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# STRENGTHENING FINANCIAL REPORTING INTEGRITY: A CONCEPTUAL PERSPECTIVE ON BOARD CHARACTERISTICS AND AUDIT QUALITY

Nurul Husna Shahhimin[1], Mohd Taufik Mohd Suffian[2]*, Ahmad Zoolhelmi Alias[3], Masetah Ahmad Tarmizi[4], Liyana Ab Rahman[5], Siti Marlia Shamsudin[6]

[1]Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400, Tapah Road, Perak, Malaysia
nurulshahhimin86@gmail.com https://orcid.org/0009-0004-3976-2050
[2]Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400, Tapah Road, Perak, Malaysia
taufik815@uitm.edu.my https://orcid.org/0000-0002-6527-119X
[3]Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400, Tapah Road, Perak, Malaysia
ahmad006@uitm.edu.my https://orcid.org/0000-0002-0585-430X
[4]Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400, Tapah Road, Perak, Malaysia
maset810@uitm.edu.my https://orcid.org/0000-0002-3988-4662
[5]Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400, Tapah Road, Perak, Malaysia
liyana748@uitm.edu.my https://orcid.org/0009-0008-0033-1068
[6]Faculty of Accountancy, Universiti Teknologi MARA, Perak Branch, Tapah Campus, 35400, Tapah Road, Perak, Malaysia
sitim008@uitm.edu.my https://orcid.org/0000-0002-5218-6156
*Corresponding Author

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**Abstract:**

This conceptual paper aims to develop an integrated framework explaining how board diversity, the presence of foreign directors, board expertise, and audit quality influence earnings management. Grounded in the Resource-Based View theory, the paper develops a framework illustrating how these factors serve as strategic governance resources to mitigate earnings management and enhance financial reporting integrity. It proposes that a combination of a diverse and competent board of directors and high-quality audit oversight which can improve

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monitoring effectiveness and curb opportunistic management behavior, thereby, limiting opportunistic earnings management practices. The conceptual framework also delineates the interrelationships among these governance mechanisms and identifies research propositions for future empirical studies. This paper contributes to the corporate governance literature by integrating various governance mechanisms into a single conceptual model and offers practical insights to regulators, policymakers, corporate boards, and investors seeking to strengthen the integrity of financial reporting.

**Keyword:**

Financial Reporting Integrity, Earnings Management, Board Characteristic, Board Expertise, Audit Quality

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## Introduction

Earnings management (EM) is the manipulation of financial statements to present a more favourable view of a company's financial health which has significant implications for corporate transparency and investor confidence (Bansal, 2024). Companies that engage in earnings management may obscure their true financial position, leading to misinformed investment decisions and potential financial instability. Research suggests that, particularly financial expertise, play a crucial role in monitoring and curbing such practices (Bilal et al. 2025). By ensuring greater financial literacy among board members, companies can enhance earnings quality and promote financial integrity.

EM is also used as a medium for business approach in which management manipulates financial information to show desirable earnings objectives (Khan, 2022). It frequently involves modifying financial projections or arranging transactions without breaking accounting standards. EM can be carried out using Accruals Earnings Management or through Real Earnings Management (Nguyen et al., 2023; Mohd Suffian, 2021; Suffian et al., 2015), which manipulates actual business activities. The Serba Dinamik Holdings Bhd case is Malaysia's most prominent earnings manipulation scandal between 2021 and 2023. This case shows accrual-based earnings manipulation and reveals major governance, audit, and reporting manipulations in a public company.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
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Four million Ringgit Malaysia was compounded on Serba Dinamik Holdings Bhd by the Securities Commission Malaysia in 2022. In the Kuala Lumpur Sessions Court, the company was accused of providing Bursa Malaysia Securities Berhad with a false statement on Serba Dynamic's earnings (Security Commission, 2022). Due to false or misleading financial statements, they provided to Bursa Malaysia for the quarter ending December 31, 2020, some of its key executives, including the Chief Executive Officer and Chief Financial Officer, have also been charged. Deliberate accrual-based earnings manipulation was evident in these financial records, which inflated revenue and included unverifiable contracts. This enforcement action served as a reminder to other publicly listed companies about the effects of falsifying financial reports and showed the regulator's position on financial integrity.

