IMPACT OF BOARD CHARACTERISTICS, AUDIT COMMITTEE CHARACTERISTICS AND EXTERNAL AUDITOR ON FINANCIAL REPORTING QUALITY

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ABSTRAK

Tujuan kajian ini dijalankan adalah untuk mengenalpasti faktor-faktor yang mempengaruhi kualiti laporan kewangan di Malaysia. Fokus kajian ini tertumpu kepada ciri-ciri Ahli Lembaga Pengarah dalam memastikan kualiti pelaporan kewangan syarikat. Kajian ini juga turut melihat ciri-ciri Ahli Jawatankuasa Audit, dalam memperbaiki kualiti pelaporan kewangan. Selain dari ciri-ciri Ahli Lembaga Pengarah dan Ahli Jawatankuasa Audit, kajian ini turut mengenalpasti peranan Juruaudit Luar dalam pengaruh kualiti sesebuah pelaporan kewangan. Kajian ini meneliti kualiti pelaporan maklumat dalam laporan tahunan 150 syarikat (bukan syarikat kewangan) yang tersenarai di Bursa Malaysia. Analisis regresi digunakan untuk mengenalpasti impak/kesan pembolehubah tidak bersandar ke atas pembolehubah bersandar. Penemuan ini menunjukkan bahawa ciri-ciri Ahli Lembaga Pengarah, Ahli Jawatankuasa Audit dan Juruaudit Luar mempengaruhi kualiti pelaporan kewangan sesebuah syarikat. Teori Agensi digunakan dalam kajian ini untuk menerangkan peranan Juruaudit Luar, dalam mempengaruhi kualiti pelaporan kewangan sesebuah syarikat.

Kata Kunci: berkualiti Financial laporan, tadbir urus korporat, saiz firma, lembaga pengarah, jawatankuasa audit

ABSTRACT

This study has been conducted to identify the factors that influence financial reporting quality in Malaysia. The study focuses on board characteristics to ensure financial reporting quality. Furthermore, audit committee characteristics have been analyzed to improve financial reporting quality. Along with characteristics of board of directors and characteristics of audit committee, role of Big Four is also analyzed. It is a cross sectional study conducted on companies' annual report. The study has taken a sample of 150 non-financial listed companies of Bursa Malaysia. The regression analysis is applied to inspect the impact of independent variables over the dependent variable. The findings of the research explain that board characteristics, audit committee characteristics and Big Fours have a significant impact over financial reporting quality. This study contributes by supporting agency theory. It gives a simplified framework by including Big Fours as one of the determination of financial reporting quality.

Key Words: Reporting quality, corporate governance, firm size, board of directors, audit committee

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AC	Audit Committee
ACI	Audit Committee Independence
ACS	Audit Committee Size
ACE	Audit Committee Expertise
BC	Board Composition
BE	Board Expertise
BF	Big Four
BOD	Board of Directors
BS	Board Size
CB	Chairman Board
CEO	Chief Executive Officer
CG	Corporate Governance
FR	Financial Reporting
FRQ	Financial Reporting Quality
FS	Firm Size
MCCG	Malaysian Code of Corporate Governance
MFRS	Malaysian Financial Reporting Standards
SC	Securities Commission

CHAPTER ONE

INTRODUCTION

Recent collapses of high profile businesses worldwide have captured great attention of investors, regulators, and academicians. The collapse of high-profiles corporate around the world has been rooted in weakness of the Corporate Governance (CG) and Audit Committee (AC) (Srinivasan, 2005). The disastrous failures and excessive losses of major corporations such as Enron Corporation, WorldCom, and Tyco International in the United States, further reinforced the critical need to enhance the quality of financial reporting in both developed and developing countries (Jennings, 2003). Further, a spate of financial crisis put all key players in the CG like Board of Directors (BOD), AC, managers, and auditors under the microscope (Kirkpatrick, 2009).

Many high-profile cases including major corporations such as Technology Resources Industries, FA Peninsular, Tat Sang, Time dotcom, and Malaysian Airlines Systems have experienced the failure of CG (Hashim & Devi, 2008). Recently, market has been disappointed when Securities Commission Malaysia reprimanded the Mulph International Bhd's Directors for failing to disclose information in a 2010 prospectus in a full and true manner (Wind, 2012).

Undoubtedly, the series of corporate scandals has shattered the trust of investors in financial markets (Ball, 2006). In addition, corporate failures have resulted in a massive decline of confidence of investor in the truthfulness of accounting reports, resulting in the questioning of the transparency and disclosure of accounting statements. The transparency of financial reporting is dependent on the disclosures given by the firms in their annual reports (Graham, Harvey, & Rajgopal, 2005). Financial reporting quality means greater disclosure to ensure greater transparency in order to provide more quality reporting (Singhvi & Desai, 1971).

1.1 Background of the Study

Financial reporting quality is critically significant for the progress and development of confidence of investors. Firms with good quality of Financial Reporting (FR) experience significantly better share price performance (Penman, 2007). Financial reporting quality is considered to be an important mechanism in reducing information irregularity between firm and investors (Jiang, Habib, & Hu, 2011), and hence improve the quality of FR transparency (Akhtaruddin & Haron, 2010). It is also viewed that quality reporting is also important to confirm the safety of rights of shareholders. Investors would be able to make use of the information disclosed for decision making and for other investing activities.

Researchers have also recognized that boards of directors are an important instrument for observing the performance of management and protecting the interests of shareholders and enhancing quality of FR (Beasley, 1996). To confirm the efficiency of the board, the Cadbury Committee (1992) recommended the inculcation of a significant number of independent directors who would ensure independence to the board's decisions. In order to have more effective directors who may act in the interests of the company, the proportion of non-executive directors in the board should be higher. For optimal decision making, non-executive directors in the board are more effective as they can inculcate improvement in the FR (Felo, Krishnamurthy, & Solieri, 2003).

According to agency theory another mechanism of CG is the separation of the roles of the Chief Executive Officer (CEO) and Chairman Board (CB). Besides separation between the CEO and CB, AC and external audit facilitate the decline in the agency costs and increase the quality of FR (Beasley, 1996). Other advocates of the separation between the two roles highlighted that cross checks regarding the performance of management through AC and external auditors will ensure quality in FR (Klein, 2002).

Next, AC size and board size are also hypothetically linked with the capability of directors to monitor and govern management (Carcello & Nagy, 2004), despite the fact that the there is an unclear direction. Cohen, Krishnamoorthy, and Wright (2004) provided evidence in their research that the number of directors has a positive link with FR quality. Furthermore, the number of directors is also positively related to board monitoring (Byard, Li, & Weintrop, 2006).

For restoring the confidence of investors in FR, major consideration has been paid by the regulators and professional bodies on enriching the CG characteristics, as they have a major role in quality of FR. More responsiveness has been given to the requirement of having an independent AC. AC is perceived as a key characteristic for bringing improvement in CG, and regarded as integral part of FR process (McMullen & Raghunandan, 1996).

In the UK, the Cadbury Report (1992) stated that transparency of FR may be compromised by ineffective mechanisms of CG and the inefficiencies by BOD and AC and the external auditors (Cadbury, 1992). In Malaysia, Securities Commission (SC) Malaysia highlights that not all public listed Malaysian companies have been honest while providing their annual reports. Following the revelation by SC, the news has blamed the ACs of listed companies of their failures in protecting the credibility of financial statements (SMSF Adviser, 2014).

The mandatory requirements for the determination of an AC for companies listed in Malaysia came afterwards. However, board of companies in Malaysia is responsible for establishing an effective AC. It is commonly said that only the presence of the AC does ensure that it will be beneficial (Miettinen, 2008). Therefore, the literature provides many qualities that are required to reach the level of independence in AC.

The literature that has been reviewed on effectiveness of the AC has focused on several basic qualities for bringing effectiveness in AC namely; independence, size, experience, and diligence (Xie, Davidson, & DaDalt, 2003). These four basic components have frequently been applied in several studies for the evaluation of AC effectiveness. Three components; AC independence, AC size, and AC experience are considered as most important. AC performance lies on composition of the AC (the independence and experience of its members), and its size (Scarbrough, Rama, & Raghunandan, 1998).

An efficient functioning of AC is also essential to ensure sound and good quality FR. This is beyond the concept of traditional audit because it enhances the confidence of the investor in the reliability and objectivity of the accounting statements. Accordingly, the characteristics of AC are considered as one method to reduce the problems of information asymmetry. This ultimately adds to quality accounting statements as disclosure is a tool to enhance the quality of FR (Cohen & Krishnamoorthy, 2014).

Empirically, AC with independent and capable members was found to be able to monitor the internal management disclosure process, leading to fewer internal control problems, more conservatism accounting, less earnings management, fewer incidents of FR fraud and more frequent and higher quality of reporting (Akhtaruddin & Haron, 2010; Beasley, 1996; Cohen, Hoitash, Krishnamoorthy, & Wright, 2014).

Along with board of directors and audit committee one of the major players of corporate governance is external auditor. External auditors have a major responsibility for enhancing the quality of financial reporting (Fernando, 2013). In several corporate frauds it was found that the external auditors were involved. The efficient AC always chooses the quality auditors as Big Four. In this regard, first important point for Big Four who are good among external auditors, the reputation is the main concern for the large audit firms; these audit company characteristics enforce companies to avoid the coercive decisions (Penman, 2007).

As regulators, professional bodies, and researchers on disclosure claim that economic crisis worldwide as well as financial scandals in some of the big Malaysian corporations are attributed to the reduction of quality corporate reporting (Kirkpatrick, 2009). Thus, there is an urgent requirement to enhance the quality of corporate reporting as the financial markets require clear and true accounting statements to analyze securities which will increase the confidence of investors.

Indeed, all these initiatives and efforts reflect the government's desire in developing and enhancing the Malaysian regulatory framework to reinforce the financial and capital market in Malaysia that could distinguish Malaysia from other countries. Thus, the current study can be seen as unique in that, as it attempts to address the impact of board characteristics along with the AC role in the production of quality FR with the controlling effect of firm size.

1.2 Problem Statement

In emerging markets like Asian countries, one of a major concern of CG is corporate transparency and disclosure practices for bringing quality in FR (Cohen, Krishnamoorthy & Wright, 2014; Byard, Li & Weintrop, 2006). Current corporate collapses and financial scandals, such as Satyam in India, Citic Pacific in China, and SK Networks in South Korea, shows CG failure to enhance quality of FR (Beatty, Liao & Yu, 2013; Ravi, 2014). In Malaysia, the inadequacy of high quality information results in inability of shareholders to assess the operations of the company's business of several public listed firms. Recently, the market has been disappointed when the SC Malaysia reprimanded a property developer for failing to disseminate information in their financial statements (SMSF Adviser, 2014). Therefore, FR quality has come into question.

It is argued that the process of bringing reliability in financial statements and disclosure practices are dependent on CG practices and control of management (Akhtaruddin & Haron, 2010). As part of their duties in ensuring good CG, the AC, for BOD, and the Big Four have the responsibility to ensure accuracy, transparency, and capability of the FR (Cohen & Krishnamoorthy, 2014). However, only presence of the board or the AC does not ensure that its performance would be effective as it is originally perceived. Likewise, only the audited accounts do not guarantee proper disclosure but the auditor and its repute.

