

Impact of Board Characteristics on The Reliability of Financial Statements: Evidence from Central Public Sector Enterprises (CPSEs) In India

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Abstract: This study examines how board composition and attributes affect the reliability and quality of financial reporting in India's Central Public Sector Enterprises (CPSEs). The study examines the relationship between board structure and the prevalence of financial statement errors. It does this by using data from 61 listed CPSEs over a five-year period (2016–17 to 2020–21). This study emphasises how important good board governance is to assuring high-quality financial reporting in government-owned enterprises. The findings show that frequent board meetings and independent board leadership are strongly linked to lower accounting, statutory, and audit-related errors. While larger boards are associated with fewer accounting errors, they are also associated with more governance failures at the director level. Although they are successful in lowering governance and statutory errors, independent directors surprisingly have a higher correlation with accounting errors, which raises questions about their practical involvement or expertise. Quorum levels and gender diversity have little to no impact on error mitigation. The findings highlight the need for strict enforcement of board effectiveness standards and provide empirical support for policy frameworks like the Companies Act of 2013 and SEBI's corporate governance standards. Enhancing transparency, protecting public resources, and supporting India's larger goals for institutional and economic development can all be achieved by strengthening governance practices in CPSEs through board accountability and diversity.

Keywords: Board of Directors, Board Diversity, Financial Statement Reliability, Financial Errors, Corporate Governance, CPSEs, Companies Act 2013.

1. Introduction

In the evolving corporate governance landscape, the reliability of financial reporting remains a critical measure of organizational accountability, especially in entities that manage public funds. Transparent and accurate financial statements are not only essential for evaluating an organization's performance and compliance but also for maintaining stakeholder trust and enabling effective public oversight (Fachrudin & Charvin, 2023)(Bilal et al., 2018). However, recurring financial inaccuracies—whether due to errors in accounting, non-compliance with statutory requirements, or oversight failures—underscore a pressing need to assess the internal mechanisms that govern financial reporting. This study addresses that need by focusing on errors in financial statements as a proxy for their reliability, offering a novel lens through which governance effectiveness, particularly at the board level, can be assessed(Olowofela et al., 2025).

The urgency of this inquiry is especially pronounced in the context of India's Central Public Sector Enterprises (CPSEs). As state-owned entities operating in strategic and high-impact sectors, CPSEs are entrusted with delivering economic value while upholding the highest standards of governance. Despite a robust regulatory framework—including the Companies Act, 2013, Security Exchange Board of India (SEBI) guidelines, and Department of Public Enterprises (DPE) directives—many CPSEs continue to grapple with recurrent financial misstatements, statutory violations, and audit irregularities (Sultana, 2020; Hodgdon et al., 2009). Notably, these are not isolated incidents but often systematic issues, reflecting deeper governance gaps. Repeated accounting errors, lapses in statutory compliance, and failures by directors and auditors to detect or prevent such issues have brought into question the effectiveness of board oversight.

Boards of directors play a pivotal role in ensuring financial integrity through their responsibilities in approving financial statements, overseeing risk management, and maintaining internal controls. This study uniquely investigates how various board characteristics influence the frequency and nature of financial statement errors including errors introduced by accounting staff, statutory non-compliances, oversight failures by directors and auditors, and repeated inaccuracies over time. These types of errors are not just technical shortcomings; they reflect the board's ability or failure to fulfill its fiduciary and regulatory duties (Abdullatif & Al-Rahahleh, 2020; Fachrudin & Charvin, 2023).

To capture this relationship, the study empirically examines how multiple board attributes—such as chairman status (executive vs. non-executive), board size, proportion of independent directors, presence of women directors, frequency of board and independent directors’ meetings, and quorum maintenance—affect the likelihood and severity of financial statement errors in listed CPSEs. Unlike prior research that often isolates individual board features or focuses on private firms (Li & Li, 2020), this study offers a comprehensive, public-sector-focused perspective on how board dynamics affect financial statement reliability (Elmoursy et al., 2025).

The findings have significant implications. For regulators and policymakers such as SEBI, the DPE, and the Comptroller and Auditor General (CAG), the study provides evidence-based recommendations for strengthening board structures and enforcement practices. For CPSE management and shareholders, it highlights governance practices that can reduce financial risk and enhance credibility. For academic literature, it contributes to a growing discourse on public sector accountability by integrating board governance theory with practical financial reporting outcomes (Trivedi, 2016; Hsieh et al., 2020; Bektur & Arzova, 2020). Ultimately, this research supports broader efforts to improve the transparency, accountability, and sustainability of India’s public enterprises. By focusing on the link between board responsibilities and financial misstatements, it aims to reform CPSE governance with both corporate principles and public accountability goals (Bennedsen et al., 2008).