The Securities Commission Malaysia will undertake enforcement actions under the Capital Markets and Services Act 2007 (CMSA) when earnings management involves earnings manipulations or misleading financial representations. This includes compounding against directors or executives for making misleading statements or neglecting to perform due diligence under Sections 369 and 370. Monetary penalties, like the four million Ringgit Malaysia punishment imposed in the Serba Dinamik Holdings Bhd case in 2022, are another option available to the Security Comission. In more serious situations, individuals can lose their licenses or be prohibited from serving as directors. To protect investor interests, the Security Commission frequently collaborates with Bursa Malaysia to monitor trading, require restatements, or enquire companies to increasingly stringent regulatory oversight.

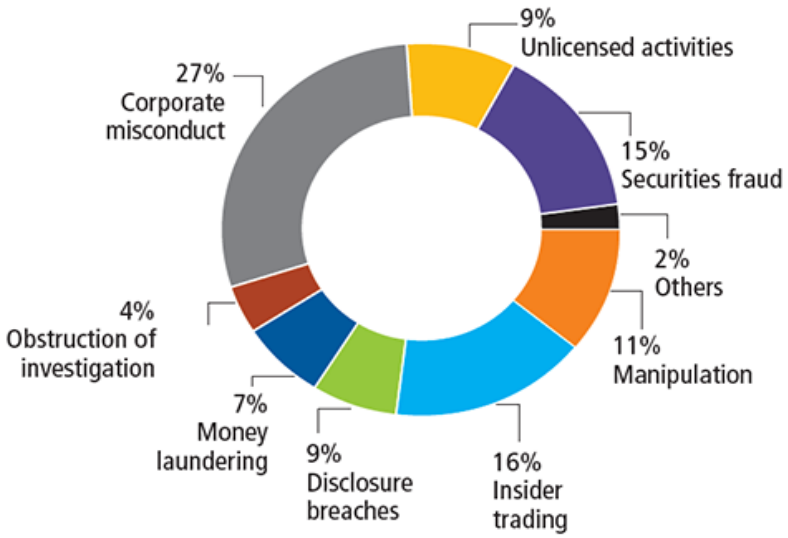



**Figure1: Breakdown of Active Investigation Cases**

Based on the data, it shows that EM should be controlled wisely. One of the important steps in controlling EM is to improve board compositions in corporate governance processes. An effective combination of board composition which comprised of gender diversity, foreign directorship and expert directors may affect the earnings management of the company. Diversity on the board, including gender and professional backgrounds, has been demonstrated to reduce EM and enhance the quality of decision-making (Mohd Suffian, 2021). In order to examine financial records and investigate abnormalities, effective and independent audit groups that work are important. Reducing management control and enhancing board evaluation

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
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Volume: 8 Issue: 29 (September 2026) PP. 519-536

can also be achieved by separating the Chief Executive Officer and Chairman roles (Finkelstein, S., & D'aveni, 1994).

The interaction of board composition such as gender diversity, foreign directorship, and board expertise with EM creates a holistic governance framework that promotes financial stability. Board qualities are thought to impact the amount of monitoring and strategic decision-making within organizations, hence discouraging manipulative financial reporting techniques (Githaiga et al., 2022; Arel et al., 2012). This study intends to add to the knowledge of how various board qualities interact with earnings management to support ethical and sustainable corporate practices by investigating their impact on Malaysian firms. Hence, this study aims to develop an integrated conceptual framework in explaining how the combination of board characteristics and audit quality in mitigating the opportunistic behaviours of management towards the reporting integrity. By synthesizing existing theoretical and empirical evidence, the paper proposes a comprehensive governance model that can serve as a foundation for future empirical research and policy development.

## Underpinning Theory

### *Resource-Based View Theory*

This study uses Resource-Based View (RBV) as it is a strategic management theory that describes how companies may establish and sustain a competitive advantage through their internal resources and capabilities (Barney, 1991). In contrast to traditional models, which focus on external market conditions, this theory believes that company performance is primarily determined by how effectively a company uses its unique and strategically important resources. These resources can be physical (technology, financial resources) or intangible (brand reputation, managerial experience, governance quality). According to Resource-Based View (RBV), not all resources generate greater results, only those that are valuable, rare, inimitable, and non-substitutable (VRIN) will contribute to a company's long-term achievement. The above perspective brings the company's internal characteristics at the centre of strategic decision-making.

