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Audit committees and financial reporting quality: The 8th EU Company Law Directive perspective

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Highlights

- Audit committee monitoring effectiveness and competencies are positively associated with financial reporting quality.
- Our findings show that audit committee existence is just a necessary, but not a sufficient condition for enhancing financial reporting quality.
- The study's findings suggest that the 8th Directive has had a positive effect on corporate governance quality and, in turn, financial reporting quality in the EU.
- Nevertheless, despite the apparent positive effects of the 8th Directive on financial reporting quality, we also identified room for improvement.

Abstract

In order to increase corporate governance quality, the 8th EU Company Law Directive enacted a mandatory audit committee in publicly listed companies in the EU and defined its tasks and responsibilities. In response to the directive, we examine the incremental value of audit committee monitoring effectiveness and audit committee competencies over the mere existence of an audit committee. We find that audit committee monitoring effectiveness and competencies are positively associated with financial reporting quality, whereas, somewhat surprisingly, the

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