

**EARNINGS MANAGEMENT IN MALAYSIA:  
THE ROLE OF AUDIT COMMITTEE CHAIRMAN**

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**2010**



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# **EARNINGS MANAGEMENT IN MALAYSIA: THE ROLE OF AUDIT COMMITTEE CHAIRMAN**

**A thesis submitted to the Postgraduate School in partial**

**Fulfilment of the requirement for the degree**

**Master in Business Administration (Accounting)**

**By**

**Azni Suhaily Binti Samsuri**

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## ***ABSTRAK***

*Kajian ini bertujuan untuk menyiasat mengenai hubungan di antara pengerusi jawatankuasa audit komuniti dan pengurusan pendapatan di Malaysia. Kajian ini cenderung untuk memeriksa beberapa peranan pengerusi jawatankuasa audit komuniti (akauntan, senior auditor, interlog dan status sosial) di dalam pengurusan pendapatan. Pengurusan pendapatan digunakan sebagai ‘discretionary’ akrual di dalam kajian ini. Pengukuran ‘discretionary’ akrual menunjukkan tiada kesan ke atas peranan pengerusi jawatankuasa audit komuniti. Walau bagaimanapun, pembolehubah-pembolehubah lain menunjukkan hubungan iaitu saiz syarikat dan pulangan ke atas ekuiti syarikat. Kajian ini adalah untuk memperluaskan lagi kajian dengan mengetengahkan pengerusi jawatankuasa audit komuniti dengan status sosial dengan kaitan pengurusan pendapatan. Penemuan kajian menunjukkan tiada kaitan hubungan antara pengerusi jawatankuasa audit komuniti dan pengurusan pendapatan. Sebagai kesimpulan, kajian ini amat penting kerana pengkaji menumpukan kepada pengerusi jawatankuasa audit komuniti di mana kurang dibincangkan di dalam kajian-kajian di Malaysia.*

***Katakunci:*** Pengerusi jawatankuasa audit komuniti, ‘discretionary’ akrual,

*Malaysia*

## **ABSTRACT**

This study investigates the relationship between audit committee chairman role and earnings management in Malaysia. This study specifically examines several roles of AC chairman (accountant, former senior auditor, interlock and social status) on earnings management. The earnings management is refer as discretionary accruals on this paper. The measurement on discretionary accruals shown there is no impact on AC chairman role. However, other variables shown the relationship namely size of firm and return on equity of company with discretionary accruals. This study also contributes to the growing of the literature by representing the AC chairman and social status with regards on earnings management. The findings show no relationship with AC chairman and status that lead to earnings management. Thus, this study very important because the research are focus more on AC chairman itself which has lack discussion especially in Malaysia studies.

**Keywords:** Audit committee chairman, discretionary accruals, Malaysia

## **ACKNOWLEDGEMENT**

### **In the name of Allah SWT, the Most Gracious and the Most Merciful**

Thank you to Allah SWT for the blessing and guidance for me to go through all the journeys to complete this paper.

It is my pleasure to thank those who made this thesis possible. I am thankful to my supervisor, Dr. Mohd ‘Atef Md Yusof, whose encouragement, guidance and support from the initial stage to the final stage that enable me to understand of this subject.

Special gratitude to my mum, Azizah Binti Said for her patience and kindness. Deep in my heart the dedication for my late father, Samsuri Bin Saad, and all family members for encouragement, joy, and happiness.

Lastly, my regards and blessings to all of those who involved directly and indirectly, and who supported me in any respect during the completion of this project. Thank you for this wonderful journey.

## TABLE OF CONTENTS

PERMISSION TO USE	i
ABSTRAK	ii
ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
LIST OF ABBREVIATIONS	viii

### CHAPTER 1: INTRODUCTION

1.1	Background of study	1
1.2	Problem statement	5
1.3	Research question	6
1.4	Research objectives	6
1.5	Significance of the study	6
1.6	Scope and limitations of the study	8
1.7	Conclusion	8

### CHAPTER 2: LITERATURE REVIEW

2.1	Introduction	9
2.1.1	Earnings management and Audit Committee	9
2.1.2	Corporate governance and Role of Audit Committee	
	Chairman	14
2.1.3	Audit Committee Chairman Expertise and Experience	17
2.1.4	Audit Committee Chairman and Social Status	19

### CHAPTER 3: RESEARCH FRAMEWORK

3.1	Hypothesis development	22
3.2	Research framework	25

## **CHAPTER 4: METHOD**

4.1	Introduction	26
4.2	Data collection	26
	4.2.1 Data collection procedures	27
4.3	Measurement of Earnings Management	28
4.4	Research design	30
4.5	Operational definition	30
4.6	Analysis	33
4.7	Conclusion	33

## **CHAPTER 5: FINDINGS**

5.1	Introduction	34
5.2	Descriptive statistics	35
5.3	Pearson correlation	38
5.4	Multivariate regression analysis	41
	5.4.1 Diagnostic test	41
	5.4.1.1 Normality of regression	41
	5.4.1.2 Multi collinearity	41
	5.4.1.3 Heteroscedasticity	42
	5.4.2 Regression analysis	43
5.5	Conclusion	46

## **CHAPTER 6: CONCLUSION**

6.1	Introduction	47
6.2	Implication, recommendation and concluding remarks	48
	References	49

## LIST OF TABLES

<b>TABLE</b>	<b>TITLE</b>	<b>PAGE</b>
		<b>NUMBER</b>
Table 2.1	The difference between Jones Model and Modified Jones Model	12
Table 4.1	Sample selection	27
Table 4.2	Industries classification	28
Table 5.1	Descriptive statistics of variables	35
Table 5.2	Pearson correlations	40
Table 5.3	Variance Inflation Factor	42
Table 5.4	Regression results	43
Table 5.5	The results of study	46

## **LIST OF ABBREVIATIONS**

AC	Audit Committee
ACGA	Asian Corporate Governance Association
MIA	Malaysian Institute of Accountants
AICPA	American Institute of Certified Public Accountants
EM	Earnings Management
DACC	Discretionary Accruals
SEC	Security Exchange Commission
LM	Langrange Multiplier

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background of study**

There are many studies on earnings management that link earnings management to quality. Previous study shows that Malaysia has less transparency with low levels of public awareness (Johl, Jubb & Houghton, 2007). During financial crisis in Malaysia (1997-1998), lots of companies have weak financial structure and lack of transparency (Abdul Rahman & Mohamed Ali, 2006) and were also financially distressed. Furthermore, many evidence shows that there is a possible explanation between corporate governance mechanism, specifically audit committee and earnings management.

The former Chair of the Security and Exchange Commission (SEC), Arthur Levitt, has expressed concerns that earnings management is rampant among firms and is adamant to finding the middle ground the truthfulness of the financial reporting process (Levitt, 1998). Thus, it is hope that a well-functioned audit committee would provide some solution to this critical issue. In the same manner, the SEC also specifies that the primary responsibility of the audit committee is to monitor the financial reporting process (Liu, Tiras & Zhuang, 2008).

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