The VRIN framework, developed by Barney (1991), considering on the four attributes that make a company's resource strategically valuable. It consists of Valuable, Rare, Inimitable, and Non-substitutable. A valuable resource encourages a company to improve efficiency or effectiveness, such as board financial expertise that enhances oversight and reduces earnings manipulation. A resource is rare if it is not widely available to competitors, like a board with international directors or diverse gender representation in company where such diversity is still uncommon. It is considered inimitable when competitors find it difficult or costly to replicate, especially when the resource is tied to company's culture, implicit knowledge, or history. Lastly, a resource is non-substitutable is where there are no equivalent replacements that can achieve the same strategic outcomes.

Using the Resource-Based View (RBV) theory, it will show the characteristics such as board expertise, audit committee effectiveness, and access to high-quality external auditors often satisfy the VRIN criteria. These governance mechanisms contribute to strategic advantages by enhancing financial transparency, improving investor confidence, and mitigating earnings management. This study can relate that a board with a strong internal audit function that has changed over time is difficult to replicate and becomes a company's special capability. When

such governance resources meet all four VRIN conditions, they become effective tools for sustained competitive advantage, especially in emerging markets like Malaysia where governance quality diverges. Thus, the VRIN model helps explain how intangible governance assets function as strategic controls in the resource-based theory of the companies.

Other than that, Resource-Based View (RBV) may be particularly beneficial for emphasising the importance of board capital, audit quality, and board competence as strategic assets. According to Kim and Lim (2010), board characteristics such as experience, diversity, and independence are strategic assets which enhance company performance through better decision-making and access to essential external resources. These human capital characteristics are generally difficult to duplicate, therefore providing a competitive advantage in terms of effective monitoring and reducing company difficulties. Similarly, establishing a well-functioning audit committee or access to a reliable external auditor (e.g., Big 4) strengthens the company's resource base by improving financial reporting credibility and reducing earnings manipulation. Therefore, corporate governance structures are more than just compliance mechanism, they are also strategic resources that can improved company performance when it is effectively organised.

A study conducted by Julizaerma and Sori (2012) examine the relationship between gender diversity on the board compositions and company financial performance in the Malaysian context. Using a sample of 308 public listed companies on Bursa Malaysia, the study shows that company with female board members are more efficient, particularly in terms of return on assets (ROA) and earnings per share (EPS). The study argues that female on boards contribute distinct perspectives, decision-making approaches, and ethical considerations that enhance board effectiveness. These contributions are particularly valuable in traditionally male-dominated board compositions, where homogeneity may limit strategic thinking and supervision quality. In conclusion, the presence of female directors is considered not only as fulfilling diversity goals but also as a strategic asset contributing to improved governance and company performance.

Using Resource-Based View (RBV) in the Malaysia context, companies with diverse, knowledgeable boards and high audit quality have a greater ability to manage earnings and respond to governance concerns. These governance characteristics serve as operational qualities that promote transparency, stakeholder trust, and market confidence especially in post-crisis contexts like post-1Malaysia Development Berhad case. The study by Hasan et al. (2020) and Ma et al. (2022) supports this theory, demonstrating that audit quality and board expertise may significantly minimise earnings management when considered as company's competencies. As a result, this theory support with the theory that good governance is not only about a framework, but it is also about resource utilisation and capacity deployment. It highlights that the strategic value of governance is based on its originality, potency, and integration into the company's larger frameworks.

**Board Characteristic**

In the context of corporate governance, the characteristics of the board of directors constitute a crucial element that notably impacts company performance and decision-making processes. The board's structure incorporating diversity, expertise, and independence influences the quality of governance and the oversight of management. Key elements of board composition, such as gender diversity, the presence of foreign directors, and the expertise of board members,

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536
have been found to heightened corporate performance and more efficient and effective governance practices. These factors provide broader perspectives and specialized knowledge, accelerating effective oversight and strategic decision-making. Prior studies reveal that a well-composed board can reinforce a company's governance framework, improve accountability, and drive superior financial outcomes (Anuwar & Amir, 2026; Singhania & Panda, 2025).

***Gender Diversity***

Gender diversity refers to the inclusion of both men and women on corporate boards, with the goal of achieving an equitable balance of ideas, skills, and experiences. The idea is consistent with excellent corporate governance concepts, which emphasise transparency, accountability, and inclusive decision-making. Gender diversity on boards has gained significant attention as it is associated with better decision-making and improved corporate performance. Studies show that companies with a higher female board existence, especially those with three or more female directors, performed better financially, with greater earnings on equity, sales, and invested capital (Arioglu, 2020; Izquerdo & Fabra, 2024; Terjesen et al., 2016). Women on boards bring different perspectives, which can lead to more innovative solutions and better problem-solving. The research emphasises the importance of gender diversity in improving company efficiency and governance and recommends for increasing female presence in boardrooms over the world.