In addition to AC characteristics, BOD and Big Four have been described as a key component of determining quality FR (Bansal & Sharma, 2016). For instance, the presence of strong board governance would define the setting of AC of the companies, such as engagement of qualified, skilled, experts and independent directors. However, existing local literature on AC has neglected the effect of strong board governance on enhancing quality FR. To investigate such effect, this study will examine board governance AC and role of Big Four in improving quality reporting practices. This will be done by examining the controlling effect of firm size over the FR quality.

Further, BOD has been introduced as another important component of FR quality. This is because BOD is responsible and answerable to the shareholders for the adequacy and integrity of FR (Moser & Martin, 2012). Strong board governance that leads to enhance AC effectiveness over quality reporting indicates that BOD' characteristics helps in better monitoring for the provision of true and fair financial reports (Carcello, Hermanson, & Ye, 2011).

Along with board of directors and audit committee one of the major players of corporate governance is external auditor. Without the involvement of external auditors corporate frauds are near to possible (Cadbury, 1992). External auditors have a major responsibility for enhancing the quality of financial reporting (Fernando, 2013). In several corporate frauds it was found that the external auditors were involved.

The preceding empirical results indicate a lack of conclusive literature regarding the confidence of investor in the financial statements of the companies, despite the efforts of government regarding improvement of mechanisms of CG. These mechanisms include BOD and board committees. The results are also inconclusive due to the absence of consensus on the ideal level of independence of the board and the independence of the AC (Zona, Zattoni & Minichilli, 2013; Yoshikawa, Zhu & Wang, 2014). Hence the studies up to the extent of board characteristics and the AC independence are still insufficient.

Bédard and Gendron (2010) suggested further research to examine the level of AC independence and board characteristics to improve FR quality. Furthermore, role of big four companies in bringing quality in the FR cannot be ignored.

In short, in the presence of Malaysian code of CG 2002 which was revised in 2007, it was expected that the quality of FR will improve. However, in the reality, revised code fails to show a significant improvement in the FR quality (Zahiruddin & Manab, 2013). So there is a gap between what was expected and what is in the reality, this study intends to empirically examine whether board characteristics, AC characteristics, and external auditor are linked with quality of FR after controlling firm size.

1.3 Research Questions

This research aims to answer the following research questions:

1. What are the relationships between board of director characteristics (composition, size and experience) and financial reporting quality?
2. What are the relationships between audit committee characteristics (independence, size and experience) and financial reporting quality?
3. What is the relationship between external auditor and financial reporting quality?

1.4 Research Objectives

The following are the specific objectives of the present study:

1. To examine the relationship between board of directors characteristics and financial reporting quality.
2. To examine the relationship between audit committee characteristics and financial reporting quality.
3. To examine the relationship between Big Four and financial reporting quality.

1.5 Significance of the Study

The link among AC characteristics and committee effectiveness has not been explored in detail especially along with board characteristics and external audit quality especially in Malaysia for producing quality FR. However, Prior researches in the Malaysia have investigated the association among board characteristics and AC's monitoring role independently with quality FR. This study analyzes the connection among the board characteristics, AC characteristics, and external audit quality (big four) and FR quality. In current research only one controlling variable has been taken i.e. firm size. This study also will add knowledge to the literature of FR qualities in emerging countries like Malaysia.

Furthermore, the study is important for the practitioners, because this study has highlighted the factors that have the capability to enhance the FR quality. From the findings of the study the practitioners can get an overview that which factors they should concentrate more for bringing higher quality in their FR.

1.6 Scope of the Study

The research covers Malaysian stock exchange. Only 150 non-financial sector companies listed at Bursa Malaysia used as a sample for this study. Data is extracted from the annual reports of the companies for the year 2014.

1.7 Definition of Key Terms

1.7.1 Financial reporting quality.

Financial reporting quality means the quality of disclosure. Disclosure in the broadest sense of the word means release of information (Abbott, Daugherty, Parker & Peters, 2015).

1.7.2 Board composition.

Board composition means that composition of board members, like their number, their expertise, their independence, etc. board composition is closely related to the number of outside directors sitting in the board of the company. Board composition should be composed of majority of directors who do not have any commercial or personal stake with the company which may impair their ability to argue or challenge the management (Nyazeva, Knyazeva & Masulis, 2013).

1.7.3 Board size.

Board size means the number of members in the board. The consensus among the board members is compulsory to reach any decision, for which suitable board size is necessary. Empirical findings show that the board size does matter (Zona, Zattoni & Minichilli, 2013).

1.7.4 Board expertise.

Board expertise means the knowledge of the members of the board about accounting, finance and audit. Dehaan, Hodge and Shevlin (2013) highlighted the ability of the BOD to perform their tasks effectively. Only expert board can ask the management. Board expertise will actively help for setting appropriate corporate strategy. This will ensure that companies can meet their targets regarding financial and operational settings.

1.7.5 Audit committee independence.

Audit committee independence means the proportion of independent members in the audit committee. Audit committee independence is considered as a main factor used for the improvement of FR quality (Carcello, Hermanson & Ye, 2011).

1.7.6 Audit committee size.

The number of members in the AC is referred to as AC size. By increasing the number of members in the AC the committee gets more diversified skills and expertise which will certainly enhance the performance of AC and ultimately the FR quality (Yap & Foo, 2012).

1.7.7 Audit committee expertise.

Audit committee expertise means the knowledge members of audit committee about accounting, finance and audit. The effectiveness of the AC is also dependent on the expertise of member of the AC (He, Labelle, Piot & Thornton, 2009). AC members typically have responsibility for oversight over FR process as well as corporate disclosures practices (Klein 2002; Felo, Krishnamurthy & Solieri, 2003) so they must possess accounting, financial and auditing expertise.

1.7.8 External auditor characteristics.

External auditor characteristics means the level of firm i.e. either the firm is among the big four audit firms or not. These big four companies are; PricewaterhouseCoopers (PwC), Deloitte, Ernst & Young (EY) and KPMG. Level of competence of auditor varies from firm to firm, it is because of the many audit firms spend time and money on the training and formal education of their auditors, as a result they have better capacity and capability. Several researchers have argued that the brand name of auditor and the size of audit firms tend to have better strength of monitoring which enables the auditor to produce quality and credible information in the FR (Carcello & Nagy, 2004; Cheng, Liao & Zhang, 2013). In this regard Big Four (BF) this study to ensure quality of external audit. BF represents the major companies in the field of audit that are considered as the best companies.

1.8 Organization of the Thesis

The thesis has been organized in five chapters.

The first chapter describes the background of the study along with research problem, questions and objectives of the study. Significance and scope of the study are also presented in this chapter. Chapter two presents a detailed literature review and previous studies about FR quality, board characteristics, AC characteristics, and external auditor size. The hypotheses development and theoretical framework and underpinning theories are also presented in this chapter. The third chapter provides the methodology of this research including the sampling selection, and measurements of independent and dependent variables. Chapter four contains the tests that have been applied to check the data and then to interpret the analysis of the results drawn from the data analysis. Lastly but not least, Chapter five presents the overall conclusions as well as the discussing the objectives and the findings of the study along with future suggestions and limitation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The studies on quality of Financial Reporting (FR) have seen a vast growth in the few last years. The main reason behind this is the increasing trend of CG. Currently researchers are paying a great attention towards the significance of AC and BOD for improving FR quality (McNeil, Frey & Embrechts, 2015).

In 2001, Bursa Malaysia (formerly known Kuala Lumpur Stock Exchange KLSE) inculcated Malaysian Code of CG (MCCG) as a compulsion for the companies to list in the stock market. It is mandatory for the companies to have a mechanism for monitoring their functions. The monitoring is usually done by the AC, and AC can only monitor it properly if it has sufficient numbers of independent members. The main aim behind such mechanisms of CG is to enhance the confidence of the investors in the financial and capital market. This can be done by ensuring the reliability of the financial statements issued by the companies. In 2007, MCCG (2000) was revised; the improved code (MCCG, 2007) delegates more responsibilities to AC including identification of principle risk and assurance for the compliance of risk minimization systems (Azmi, Samat, Zakaria & Yusof, 2013).

Furthermore, in 2012 the MCCG was revised again. The major changes were suggested in the areas of roles and responsibilities of the board to formalize ethical standards through a code of conduct. The composition of the board should include a Nominating Committee. The committee should be chaired by a senior independent director. Furthermore independence of the independent directors was further stricken.

In the revised code it was suggested to separate Chairman and CEO. Furthermore it was suggested to develop committees of the boards. These committees involve remuneration committee, risk management committee, committee for internal controls, and committee for bringing integrity in the financial reporting. All the committees should be developed in accordance with the listing requirements.

In addition to that, boards and AC were forced to adopt the best practices. The main aim was to ensure that the board and the AC are capable of performing expected responsibilities effectively for providing quality FR. Board and the members of AC play a different role compared to other executive directors in the specific area of FR. Board and individual members of AC effects audit committee's oversight performance over FR process. In this regard, composition of AC out of the BOD is crucial in enhancing the capability of the AC to perform their responsibilities independently and effectively.

An important aspect to consider here is that, in Malaysia, like other countries, the conventional conflicts of agency between the board and shareholders are irrelevant in the companies. This is because of the concentration of the ownership in few large hands (Rahman & Ali, 2006). In such situation, controlling shareholders or inside directors hold private information, and have less motivation to disclose information to external shareholders, because they have an incentive to use it to make decisions that provide personal benefits (Arussi, Selamat & Hanefah, 2009; Armstrong, Guay & Weber, 2010).

According to this, board characteristics, AC characteristics, and external audit quality in the companies with such size is yet to be sufficiently analyzed (Bédard & Gendron, 2010). It is obvious that effective board and AC is burning topic for the regulators, researchers and investors. Considerable interest of having an independent board and effective AC is given by the regulators rather than having only a board and an AC. Importance of independent board and AC has been differently defined in many ways.

Furthermore, the right combination of skills and experience are not only beneficial to shareholders, but are also a means of efficient monitoring (Ferris, Jagannathan & Pritchard, 2003). From AC members point of view, majority of public listed firms in Malaysia believe that better composition of AC (right mix of directors, relevant experience, skill sets) would most improve the effectiveness of AC in discharging its responsibilities (Vafeas, 2000).

Previous studies have highlighted that AC effectiveness construct via FR quality has many dimensions and is influenced by different characteristics of AC, like committee independence (McMullen & Raghunandan, 1996; Scarbrough, Rama & Raghunandan, 1998; Klein, 2002; Felo, Krishnamurthy & Solieri, 2003; Carcello & Nagy, 2004; KPMG, 2009). However, the Blue Ribbon Committee (1999) and Sarbanes-Oxley Act (2002) highlighted another critical dimension for ensuring the effectiveness of AC. This new dimension has gained significant importance in the eyes of regulators and academicians. This new dimension is relations of AC with the internal auditors (Raghunandan, Rama & Read, 2001).

Just like the other board committees, AC is also an operating committee. AC is the most significant sub-committee under the main BOD. AC is responsible for looking after quality of FR and the fulfillment of disclosure requirements. The fundamental function of BOD and specifically AC is, to oversee FR quality. The AC has also to assist the board in assuring transparency in the FR for bringing quality (Daske & Gebhardt, 2006). Furthermore, the committee has to serve the function of liaison between board and Big Four. AC is also responsible for enhancing the independence of external auditor from the influence of management which will enrich quality in corporate reporting.