2. Review of Literature

Corporate governance plays a vital role in ensuring the reliability and accuracy of financial reporting. Effective governance mechanisms—such as board composition, audit committees, and auditor independence—are fundamental to minimizing financial misstatements and enhancing transparency (Almaqtari et al., 2020). With a specific focus on CPSEs, this literature review examines existing research on the influence of board characteristics on financial reporting quality (Shinde, 2021).

The reliability of financial statements is a fundamental concept in financial reporting, emphasising the importance of accurate, unbiased information free of material errors. Based on agency theory, it addresses the issue of information asymmetry between managers and stakeholders, promoting trust and transparency in corporate disclosures (Almubarak & Aljughaiman, 2024). Reliable financial reporting ensures that stakeholders, such as investors,

regulators, and the general public, can make informed decisions based on accurate depictions of a company's financial situation. In the case of CPSEs, where accountability extends beyond shareholders to the state and citizens, dependability is critical. Stakeholder theory and resource dependency theory emphasise the importance of board composition, independence, and financial expertise in improving reporting reliability(Lukason & Camacho-Miñano, 2020). Despite regulatory safeguards, persistent reporting errors in CPSEs highlight the need for stronger governance to ensure the accuracy of financial data(Olowofela et al., 2025).

Board independence is widely regarded as a cornerstone of sound corporate governance. Independent directors are expected to provide impartial oversight, thereby enhancing the credibility of financial statements. Rooted in agency theory, independent boards are believed to mitigate agency conflicts by monitoring managerial actions and protecting shareholder interests (Silaen et al., 2016). Several empirical studies have demonstrated a negative relationship between board independence and earnings management, suggesting that independent directors play a key role in curbing financial misrepresentation. However, evidence from the Indian context raises questions about the efficacy of this mechanism(Fathelbab & Abu Quba', 2025). For instance, research on Indian family businesses found board independence to be ineffective in curbing earnings management, especially in first-generation enterprises. This points to the idea that the mere presence of independent directors is insufficient—organizational context and board dynamics significantly influence their effectiveness (Sutopo & Christian, 2017).

Board size also influences a board's ability to oversee financial reporting effectively. According to resource dependency theory, larger boards offer a broader range of expertise and perspectives, which can improve decision-making and oversight(Hakimi & Saidi, 2025). However, excessively large boards may suffer from coordination challenges and diluted accountability, potentially reducing governance efficiency (Belkhir, 2009). Empirical findings on the relationship between board size and financial reporting quality are mixed. Some studies have identified a positive correlation between larger boards and improved integrated reporting, while others argue that beyond an optimal point, increased size can impair communication and hinder effective decision-making, thereby negatively affecting financial disclosure quality (Palacín-Sánchez et al., 2019).

Gender diversity on corporate boards has gained increasing attention in recent years. The presence of women directors is believed to enrich boardroom dialogue and decision-making,

thereby improving governance outcomes. In India, the Companies Act of 2013 mandates the inclusion of at least one woman director on the boards of certain classes of companies to promote diversity and inclusivity (Mnif Sellami & Cherif, 2020)(Gharios et al., 2024). Studies have linked gender-diverse boards to higher-quality financial reporting. For instance, evidence suggests that female board members contribute to better integrated reporting and foster a culture of greater transparency and accountability (Jalan et al., 2020).

Another important aspect of board functioning is the frequency and quality of board meetings. Regular meetings enable directors to monitor management, deliberate on strategic matters, and oversee financial reporting practices. Agency theory posits that increased board involvement enhances oversight and mitigates agency problems (Ali Al-Matari et al., 2012). However, the empirical relationship between meeting frequency and financial reporting quality is nuanced. While some studies show that frequent meetings are associated with stronger oversight, others caution that too many meetings may indicate internal governance issues and do not necessarily translate into better reporting outcomes (Ibrahim Al-Daoud et al., n.d.).

The governance of CPSEs in India is governed by a comprehensive regulatory framework, including the Companies Act, SEBI regulations, and guidelines issued by the Department of Public Enterprises. For instance, Clause 49 of the SEBI Listing Agreement outlines governance norms related to board composition, audit committees, and disclosure requirements (Shinde, 2021). Despite these frameworks, compliance among CPSEs has often been inconsistent. Challenges such as the lack of women directors, insufficient independent director representation, and weak audit committee functioning highlight systemic governance shortcomings that hinder the quality of financial reporting (Silaen et al., 2016).