As in Malaysia, Securities Commission developed the Malaysian Code on Corporate Governance (MCCG), which serves as guidance for Malaysia's corporate governance framework. In 2021, Malaysian Code on Corporate Governance (MCCG) has updated the requirements emphasising board diversity, director independence, and sustainability disclosures. It is recommended that boards should have at least 30% female directors and that independent directors have stronger tenure limitations. As an effort to increase board independence and accountability, the Malaysian Code of Corporate Governance (MCCG) also advocates for the separation of the Chief Executive Officer and chairman positions. In line with international best practices, these modifications aim to enhance stakeholder confidence, board supervision, and transparency in the governance environment following the COVID-19 pandemic and the 1Malaysia Development Berhad.

As a result, there has been an identified encourage to increase female diversity on corporate boards, with considerable results in recent years reflecting the growing recognition of the benefits of gender diversity. Business Today dated 9$^{th}$ August 2024 reported that female presence on the boards of the top 100 public listed companies (PLCs) has nearly doubled, from 16.6% in 2016 to 31.4% by 2024. As of July 1, 2024, women occupied 274 of 872 total board positions in these leading companies, with 62 of the top 100 PLCs having at least 30% female representation on their boards. These reforms aim to promote inclusive leadership, enhancing governance and boosting corporate performance through diversified board composition.

Gender diversity on boards compositions has emerged as a critical governance mechanism in reducing earnings management, particularly in emerging markets like Malaysia. Female directors are believed with stronger ethical orientation, greater risk aversion, and higher involvement that contribute to more effective monitoring of managerial behaviour. As in Malaysia, Hossain et al. (2025) found that companies with greater female representation on their boards exhibited significantly lower levels of discretionary accruals, suggesting that board with gender diversity are more effective in improving earnings management. This is important

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536
in related companies if it is recovering from financials manipulations, where gaining investor trust with transparent and reliable financial reporting. Therefore, this study proposes:

*Proposition 1: Greater board gender diversity strengthens governance capabilities by enhancing strategic decision-making and financial oversight, thereby reducing earnings management.*

***Foreign Directorship***

One significant component of board composition is the appointment of foreign directors. Such appointments can positively impact corporate governance efficiency and overall organizational performance. Foreign directors are individuals from outside the country where the organization operates; they bring international perspectives and expertise that help the company navigate global markets and adopt best practices from other jurisdictions. Previous studies demonstrate that the decisions made are of high quality. These directors offer objective oversight, mitigate risks associated with local bias, and enhance transparency in corporate reporting (Amer et al., 2025; Karamatnazis & Nikolopoulos, 2026). In Malaysia, for instance, the inclusion of foreign directors on boards aligns with efforts to integrate global corporate governance standards. By fostering leadership diversity combining domestic and international perspectives and broadening the company's vision, the appointment of foreign directors strengthens corporate governance and boosts overall company performance.

Foreign directors can lessen the board's effectiveness because they lack adequate knowledge of local laws and regulations, have poor board meetings' attendance, and have weak access to soft information about the firm, and their presence generates language issues in board meetings (Ashraf & Qian, 2021). Previous studies find that directors increase board effectiveness and reduces earnings management and thus it is beneficial (Chen et al., 2015), while others find that this presence reduces board's effectiveness and increases EM and thus it is costly (Ashraf & Qian, 2021; Almutairi & Quttainah, 2020).

The participation of foreign directors on the boards of Malaysian public listed companies results in improvement of corporate governance and a reduction in earnings management practices. Foreign board members often bring international experience, better ethical standards, and a greater level of independence from internal management influence. According to Mohd Suffian (2021), Malaysian companies with foreign directors' involvement were found to exhibit lower discretionary accruals, suggesting less earnings management. This finding supports the perception that foreign directors are more likely to enforce transparency and compliance with international financial reporting standards, thereby acting as an effective guidance to avoid financial manipulations. Their foreign perspective enables them to query local boards and resist collusion, which can improve financial reporting quality. Hence, this study proposes that:

*Proposition 2: Foreign directorship enhances governance capabilities through international expertise, diverse professional networks, and global governance experience, thereby reducing earnings management.*

***Board Expertise***

The collections of experience, skills, and professional qualifications of board members that allow them to successfully supervise company decisions and ensure the accuracy of financial

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536
reporting are referred as having board expertise. Experience in accounting, finance, law, risk management, or the sector the company operates in are common examples of this expertise. Directors that possess the necessary technical expertise are better able to understand detailed financial statements, challenge decision-making, and notice any warning signs, especially when it comes to areas involving earnings manipulation. By reducing the information asymmetry between management and shareholders, board members with competence in finance or auditing can greatly improve the board's monitoring effectiveness (Obasan & Kuola, 2025). Study by Ashiru et al. (2026) also supports the growing call for board appointments based on expertise, rather than symbolic compliance with independence requirements.