2.2 Financial Reporting Quality

Financial reporting quality means the fulfillment of disclosure requirements (Singhvi & Desai, 1971). There is no yet definition of FR quality. FR quality depends upon the needs of user of financial statements. Generally, if financial statements are complete, represent a true and fair picture, useful for user, and are developed according to accounting standards then they are considered as quality reports. Disclosure in the broadest sense of the word means release of information. In accounting, disclosure means a company's release of information about its resources and performance to those having reasonable rights to such information (Harris, Omer & Tanyi, 2013). Proper disclosure is required in annual reports. Disclosure should be made appropriately in the financial statements, footnotes, and management discussion (Abbott, Daugherty, Parker & Peters, 2015).

The companies' laws and accounting standards normally prescribe minimum disclosure requirements. Since financial information is critical in this regard. It becomes necessary to assess the extent to which quality reporting is done in preparing the financial statements (Chen, Hope, Li & Wang, 2015).

In one hand, companies who provide quality financial reports by providing detailed business and financial information distinguish themselves from other by giving an abridged level of information that is helpful for the investors and creditors for taking their decisions regarding the company. In the other hand, investors require information to gage the corporation for making their investment decisions like choosing aright portfolio (Johl, Kaur Johl, Subramaniam & Cooper, 2013).

Indeed, quality reporting is helpful for the investors to understand the strategy of the company. This guides the investors regarding the success factors as well as understanding the environment. Investors take the decisions in the same framework, these also shows the steps that the corporations take to remain sustainable. The quality of FR also assists companies in attracting new investors. Along with attracting new investors quality reporting maintains the demand of the company in the share market which ultimately keeps the share prices high (Dehaan, Hodge & Shevlin, 2013).

Many researchers have focused on a particular nature of quality reporting, forecast of management earnings, and documented that there is positive link between issuance of earnings forecast and stock market reaction. Goodman, Neamtiu, Shroff and White (2013) argued that quality reporting decreases information asymmetry between uninformed and informed investors. This consequently enhances the demand and liquidity in the stock of the company. While using bid ask news as a proxy for the information asymmetry, García Lara, García Osma and Penalva (2014) documented a negative relationship between analyst ratings regarding reporting of the firm and bid ask news.

Likewise, Armstrong, Guay and Weber (2010) highlighted that firms usually enjoy low bid-ask spread after the continual increase reporting ratings by the analyst. Cheng, Liao and Zhang (2013) found that companies that are committed to higher level of disclosure have relatively lower level of information asymmetry. Researchers have also shown that companies with better quality reporting enjoy low cost funding in the form of cheaper debt and cheaper equity cost (Albring, Huang, Pereira & Xu, 2013).

Corporate quality reporting is subject to managers' discretion (Fifka, 2013) and management decides the decision regarding holding or disclosing information regarding trade-off between the associated proprietary costs of making such reports and the expected benefits of informed investors (Gigler, Kanodia, Sapra & Venugopalan, 2014). The management of the company has several incentives to disclose their crucial information regarding the company with the help of financial reports.

In short, the quality reporting literature revealed that there is a variety of disclosure information that has been discussed in prior study; Firth, Wong, Xin and Yick (2014) classified reporting in their study with the financial, non-financial perspective and information on outlook, forward looking and historical data. Bertoni, Ferrer and Martí (2013) analyzed the role of CG played by the Australian companies in the decision regarding disclosure of information in the published annual reports. They argued that the disclosure of forward-looking information is viewed as one dimension of FR quality. Based on corporate reporting using graph, Stacchezzini, Melloni and Lai (2016) noted that the use of graph, as a quality reporting form, to communicate accounting information in an annual report shows prominent dimensions of FR management.

Furthermore, some of the researchers have classified quality reporting into three types; financial information, strategic information and non-financial information (Martínez-Ferrero, Garcia-Sanchez & Cuadrado-Ballesteros, 2015; Ismail & King, 2014; Mio & Venturelli, 2013). These kinds provide relevant information for the users of financial statements. These users commonly include stakeholders, bankers and investors. For investors and the borrowers strategic and financial information is very relevant, whereas the other information that is shown in the annual report is relevant for the other stakeholder of the company (Rinaldi, Unerman & Tilt, 2014). This study examines whether the board characteristics, AC characteristics, and external auditor quality are associated with FR quality.

2.3 Board of Directors Characteristics

2.3.1 Board composition.

Board composition is closely related to outside directors sitting in BOD of a company, and is regarded as a proxy of Board composition (Nyazeva, Knyazeva & Masulis, 2013). Board composition can only be ensured by ensuring a sufficient number of directors who are free from the influence of the management and who do not have any direct interest in the company. People who have direct ties cannot be termed as independent because their decisions may impair and they will not be in a position to challenge the management. Yoshikawa, Zhu and Wang (2014) claimed that outside directors are independent in management and more effective at decision control.

Concerning relation between independent board and transparency of FR, Balakrishnan, Billings, Kelly and Ljungqvist (2014) argued that the number of independent non-executive directors in the board enhances the quality of FR. Consistently, Frias-Aceituno, Rodríguez-Ariza and Garcia-Sánchez (2014) reported a positive relationship among independence of directorate and FR quality of the company. The results, with respect to the composition of board, are generally unswerving with the argument that properly constituted boards lead to effective governance. Thus, it would bring to the better-governed firms being "more transparent" and "more timely" with respect to the disclosure (Daske & Gebhardt, 2006). In contrary, Ismail and King (2014) reported an insignificant relation between independence of board and FR transparency of a company.

Generally speaking, agency theory highlights the significance of the Board composition (Eisenhardt, 1989). According to agency theory, Board composition is an important instrument for the monitoring of opportunistic behavior of the board members. The board members have the power to hire, fire and can decide the compensation for the top management. It includes even the CEO of the company. By setting the strategies for the company it represents the benefit of the shareholders of the company. They define the policies and goals for the company for the maximization of wealth of the shareholders (Moser & Martin, 2012).

In addition, board can influence the truthfulness of FR process and has the responsibility to give an independent opinion about performance of the management. The board holds the management accountable in front of the shareholders for the decisions that they had taken (Bainbridge, 2013). Previous researchers have examined the importance of board composition as mechanism of CG in corporate reporting and disclosure. Hambrick, Misangyi and Park (2015) have shown that by increasing the number of outside directors the likelihood and chances of frauds can be minimized. The author suggested that outside directors in the BOD enhances the efficiency of the board in regard to their monetary role over the management, and therefore, decreases reporting fraud. Similarly, Firth, Wong, Xin and Yick (2014) reported that outside directors are adversely related to accounting enforcement actions, indicating that board composed of outside directors is regarded as an important structure of CG for improving quality of FR.

In the Malaysian context, pragmatic researches conducted by the researchers regarding the importance of independence of the board have shown variations in findings. Chen, Cheng and Wang (2015) argued that there is a significant positive impact of Board composition over the earnings quality, proxied by the coefficients of earnings response. His results supported the effectiveness of independence of directorate as a control mechanism for provision of quality FR. Furthermore, Allegrini & Greco (2013) reported a significant linkage between high ratio of independent directors in the board and better quality of audit, proxied with audit fee, improves the quality of FR. The findings of their study highlight the significance of independent board for better monitoring and improved FR. However, the findings of Shukeri, Shin and Shaari (2012) negate this relationship and shows that there is no relationship between independence of the board and performance.

Additionally, a study by Low, Roberts and Whiting (2015) failed to find any linkage between Board composition and earnings management which are used to measure FR quality. Study conducted by Hutchinson, Mack and Plastow (2015) also showed a contrary findings between independence of board and accounting issues. Further, Dehaan, Hodge and Shevlin (2013) has shown that higher ratio of independent directors in the board appears to worsen audit lag. Li, Mangena and Pike (2012) documented that independent non-executive directors negatively affect the dimensions of monitoring roles of management. The findings of Dehaan, Hodge and Shevlin, (2013) and Li, Mangena and Pike, (2012) are consistent with Einsenberg, Sundgren and Wells, (1987) and Bhagat and Bolton (2008). They, however, found that non-independent non-executive directors have monitoring incentive in overseeing and evaluating management roles. The empirical evidence of lag by Li, Mangena and Pike (2012) and Dehaan, Hodge and Shevlin (2013) is consistent with the recent claim by Bursa Malaysia that assessing the quality of independent directors is important to enhance their monitoring function.

2.3.2 Board size

The direction of impact is highly dependent on the experience and knowledge of the members of the board, this significantly depends upon the size of the board because if the board is huge it is expected that they would have more expertise as compared to a small board. Empirical findings show that the board size does matter (Zona, Zattoni & Minichilli, 2013), because it impacts monitoring, controlling and decision making in the company. Indeed, McDonald and Westphal, (2013) argued that larger boards ate capable of giving more time and efforts to check the management actions and vice versa.

Contrary to this, it is also argued that the advantages of superior control of management by a huge board nullifies the disadvantages that are caused because of difficult in coordination, communication and decision making (Cheng, 2008). The study conducted by Eisenberg, Sundgren and Wells (1998) also supports the argument that if the board is small the performance of the board will be better.

There is no consensus in the literature about board size; whether a large number or a smaller board of directorate is better. It is argued that the ideal board size if between seven to eight (Cheng, 2008), because such a board can act effectively anf efficiently.

This is because a small group can easily reach a conclusion (Balakrishnan, Billings, Kelly, & Ljungqvist, 2014) and to engage in genuine interaction and debate. Hutchinson, Mack, and Plastow (2015) argued that the benefit of higher level monitoring by a huge board may be nullified because of poor decision making by a large board, because of controversies.

On the other hand, small boards are believed to alleviate the processing problems and hence more effective (Allegrini & Greco, 2013), but when the small boards become too big then boards are only figurative relatively being a part of the management process (Zona, Zattoni & Minichilli, 2013). But in contrast to this, Yoshikawa, Zhu and Wang (2014) argued that larger boards will outweigh the costs associated with slow decision making, the processing problem, and can easily be controlled by the management.

In Malaysia, a study by Tong (2011) showed that Malaysian companies have eight members sitting on the board. However, practically companies with very large board and companies with very small boards have been observed. Mohd Ghazali (2014) found that eight is the average number of directors in the board in Malaysia.

In contrast, there is no consensus among the experts who argue that a huge board more beneficial as compared to a small board and at the same time there are counter arguments as well. Those in favor of large boards argue that more resources and capabilities are enjoyed by the companies that have large boards. Furthermore, a large board widens the range of ideas to resolve and issue (Xie, Davidson, & DaDalt, 2003).

The capacity of the board to monitor the management enhances by adding more directors.

Empirically, the results of past studies conducted on the relationship between board size and corporate reporting disclosures and FR quality are inconclusive. McMullen and Raghunandan (1996) indicated that larger boards increase corporate transparency by influencing the management to provide internet FR to mitigate agency costs associated with weak shareholders right.

2.3.3 Board expertise

The role of directors is advisory. Role of board for acting as advisor to the CEO is necessary to enhance value of the organization (Kirkpatrick, 2009). Both internal and external directors should use their expertise and experience to improve FR quality. This is important for the easy provision of access to finance to the company (O'Connor, Priem, Coombs & Gilley, 2006). Dehaan, Hodge and Shevlin (2013) argued that the board must have the ability to ask serious questions regarding the actions of management including the areas of risk management, corporate strategy, succession plans of CEO and the questions about meeting the targets for financial and strategic objectives. This is only possible when the board has vital expertise to full all their discussed liabilities.

