Albring, Robinson & Robinson, 2013). Prior studies reported that there is a significant and negative relationship between both financial expertise of an audit committee and fraudulent financial reporting (Huang & Thiruvadi, 2010). Further, it is indicated that financial expertise of an audit committee facilitates efficient corporate governance practices and transparency of financial disclosure (Carcello, Carl & Terry, 2006). Further, Dhaliwal, Naiker and Navissi (2010) found a positive association between accounting expertise of an audit committee members and accruals quality which is more explicit in the existence of active and efficient audit committee governance. Similarly, Carcello, Hollingsworth, Klein and Neal (2009) revealed a negative and significant relationship between proxies of earnings management and audit committee financial expertise. However, this relationship is restricted to the presence of overall inefficient corporate governance. Consistently, Krishnan and Visvanathan (2008) indicated that there is a positive association between proxies for conservatism and accounting financial expertise of an audit committees suggesting that financial expertise improves audit committee function of monitoring and overseeing which enhances conservative accounting. In the same context, Zhang, Zhou, and Zhou (2007) concluded that accounting financial expertise of an audit committee is negatively related with the likelihood of reporting internal control weaknesses.
Hundal (2013) stated that when concentration of ownership is very high, financial expertise of an audit committee with an association of independence of audit committee members can reinforce investors’ confidence especially in accounting information. Financial expertise of an audit committee is sound for investors. They appear to distinguish between whether the members of an audit committee have accounting or non-accounting financial expertise (DeFond, Hann & Hu, 2005). The SOX (2002) mandates that listed companies at least must have one member in the audit committee who carries specified expertise in accounting or finance domain.

“The Commission shall issue rules, as necessary or appropriate in the public interest and consistent with the protection of investors, to require each issuer, together with periodic reports required pursuant to sections 13(a) and 15(d) of the Securities Exchange Act of 1934, to disclose whether or not, and if not, the reasons therefore, the audit committee of that issuer is comprised of at least one member who is a financial expert, as such term is defined by the Commission”,

1.8.1.3 Ownership Structure

Ownership structure is one of the paramount attributes and characteristics of corporate governance. It is extensively dependent on some factors of country-level corporate governance such as the maturity of the stock market of a particular country and the degree of state’s interference and regulation (Desender, 2009). However, an optimal capital structure and ownership can be determined depending on the firm size, stock market and industry. Foreign ownership is the percentage of shares held by foreigners in a firm divided by the aggregated outstanding shares. Foreign ownership measure considers the shares in the hands of foreign investors other than foreign institutional bodies (Arouri & Hossain, 2014; Fallatah & Dickins, 2012).

Beneish, Miller and Yohn (2012) investigated the effect of IFRS mandatory adoption on the flows of foreign ownership in the European countries. They concluded that countries adopting IFRS significantly attracted more debt investment than equity investment. Further, the impact and relationship between foreign

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4 Please see OECD (2017b), OECD Survey of Corporate Governance Frameworks in Asia
ownership and firms’ performance has been a matter of debate and interest in most prior research. However, most of these studies yield mixed and inconsistent results (Arouri & Hossain, 2014). Moreover, in the context of IFRS adoption and foreign ownership, Sherman and Klerk (2015) concluded that there was no significant relationship between the levels of foreign ownership and IFRS mandatory adoption of South African companies. Contradictory, Lin (2012) suggested that there is a significant and positive association between IFRS mandatory adoption and the levels of foreign ownership i.e. foreign ownership levels may increase as a result of IFRS adoption, in particular, foreign direct investment inflows were possibly more in developing countries than developed countries.

1.8.1.4 External Audit Quality

According to the International Federation of Accountants (IFAC, 2010), the objective of an audit of financial statements:

“Is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The overall objective of the independent auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor’s findings.”