On the other hand, board with high expertise such as having financial background are more accountable in making the best investment decision which align with the goal congruence of the company (Efunniyi et al., 2024; Shirvani et al., 2026). They are more perform better and report more transparently. However, the study highlights the importance of balanced knowledge on boards to avoid excessive dependence on individual abilities or perspectives. Based on Malaysian Code of Corporate Governance (MCCG) 2021, board expertise is more crucial since the new regulations have been established from the corporate governance reforms. This suggests that expertise is not merely a formality, but a functional attribute that strengthens the board's capacity to uphold transparency and accountability.

As Malaysia continues to emphasize board effectiveness through enhanced listing requirements, the presence of technically competent board members is becoming a key governance factor in protecting shareholder interests and improving earnings management. In 2022, Bursa Malaysia made major changes to its Main Market and ACE Market Listing Requirements as an effort to improve financial transparency and enhance systems for corporate governance. It requires Malaysian Public Listed Companies (PLCs) disclose the training provided to their directors, especially in crucial areas like risk management, corporate governance, and accounting, was one of the major changes implemented. With the guidelines given, board members will be more qualified for maintaining a supervision on financial reporting and identify possible earnings management issues (Silva et al., 2026). This is consistent with the increasing focus on board competency and ongoing professional development as crucial instruments to enhance accountability and oversight.

The changes also require that any significant financial manipulations, such as audit problems or accounting misstatements, be disclosed without delayed. By encouraging immediate and transparent interaction between investors and authorities, this change seeks to lower the possibility of continuous financial manipulation to be hide. Furthermore, especially in high-risk settings, companies are increasingly required to reveal comprehensive information about the composition and performance of their audit committees. These changes are consistent with Malaysia's larger governance reforms, which were prompted by manipulations such as Serba Dinamik Holdings Bhd, in which serious financial reporting violations resulted from audit and less board supervision. The changes are as a benchmark to motivate directors and senior management more accountability for maintaining integrity, reliable reporting, and strong internal controls (Bursa Malaysia, 2022). So, this study proposes that:

Proposition 3: Board expertise strengthens governance capabilities by improving financial oversight, strategic judgement, and the ability to detect earnings manipulation, thereby reducing earnings management.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536

***Audit Quality***

Auditing is important in corporate governance because it ensures that financial reporting is accurate, reliable, and transparent. Independent auditors analyse financial statements and accounting methods to ensure that they fulfil applicable requirements and accurately reflect the company's financial health. This independent verification contributes to investor trust by presenting stakeholders with an accurate view of the company's performance and reducing the risks connected with financial manipulations, fraud, or earnings management (Fowler, 2023; Roszkowska, 2021).

Different companies engage in different auditors. Thus, the type of auditor can determine the odds of the manager's participation in EM practices. Companies that hired Big-4 audit firms tend to display lower EM practices and better performance. The Big-4 audit firms are Klyneld Peat Marwick Goerdeler (KPMG), Ernst & Young (E&Y), Deloitte and PricewaterhouseCoopers (PWC). Previous studies have found that a reputable auditor has a better track record in preventing financial statements from reporting and trading (Roszkowska, 2021). Companies usually appoint more credible auditors to see the tendency to better enhance the legitimacy of their transactions and play a role in certification (Ruiz-Barbadillo & Martínez-Ferrero, 2022). The auditor plays the role of an external monitoring mechanism in each of these circumstances. Previous research has found a significant relationship between the type of auditor and EM practices. Companies which have been audited by Big-4 audit firms tend to portray low EM and high company's performance (Suffian et al., 2015). The role of Big-4 audit firms is indispensable in securing high quality of earnings by encouraging minimal practices of EM.