Raghunandan, Rama and Read (2001) argued that strategic direction, business direction and governance are the three core areas in which the directors should have expertise. Xie, Davidson and DaDalt (2003) revealed that the directors having knowledge about investment banking and corporate banking has a negative impact over earnings management. In the light of this independent directors are perilous to discourage earnings management. Furthermore, Alzoubi (2012) highlighted that if the board has experts from financial intermediaries prefer to reduce the abnormal accruals because they consider than unmanaged earnings are below the targets. The researcher highlighted that outside directors are capable of understanding the firms and as a result they improve the governance practices.

2.4 Audit Committee Characteristics

Literatures on AC indicate that only the presence of AC do not guarantees effective oversight role of the AC. In the aftershock of financial crisis of 2008, the New Blue Ribbon Patrick (2010) has emphasized that oversight practices of AC are critical to ensuring the transparency of corporate and risk governance. In Malaysia, AC Institute (ACI) in its roundtable in 2009, with respect of adverse effects of financial crisis, recommended that AC should be apprised of the various business risks being faced by the company and be vigilant of the effects thereof upon the financial reporting process (KPMG, 2009).

2.4.1 Audit committee independence

Several researchers have highlighted the importance of independent AC. Independent AC is considered as a key factor which has the capability for the improvement of efficiency of the AC (Carcello, Hermanson & Ye, 2011). Spira (1999) clearly differentiated between independence as the personal quality of an individual and independence as objectivity. Independence of an individual focuses on the honest disinterestedness and the combination of integrity and experts skills, while independence as objectivity emphasizes freedom from bias or prejudice. However, academicians and regulators have broadly considered independence to be the most important quality of AC, due to the oversight role of such committee (Bhasin, 2013).

Theoretically, agency theory argues AC has the capacity to perform a monitoring role for the improvement of FR (Ben-Amar & McIlkenny, 2015). Importance of independent directors in the AC has always been forced to authenticate the monitoring and controlling of corporate management due to their opportunistic behavior (Armstrong, Guay & Weber, 2010). Brandes, Dharwadkar, and Suh (2015) believed that independent directors are stricter in discharging their responsibilities, and are in a better position to control and face complex situations, because their affiliation is not direct with the management of the company. Additionally, independent directors on AC might be considered to be decision experts, able to reduce managerial consumption of perquisites and act as a positive influence over directors' deliberations and decisions (Lai, Chen & Chang, 2013). Therefore, independent members have the capacity to inculcate expertise in the AC, which is essential for the monitoring and control of management actions.

Several researchers have argued about the importance of independent AC and effective AC having diverse expertise for the improvement in disclosure and FR quality. All the researchers have the same view that independent AC has a strong link with effective monitoring of AC for the provision of quality financial statements (Jennings, 2003;

Graham, Harvey & Rajgopal, 2005; García Lara, García Osma & Penalva, 2014; Chen, Hope, Li & Wang, 2015).

Previous studies also indicated considerable differences in the way of explaining independence. Prior studies on independence of AC can be grouped into three categories: inclusion of independent directors in AC, ratio of independent directors in AC and complete independent AC.

On the other hand researchers have also studied the correlation between independence of AC and frauds in financial statements. In a descriptive study conducted by Dyck, Morse and Zingales (2010) identified governance on industry basis. They identified the variation between fradulent reporting and non-fradulent reporting by the companies. Their findings revealed the fradulent reporting was common in those companies where the AC comprises less number of independent members. The proportion of independent directors was lesser in those companies. Linck, Netter and Yang (2008) conducted a similar study in Australia and found a negative relaionship between independent directos and fradulent reporting.

2.4.2 Audit committee size

Audit committee size mentions the number of directors in the AC. More number of directors in the AC leads to more and diverse expertise in the AC. This diversification improves the monitoring of the AC. When more directors are added in the AC it ensures that more knowledge and skills act as resources for monitoring the quality of FR (Yap & Foo, 2012). In addition, potential issues regarding disclosure in corporate reporting are revealed because of higher number of members in the AC (Mohd Ghazali, 2014).

There are advantages and disadvantages for having more members in an AC. Deumes and Knechel (2008) argued that the AC is an expensive monitoring mechanism and many companies are willing to bear these expenses, especially those with high agency costs. Thus, more members in the AC are willing to devote greater number of resources to keep a check on FR procedures. The big ACs ensure the adoption of financial standards. In addition, companies with fewer members in the AC, in average, devote less time to oversee the appointment of auditor, arguing with management and meeting with the people involved in internal controls.

But according to Beasley (2009) the benefit of having many members in the AC may outweigh the exceeded cost required for communication and decision making which is linked with large AC. Further He, Labelle, Piot and Thornton (2009) argued that AC may become ineffective or less influential because of the fact that coordination and processes becomes complex. This drawback causes a decline in the benefits that can be gained from having a huge AC. Hence, it becomes easier for the managers to convince the directors in the AC that a large AC will be questioned by the external auditors. Therefore, Beasley, Carcello, Hermanson and Neal (2009) hilighted the importance of optimal number of directors in the AC, he further endorse that seven of eight members are enough.

According to a study conducted by Ismail, Iskandar and Rahmat (2008) in Malaysia, it was argued that the importance and signficance of the expertise of members of the AC can be gained with the position of director in other companies. They highlighted the importance of multiple directors in enhancing the effectiveness of the AC for the provision of quality FR. This statement is further endorsed by Ismail, Iskandar and Rahmat (2008). Consistent with Rahman and Ali (2006) findings it is evident that the position of director in other companies improves the effectiveness of AC to enhance the quality of FR. In contrast there are several researchers who argue that multiple directorships lead to ineffectiveness of the AC. This happens because the directors with multiple directorships do not have sufficient time to effectively monitor the management, which affects the market value of the company (Wind, 2012; Zona, Zattoni & Minichilli, 2013; Yoshikawa, Zhu & Wang, 2014). It is argued that committee members who hold multiple directorships have shortage of time in fulfilling their responsibilities. This shortage of time causes ineffective performance of the AC (Graham, Harvey & Rajgopal, 2005; Cheng, Liao & Zhang, 2013; Hutchinson, Mack & Plastow, 2015).

2.4.3 Audit committee expertise

Expertise of the AC is another very important characteristic. AC effectiveness is dependent on the AC expertise. Researchers and regulators have an understanding that expertise of the AC enhances the effectiveness of the AC. It improves their monitoring role for overseeing the quality of FR (He, Labelle, Piot & Thornton, 2009). AC members typically have responsibility for oversight over FR process as well as corporate disclosures practices (Klein 2002; Felo, Krishnamurthy, & Solieri, 2003). Accordingly, AC members need to have sufficient understanding of accounting and finance (i.e. have financial literacy) to perform effective monitoring for the integrity of company's FR process and its disclosure practices (Xie, Davidson & DaDalt, 2003).

Having such members in AC who have insufficient financial knowledge and experiences actually impends the overall FR of the company because of their inabilities in dealing with critical issues that may affect the FR of the company (Spira, 1999). According to Daske and Gebhardt (2006), for an effective AC it is important that its members have the skills that are required to understand and explain the financial position of the correctly. It is required to ensure that higher transparency of financial report is delivered to the investors. Moreover, with increasing issues related to auditing and accounting, it is further highlighted that the accounting expertise of AC members significantly influences the AC effectiveness.

Felo, Krishnamurthy, and Solieri (2003), SMSF Adviser (2014), Johl, Kaur Johl, Subramaniam, and Cooper (2013), and Krishnan and Lee (2009) suggested that the responsibilities assigned to ACs often require significant accounting sophistication in that it involves assessing the reasonableness of complex financial matters such as the company's accounting reserves, and management's FR practices (Deumes & Knechel, 2008). Therefore, to be able to fulfill their responsibilities, AC members should have specific domain knowledge of accounting to effectively monitor FR process and disclosures.

Theoretically speaking, experience of AC in general and financial accounting expertise in particular, plays a vital role in mitigating agency costs. Azmi, Samat, Zakaria and Yusof (2013); Akhtaruddin and Haron (2010) and KPMG (2009) argued that AC accounting experts provide such committee with an effective means of monitoring management's FR practices and reducing associated agency costs.

Deumes and Knechel (2008) analyzed the relationship between financial frauds and members who have expertise of financial management and accounting and found that the companies where the committee members have lesser knowledge fraudulent reporting are common there. In this study, Deumes and Knechel (2008) highlighted that expertise of the members of AC decreases the chances of frauds in the financial statements. In Malaysia, Mohd Ghazali (2014) reported that AC with accounting or related financial management directors has no impact on audit report lag.

2.5 External Auditor Characteristics

2.5.1 Large audit firms

Several researchers have argued that the brand name of auditor and the size of audit firms tend to have better strength of monitoring which enables the auditor to produce quality and credible information in the FR (Cheng, Liao & Zhang, 2013; Carcello & Nagy, 2004). On the other hand it has been observed that investors respond positively to the decision of the company regarding changing its auditor from large firm to small firm (Scarbrough, Rama & Raghunandan, 1998). Detection of material misstatement is dependent on the expertise of auditor, but the disclosure of misstatement is the function of independence of auditor (Xie, Davidson & DaDalt, 2003)

Level of competence of auditor varies from firm to firm, it is because of the many audit firms spend time and money on the training and formal education of their auditors, as a result they have better capacity and capability. Likewise, level of independence varies across different audit firms. Small firms usually do not disclose material misstatements for retention of the client and relationship with the client (Spira, 1999). On the other hand, for large audit firms reputation is more importance than retaining a client, so they cannot sacrifice independence and integrity. A hypothesis testing the relation between reputation and BF proved that previous clients of big audit firms involved in lesser earnings, whereas earnings are measured by cross sectional (Rahman & Ali, 2006).

Investors have a positive response towards the shift of auditor from big firm to small firm (Graham, Harvey & Rajgopal, 2005). Essence from the prior research concluded that audit quality has been observed on satisfaction level in the large relative to the small firms. This phenomenon shows that larger audit firms have huge number of clients and the reasons are dependency of the client and diverse nature of business (Johl, Kaur Johl, Subramaniam & Cooper, 2013). Additionally large audit firms have able to better audit quality and the stake on the reputation and name.

On the other side of the picture, it is evident from the past research, illegal and unethical practices have been observed by the explicitly from the renown and famous companies. Similarly, Dyck, Morse and Zingales (2010) endorsed that fact; it’s not in the proven that large audit firms have higher quality than the smaller firms. The past discussion about size of audit firms have expanded the relationship of AC characteristics i.e. the interest point of audit client have been always size (Shukeri, Shin & Shaari, 2012).

There are several ways to explain that relationship between audit firm size and AC. The efficient AC always chooses the quality auditors as Big Four. In this regard, first important point for Big Four who are good among external auditors, the reputation is the main concern for the large audit firms; these audit company characteristics enforce companies to avoid the coercive decisions (Penman, 2007). Second the large audit firm has the more resources compare to small firm such as the financial resource to invest in the technology and training to their staff for the efficiency (SMSF Adviser, 2014). Third litigation risk and lawsuits expectancy also have been the factors to provide the higher quality of audit from the large audit firms.