Financial reporting errors—including accounting misstatements, statutory violations, and recurring discrepancies—can significantly undermine the credibility of financial statements and erode stakeholder trust. Given the scale and public accountability of CPSEs, such errors can have far-reaching consequences. Research has linked higher instances of reporting errors to deficiencies in governance structures, including inadequate board independence, poor audit committee oversight, and limited engagement from directors (Limbasiya & Shukla, 2019). Addressing these governance weaknesses is therefore essential to improving the reliability of financial information in CPSEs (Kamardin et al., 2014).

Much of the existing literature on financial reporting quality has adopted an indirect approach, focusing on subjective assessments of qualitative characteristics such as relevance,

comparability, understandability, and faithful representation. While these studies offer valuable insights, they often rely on the perceptions of financial executives or auditors and do not measure actual reporting outcomes. Importantly, there remains a significant gap in empirical research examining the occurrence and severity of financial reporting errors including accounting errors, statutory non-compliances, auditor and director-related oversights, and repetitive or systemic discrepancies—particularly within the context of Indian CPSEs (Lukason & Camacho-Miñano, 2020).

These types of errors can materially affect the reliability and accuracy of financial statements, and their persistent occurrence raises serious concerns about the effectiveness of existing governance mechanisms (Kamaludin et al., 2023). Despite the critical role of financial reporting in ensuring accountability within CPSEs, no prior research has comprehensively assessed the prevalence, categories, and governance-related determinants of such errors in these enterprises (Liao & Hsu, 2013). This gap is noteworthy, given that unresolved issues in financial accuracy and disclosure directly affect stakeholders' confidence, public governance, and overall economic performance (Bhasker, n.d.)` .

In light of this, there is a clear need for empirical research that systematically evaluates the quality of financial reporting in CPSEs through the lens of observable and verifiable reporting errors. The present study addresses this gap by adopting a comprehensive approach to assess the frequency and severity of financial reporting errors—classified into accounting, statutory, auditor-related, director-related, and repetitive categories—as a proxy for reliability of financial statements. By doing so, it contributes both to academic literature and policy discourse, and highlights specific areas for governance reform and institutional strengthening in India's public sector enterprises.

3. Methodology

3.1 Data Description

The panel dataset employed in this study comprises 61 Central Public Sector Enterprises (CPSEs) listed in India during the period 2016–17 to 2020–21. Data has been meticulously compiled from a variety of official and publicly available sources, including CPSE Annual Reports, Independent Audit Reports, Supplementary Audit Reports, and Compliance Audit Reports issued by statutory authorities.

These sources provided comprehensive information on both corporate governance variables and financial reporting quality indicators. The dataset incorporates a range of variables designed to capture critical aspects of board structure and functioning, as well as to assess the reliability of financial reporting within the selected CPSEs. The key governance-related variables included in the dataset are shown in Table 1 and the variables to assess the reliability of financial reporting are presented in Table 2.

Table 1: Board Characteristics related to Governance

Board Characteristic	Description
Chairman Status	A binary variable indicating whether the board's chair is an executive or non-executive director.
Independent Directors	The number of independent members serving on the board.
Board Size	The total number of directors on the board.
Gender Diversity	The proportion of female members on the board.
Board Meetings	The total number of board meetings held during a fiscal year.
Independent Directors' Separate Meetings	The number of exclusive meetings held by independent directors.
Quorum	The number of directors present at formal board meetings.

Table 2: Errors representing the reliability of financial statements (Less the errors, more reliable are the financial statements)

Error Type	Description
Accounting Errors	Misrepresentation or inaccuracy in financial data.
Statutory Errors	Violations of regulatory or financial disclosure requirements.
Director's Errors	Oversight or governance failures attributable to the board or individual directors.

Error Type	Description
Auditor's Errors	Errors by statutory auditors, including omissions or incorrect audit qualifications.
Repetitive Errors	Recurring inconsistencies in financial reporting over time.

3.2 Data Collection

The study is based on secondary data sourced from multiple official documents over a five-year period (2016–17 to 2020–21) for 61 listed Central Public Sector Enterprises (CPSEs). Key sources include Annual Reports, particularly the Corporate Governance sections; Audit Reports issued by statutory auditors appointed by the Comptroller and Auditor General of India (CAG); and Supplementary Audit Reports and Compliance Audit Reports published by the CAG. Additionally, the study incorporates relevant regulatory updates from the Companies Act, 2013, and guidelines issued by SEBI for listed enterprises, ensuring a comprehensive view of governance practices and financial reporting standards.

