AUDIT COMMITTEE EFFECTIVENESS AND VOLUNTARY DISCLOSURE IN MALAYSIA: PRE AND POST INTRODUCTION OF THE REVISED MALAYSIAN CODE ON CORPORATE GOVERNANCE 2007

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AUDIT COMMITTEE EFFECTIVENESS AND VOLUNTARY DISCLOSURE IN MALAYSIA: PRE AND POST INTRODUCTION OF THE REVISED MALAYSIAN CODE ON CORPORATE GOVERNANCE 2007

By

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Hisham K. M. Madi
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ABSTRACT

Global economic crisis in 2008 has increased the focus on the role of audit committee in ensuring integrity and transparency in corporate reporting. Audit committee characteristics are crucial in determining the ability of audit committee in carrying out its responsibilities effectively. Hence, this study aims to investigate the contribution of audit committee characteristics to audit committee effectiveness over corporate voluntary disclosure by Malaysian listed firms. This study also examines the effect of board of directors’ characteristics on the level of voluntary disclosure. In addition, this study investigates the moderating effect of corporate board governance and concentrated ownership with audit committee effectiveness and corporate voluntary disclosure. Based on annual reports of 2006 and 2009, the study used 292 firms listed on Bursa Malaysia. The empirical results reveal that higher proportion of independent directors on audit committee, and totally independent audit committee members can lead to significantly a higher level of voluntary disclosure. Further, members with accounting expertise and multiple directorships, and also the size of audit committee are significantly associated with corporate voluntary disclosure. Surprisingly, results on board of directors indicate that none of the board attributes appear to determine corporate voluntary disclosure. The results further reveal that neither board governance nor concentrated ownership moderate the association between audit committee effectiveness and the level of voluntary disclosure. The findings of this study show that audit committee characteristics enhance the effectiveness of audit committee as a monitoring role, and hence mitigating the agency problems associated with corporate disclosure practices. Policy makers and regulatory bodies should interpret this evidence as motivation for them to strengthen corporate boards’ practices to effectively deal with the unique features of corporate governance in emerging economies such as Malaysia.

Keyword: Audit Committee, Board of Directors, Corporate Voluntary Disclosure, Corporate Governance, Malaysia
ABSTRAK


Katakunci: Jawatankuasa Audit, Lembaga Pengarah, Pendedahan Sukarela Korporat, Tadbir Urus Korporat, Malaysia
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<tr>
<td>ACI</td>
<td>Audit Committee Institute</td>
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<td>BRC</td>
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<td>The New York Stock Exchange</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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CHAPTER ONE
INTRODUCTION

1.1 Introduction

This chapter is organized into the following sections. Section 1.2 discusses the background of the study. The problem statement is discussed in section 1.3. This is followed by research questions and research objectives in section 1.4 and 1.5 respectively. Next, the significance and contribution of the study are explained in section 1.6. Then, the scope of the study is presented in section 1.7. Finally, section 1.8 presents the organization of the study.

1.2 Background of the Study

Recent collapses of high profile business failures worldwide have captured great attention of investors, regulators, and academicians. The tragic collapses and losses of giant companies such as Enron Corporation, WorldCom and Tyco International in the United States, further reinforced the critical need to improve the corporate governance system in both developed and developing countries. Additionally, other scandals such as Parmalat in Italy and many others (e.g. Bre-X and YBM Magnex in Canada, Royal Ahold in the Netherlands, Credit Lyonnais and Vivendi in France, Metalgesellschaft in Germany, and HIH Insurance Ltd. in Australia), have drawn attention to corporate governance reforms around the world (Bedard & Gendron, 2010; HassabElnaby, Said, & Wolfe, 2007; Kent, Routledge, & Stewart, 2010). Further, a spate of financial crisis in 2008 has been
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