On the perspective of the perception about the big audit companies have the ability to render the services and better quality of audit for the big and large companies respect to the small audit firms, moreover the investor keep in the concerned about the big audit companies have more probability to render the better audit services. Few people argue that if the transparency is enhanced by the large audit companies while delivering the audit services to large companies, it will allow other companies to compete with larger audit firms.

Vafeas (2000) examined the selection character for the audit selection firm and concluded that the big companies likely to choose the large audit firm rather than small audit firms. Lai, Chen, and Chang (2013) also found the same facts about size of audit company which is the main constraint of selection decision of big four companies and main reason of dominance in the audit market. These two studies provide the simple selection of audit firms which cannot be generalize but contrary proved the small scarce amount of the information about large audit firms. KPMG (2009) reported by detailed examination of the audit firm selection from the management side that large audit companies is considering first choice of the high management executives.

In the conclusion, the results of past studies were consistent from survey that size, perception on investor and litigation risk about audit firms as the consider in the audit from selection (Daske & Gebhardt, 2006; Balakrishna, 2014). They conclude that companies choose large audit firms to provide the high quality of audit. The reason of large audit firms or industry firms has the greater ability to provide the higher quality of FR (Scarbrough, Rama & Raghunandan, 1998).

2.6 Underpinning Theory

To support the argument of the study two theories have been used. Agency theory and resource dependency theory, both the theories form the basis of the arguments that have been laid in the study the concept of responsibility, which can be enhanced by Board composition and AC independence including the board size and AC size are the core factors of agency theory. Financial accounting expertise of BOD and AC are supported by resource dependency theory.

2.6.1 Agency Theory

The agency relationship is defined as a contract under which one party (the principal) appoints another party (the agent) to perform some service on behalf of appointing party (Eisenhardt, 1989). Thus, agency theory deals with the relationship between principal and agent. In the context of a firm, the agent (BOD) acts on behalf of the principal (shareholder). This theory argues, for the purpose of maximizing their utilities, agents (BOD) may exploit their positions to engage in activities for their personal interests at the expense of the principal's interest. Hill and Jones (1992) modeled this condition as an agency relationship where the inability of the principal to directly observe the agent's action could lead to moral hazard, thus, increasing agency cost.

Prior researchers have indicated that agency problems create discrepancy in information (Byard, Li & Weintrop, 2006) which can be minimized through quality of reporting. In such situation BOD maximize their interests through engaging in self-dealing transactions at the expense shareholders (Eisenhardt, 1989).

On the basis of issues associated with agency issues regarding information asymmetry, outside shareholders require financial information as a means of monitoring contracts with the management of the company. For the valuation of their investment decisions expected investors also need the same information, the companies are bound to provide information on voluntary basis, as it helps them to attract investors who will provide capital to them (García Lara, García Osma & Penalva, 2014). Companies adopt various methods to show the quality of information provided by them to the investors. Demand for proper check and balance require outside directors (Eisenberg, Sundgren & Wells, 1998), and audit committees (Bhasin, 2013; Crutchley & Hansen, 1989).

Audit committee is considered as an important component for controlling the decisions of the management (Goodman, Neamtiu, Shroff & White, 2013). BOD and members of AC, because of their fiduciary responsibility towards shareholders, are responsible for the provision of transparent information to the shareholders that are in their best interest. As the investors who are shareholders are not the part of management because they are not expert in the field and do not have proper information about the company, therefore, efficient and responsible representative of shareholders i.e. BOD and AC members have to push the management to present quality information to them (KPMG, 2009; PricewaterhouseCoopers, 2011). Therefore, agency theory underpins the argument that board characteristics and AC characteristics along with Big Four can improve the quality of FR. The core concept of agency theory is systems of check and balance and proper discloser (Fernando, 2013) which ultimately deals with FR quality.

Realizing the adverse consequences of agency problems that arise from board-shareholders, firms have economic incentives to invest in various information systems and control mechanisms to reduce agency costs associated with information asymmetry (Lai, Chen, & Chang, 2013). The mechanisms developed for the gains may help all the parties. For example, if the selection of board members is adverse which is further strengthening by the moral hazards, then the agency problems will be at their peak if there is not controlling mechanism (Ball, 2006). The basic mechanisms according to agency theory to minimize agency cost are disclosure and appropriate independent Board (Fernando, 2009). Thus, from the agency theory it is obvious that by enhancing the disclosures we can solve the issue of agency problems, which can be done by improving FR quality. Secondly, another mechanism established by agency theory is regarding independent and effective board which includes the board characteristics and AC characteristics. The external auditors are also appointed by the shareholders, therefore, they act as agents of the shareholders and when the agents are a quality audit firm then the chances of frauds in the development of financial reports in minimized. Therefore, agency theory is the one that provide justification of the variables observed in the study.

2.6.2 Resources Dependence Theory

Resources dependency theory views that organizations are dependent on the external environment surrounding them. The theory also guides that performance of the company is not only dependent on the abilities of the management of the company to efficiently manage the resources but also on the capacity of the members to save these resources (Hillman & Dalziel, 2003). Firms' directors are regarded as an essential resource for the firms. Concerning non-executive directors, the proponents of resources dependency theory believe that non-executive directors have additional role rather than being a monitoring mechanism (Grace, Ireland & Dunstan, 1995; Cohen & Krishnamoorthy, 2014).

Non-executive directors correlate the company with the external environment for securing the resources. Ruigrok, Peck and Tacheva (2007) stated that outside directors' networks, contacts, and connections confer access to necessary strategic resources and information, which are crucial for their capability to perform the role of boundary spanners in saving for their company. Moreover, resources dependence theory indicates that the industry expertise and knowledge of AC members would provide them with a superior capability to understand examine and assess the FR quality (Cohen, Krishnamoorthy & Wright, 2004).

Resource dependent theory provides the theoretical foundation for director's resources role. This theory has been used to underpin the relationship between directors of AC as provider of resources (e.g. legitimacy, advice, counsel, and links to other firm) and the transparency and the quality of FR (Hambrick, Misangyi & Park, 2015). This theory assumes that directors are both human capital and social capital. Directors with multiple directorships, with business and industry knowledge, and larger number of directors are argued to facilitate advice and counsel as they bring with them important expertise, experience and skills (Xie, Davidson & DaDalt, 2003). As the level of directors' capital increases, the directors become more resource providers and hence more effective in performing their duties.

Accordingly, AC with a resource-dependent focus evinced through industry expertise, experience, reputation, and networking of the members may positively enhance AC effectiveness (Cohen & Krishnamoorthy, 2014). Resources resulting from multiple directorships would provide the AC members with greater access to information and benefit of information sharing in more than one firm as well as additional control mechanism. Larger number of directors is considered valuable resources to AC because it provides diversity that would help firms secure pool of expertise, better networking and effective oversight duties. Industry expertise implied by the resources dependence perspective suggests that AC members would have sufficient knowledge to evaluate and oversee FR process.

2.7 Summary

This chapter provides an overview of the literature regarding AC, BOD, and corporate reporting quality. The results of previous studies have shown that an effective AC to monitor the corporate disclosure practices is also linked to its attributes such as the independent directors on the committee, members with financial expertise, meeting frequency, and number of AC members. Evidence also showed that board attributes are associated with corporate reporting transparency and quality financial information. Further, several studies have revealed that strong board governance is associated with the presence of outside directors, smaller board, and separation of CEO and chairman roles. Prior research found that Ownership concentration was reduced the monitoring role of board and AC over FR process.

Many studies found and argued that CG in Asia generally, is ineffective due to the presence of controlling shareholders. They were associated with expropriation of minority shareholders' wealth; weak internal governance system and low quality financial reports. Based on this literature, in the following chapter, research framework and research hypotheses are developed. In addition to research hypothesis and framework, research design and methodology for this study are discussed in the following chapter.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The aim of this chapter is to discuss the theoretical framework, hypotheses development, and procedures in conducting and developing research including data collection, variables measurement, and research models used in this study. In this chapter initially the framework has been discussed on the basis of agency theory and resource dependency theory. The development of the hypotheses based on the theoretical perspective and empirical research is discussed afterwards. Later on measurement of independent and dependent variables has been discussed. In addition, data collection process, the sample selection and the instrument used in this study. This is followed by research models used in this study. Finally the data analysis is mentioned. At the end, summary of the whole chapter is mentioned.

3.2 Research Framework

In different context, the effectiveness of the board and the audit committee along with external auditor has been defined in several ways. The committee that performs its responsibilities effectively is considered as efficient audit committee. Only an efficient audit committee, competent board and quality auditors have the potential to enhance FR quality by ensuring proper financial disclosure.

It is admitted fact that there is no yet definition that may explain the essential factors which contribute to the effectiveness of the board, audit committee and Big Four. Researchers in recent past have identified three basic characteristic that determine the effectiveness of the audit committee, entitled, independence of audit committee, size of audit committee, and expertise of audit committee. Therefore, for the objective of this research is to identify the impact of an effective audit committee that is defined as a committee that has sufficient size, sufficient number of independent members and sufficient expertise of the members of audit committee to ensure quality in corporate reporting. Whereas, for board characteristics, board size, Board composition, and board experience are observed to ensure quality in corporate reporting, and role of external auditors was ignored.

This study employed the agency theory and resource dependency theory to evaluate the influence of the AC and board characteristics to explain variations in the characteristics of the AC and board characteristics. Agency theory argues that agency cost is borne by shareholders (either in diffused ownership or concentrated ownership firms). BOD and AC are generally considered a monitoring device to reduce agency costs including the problem of information asymmetry (Akhtaruddin & Haron, 2010; Alzoubi, 2012; Beasley, Carcello, Hermanson, & Neal, 2009), by monitoring managers' behavior in order to move them to disclose more information. Agency theory also consider auditor as a main source for bringing transparency. Further, resource dependency theory perceives the directors as resources providers, because it assumes that large number of directors and specific industry knowledge of directors are valuable resources to the firm and directors. They may also significantly help the management to effectively monitor and oversee the FR process.

This research propose that professional expertise of AC members as well as the BOD and the Big Four influence the effectiveness of FR as a whole, which consequently affects the quality of reporting. This relationship is modeled in Figure 3.1.

