

# **Impact of Corporate Governance and Audit Quality on Earnings Management: Evidence from Listed Companies in Sri Lanka**

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## **Abstract**

Financial statements are the most important source of information for investor decisions and the most significant variable that attracts attention is earnings of the company. Earnings management is a manipulation tool used by the preparers of the financial information and this has a significant impact on the decision made by the investors. This study examines the impact of Corporate Governance and Audit Quality on Earnings Management in the Listed Companies in Sri Lanka. Several prior studies have examined this relationship in developed countries. However, there is dearth of literature available in the Sri Lankan context. Moreover, the extant literature provides mixed results and therefore, comprehensive evidence is missing relating to the subject. This study contributes to the existing literature by integrating both corporate governance and audit quality on earnings management which is an under researched area. This study adopts a quantitative research approach that analyses secondary data extracted from the audited financial statements of a sample of 50 non-financial companies using a random sampling technique. The main source of data was the audited annual reports of the sample companies, issued during 2014/15 to 2018/19. Descriptive statistics, correlation analysis and multiple regressions are used to analyze the quantitative data of the study. The findings of this study are useful to the investors to be mindful about relying on financial statements in decision making. Moreover, examining the effectiveness of the corporate governance practices will be of interest to the owners of the business in executing corporate governance mechanisms. The findings provide useful insights to regulators, policy makers and professional accounting bodies to better regulate the quality of audit services performed.

**Keywords:** Audit Quality, Corporate Governance, Earnings Management, Investors, Sri Lanka.