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**RISK MANAGEMENT COMMITTEE AND AUDIT PRICING : EVIDENCE IN  
MALAYSIA**

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**UUM**  
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## Abstract

The aim of this study is to examine the relationship between audit fees and the formation of risk management committee (RMC). Based on the agency theory, it states that agency problem occur due to information asymmetry between the agent and principal. Thus, the formation of RMC may act as an agent to principal in assessing and disclosing more information regarding the risks that occur in the company. Hence, this will increase the transparency of the company as well as reduce agency problems thus, leading towards higher quality of financial reporting. This study predicts that by forming separate RMC and having members of RMC whom are more independent, expert and female are more likely to demand for higher audit engagement thus, lead towards higher audit fees. Analyses were conducted by using 208 data listed companies in the Bursa Malaysia in 2014. Ordinary Least Square (OLS) regression method was employed to estimate the relationship between RMC and audit fees. The results show that RMC members with independent non-executive and with financial expertise are significantly, positively associated with audit fees since they demand higher level of assurance in auditing. Meanwhile, separate RMC and female members show that they are positively associated with audit fees but are not significant. Therefore, the results provide initial evidence on the relationship between audit fees and RMC in the Malaysian business environment.

**Keywords:** risk management committee (RMC), audit fees, agency theory and Malaysia.

## Abstrak

Tujuan kajian ini adalah untuk mengkaji hubungan yuran audit ke atas pembentukan jawatankuasa pengurusan risiko (RMC). Berdasarkan teori agensi, masalah agensi berlaku disebabkan oleh ketidakseimbangan maklumat antara ejen dan pemilik. Justeru itu, pembentukan RMC boleh bertindak sebagai ejen kepada pemilik dalam menilai dan mendedahkan lebih maklumat mengenai risiko yang wujud dalam syarikat itu. Oleh itu, dengan penubuhan RMC ia dapat membantu meningkatkan ketelusan syarikat dan kualiti pelaporan kewangan. Kajian ini menjangkakan bahawa dengan membentuk RMC berasingan dan mempunyai anggota RMC yang lebih bebas, pakar dan disandang oleh wanita akan meningkatkan permintaan yang lebih tinggi terhadap tugas audit, maka menyebabkan yuran audit yang lebih tinggi. Analisis-analisis telah dijalankan ke atas 208 buah syarikat tersenarai di Bursa Malaysia pada tahun 2014. Kaedah regresi *Ordinary Least Square (OLS)* telah digunakan untuk menganggarkan hubungan di antara RMC dan yuran audit. Dapatan kajian menunjukkan bahawa ahli-ahli RMC yang bebas dan memiliki kepakaran kewangan mempunyai hubungan positif dan signifikan dengan yuran audit disebabkan kerana permintaan pengauditan yang lebih tinggi. Manakala, pengasingan RMC dan ahli-ahli wanita sebagai RMC mempunyai hubungan yang positif tetapi tidak signifikan dengan yuran audit. Justeru, dapatan-dapatan ini menunjukkan bukti awal mengenai hubungan di antara yuran audit dan RMC dalam persekitaran perniagaan di Malaysia.

Kata kunci: jawatankuasa pengurusan risiko (RMC), yuran audit, teori agensi dan Malaysia.

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## List of Abbreviations

OLS	Ordinary Least Square
Obs	Observation
POB	Public Oversight Board
RMC	Risk Management Committee
SPSS	Statistical Package for Social Science
UUM	Universiti Utara Malaysia
VIF	Value Inflation Factor



## **CHAPTER 1 : INTRODUCTION**

### **1.1 Research Interest**

Recent corporate scandal and financial crisis have affected most of the big firms in the west such as Parmalat, Citigroup, Bear Stearns, Enron WorldCom, Lehman brothers and Dexia (Becht, Bolton and Roell, 2011) whereas in Malaysia, such as Oilcorp, Megan Media and Transmile (Zulkifli and Abdul Samad, 2007). This recurrence of business downfall has substantially cast doubt on the effectiveness of the audit committee in overseeing and executing risk management system (Bates and Leclerc, 2009). Therefore, many initiatives have been imposed by the government in order to overcome and reduce these problems. Among the initiatives proposed are by enhancing corporate governance with significant emphasis placed on the role of the risk management. This is consistent with the risk-based approach, where it ensures that the board must place a systems of risk management by increasing the firm's awareness in regards to risk management (Committee of Sponsoring Organizations of Treadway Commission, 2004). Thus, it allows the board to be more focus in making decisions in order to reduce the risk that occur in the firms.

However, the number of public listed companies in Malaysia which form stand alone risk management committee are still limited. This is because most of the companies still combine risk management committee together with the audit committee (Safitri and Meiranto, 2013). In 2014, the Institute of Internal Auditors (IIA) has emphasize that the internal audit process should be separated from process of risk management. This is because the responsibilities of the audit committee is more proactive and involves in a

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