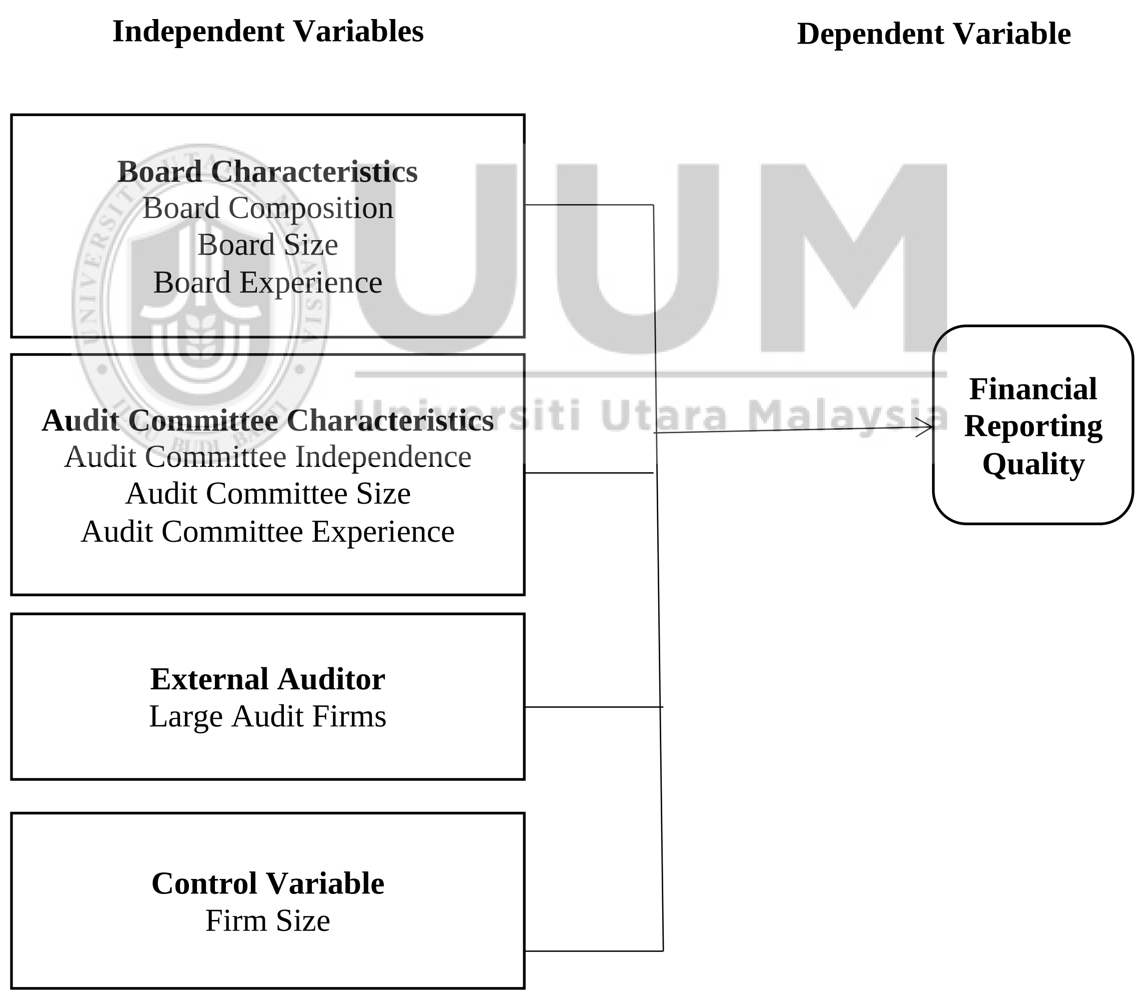

Figure 3 1

Research framework

The model presented in Figure 3.1 assumes that the effectiveness of the board characteristics, AC characteristics is a function of the characteristics of the individual members of the board and AC. Furthermore it also shows the importance of external auditors (big four). This is a reasonable assumption because the characteristics of the BOD and especially AC and Big Four like being independent, qualified, diligent, and being an expert are important to ensure that it can perform effectively for producing quality financial reports.

The importance of independent members in the AC arises from the capability of the members to face management rather than agreeing with their every decision which may affect the quality of reporting (Be´dard, Chtourou & Courteau, 2004; Cohen, Krishnamoorthy & Wright, 2004; Chen, Hope, Li & Wang, 2015). Significance of AC expertise emerges from the notion that adding skilled directors can only contribute towards effective monitoring by the AC (Be´dard, Chtourou, & Courteau, 2004; Allegrini & Greco, 2013; Azmi, Samat, Zakaria, & Yusof, 2013). Therefore, this research used agency theory and resource dependency as the underpinning framework to analyze the effectiveness of the AC and board characteristics regarding quality reporting.

The second category of studies has examined the relationship between the characteristics of AC and the financial statements output. In these studies, several different characteristics of AC have been considered that can contribute to effectiveness of the AC and can improve quality of FR by bringing transparency in them. These studies have ignored the addition of role of external auditors for bringing quality in financial reporting.

Furthermore, in Malaysia the studies on effectiveness of AC can easily be categorized into two categories. The first category of studies has analyzed effectiveness of AC on the basis of perception approach. However, the empirical evidence of these studies is inconclusive. The perception approach could result in such inconclusive findings on board characteristics and AC effectiveness for bringing quality in financial statements. Similarly the importance of big four cannot be ignored at any instance. It has been suggested that the effectiveness of the AC should take into account the AC characteristics and the board characteristics. Furthermore, in Malaysia, a few studies have been done on principles, characteristics, and best structure of the AC under the revised MCCG (2007). Thus, there is a need to empirically examine whether the BOD characteristics, AC characteristics of Malaysian public listed companies and big four under the revised code are likely to contribute to the AC effectiveness and hence its outcomes along with the characteristics of external audit.

3.3 Research Model

This study will use a linear multiple regression analysis to test the association between the dependent variable (reporting quality) and the independent variables (board characteristics, audit committees' characteristics, and Big Four). All data will be analyzed using the Statistical Package for Social Science (SPSS) version 20.0.

The Proposed equation is as follows:

$$\mathbf{FRQ} = \alpha 0 + \beta 1\ BC + \beta 2\ BS + \beta 3\ BE + \beta 4\ ACI + \beta 5\ ACS + \beta 6\ ACE\ \beta 7\ BF + \beta 8\ FS + \varepsilon$$

Where:

- **FRQ** Financial Reporting Quality
- **BC** Board Composition
- **BS** Board Size
- **BE** Board Expertise
- **ACI** Audit Committee Independence
- **ACS** Audit Committee Size
- **ACE** Audit Committee Expertise
- **BF** Big Four
- **FS** Firm size
- **α0** constant
- **ε** error term

3.4 Hypotheses Development

The basis reason behind any corporate fraud is misleading accounting reports by the company. The FR quality is the only solution to avoid corporate frauds. Therefore the importance of the FR quality cannot be ignored.

3.4.1 Board composition and financial reporting quality

In Malaysia, the effectiveness of BOD has been questioned as far back as 1999 by regulators and accounting profession. The Finance Committee on CG (FCCG) has expressed concern about the role of independence of the BOD (Akhtaruddin & Haron, 2010). Therefore, the proposed hypothesis is as follows:

H_1: *There is a positive relationship between Board composition and financial reporting quality.*

3.4.2 Board size and financial reporting quality

The size of the board cannot be ignored because the boards of directors are key for the independent and free of influence decisions (Allegrini & Greco, 2013). Only effective an independent board with an appropriate size can enhance the quality of FR (Hashim & Devi, 2008). Therefore, the proposed hypothesis is as follows:

H_2: *There is a positive relationship between board size and financial reporting quality.*

3.4.3 Board expertise and financial reporting quality

The Finance Committee on CG (FCCG) has expressed concern about the role of BOD Even though the FCCG (1999) noted that the public listed companies in Malaysia have successfully complied with the requirement of establishing an independent board, the quality of the members within board and committee is questionable. In Malaysia, the effectiveness of BOD has been questioned as far back as 1999 by regulators and accounting profession. Thus, the expertise of BOD has a significant role in discharging their duties over FR process (Akhtaruddin & Haron, 2010). Therefore, the proposed hypothesis is as follows:

H_3: *There is a positive relationship between board experience and financial reporting quality.*

3.4.4 Audit committee independence and financial reporting quality

The president of Malaysian Institute of Accountant (MIA), Abdul Rahim, has cited the need for an effective AC. Similar to the argument by FCCG (1999), highlighted the institute notes with concern that despite legislative support for the establishment of AC, several listed companies are unable to develop independent AC. Clearly, from the above statement a serious question arises regarding the importance of independent directors in the AC especially in Malaysia for the discharge of responsibilities of the AC (Akhtaruddin & Haron, 2010). Therefore the proposed hypothesis is as follows:

H_4: *There is a positive relationship between audit committee independence and financial reporting quality.*

3.4.5 Audit committee size and financial reporting quality

It has been suggested that the effectiveness of the AC is dependent on the appropriate size of the AC (Felo, Krishnamurthy, & Solieri, 2003; Rahman & Ali, 2006). Furthermore, in Malaysia, a few studies have been done on principles, characteristics, and best size of the AC under the revised MCCG (2007). Therefore, the proposed hypothesis is as follows:

H_5: *There is a positive relationship between audit committee size and financial reporting quality.*

3.4.6 Audit committee expertise and financial reporting quality

Even though the FCCG (1999) noted that the public listed companies in Malaysia have successfully complied with the requirement of establishing an AC, the quality of the members within such committee is questionable. In previous studies, various characteristics of AC have been considered in contributing to committee effectiveness over FR quality. The results of these studies showed that AC expertise is an essential factor in promoting AC effectiveness as well as to provide quality FR. Therefore, the proposed hypothesis is as follows:

H_6: *There is a positive relationship between audit committee expertise and financial reporting quality.*

3.4.7 Big Four and financial reporting quality

The foremost important aspect which cannot be ignored is Big Four if the audit is being conducted by the big firms then it is considered that financial reports have been developed in accordance with the international standards and show the true and fair view of the company (DeAngelo, 1981; Carcello & Nagy, 2004; Ismail, Iskandar, & Rahmat, 2008). Therefore, the external auditor have a significant influence over the reporting quality because if any of the big four company is conducting the audit of the company then they will never compromise of the quality of FR and proper disclosure. In the light of the above discussion the hypothesis is formulated as follows:

H_7: *There is a positive relationship between external auditor and financial reporting quality.*

3.5 Research Methodology and Design

3.5.1 Operational definition of variables.

3.5.1.1 Board composition.

Board composition means the proportion of independent members in the BOD (Beasley, Carcello, Hermanson, & Neal, 2009).

3. 5.1.2 Board size.

Board size means the number of directors in the BOD of the company (Cheng, 2008; Alzoubi, 2012).

3. 5.1.3 Board expertise.

Board expertise refers to the experience of board members in terms of finance and, audit and accounting (Cormier, Magnan, & Velthoven, 2005).

3. 5.1.4 Audit committee independence.

Audit committee independence shows the number of independent members in the AC of the company (Be´dard, Chtourou, & Courteau, 2004).

3. 5.1.5 Audit committee size.

Audit committee size means the number of AC members (Bhasin, 2013).

3. 5.1.6 Audit committee expertise.

Audit committee expertise refers to the experience of AC members regarding accounting, finance and audit (Cohen & Krishnamoorthy, 2014).

3. 5.1.7 Big Four.

Here the Big Four refer to the audit company that either the auditor of the company is among the big four or a small audit firm (Rahman & Ali, 2006).

3. 5.1.8 Firm Size

Following Huafang and Jianguo (2007) size of the firm has been taken as control variable and the value of control variable is calculated as the natural logarithm of total assets.

3.5.2 Measurement of Variables

3.5.2.1 Financial reporting quality.

A disclosure index of 12 items on the basis of Abdullah, Evans, Fraser and Tsalavoutas (2015) is used in this study in order to measure the extent of disclosure quality, particularly in companies' annual reports. It ensures the FR quality; scoring and disclosure indexes of reporting items will be computed using the un-weighted disclosure index. An un-weighted approach is applied, whereby a company is awarded 3 if all the items that should be disclosed have been disclosed, 2 if sufficient items are disclosed but not all the items have been disclosed, and 1 if majority of the items have not been disclosed.