Besides the type of auditor (Big-4 and non-Big-4), audit fees are another proxy to measure audit quality. In contrast with the type of auditor, companies tend to participate in EM practices when the audit fee is costly (Alali, 2011; Choi et al., 2018; Lin & Hwang, 2010). Audit fee paid to the audit firm have been potentially privileged position to anticipate the EM practices and company's performance. There is a common perception that reputable auditors will only select high-profile clients to get better returns. Members of the audit committee have to be aware of how management-related accounting practices can be abused to manage earnings through transaction time and budgeting (Rahman et al., 2013). In addition, the auditors may change the financial statements of accounting standards as well as the government's observation that they do not eliminate EM.

A study showed by Al-Qadasi, Ghaleb and Qaderi (2025) investigated on opinions about audit quality are impacted by multiple responsibilities on Malaysian boards, specifically between the Audit Committee and Remuneration Committee. The study appears that stakeholder perceptions of audit quality are greatly affected by internal board dynamics as well as external auditor characteristics. This is remarkably important for emerging markets like Malaysia, where committee arrangements change significantly. The study also improves a more thorough perception of the different aspects of audit quality, which is influenced by internal involvement, competence, and functional design in addition to external verification processes.

This indication supports the requirements for increasing audit committee effectiveness through refining boards expertise, institutional understanding, and evading excessive committee interlocking, all of which are in line with Malaysia's post-1MDB governance reforms and the greater expectations under the Malaysian Code on Corporate Governance (MCCG 2021). This

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536
study indicates that in order to accomplish earnings management, corporate governance processes must extend beyond compliance checklists and ponder on functional independence, board professionalism, and effective financial supervision. Consequently, this study proposes:

Proposition 4: Higher audit quality strengthens governance capabilities by enhancing financial transparency, accountability, and reporting reliability, thereby reducing earnings management and improving financial reporting integrity.

**Earnings Management (EM)**

The issue of EM has been deeply entrenched in the corporate world. Accounting manipulation has been around for years. To date, there is still no viable solution to this problem (Bansal, 2024). EM is an intrinsic part of the General Accepted of Accounting Procedure (GAAP). EM is a makeup of two elements, namely accrual earnings management and real earnings management. EM methods are categorised as changes in the accrual process or deviations from ordinary activities (Greusard, 2022). Instead of a single definition, past literature has suggested numerous definitions for EM.

Earnings management (EM) can be defined as the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about a desired level of reported earnings (Bansal, 2024). In other words, EM is a deliberate act by managers to manipulate a company's accounting figure to present an outstanding financial standing of the company to investors. The objective of this misdirection is twofold. First, the managers want existing stakeholders to continue their investments in the company. Second, an attractive financial standing will attract potential investors to invest in the company. One of the main reasons behind the high cash flow of a company could be attributed to investors who are misled into making ill-informed decisions with their investments.

Earnings represent the profit of the company that sits at the bottom of the Statement of Profit or Loss (Shetty et al., 2021). It can also be summarised in other items in the financial statement. It also represents the extent to which companies engage in value-added activities. Since the company’s value is directly linked to future earnings, stakeholders inevitably want to be informed of the presence or absence of EM practices among the management. Management also plays a crucial role in how earnings are recorded, and every executive must consider the effect of their accounting decisions or learn how to control their earnings. These strategies are the predecessor to better decisions for the company. The reasons why managers are involved in EM practices are so diverse and interested in the intention of meeting analysts' expectations of incentives. It is to realize bonuses or to maintain a competitive position in the financial markets (Bénabou & Tirole, 2016 ). Adjusted financial reports per financial reporting standards are legally allowed form of EM.