The auditor’s opinion helps to determine the true and fair financial position and operating results of an enterprise. This is considered as most accepted role of the auditors and mandated so by the corporate laws of most countries of the world (Baker & Owsem, 2002; Jayalakshmy, Seetharaman & Khong, 2005; Kumar & Singh, 2011). The external auditor is totally different from the internal auditor. While the internal auditor is appointed by the shareholders, external auditor is to a wide extent regarded in the framework of corporate governance. OCED (2007) describes external auditors as “auditors of an organisation which are not under the control of the organisation and may not report to objectives set by the organisation” (Alabede, 2012). DeAngelo (1986) provided a definition for audit quality which is considered as the most common definition for audit quality. DeAngelo (1986) defined audit quality as “the
market assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system and (b) report the breach”. (Rohaida, 2011).

The involvement of the external auditor has been considered as one measure that could contribute to the effort of corporate governance in acknowledgment of agency problems linked with ownership separation and control, coupled with information asymmetry between absentee of owners and management (Alabede, 2012; Beisland, Mersland & Øystein, 2015; Lin & Hwang, 2010; Lin & Liu, 2009; Ojo, 2009). Accordingly, stakeholders’ confidence in the auditor’s report is attributed to the fact that external auditor is free and independent from the influence and control of the management (Alabede, 2012; Klai & Omri, 2011; Lin & Liu, 2009). The external auditor could encourage management to adopt appropriate and adequate accounting systems and internal controls (Napoca, 2012). Further, external audits acts as an important and significant corporate governance monitoring role and safeguarding the financial reporting integrity (Alabede, 2012; Jensen & Meckling, 1976; Klai & Omri, 2011). External auditors are liable to verify that financial statements are true and fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) in such a way that reflect their true economic substance and the entities’ operating results (Beisland, Mersland & Øystein, 2015; Lin & Hwang, 2010; Ojo, 2009). Besides, Jensen and Meckling (1976) and Watts and Zimmerman (1983) argue that external audit can guarantee the integrity, quality of financial reports and play as an effective control mechanism for monitoring the management behaviours. It is usually presumed the selection of companies to their auditors reflects the level of audit quality (Beisland, Mersland & Øystein, 2015).

Auditor’s choice refers to preference of a company to select its auditor among Big-Four. The auditing market is dominated by large auditing firms, particularly, by four large auditing firms which commonly called as “the Big-Four” auditing firms. These Big-Four auditing firms are Ernst and Young (EY)\(^5\), PricewaterhouseCooper

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\(^5\) The Big-Four auditors, is a group of international firms specialized in accountancy and professional services that undertake the audit function for publicly listed firm as well as many private firms (Chin, 2008). "The UK limited company Ernst & Young Global Limited is the principal governance entity of the global Ernst & Young organization. In many countries (such as the United States, the Republic of Korea, the Netherlands, Sweden and Turkey) its member firms are called Ernst & Young. In some other countries the names are different: for example, in Japan the member firms operate under the name Ernst & Young ShinNihon and in Mexico they are called Mancera. PricewaterhouseCoopers (PwC) refers to the network of member firms of PricewaterhouseCoopers International Limited, a UK
(PWC), Deloitte Touche and Tohmatsu (DTT) and Klynveld Peat Marwick Goerdeler (KPMG). They operate in more than 140 jurisdictions with a workforce of more than 140,000 each and aggregated global income of $103.61 billion in 2011 (Alabede, 2012). Zureigat (2014) argue that Big-Four dominate about 80% of the market share in Saudi Arabia as they provide high level of trust in their audits and better audit quality.

The measure of audit quality still lacks consensus. Many previous researches use the dichotomy ‘Big Four/Non-Big Four’ as a proxy for audit quality (Alabede, 2012; Beisland, Mersland & Øystein, 2015; Soliman & Elsalam, 2012). Such a variable seems to be not so convenient to correctly assess the audit quality for some other researchers (Hoseinbeglou, Masrori & Asadzadeh, 2013; Lin & Hwang, 2010; Lin & Liu, 2009; Tepalagul & Lin, 2015). In the context of this study and following prior literature (e.g., Alabede, 2012; Beisland, Mersland & Øystein, 2015; Soliman & Elsalam, 2012), auditor choice denotes to the choice between the Big-Four external auditors in comparison with the non Big-Four.