Table 3.1
Measurements

No.	Standards	Name of reporting Standard	Measurement
1	MFRS2	Share Based Payment	Equal '1' if the company follows this standard and '0' otherwise.
2	MFRS3	Business Combinations	Equal '1' if the company follow this standard and '0' otherwise
3	MFRS 5	Non-current Assets held for Sale and Discontinued Operations	Equal '1' if the company follow this standard and '0' otherwise
4	MFRS 117	Leases	Equal '1' if the company follow this standard and '0' otherwise
5	MFRS 132	Financial Instruments: Disclosure and Presentation	Equal '1' if the company follow this standard and '0' otherwise
6	MFRS 136	Impairment of Assets	Equal '1' if the company follow this standard and '0' otherwise
7	MFRS 138	Intangible Assets	Equal '1' if the company follow this standard and '0' otherwise
8	MFRS 140	Investment Property	Equal '1' if the company follow this standard and '0' otherwise
9	MFRS 101	Presentation of Financial Statements	Equal '1' if the company follow this standard and '0' otherwise
10	MFRS 114	Segmental Reporting	Equal '1' if the company follow this standard and '0' otherwise
11	MFRS 116	Property, Plant and Equipment	Equal '1' if the company follow this standard and '0' otherwise
12	MFRS 119	Employee Benefits	Equal '1' if the company follow this standard and '0' otherwise

After assigning values the sum was calculated and then if the sum was less than 8 then 1 was assigned if more than 8 then 2 and if any company was following all of the 12 standards than 3 were assigned to that company (Abdullah, Evans, Fraser, &

Tsalavoutas, 2015). According to Abdullah, Evans, Fraser and Tsalavoutas (2015) the eight standards are most important in showing transparency in the financial statements. And twelve standards show enough disclosure which ensures quality of financial statements. If any company is not showing the minimum of eight standards which are prescribed above it means that the company is not disclosing their actual issues.

3.5.2.2 Board composition.

Board composition has been analyzed by the ratio of independent non-executive directors relative to the total directors in the board. The measurement has been applied in previous studies in Malaysia (Beasley, 1996; Beasley, Carcello, Hermanson & Neal, 2009; Alzoubi, 2012).

3.5.2.3 Board size.

Board size shows the total number of directors on the board of the company. This measurement has been used by previous studies in Malaysia (Beasley, 1996; Byard, Li & Weintrop, 2006; Cheng, 2008; Alzoubi, 2012).

3.5.2.4 Board expertise.

The financial and accounting experience of the BOD has been examined on the basis of their past experience and qualification (Spira, 1999; Vafeas, 2000; Xie, Davidson & DaDalt, 2003; Cormier, Magnan & Velthoven, 2005).

3.5.2.5 Audit committee independence.

Audit committee has been analyzed by the ratio of independent non-executive members relative to the total members in the committee (Be´dard, Chtourou & Courteau, 2004).

3.5.2.6 Audit committee size.

The total numbers of directors in the AC have been taken as AC size (Bhasin, 2013).

3.5.2.7 Audit committee expertise.

Audit committee expertise has been calculated by analyzing that how many members have the experience and knowledge of financial audit and financial accounting (Cohen & Krishnamoorthy, 2014).

3.5.2.8 Big Four.

The "big 4" is equal to "1" if a "big 4" auditor was engaged by the company and "0" otherwise (Rahman & Ali, 2006). These big four companies are; PricewaterhouseCoopers (PwC), Deloitte, Ernst & Young (EY) and KPMG.

3.5.2.9 Control variable- firm size.

The literature has shown that firm size influences the reporting quality. This is because the big companies have a big audit committee as they have more resources to afford such costs for the improvement of FR. Big companies are supposed to prepare quality reports as they are more visible to the investor and require outside capital (Craven & Marston, 1999). Big companies try to minimize information asymmetry because they have a great demand from the financial analysts to produce quality reports (Armstrong, Guay & Weber, 2010).

CG characteristics of big companies are supposed to have more independence as they do not have shortage of resources and huge amount of capital is at their disposal. Studies by Eisenberg, Sundgren and Wells (1998), Abbott, Daugherty, Parker and Peters (2015), and Allegrini and Greco (2013) found that large firms have better financial reports. Therefore, it is expected that quality of FR, board characteristics, AC characteristics, and Big Four may be positively associated with firm size.

Table 3.2
Summary of Measurement of Variables

Sr. No.	Variable	Measurement	References
1	Financial Reporting Quality	A disclosure index of 12 items the level of disclosure shows the financial reporting quality	Abdullah, Evans, Fraser, & Tsalavoutas. 2015
2	Board composition	The proportion of independent members in the board	Beasley M. S., 1996; Beasley, Carcello, Hermanson, & Neal, 2009; Alzoubi, 2012
3	Board Size	Total number of board of directors	Beasley, 1996; Byard, Li, & Weintrop, 2006; Cheng S. , 2008; Alzoubi, 2012
4	Board Expertise	Accounting and financial experience of the board members	Spira, 1999; Vafeas, 2000; Xie, Davidson, & DaDalt, 2003; Cormier, Magnan, & Velthoven, 2005
5	Audit Committee Independence	Proportion of independent members in the audit committee	(Be´dard, Chtourou, & Courteau, 2004
6	Audit Committee Size	Total number of members in the audit committee	Bhasin, 2013
7	Audit Committee Expertise	Accounting financial and auditing knowledge and experience of the audit committee members	(Cohen & Krishnamoorthy, 2014
8	Big Four	The big four as auditor or not	Rahman & Ali, 2006
9	Firms Size	The natural log of the total assets	Craven & Marston, 1999; Armstrong, Guay, & Weber, 2010

3.5.3 Data collection

Secondary sources are used to collect the data for this research. Mainly the annual reports of the companies have been viewed. In addition, this study will also use the Thomson Financial DataStream Advance for getting financial information and information regarding CG characteristics of the company. In the annual report, data related to the directors' report, directors' profile, CEO report, statement of CG, shareholding statistics, statement of directors' shareholdings, the financial statements, and notes to the accounts were scrutinized.

3.5.4 Population

Population in this study is the public firms listed on the main market of Bursa Malaysia (formerly known as KLSE), with financial year ending 2014. The financial year 2014 is selected because in 2002 onwards all public listed companies need to disclose their CG practices, as required by Bursa Malaysia listing requirement.

3.5.5 Sampling

The aim of this study is to examine board characteristics, AC characteristics, and Big Four over quality of reporting. Annual reports of top firms by market capitalization represent the concerns and interests of firms for being benchmarked for best practice of CG (Zikmund, 2006). For these reasons, it is interesting to investigate the performance of CG practices including board characteristics, AC characteristics, and Big Four in firms with high market capitalization. Hence, this study analyzed top 150 non-financial companies by market capitalization (Appendix 1 for companies' names) that was listed in the year 2014. The financial year 2014 is selected because of the availability of the latest annual reports and because the new revised code (MCCG, 2007) has since been finalized.

3.5.6 Data collection procedure.

This study will use secondary sources to gather the data. Secondary has been used in this study. The secondary data includes quantitative data which can be used in both descriptive and explanatory research (Zikmund, 2006). This study will use company annual reports, and financial database. Secondary data is likely to be higher quality data than collecting one's own (Zikmund, 2006), and it provides a source of data that is both permanent and available in a form that may be checked relatively easily by others.

3.5.7 Techniques of data analysis.

Several methods and techniques of data analysis will be used in this study. Descriptive statistics such as minimum, maximum, mean, and standard deviation will be used to describe the dependent variable and independent variables. Univariate analysis using Pearson correlation matrix will also be employed to explore the correlation among the dependent and independent variables and to assess the multicollinearity problem among the independent variables. To examine the relationship between quality reporting, and the predictor variables as well as the extent of contribution of these independent variables on the quality of reporting regression analysis has been conducted.

3.6 Summary

This chapter has discussed the theoretical framework of the study. Hypotheses were also developed in this chapter. In order to meet the overall research objectives, this study adopted a quantitative research methodology. A sample of Top150 firms (by market capitalization) listed on the Main market of Bursa Malaysia for the year 2014 was selected to see the impact of board composition, audit committee characteristics and Big Four. Board composition, AC characteristics, and external auditor quality represented by the big four have been taken as independent variables. To test the hypotheses, this study will use multiple Ordinary Least Square (OLS) regression and multiple regression analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the findings on the basis of relationship among board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, and AC experience) external auditor (Large audit firms) and FR quality (measured on the basis of disclosure). The results of this study are illustrated in the tables that have been developed on the basis of statistical analysis. Initially the descriptive statistics have been calculated to analyze the normality of the collected data. After ensuring that the descriptive statistics are normal the next step conducted is to assure the normality of the data. Normality of the data has been ensured by calculating Skewness and Kurtosis. After analyzing that the data is not positively or negatively skewed or it is not leptokurtic or platykurtic the next important test was to check multicollinearity in the variables that have been used in the study. To check the issue of multicollinearity, the two most commonly used tests that are variable inflation factor and tolerance levels have been utilized. After ensuring that the variable inflation factor and tolerance levels are in the threshold levels cross correlations have been calculated to check the relationship among the variables. After having assurance that the data is normal and valid for testing of hypothesis the first thing was to calculate R^2 and coefficients of the variables. In order to be sure that the significant relationships are true all the assumptions that ensure the reliability of the regression analysis have been discussed. After ensuring that the regression assumptions are fulfilled then multiple regression analysis has been conducted. The SPSS V.22 is used to analyze the collected data of 150 companies listed in Malaysia.

4.2 Descriptive Statistics

The first foremost important thing is to conduct the descriptive analysis of all the variables that have been used in the study. Maximum value, minimum value, mean, and standard deviation have been calculated. Table 4.1 below shows the values of the minimum, maximum, mean, and standard deviations of board composition, board size, board experience, AC independence, AC size, AC experience, and external audit. All of the values appear to be normal and shows that the data is normal.

Table 4.1

Descriptive Analysis of Variables

	N	Minimum	Maximum	Mean	Std. Dev.
	Statistic	Statistic	Statistic	Statistic	Statistic
Financial Reporting Quality	150	1.00	3.00	2.007	0.709
Board Composition	150	0.22	0.86	0.466	0.119
Board Size	150	5.00	14.00	8.227	1.967
Board experience	150	0.08	0.86	0.327	0.149
Audit Committee Independence	150	0.33	1.00	0.852	0.163
Audit Committee Size	150	3.00	6.00	3.467	0.739
Audit Committee Experience	150	0.00	1.00	0.386	0.209
Large Audit Firms	150	0.00	1.00	0.787	0.411
Firm Size	150	5.54	8.81	6.795	0.543

In Table 4.1, the descriptive of the variables used in the study have been shown. The descriptive analysis reveals that the variables in the model are substantially dispersed as shown in terms of the difference in the minimum and maximum values in between the variables. The value dependent variable i.e. financial reporting quality shows that the minimum value is 1.00 and the maximum value is 3.00, whereas, the mean value is 2.007, and the standard deviation is 0.709. The value of board composition shows that the minimum value is 0.22 and the maximum value is 0.86, whereas, the mean value is 0.466, and the standard deviation is 0.119. The value of board size shows that the minimum value is 5.00 and the maximum value is 14.00, whereas, the mean value is 8.227, and the standard deviation is 1.967. The value of board experience shows that the minimum value is 0.08 and the maximum value is 0.86, whereas, the mean value is 0.327, and the standard deviation is 0.149. The value of AC independence shows that the minimum value is 0.33 and the maximum value is 1.00, whereas, the mean value is 0.852, and the standard deviation is 0.163. The value of AC size shows that the minimum value is 3.00 and the maximum value is 6.00, whereas, the mean value is 3.467, and the standard deviation is 0.739. The value of AC experience shows that the minimum value is 0.00 and the maximum value is 1.00, whereas, the mean value is 0.386, and the standard deviation is 0.209. The value of audit quality i.e. large audit firm shows that the minimum value is 0.00 and the maximum value is 1.00, whereas, the mean value is 0.787, and the standard deviation is 0.411. The values of control variable i.e. firm size shows that the minimum value is 5.54 and the maximum value is 8.81, whereas, the mean value is 6.795, and the standard deviation is 0.543.