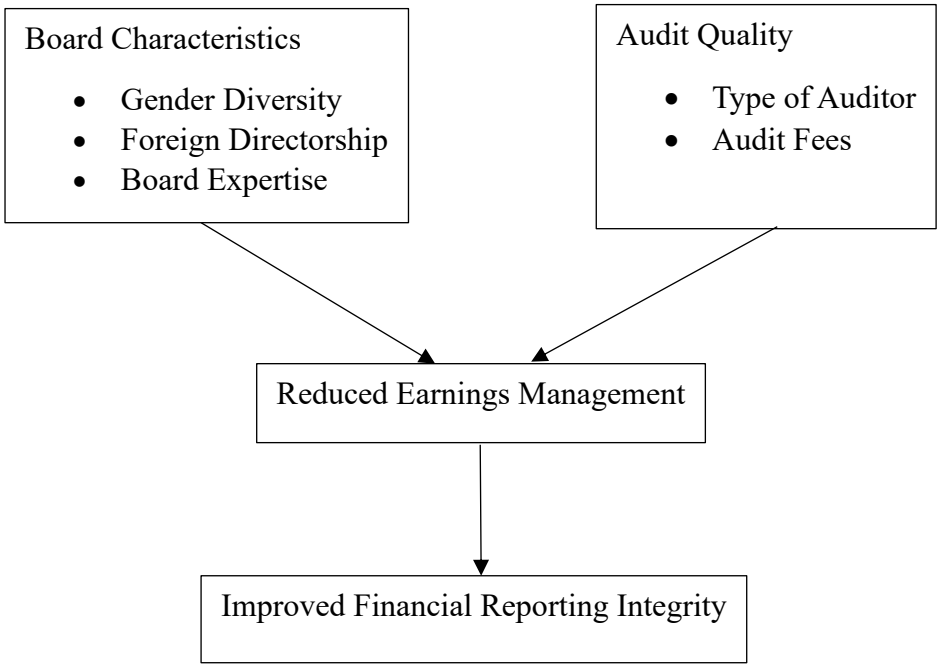
However, if it is beyond the reach of appropriate accounting standards, EM may permutate into false financial reporting. Companies will only participate in EM practices if the benefits outweigh the risks and costs. Researchers have previously argued that companies with high growth prospects have greater incentives to manipulate earnings to avoid unfavourable market reactions to adverse reports of earnings (Piotroski et al., 2015). Therefore, it is noted that the company's earnings are less relevant; and therefore, managers are less likely to adjust their earnings to meet their goals.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536

In summary, earnings management is a multifaceted concept that encompasses the accuracy, reliability, and sustainability of reported earnings. The effective governance of earnings management is critical for ensuring that financial reports reflect a company's true performance, thereby influencing investment decisions and market confidence. As both local and global standards continue to evolve, the emphasis on high-quality earnings will remain paramount in corporate governance discussions. Companies must prioritize robust governance frameworks, adhere to high-quality accounting standards, and remain responsive to regulatory expectations to enhance their earnings quality. Ultimately, the pursuit of high-quality earnings not only bolsters a company's financial health but also contributes to the overall integrity and stability of the financial markets.

**Proposed Conceptual Framework**

The proposed conceptual framework recognises board characteristics and audit quality as two complementary strategic governance resources under RBV. Both contribute to stronger governance capabilities, which reduce earnings management and ultimately lead to improved financial reporting integrity.




**Discussion**

Collectively, board diversity, foreign directorship and board expertise strengthen governance capabilities by enhancing strategic decision-making, financial oversight, accountability, and transparency. Audit quality complements these governance mechanisms by providing an additional layer of independent assurance, thereby reducing managerial opportunism and improving financial reporting integrity.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume: 8 Issue: 29 (September 2026) PP. 519-536

Corporate governance has increasingly become a crucial mechanism in protecting the integrity of financial reporting and curbing earnings management practices (Mohd Suffian, 2021; Idris et al., 2015). Board characteristics have attracted considerable attention by scholars within the corporate governance framework as they have a direct effect on the effectiveness of board monitoring, strategic decision-making and managerial accountability. From the Resource-Based View (RBV), board diversity, foreign directorship, board expertise, and audit quality represent valuable organisational governance resources that enhance firms' governance capabilities. These governance resources are difficult to imitate because they are embedded within organisational structures, accumulated experience, and board competencies. When effectively deployed, they strengthen financial oversight, improve strategic decision-making, reduce earnings management, and ultimately enhance financial reporting integrity. Thus, the board composition has evolved from a regulatory compliance issue to a strategic governance mechanism that can improve the quality of financial reporting. Previous studies consistently suggest that boards characterised by diversity, relevant expertise, and effective oversight contribute to stronger governance practices and reduce managerial opportunism, although the effectiveness of these characteristics often depends on organisational and institutional contexts (Silva et al., 2026; Saona, Muro & Alvarado, 2020).

Gender diversity has been one of the most studied governance mechanisms among the various board characteristics. Female directors are typically linked to higher ethical standards, more independence, a higher degree of diligence and less tolerance of opportunistic managerial behaviour (Zalata et al., 2026; Terjesen et al., 2016). These characteristics enable female directors to enhance board discussion, monitoring activities and reduce the likelihood of earnings manipulation. International evidence has shown that firms with higher female representation on their boards tend to perform better financially and have better governance effectiveness. In Malaysia, the introduction of the Malaysian Code on Corporate Governance (MCCG) and its recommendation of a minimum of 30% female board representation in public listed companies shows the increasing recognition of gender diversity as a strategic governance practice. The growing number of women serving on the boards of Malaysian listed companies further demonstrates that organisations increasingly perceive gender diversity as contributing not only to regulatory compliance but also to enhanced board effectiveness and financial reporting quality (Wong, 2024; Wasiuzzaman & Wan Mohammad, 2020).