3.3 Research Design

This study adopts a quantitative research design, employing both correlation analysis and multiple regression modelling to investigate how various board characteristics influence the reliability of financial statements. The approach enables the identification of patterns and relationships between governance structures and different types of financial reporting errors. The study is based on the hypothesis that better governance leads to fewer financial reporting errors, resulting in more reliable financial statements.

3.3.1 Correlation Analysis

As a preliminary step, Pearson correlation coefficients were calculated to explore the direction and strength of associations between board attributes (e.g., board size, independence, gender diversity) and different categories of financial statement errors. This analysis helps to identify potential multicollinearity among independent variables, which could affect model reliability and also highlight preliminary associations that might justify further investigation in the regression stage.

3.3.2 Regression Analysis

To rigorously evaluate the influence of board characteristics on financial misstatements, we estimate a separate panel-OLS model of the form for each type of error:

Where:

$$\text{ErrorType}_{it} = \alpha + \beta_1 \text{Chairman}_{it} + \beta_2 \text{ID}_{it} + \beta_3 \text{Size}_{it} + \beta_4 \text{Women}_{it} + \beta_5 \text{Meetings}_{it} + \beta_6 \text{SepID}_{it} + \beta_7 \text{Quorum}_{it} + \epsilon$$

- Error Type_{it} = Error type for firm *i* at time *t*.
- α = is the intercept (common for all firms).
- β_j = Coefficients showing how each governance variable influences different error types.
- ϵ_{it} = Error term

Data Processing and Tools

All data cleaning, processing, and analysis were conducted using R and Microsoft Excel. Excel facilitated preliminary data organization and tabulation, while R was used for statistical modeling and diagnostics. In particular, R's advanced regression packages and tools for evaluating model assumptions (e.g., multicollinearity checks, residual analysis) were instrumental in ensuring the robustness of results.

4. Data Analysis

4.1 Descriptive Statistics

Table 3 presents summary statistics for board characteristics and various types of financial reporting errors observed in selected Central Public Sector Enterprises (CPSEs). These descriptive insights provide an initial understanding of the distribution and central tendencies of the key variables used in the study.

Table 3: Descriptive statistics of board characteristics and financial reporting errors in selected Central Public Sector Enterprises (CPSEs).

Variables	Min.	Max.	Mean	Median	1st Quan.	3rd Quan.
Chairman Status	0.0000	1.0000	0.1148	0.0000	0.0000	0.0000
Independent Director	0.0000	9.0000	3.5870	3.0000	2.0000	5.0000
Size of Board	3.0000	18.0000	9.4720	9.0000	7.0000	11.0000
Women Director	0.0000	5.0000	1.2890	1.0000	1.0000	2.0000

No. Of Board Meetings conducted	2.0000	22.0000	8.5080	8.0000	6.0000	10.0000
Separate Meeting of I.D.	0.0000	4.0000	0.7443	1.0000	0.0000	1.0000
Quorum	8.0000	273.0000	74.9400	67.0000	44.0000	96.0000
Accounting Errors	0.0000	39.0000	1.7570	0.0000	0.0000	1.0000
Statutory Errors	0.0000	10.0000	2.0390	1.0000	0.0000	4.0000
Director's Errors	0.0000	5.0000	0.3377	0.0000	0.0000	0.0000
Auditor's Errors	0.0000	6.0000	0.3672	0.0000	0.0000	0.0000
Repetitive Errors	0.0000	16.0000	1.3510	0.0000	0.0000	2.0000

Board Characteristics

The mean of 0.115 indicates that only about 11.5% of firms have an executive chairman, while the median and quartiles are all zero. This suggests that the vast majority of CPSEs have a non-executive or separate chairman structure, consistent with corporate governance norms advocating separation of powers. On average, boards include 3.59 independent directors, with a median of 3. The interquartile range (2 to 5) shows that most companies comply with basic governance requirements, though variation exists. The maximum value of 9 suggests a few boards are heavily weighted with independent members. The total number of directors ranges from 3 to 18, with a mean of 9.47 and a median of 9. This suggests that most boards are moderately sized, with 50% of firms having between 7 and 11 members—a range generally considered conducive to balanced decision-making and oversight. Gender diversity remains limited. Although some firms report up to five women directors, the mean is only 1.29 and the median is 1. This indicates that many boards have minimal female representation, and a substantial proportion may still have none, despite regulatory efforts to improve diversity. The frequency of board meetings ranges from 2 to 22 per year, with an average of 8.51 and a median of 8. The interquartile range (6 to 10) suggests that most firms meet at least quarterly, with several conducting more frequent oversight activities. The average number of such meetings is 0.74, with a median of 1 and a first quartile of 0. This indicates that while some firms regularly convene independent directors separately—as recommended for better accountability—at least