1.8.1.5 Corporate Governance Codes

Globally, from early 2000 or late, a lot of countries have their own set of rules and regulations of corporate governance codes in their particular region according to their needs (Alnaif, 2014). Corporate governance codes are commonly sanctioned as quietly flexible rules and regulations to best practice rather than offering a rigid set of rules that must be adhered to pain of sanction (Haskovec, 2012). Corporate governance codes represent a set of guidelines to be used by business entities for running their business and creating a functioning corporate structure (Taylor, 2013). The commonly used definition is straightforward: “codes of corporate governance are defined as a set of
‘best practice’ recommendations with regard to the behavior and structure of the board of directors of a firm”. Corporate governance codes act as a benchmark for shareholders and management against peers, play an active role in practice the good corporate governance practices and work as a communication reference for shareholders. Business entities may use corporate governance codes as a prerequisite requirement for stock market authorities in some countries. Haskovec (2012) stated that board of directors could utilize corporate governance codes to develop active and best practices of corporate governance. Utilization of corporate governance codes does not restricted to board of directors, regulators, policymakers and Stock exchanges accounting profession and even civil society organizations could depend on corporate governance codes to identify trends in governance practices and standards, to restrain politically uncommon excessive CEO pay, or attracting investment without undergoing a process of sanctioning legislation and to improve the market’s brand identity.

Typically corporate governance codes of conduct supply firms with a range of governance guidelines and recommendations. Some codes are not mandated by law, but some are made compulsory to comply with and mandated by law. In some jurisdictions, such as the USA, UK, Germany and Canada, if companies do not adhere to certain provisions of corporate governance code are compelled by stock market authorities to disclose the non-compliance reasons. Business entities adhere their compliance to corporate governance codes to the stock market authorities. Without a code of corporate governance, proxy advisors may be more possibly to implement standards and norms of their own construction. Further, In the absence of corporate governance codes, stakeholders must instead evaluate whether the firm’s behavior is in rigorous adherence to regulations, or whether it is in line with subjective preferences explained by an individual market actor (Haskovec, 2012).

1.8.2 IFRS

IFRS stand for International Financial Reporting Standards which are mainly used by all profit oriented entities for reporting financial results and viable to financial reporting and general purpose financial statements (Tesfu, 2012). IASB is an accounting standards and interpretations which adopted by the International Accounting Standards Board (IASB) (Protiviti, 2010). IFRS are generally reflect predominantly principles-based standards rather than prescriptive and rules-based approach and seek to avoid a rule-book mentality to developing accounting standards (Parera & Khatri, 2008; Protiviti, 2010; Tesfu, 2012; Vinayagamoorthy, 2014).
Chapter 1: Introduction

independent private funded accounting standard-setting body based in London, UK established with a primary mission to develop a global and single set of high-quality standards for the purpose of financial reporting (Parera & Khatri, 2008; Lourenço & Branco, 2015; Tesfu, 2012; Vinayagamoorthy, 2014). It came into existence as the successor organization to the International Accounting Standards Committee (IASC), which was established in 1973 to develop and promote the use and application of the International Accounting Standards (IAS) (Paul & Burks, 2010; Parera & Khatri, 2008; Protiviti, 2010; Ernest&Young, 2008). IASC was emerged by and agreement and effort made by some professional accountancy bodies from several jurisdictions; Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the UK and Ireland and the USA (Protiviti, 2010). From 1973 to 2001, the IASC issued IAS 1 through IAS 41 (Protiviti, 2010; Odia & Ogiedu, 2013). However, on April 1, 2001 IASB swaps the IASC and took over the task and responsibility to build and initiate international accounting standard and call it IFRS (IFRS Foundation, 2010).

IFRS comprises a set of standards, namely 41 IAS issued by IASC; and its Interpretations issued by the Standing Interpretations Committee (SIC) and 16 IFRS; and IFRS Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Lourenço & Branco, 2015; Parera & Khatri, 2008; Protiviti, 2010; Tesfu, 2012). Notwithstanding, currently, the term IFRS is usually used individually to refer this set of standards (IAS and IFRS) (Lourenço & Branco, 2015).

