THE EFFECT OF AUDIT COMMITTEE AND EXTERNAL AUDITOR CHARACTERISTICS ON FINANCIAL REPORTING QUALITY

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ABSTRAK

Kajian ini adalah untuk mengenalpasti hubungan di antara ciri-ciri jawatankuasa audit dan ciri-ciri juruaudit luar (pembolehubah bebas) dan kualiti pelaporan kewangan (pembolehubah bersandar). Kajian lepas yang berkaitan dengan kualiti pelaporan kewangan mempunyai skop yang terhad dengan latar belakang Malaysia. Pembaharuan penyelidikan ini adalah ia menyumbang kepada dua dimensi ciri-ciri audit yang berbeza iaitu ciri-ciri jawatankuasa audit dan ciri-ciri juruaudit luar yang dikaji dalam skema yang sama. Kajian ini telah mengunakan sampel daripada Bursa Malaysia, tentunya 100 syarikat tersenarai teratas mengikut saham Bursa Malaysia.

Analisis laporan tahunan telah membuktikan bahawa jawatankuasa audit (berdikari, kepakaran, kerajinan) mempunyai keupayaan ramalan kepada kualiti pelaporan kewangan. Walaupun keputusan menunjukkan pemimpin industri didapati signifikan ke atas kualiti pelaporan kewangan tetapi pada sudut lain, firma audit yang besar tidak signifikan ke atas kualiti pelaporan kewangan. Kajian ini telah menambahkan pemahaman mengenai amalan jawatankuasa audit dan prosedur literatur perakaunan dalam konteks di Malaysia. Kajian ini tidak boleh dibuat kesimpulan umum kerana kajian mengambil 100 syarikat tersenarai teratas dari Malaysia. Keputusan kajian ini mungkin berubah jika kajian akan datang mengambil koleksi sampel yang berbeza.

Kata kunci: Jawatankuasa Audit, Juruaudit Luar, Kualiti Laporan Kewangan
ABSTRACT

This study aims to examine the relationship between audit committee characteristics and external auditors’ characteristics (independent variables) and financial reporting quality (dependent variable). Past studies related to the financial reporting quality has limited scope with regard to Malaysian background. The novelty of this research, therefore, is that it accounts for two different dimensions of audits characteristics i.e. audit committee characteristics and external auditors’ characteristics that are examined in the same schema. The study used the sample firms from the Bursa Malaysia, explicitly top 100 performing firms according to the Bursa Malaysia stock exchange.

The analysis of annual reports has proven that audit committee (independence, expertise, and diligence) has the prediction capability to financial reporting quality. Although results indicate that industry leader has significant impact on financial reporting quality, but on other side, large audit firms do not have any significant effect on financial reporting quality. This study adds the knowledge of audit committee practices and procedures in accounting literature regarding Malaysian context. The results of this study cannot be generalized because study used top 100 performing firms from Malaysia. The results of this study might be changed if future researches use different set of sample firms.

Keywords: Audit Committee, External Auditor, Financial Reporting Quality
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<td>MCCG</td>
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<td>International Financial Reporting Standard</td>
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<td>Financial Reporting quality</td>
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<td>Receivable</td>
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<td>Property, Plant and Equipment</td>
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<td>Return on Assets</td>
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CHAPTER ONE

INTRODUCTION

It is generally believed that fundamental pillar of capital markets is financial reporting quality as efficient resource allocation is determined by such information. When the true performance of a firm is neither disclosed in the annual reports nor reflected in the reported earnings then economy, different companies, individual employees and investors face huge losses (Pergola & Verreault, 2009). Similarly, the evidences of Schipper and Vincent (2003) claim that stakeholders are very much concerned in financial reporting quality disclosed in annual reports as this information highly influence their decision making, specifically information related to investments and contracting.

It is generally argued that information about low and poor financial reporting quality leads to unintended transfer of wealth. The most important role that corporate governance system plays closely monitor financial reporting and earnings quality of a firm (Cohen, Krishnamoorthy, & Wright, 2004). However, significant relation between poor financial reporting quality and different mechanisms of corporate governance is revealed by past studies that particularly discuss hot issues like manipulation, earnings management, flaws in internal control system and financial statement frauds (Beasley, Carcello, Hermanson, & Lapides, 2000; Beasley, 1996; Carcello & Neal, 2000; Dechow & Skinner, 2000; Klein, 2002; Krishnan, 2001). Four major stakeholders watch over corporate governance of a firm which includes external auditors, internal audit, governing board, including audit committee,
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