25% do not hold any such meetings. The quorum variable, which likely reflects the number of directors required or present for valid decision-making, shows wide variability (range: 8 to 273), with a mean of 74.94 and a median of 67. This may reflect different board structures or reporting practices across firms, suggesting heterogeneity in board functioning.

Financial Reporting Errors

While the maximum reported value is 39, the mean is relatively low at 1.76, and the median is 0. This indicates that most firms do not report accounting errors regularly, though a few outliers exhibit higher error frequency, potentially signaling internal control weaknesses. With a mean of 2.04 and a median of 1, statutory errors appear somewhat more common. The interquartile range (0 to 4) suggests that while many firms report none, a significant subset encounters regulatory or compliance-related issues more frequently. Errors attributed directly to directors are rare, with a mean of 0.34 and a median of 0. Most firms report no such issues, though a few isolated instances exist. Similarly, auditor-related errors have a low mean (0.37) and a median of 0, indicating limited occurrence. However, their presence in some cases may raise questions about audit quality and oversight effectiveness. The average number of repetitive errors is 1.35, with a median of 0. This suggests that repeated issues in financial reporting are not widespread but do occur in a minority of firms. The third quartile value of 2 underscores that while rare, persistent issues are more prevalent in a subset of companies.

The descriptive statistics reveal several governance challenges in the CPSEs examined: limited gender diversity, inconsistent independent director meetings, and notable variation in quorum and board sizes. On the error side, most firms maintain relatively clean financial records, but certain categories—particularly statutory and repetitive errors—appear more frequently than others, warranting further investigation in the regression analysis.

4.2 Correlation:

This study uses correlation analysis as a preliminary statistical tool to investigate the direction and strength of relationships between various board governance characteristics and different types of errors (such as accounting, statutory, director, auditor, and repetitive errors). It offers an initial understanding of whether variations in one variable are linked to variations in another. The table displays Pearson correlation coefficients for the variables chosen. The table does not show significance values (p-values), but correlations above ± 0.3 are considered moderate, and

those above ± 0.5 are considered strong. For more information on significance testing, see the regression analysis sections.

Table 4: Correlation Matrix of Board Characteristics and Financial Reporting Errors in Selected Central Public Sector Enterprises (CPSEs)

Board Variable	Accounting Errors	Statutory Errors	Director's Errors	Auditor's Errors	Repetitive Errors
Chairman Status	-0.0219	-0.1717	-0.0897	-0.0535	-0.1508
Independent Director	-0.0829	-0.0393	0.2195	-0.0812	-0.1988
Board Size	-0.1627	0.0643	0.3702	-0.0638	-0.1349
Women Director	0.0010	-0.0101	-0.0033	-0.0128	-0.1221
Board Meetings	-0.2677	0.0892	0.3193	-0.1100	-0.0764
Separate ID Meetings	-0.1336	0.1873	0.1614	-0.0353	0.0049
Quorum	-0.2400	0.1971	0.4632	-0.0680	-0.0292

The correlation analysis offers preliminary insights into the relationships between board governance variables and various types of financial reporting errors. While most relationships are weak, a few notable patterns emerge that warrant further investigation. Chairman status shows weak negative correlations with most error categories—statutory errors (-0.1717), director’s errors (-0.0897), and repetitive errors (-0.1508). This suggests that the presence of a non-executive chairman may be modestly associated with fewer governance-related errors. However, the associations are not strong, and no significant relationship is observed with accounting errors (-0.0219) or auditor errors (-0.0535), indicating limited overall influence of chairman status on reliability of financial statements.

The presence of independent directors presents a nuanced picture. A moderate positive correlation with director's errors (+0.2195) suggests that boards with more independent members may report more instances of director-related issues—possibly due to greater scrutiny or transparency rather than governance failure. In contrast, the moderate negative correlation

with repetitive errors (-0.1988) implies that board independence could play a role in preventing recurring financial issues. Other correlations, such as with statutory or auditor errors, are weak or negligible. Board size is moderately positively correlated with director's errors (+0.3702), which may reflect challenges in coordination or accountability on larger boards. However, weak negative correlations with accounting errors (-0.1627) and repetitive errors (-0.1349) suggest that larger boards might be somewhat more effective in mitigating certain types of misstatements, potentially due to a broader distribution of oversight responsibilities.