By 2003, there was at least 19 jurisdictions that required and mandate compliance with the international standards (IAS), by which time the first IFRS (IFRS 1) was launched (Ramanna & Sletten, 2009). The number of jurisdictions to permit and/or mandate IFRS for the purpose of preparing financial statements has increased continuously over the last years (Lourenço & Branco, 2015). Currently, it is more than 140 jurisdictions around the world that mandate or allow IFRS, including big economies such as EU, China, Japan, South Korea, Australia, Russia, etc. (Zakari, 2014). However, as of September 2018, at least 9 jurisdictions continue to mandate domestically constituted accounting standards over IFRS (Ramanna & Sletten, 2009; IFRS, 2018). Lourenço and Branco (2015) advocate that the year of 2005 has turned into an important and significant event with regard to mandatory IFRS adoption and was the real initiate to mandate applying IFRS because in this year IFRS has become
mandatory and took place in the EU and Australia. In 2005, listed firms in the European Union were forced to prepare consolidated financial statements in compliance with IFRS (Mohamed & Humaid, 2013; Odia & Ogiedu, 2013; Paul & Burks, 2010). Following is Table 1.1 showing adoption of IFRS around the world.

Table 1.1: Jurisdictions Adoption of IFRS Around the World

<table>
<thead>
<tr>
<th>Region</th>
<th>Europe</th>
<th>Africa</th>
<th>Middle East</th>
<th>Asia-Oceania</th>
<th>Americas</th>
<th>Totals</th>
<th>As % of 166</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countries in the region</td>
<td>44</td>
<td>38</td>
<td>13</td>
<td>34</td>
<td>37</td>
<td>166</td>
<td>100%</td>
</tr>
<tr>
<td>Countries that mandate IFRS Standards for all or most domestic publicly entities</td>
<td>43</td>
<td>36</td>
<td>13</td>
<td>25</td>
<td>27</td>
<td>144</td>
<td>87%</td>
</tr>
<tr>
<td>Countries that mandate IFRS Standards as % of total Countries in the region</td>
<td>98%</td>
<td>95%</td>
<td>100%</td>
<td>74%</td>
<td>73%</td>
<td>87%</td>
<td></td>
</tr>
<tr>
<td>Countries that mandate or permit IFRS Standards for at least some (but not all or most) domestic publicly entities</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>8</td>
<td>13</td>
<td>8%</td>
</tr>
<tr>
<td>Countries that neither mandate nor permit IFRS Standards for any domestic publicly entities</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>2</td>
<td>9</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: http://www.ifrs.org

1.8.3 Financial Reporting Quality

Financial reporting quality is a main interest for all current and potential investors (Chalaki, Didar & Riahinezhad, 2012). Several companies such as Parmalat, WorldCom, Enron, etc were involved in accounting frauds which caused weakened in the investor confidence toward the quality of financial reports and the management team (Klai & Omri, 2011). Failure in financial disclosure has created the necessity to enhance financial information quality and to reinforce managers control by establishing a good structures of corporate governance (Beekes & Brown, 2006; Firth, Fung & Rui, 2007; Karamanou & Vafeas, 2005). Despite the plenteous studies on the effect of corporate governance mechanisms on the quality of financial reporting in developed countries but there is little evidence about this topic in emerging markets especially in India. Currently, interest turned to the study of the relationship of financial reporting and corporate governance in the developing countries which are
Chapter 1: Introduction

rapidly growing and have special features of capital allocation, corporate control and regulations (Bradbury, Mak & Tan, 2006; Dimitropoulos & Asteriou, 2010).

Ensuring the quality of financial reporting process is considered as one of the most important functions of an effective corporate governance (Cohen, Krishnamoorthy, & Wright, 2008). Several authors reported that there is relationship between some corporate governance attributes and a good quality of financial reporting. For example, Jiang and Wang (2008) found that weak corporate governance is associated with earning management in order to meet analyst forecasts. Similarly, Fairuz (2009) concluded that there is an association between both low financial reporting quality and weak corporate governance. This association however was reported with controlling for political influence. Fairuz (2009) also indicated that corporate governance mediates the relationship between the quality of financial reporting and political influence. Further, Bonetti, Magnan & Parbonetti (2016) investigated the impact of country- and firm-level governance on the quality of financial reporting in 14 European jurisdictions. They reported that jurisdiction with strong board-level monitoring and weak enforcement appears to improve the quality of financial reporting, hence suggesting a substitutive impact between firm- and country-level governance. In jurisdiction characterized by strong board-level monitoring firms and strong enforcement demonstrate a stronger level of financial reporting quality than firms with weak board-level monitoring, hence indicating that country- and firm-level governance are complementary.