The international experience, professional expertise, and broader business networks brought by foreign directors strengthen board independence and strategic decision-making processes (Samara & Yousef, 2023). Their understanding of international governance standards fosters transparency and the adoption of best governance practices. Lower levels of discretionary accruals in firms with foreign directors indicate a reduction in earnings management. In ASEAN, nationality diversity has become a significant factor for board effectiveness and governance quality. However, the effectiveness of foreign directors depends on the institutional environment, cultural differences, and their level of board engagement, rather than solely on nationality (Gallego-Álvarez & Rodriguez-Dominguez, 2025).

Board expertise is widely recognized as a key determinant of effective financial reporting oversight. Directors possessing expertise in accounting, finance, auditing, law, or industry-specific fields are capable of evaluating complex financial information, challenging management decisions, and detecting earnings manipulation (Mesioye & Bakare, 2024). Prior studies consistently demonstrate that financially literate directors strengthen board oversight, enhance the effectiveness of audit committees, and improve the quality of financial reporting

(Suffian et al., 2015; He et al., 2009). Bursa Malaysia also emphasizes continuous professional development and director competence through enhanced listing requirements. These developments highlight the importance of technical expertise in fostering robust corporate governance.

The discussion of board characteristics cannot be separated from the wider issue of earnings management which is one of the major challenges in financial reporting. While some earnings management practices are consistent with accounting standards, excessive manipulation of earnings decreases the quality of earnings, reduces financial transparency, and erodes investor confidence (Alao, Adebiyi & Olaniyi, 2024; Mesioye & Bakare, 2024). Therefore, corporate governance mechanisms have become important in constraining managerial discretion and in protecting the credibility of the financial statements. Previous research consistently demonstrates that effective boards, independent audit committees, and strong governance structures contribute to lower levels of earnings management by enhancing monitoring effectiveness and improving managerial accountability (Mohd Suffian, 2021; Handriani, 2020). These findings highlight the critical role of board characteristics in maintaining the reliability and integrity of financial reporting.

Audit quality further complements board effectiveness by providing an additional layer of independent assurance over financial reporting. High-quality auditing enhances financial statement credibility by strengthening internal control evaluation, detecting material misstatements, and discouraging opportunistic managerial behaviour (Khalid et al., 2026). Following major corporate governance failures, including the 1MDB scandal, audit quality has become increasingly important within Malaysia's corporate governance reforms. Empirical evidence suggests that effective internal audit functions, competent audit committees, and high-quality external auditors collectively contribute to reducing earnings management and improving financial reporting quality. Rather than functioning independently, audit quality reinforces the monitoring role performed by the board, creating a more comprehensive governance system that promotes accountability, transparency, and investor confidence (Efunniyi et al. 2024; Manginte, 2024). Collectively, the literature indicates that board diversity, foreign directorship, board expertise, and audit quality constitute complementary governance mechanisms that strengthen financial reporting integrity and reduce opportunities for earnings management.

## Conclusion

This conceptual paper develops an integrated corporate governance framework linking board diversity, foreign directorship, board expertise and audit quality with earnings management. Unlike previous studies that examine these governance mechanisms independently, the proposed framework demonstrates their complementary roles in strengthening board monitoring and improving financial reporting quality. The paper contributes theoretically by developing an integrated conceptual framework grounded in the Resource-Based View (RBV). It conceptualises board diversity, foreign directorship, board expertise, and audit quality as strategic governance resources that strengthen organisational governance capabilities, reduce earnings management, and ultimately improve financial reporting integrity. The framework also offers a foundation for future empirical studies examining the effectiveness of governance mechanisms across different institutional settings.

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Empirical evidence remains inconclusive due to variations in institutional contexts, corporate governance structures, regulatory frameworks, and methodological approaches across prior studies, despite the growing body of literature. These inconsistencies may stem from firm- and country-specific factors, particularly in rapidly developing economies like Malaysia. Therefore, further research utilizing up-to-date data and diverse study settings is essential to examine the effectiveness of board characteristics and audit quality in curbing earnings management activities. Such research would not only advance the corporate governance literature but also offer practical insights to regulators, policymakers, investors, and corporate boards for strengthening governance practices and enhancing the integrity and credibility of financial reporting.

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