The number of women directors shows virtually no meaningful correlation with any error type. All coefficients are close to zero (e.g., accounting errors: +0.0010; auditor errors: -0.0128), suggesting that gender diversity on boards does not exhibit a strong linear relationship—positive or negative—with the occurrence of financial reporting errors in this dataset. The number of board meetings correlates negatively with accounting errors (-0.2677), indicating that more frequent meetings may lead to better oversight and fewer financial misstatements. However, the moderate positive correlation with director's errors (+0.3193) could suggest either higher transparency or an increased incidence of board-level governance issues being identified or reported. This variable shows a weak to moderate positive correlation with statutory errors (+0.1873) and director's errors (+0.1614), possibly implying that such meetings are more likely held in response to governance concerns rather than as preventive mechanisms. Its relationship with other error categories is negligible. Quorum size shows a moderate positive correlation with director's errors (+0.4632)—the strongest observed in the matrix—suggesting that larger quorums may reflect more complex governance structures where accountability issues are more frequent or more visible. However, negative correlations with accounting errors (-0.2400) and repetitive errors (-0.0292) hint that a larger quorum could also help reduce operational or procedural financial errors through more rigorous board participation.

These correlations form a foundation for deeper analysis through regression models, which can control for confounding factors and better determine the causal impact of board characteristics on reliability of financial statements.

4.3 Regression Analysis

This study employs regression analysis to rigorously examine the relationships between various types of corporate errors—namely accounting, statutory, director, auditor, and

repetitive errors—and board governance characteristics. Key governance variables include chairman status (executive vs. non-executive), the number of independent directors (IDs), board size, number of women directors, frequency of board meetings (excluding AGMs), separate meetings of independent directors, and quorum size. Unlike simple correlation, regression allows us to control for confounding factors and uncover more nuanced insights into how board structures and involvement influence reliability of financial statements and error incidence.

Table 5: Regression Estimates of Board Characteristics on Different Financial Reporting Errors in Selected CPSEs

Types of Errors→ Board Attributes↓	Accounting Errors		Statutory Errors		Director’s Errors		Auditor’s Errors		Repetitive Errors	
	Estimate	t value	Estimate	t value	Estimate	t value	Estimate	t value	Estimate	t value
(Intercept)	9.3933	6.019***	3.4862	4.418***	-0.4899	-1.949*	1.153	3.374***	4.8856	5.669***
Chairman Executive	-2.368	-2.808**	-0.826	-1.937*	0.1619	1.191	-0.3326	-1.801*	-1.6098	-3.457***
Independent director	0.5244	2.298*	-0.317	-2.747**	-0.1071	-2.913**	-0.0316	-0.632	-0.248	-1.968*
Size	-0.5733	-2.873**	-0.0561	-0.556	0.0828	2.575**	-0.0274	-0.627	-0.1466	-1.331
Women Director	0.0749	0.265	0.1173	0.822	-0.0083	-0.182	0.0237	0.383	-0.1169	-0.75
No. of Board Meetings	-0.6141	-3.468***	-0.3761	-4.201***	-0.0378	-1.325	-0.0973	-2.509*	-0.4019	-4.11***
Separate meeting of I.D.	-0.8058	-1.837*	0.5065	2.284*	0.0094	0.133	-0.0499	-0.519	0.0499	0.206
Quorum	0.0255	1.554	0.0399	4.801***	0.0098	3.704***	0.0061	1.703	0.0328	3.62***

Source: Calculated by Authors (* =<0.05; ** =<0.01; ***= < 0.001)

The regression analysis provides key insights into the role of board governance in mitigating financial statements errors across various categories within CPSEs.

Non-Executive Chairman

The presence of a non-executive chairman is significantly associated with a reduction in accounting, statutory, auditor, and repetitive errors. This finding underscores the role of independent board leadership in enhancing oversight and ensuring compliance with legal and regulatory standards. Boards led by non-executive chairpersons appear to exercise stronger governance, leading to fewer financial reporting inaccuracies.

In particular, the highly significant negative coefficient for repetitive errors suggests that independent leadership is critical in implementing corrective measures and breaking cycles of

recurring errors. However, a non-executive chairman does not significantly reduce director-specific errors, likely due to the collective nature of decision-making failures or limited influence over day-to-day board behaviors.