1.9 Organization of the Study

This thesis is organized in seven chapters. The structure and contents of each chapter is discussed as follows:

Chapter 1: This chapter provides a background to the research which discusses corporate scandals, emergence of corporate governance and IFRS. In light of this background, research motivation and justification, statements of the problems and the questions of the study were also given in this chapter. Besides, the chapter articulated and outlined the main objectives of the study. On the basis of these objectives, the chapter designed the research framework that portrays the variables of the study and the relationship among these variables. In addition, the chapter also
Chapter 1: Introduction

introduces the contribution to knowledge and the significance of the study. Further, a definition of key terms and variables used in this study were also included in this chapter. The final section of this chapter presents an organization and structure of the following chapters in this study.

Chapter 2: An overview of corporate governance and financial reporting practices in the GCC member states and India is provided in this chapter. This chapter is divided into six sections. The first provides an introduction to the chapter. The second gives a background of India and the GCC countries in terms of their political system, population, location, economic indicators and the relationship between these countries. The third section outlines and presents a comparison among India, KSA, Oman and the UAE with regard to corporate governance codes, the regulatory requirements of corporate governance codes and financial reporting in these countries. The fourth section considers financial reporting environment in these countries. The fifth section deals with the relationship between corporate governance codes and accounting standards in India, KSA, Oman and the UAE. Finally, the sixth section concludes.

Chapter 3: This chapter addresses a review of related literature on CG and IFRS adoption and discusses the hypotheses development. This chapter provides the literature review in four-fold streams; studies related to IFRS adoption; studies related to both corporate governance and IFRS adoption; studies related to IFRS and financial reporting quality and studies related to compliance with IFRS. Further, the chapter identifies the research gap based on the discussion of related literature. Finally, this chapter introduces a discussion of corporate governance mechanisms, IFRS adoption, financial reporting quality and compliance with IFRS in order to frame the hypotheses of the study.

Chapter 4: This chapter is devoted to the discussion of the research framework, methodology and design. This chapter has been organized in eight sections. The first four sections consider an introduction to the chapter, the theoretical frameworks of the study, data collection and operational
Chapter 1: Introduction

definition and measurements of the variables. The remaining sections respectively provide techniques of data analysis, data screening and assumptions of regression analysis. Chapter 4 also justifies the two parts of analysis of this research. The first part aims to explore the impact of corporate governance on compliance with IFRS of the listed firms on the stock markets of GCC member states and India, whereas the second aims to empirically investigates the impact of corporate governance mechanisms on financial reporting quality under IFRS in the selected firms of these countries.

Chapter 5: This chapter presents a discussion and analysis of the data to explore the impact of corporate governance mechanisms on compliance with IFRS of the listed firms on the stock markets of the GCC member states and India. This chapter provides a descriptive statistics, correlation analysis and multiple regression analysis. The results in the OLS regression have been presented in this chapter in different sets to serve the objectives and hypotheses framed for this study and enable comparison among the countries.

Chapter 6: An analysis of the impact of corporate governance mechanisms on the quality of financial reporting under IFRS of the listed firms on the stock markets of the GCC member states and India is presented in this chapter. The results are demonstrated in different forms to meet the objectives and hypotheses of the study. Different comparisons among India, KSA, Oman and the UAE have been given and a comparison in the impact of corporate governance mechanisms on the quality of financial reporting between IFRS and the local GAAP is also demonstrated in this chapter.

Chapter 7: This chapter summarizes the key finding of the study, gives some recommendation and the theoretical and practical implications of the research findings. Further, this chapter explains the research limitations and suggests possible future research directions. Following is Figure 1.3 which shows the organization of this study:
Figure 1.3: Organization of the Study
Chapter 2

Corporate Governance and IFRS Practices in India and GCC Member States