MIC 2016
Management International Conference
Pula, Croatia • 1–4 June 2016

The Impact of Audit Committee on Financial Reporting Quality under the Requirements of the 8th EU Company Law Directive

Ujkan Bajra
University of Ljubljana, Faculty of Economics, Slovenia
University Haxhi Zeka, Faculty of Business, Kosovo
ujkan.bajra@unhz.eu

Simon Čadež
University of Ljubljana, Faculty of Economics, Slovenia
simon.cadez@ef.uni-lj.si

In response to the 8thEU Company Law Directive (Directive 2006/43/EC) we examined the impact of the audit committee function on the magnitude of the financial reporting quality. Using a novel approach, we estimated both the impact of audit committee competencies and as well the audit committee effectiveness as concerns on the financial reporting quality. Unlike the existence of AC, we found that audit committee effectiveness and competencies were associated negatively with the weak financial reporting quality. Further we noticed that the audit committee commitment largely enhanced over the time and from 57% in 2004 reached 95% in the end of the observed period 2013. Next, we found that after the 8thCLD legislated, the level of the corporate governance quality, specifically the audit committee responsibility enhanced by impacting positively on the improvement of the financial reporting quality.

Keywords: board of directors, audit committee, existence of audit committee, effectiveness, competences, financial reporting quality