Independent Directors

While independent directors are generally seen as guardians of governance, the analysis reveals mixed outcomes. Surprisingly, their presence correlates with an increase in accounting errors. This counterintuitive result may reflect issues with their true independence, engagement levels, or expertise in financial matters.

However, independent directors significantly reduce statutory errors, aligning with governance theory that highlights their ability to enforce compliance and monitor adherence to legal standards. They also contribute to fewer governance errors directly attributable to the board, reinforcing the importance of independent oversight for ethical behavior and accountability. Nonetheless, their presence does not significantly impact auditor errors, indicating potential limitations in addressing audit-related concerns.

Board Size

Larger boards are associated with fewer accounting errors, suggesting that increased expertise and shared responsibility may enhance scrutiny and control over financial reporting. However, board size does not significantly influence statutory, auditor, or director errors. This finding implies that while larger boards may bring diverse perspectives, coordination challenges or responsibility diffusion may dilute their effectiveness in addressing director-specific governance issues.

The negative but statistically insignificant coefficient for board size suggests that simply increasing board membership is insufficient to improve outcomes unless accompanied by high-quality engagement.

Women Directors

The coefficient for women directors is statistically insignificant across all error types, indicating no meaningful direct impact of gender diversity on financial reporting errors. This finding suggests that gender diversity, while important for broader organizational goals, is not a decisive factor in mitigating governance failures or preventing error repetition in this context.

Board Meetings

Frequent board meetings show a strong negative correlation with accounting and statutory errors, emphasizing the role of regular engagement in improving financial oversight and

reducing non-compliance risks. Regular meetings also have a significant negative impact on audit-related errors, likely due to enhanced review of audit reports and timely resolution of audit concerns.

While meeting frequency has a negative but statistically insignificant impact on director errors, it is evident that frequent and substantive engagement is necessary to address internal governance challenges. Moreover, frequent meetings significantly reduce repetitive errors, highlighting their importance in timely review, error correction, and recurrence prevention.

Separate Meetings of Independent Directors

Separate meetings of independent directors show a negative coefficient for accounting errors, suggesting their potential in providing a platform for independent scrutiny. However, their positive and statistically significant coefficient for statutory errors indicates a reactive approach, where such meetings are convened to address existing compliance issues rather than proactively preventing them.

These meetings show no significant impact on resolving director-level governance issues, audit concerns, or repetitive errors, highlighting their limited role in addressing broader governance challenges.

Quorum Size

Quorum size shows a non-significant association with accounting errors, indicating that higher attendance alone does not guarantee improved financial oversight. Counterintuitively, quorum has a significant positive effect on statutory errors, suggesting that well-attended meetings may lack substantive discussions or critical oversight.

The positive and highly significant coefficient for quorum on repetitive errors implies that increased attendance may be a response to ongoing issues rather than a preventative control measure, further emphasizing the need for substantive engagement rather than procedural compliance.

Findings and Discussion

The findings of the study provide crucial insights into the role of board governance in mitigating financial statement errors within CPSEs. The presence of a non-executive chairman is shown to significantly reduce accounting, statutory, auditor, and repetitive errors, underscoring the importance of independent board leadership in enhancing oversight and fostering compliance with legal and regulatory standards. This highlights the critical role of

such leadership in implementing corrective measures to prevent recurring errors, though it appears less effective in addressing director-specific governance failures.

Independent directors emerge as pivotal in reducing statutory and governance errors, aligning with governance theories that emphasize their ability to enforce compliance and monitor ethical practices. However, their association with increased accounting errors raises questions about their actual independence, engagement, or expertise, signalling the need for more rigorous selection and training processes to ensure their effectiveness(Chaabouni et al., 2025). Larger boards, while beneficial in reducing accounting errors, show no significant impact on other error categories, suggesting that diversity and expertise need to be paired with better coordination and responsibility sharing to enhance governance outcomes.

Gender diversity, represented by women directors, does not show a significant direct effect on financial reporting errors, indicating that its impact may be more nuanced and tied to broader organizational dynamics rather than specific governance issues. Frequent board meetings are shown to significantly reduce accounting, statutory, and audit-related errors, reinforcing the value of regular and active engagement in strengthening financial oversight and ensuring timely resolution of issues(Alkayed et al., 2024). However, the lack of impact on director errors points to the need for substantive discussions rather than mere procedural adherence.

Interestingly, separate meetings of independent directors, while useful for scrutinizing accounting issues, appear reactive rather than proactive in addressing statutory and compliance challenges. Quorum size, though positively correlated with attendance, is found to be counterproductive in reducing statutory and repetitive errors, pointing to a procedural rather than substantive focus in some boards(Angsoyiri et al., 2025).

The findings underscore that leadership quality, engagement frequency, and functional independence are far more critical for effective board governance in CPSEs than merely adhering to structural norms or procedural requirements. Cultivating a culture of accountability and precision in financial statements necessitates a combination of independent leadership and active, substantive board participation(Almubarak & Aljughaiman, 2024). While structural factors such as gender diversity and board size hold relevance, they alone are insufficient without meaningful and consistent engagement to drive governance outcomes.

This study adds significantly to the existing literature by empirically examining the relationship between board attributes and financial statement reliability within the unique governance framework of India's Central Public Sector Enterprises (CPSEs). While previous research has

primarily focused on private sector firms or used subjective proxies such as accruals-based earnings management or perceived quality indices, this paper deviates from the norm by using objective, quantifiable financial reporting errors—derived from audit observations, CAG reports, and statutory violations—as the primary measure of financial reporting reliability. In doing so, it directly addresses a critical gap in the literature: the limited empirical investigation of actual reporting lapses in the public sector (Aluchna & Kuszewski, 2020).

This study's findings synthesise and extend prior theoretical insights by drawing on Agency Theory, which proposes that well-structured boards can reduce information asymmetries and mitigate opportunistic managerial behaviour. Furthermore, Stewardship Theory reinforces the idea that directors, particularly in a state-owned enterprise framework, can serve as custodians of the public interest by ensuring that financial disclosures are accurate and transparent. The study also uses Signalling Theory to explain how certain board characteristics—such as independence, gender diversity, and meeting frequency—act as external indicators of governance strength and financial discipline, boosting investor confidence (Abdullatif & Al-Rahahleh, 2020). By combining these theoretical frameworks with empirical data from a large panel of Indian CPSEs, the study bridges the gap between governance design and reporting outcomes. It specifically demonstrates how board structure, composition, and conduct all have a significant impact on the likelihood and nature of financial misstatements. Furthermore, it contextualises the findings within the unique regulatory and sociopolitical environment of public enterprises, contributing to the broader discussion of corporate governance in emerging economies (Selvaraju, 2022).

Practical and Policy Implications

This study contributes to the broader discourse on public sector governance by empirically demonstrating the mechanisms through which board attributes can reduce financial statement errors in state-owned enterprises. The results emphasize the urgent need for reforms that go beyond board composition to focus on enhancing the efficacy, accountability, and responsiveness of boards. Such changes are essential to ensure that governance practices not only meet regulatory standards but also foster transparency, integrity, and long-term organizational effectiveness.

Policymakers and organizational leaders should focus on improving board processes, selecting truly independent directors, and ensuring that diversity and size translate into meaningful

contributions to governance. These measures will be vital in addressing financial statement errors and enhancing the overall reliability, accountability and transparency of CPSEs. Regulators such as SEBI, Department of Public Enterprises (DPE) and CAG of India should consider conducting periodic governance audits, particularly for CPSEs that make repeated financial misstatements. The study emphasises on the importance of ensuring true board independence, which includes appointing directors with financial expertise to ensure reliability of financial statements. Continuous capacity building for board members in financial regulations, ethics, and risk management could improve oversight and prevent repeat errors.

Conclusion

The analysis highlights the critical roles of independent leadership, active board engagement, and substantive discussions in mitigating financial statement errors making them more reliable. While certain procedural measures, such as quorum and separate meetings, appear insufficient to address deeper governance issues, factors like frequent board meetings and the presence of independent directors play pivotal roles in enhancing compliance and oversight. The findings call for a focus on quality engagement and proactive governance practices to effectively address financial statement errors within CPSEs thereby improving the reliability of financial statements. Despite its contributions, this study has limitations of the sample size as the dataset only includes 61 listed CPSEs, which may limit the findings' applicability to other public enterprises or unlisted entities. The model assumes that governance changes occur immediately in response to errors; however, some reforms may take longer to implement and are not captured in short-term panel data. Building on the current study, future research can investigate a larger data set and base on the interviews with board members, auditors, and regulatory officials can supplement quantitative findings by revealing the internal motivations and constraints driving governance reforms. By comparing CPSE governance responses to those of other emerging economies, future research can identify best practices and culturally embedded governance patterns.

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