Table 4.2
Standard Details

No.	Standards	Number of companies	Percentage
1	MFRS2	150	100.00%
2	MFRS3	41	27.33%
3	MFRS 5	45	30.00%
4	MFRS 117	135	90.00%
5	MFRS 132	108	72.00%
6	MFRS 136	101	67.33%
7	MFRS 138	95	63.33%
8	MFRS 140	78	52.00%
9	MFRS 101	150	100.00%
10	MFRS 114	58	38.67%
11	MFRS 116	117	78.00%
12	MFRS 119	93	62.00%

4.3 Normality Test

Furthermore, for checking the normality of the data another important measure that is commonly used in Skewness and kurtosis the values of Skewness and kurtosis are mentioned below.

4.3.1 Skewness and kurtosis

Two analyses namely Skewness and kurtosis are usually performed to test the normality of the data. The acceptable threshold statistical values (Z) for Skewness is less than three and for Kurtosis the value should be less than eight (Hair, Black, Babin & Anderson, 2010).

The analysis of Skewness and Kurtosis is shown in table 4.2. The values implies that all the value of variables are located between the ranges of +3 and -3 (Hair, Black, Babin & Anderson, 2010). Therefore, board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, AC experience) external auditor (Large audit firms) and FR quality (measured on the basis of disclosure), and firm size are distributed normally as shown by kurtosis statistical value within the prescribed range (Hair, Black, Babin & Anderson, 2010). According to Hair, Black, Babin and Anderson (2010) this value is acceptable and the data is capable of further statistical analysis. The values of Skewness and kurtosis are shown in table 4.2

Table 4.3

Skewness and Kurtosis

	N	Skewness	Kurtosis
	Statistic	Statistic	Statistic
Financial Reporting Quality	150	-0.010	-0.993
Board Composition	150	0.786	0.486
Board Size	150	0.564	0.151
Board experience	150	0.795	0.845
Audit Committee Independence	150	-0.560	-0.575
Audit Committee Size	150	1.634	2.279
Audit committee experience	150	0.402	0.466
Large Audit Firms	150	-1.414	-0.002
Firm Size	150	1.214	2.645

From the table 4.2 showing the values of Skewness and kurtosis for all the variables, the variable seems to be normal for further analysis. All the values calculated above are in the threshold levels. Thus, there is no harm in saying that the data is quite normal and is ready for further analysis. For further screening and checking the normality of the data diagnostic tests for checking the issue of multicollinearity have been applied.

4.3.2 Tolerance and Variable Inflation Factor

If the outcome of the multicollinearity is high then one of the variables has to be deleted (Hair, Black, Babin & Anderson, 2010). This poses a critical issue in multiple regressions due to the challenges that arise in identifying the effect of one variable upon the dependent variable. According to Hair, Black, Babin and Anderson (2010), one of the many ways to check for the existence of relationships among independent variables is through multicollinearity test, in which it generally explains how one variable is determined by another variable. A popular method of multicollinearity detection and measurement utilizes VIF to determine the influence of a study's independent variable (Mansfield & Helms, 1982).

It is for this reason that the multicollinearity diagnostics with VIF is chosen when analyzing the multiple regression models. The variance inflate factor (VIF) indicates that an issue with multicollinearity persists if VIF exceeds 10. Likewise, in cases whereby VIF is more than 10, this signifies that a high correlation is present among the independent variables and thus poses an issue of multicollinearity. However, when the value of VIF falls below 10, that independent variable can safely be used in the same model.

According to the table 4.3, it is discovered that all correlation between independent variables are less than 10. This study finds that all the variables are suitable for study as the value for VIF for all the variables is below 10. Hence, the issue of multicollinearity does not exist in this study; therefore, all the variables can be combined in the same regression equation model. Therefore, it would be right to say that the study reveals absence of multicollinearity as the independent variables are not highly correlated.

Table 4.4

Tolerance and Variable Inflation Factor

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Board Composition	0.691	1.447
	Board Size	0.622	1.607
	Board experience	0.710	1.408
	Audit Committee Independence	0.733	1.364
	Audit Committee Size	0.648	1.542
	Audit committee experience	0.706	1.417
	Large Audit Firms	0.825	1.081
	Firm Size	0.882	1.134

The acceptable threshold level refers to tolerance value greater than 0.10 and VIF value less than 10 (Cornell, 1987; Silver, 1997). From the above table it can been seen that there is no issue of multicollinearity among the variables.

4.4 Correlation Analysis

Correlation analysis is used to establish and examine the degree of mutual linear association among variables involved in the analysis (Hair, Black, Babin & Anderson, 2010). The correlation analysis is the beginning step in the statistical techniques that determines if a mutual relationship between two or more variables exists. For this reason, the correlation analysis used to examine the level and direction of mutual association of variables involved in the study. Cross correlational analysis needs to be conducted before running regression.

The value of the correlation coefficient lies between minus one and plus one. Minus one represents perfect negative correlation whereas, plus one represents perfect positive correlation and a value of zero shows no correlation between two variables. Table 4.4 discloses the values of the coefficient of correlation among board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, AC experience) external auditor (Large audit firms) and FR quality (measured on the basis of disclosure), and firm size. If the value of correlation coefficient exceeds 0.90 among the variables, it indicates the occurrence of multicollinearity (Mansfield & Helms, 1982). Furthermore, multicollinearity is an issue in multiple regressions. This issue develops when two or more independent variables are highly correlated with other independent variables. Table 4.5 shows the values of cross correlations.

Table 4.5

Cross Correlations

Variables	FRQ	BC	BS	BE	ACI	ACS	ACE	LAF	FS
FRQ	1								
BC	-.003	1							
BS	.485**	-.204*	1						
BE	.279**	.030	-.153	1					
ACI	.246**	.335**	.026	.130	1				
ACS	.322**	.167*	.402**	.055	-.152	1			
ACE	.185*	-.078	-.141	.465**	.149	-.213**	1		
LAF	.268**	-.003	.210*	.034	.086	.109	-.092	1	
FS	.791*	.076	.245**	-.029	-.100	.166*	-.131	.143	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.4 above depicts cross correlations among the variables. The results indicate that dependent variable namely FR quality has negative and insignificant correlation with board composition as the coefficient correlation is -0.003. The correlation between FR quality and board size is significant and positive as depicted by correlation coefficient i.e. 0.485. The correlation between FR quality and board expertise is significant and positive as per the coefficient correlation i.e. 0.279. FR quality has a significant positive relationship with AC independence i.e. 0.246. FR quality has a significant relationship with AC expertise as depicted by correlation coefficient 0.185. FR quality has a significant relationship with external audit quality represented by the correlation coefficient between them i.e. 0.268. The correlation coefficient between FR quality and firm size is significant as depicted by the value of correlation coefficient 0.791.

The next independent variable i.e. board composition has a negative and significant relationship with board size as the value of correlation coefficient is -0.204. Board composition has an insignificant correlation with board expertise as the value of correlation coefficient between the variables is 0.030. Board composition has a significant positive relationship with AC independence as the value of correlation coefficient is 0.335. Board composition has a significant positive correlation with AC size having a coefficient correlation of 0.167. Board composition has an insignificant negative relationship with AC expertise as its correlation coefficient is -0.078. The correlation coefficient between board composition and firm size is insignificant as its correlation coefficient is 0.076.

Board size has an insignificant negative correlation with board expertise as shown by the correlation coefficient i.e. -0.153. Board size has an insignificant correlation with AC independence as depicted by correlation coefficient i.e. 0.026. Board size also a significant positive correlation with AC size as the correlation coefficient is 0.402. Board size has an insignificant negative correlation with AC expertise as the value of correlation coefficient is -0.141. Board size has a significant positive correlation with large audit quality depicted by large audit firm as the value of correlation coefficient is 0.240. The correlation between board size and firm size is significant and positive as the value of correlation coefficient is 0.245.

Board expertise has an insignificant positive correlation with AC independence as the value of correlation coefficient i.e. 0.130. Board expertise has also an insignificant correlation with AC size as the correlation coefficient is 0.055. Board expertise has a significant positive correlation with AC expertise as the correlation coefficient is 0.456. Board expertise has an insignificant correlation with audit quality depicted by large audit firm as shown by the correlation coefficient i.e. 0.034. Board size has an insignificant negative correlation with firm size which is control variable.

Audit committee independence has an insignificant negative correlation with AC size as depicted by its correlation coefficient i.e. -0.152. AC independence has an insignificant correlation with AC expertise as the value of correlation coefficient is 0.149. AC expertise has an insignificant correlation with audit quality (large audit firm) as the correlation coefficient is 0.086. AC expertise has an insignificant negative correlation with firm size which is control variable as the correlation coefficient is -0.100.

Audit committee size has a significant negative correlation with AC expertise as explained by the correlation coefficient -0.213. AC size has an insignificant correlation with audit quality depicted by large audit firm as the value of correlation coefficient is 0.109. The correlation between AC size and firm size is significant and positive as shown by the value of correlation coefficient i.e. 0.166.

AC expertise and external audit quality have an insignificant negative correlation as the value of correlation coefficient is -0.092. Likewise, the correlation between AC expertise and firm size is insignificant and negative as the correlation coefficient value is -0.131.

The final correlation between external audit quality depicted by large audit firm and firm size is insignificant as depicted by the correlation coefficient i.e. 0.143.

Majority of these values of coefficient of correlations have relationships but these relationships are not that much strong where one variable need to be deleted. Some of the correlations are significant at 0.05 % level of significance (Rodgers & Nicewander, 1988) where are few are significant at 0.01 % level of significance (Rodgers & Nicewander, 1988). And few correlations are insignificant.

4.5 Multiple Regressions Analysis

Multiple regression analysis is a technique that is employed to determine the relationships between independent variables board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, AC experience) external auditor (Large audit firms) and dependent variable FR quality (measured on the basis of disclosure) statistically. Two assumptions of multiple regressions tests, namely normality test and multicollinearity tests have already been discussed above which shows that the data is suitable for this analysis.

4.5.1 Assumption of Multiple Regression

Prior to formally initiating the multiple regression analysis, it was vital to examine the basic assumptions underlying the classical linear regression model. Therefore, in order to test the normality and linearity assumptions of the regression model, normality and multicollinearity tests were conducted above and therefore, there is no harm in running the multiple regressions as the tests have shown results below the threshold levels.

4.6 The Coefficients of Multiple Regression Analysis

After having the surety that the data is suitable for analysis the multiple regression analysis was conducted. By means of multiple regressions, this section elaborates the discussion and analysis of relationships between a FR quality which is dependent variable (measured on the basis of disclosure) and independent variables board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, AC experience) external auditor (Large audit firms) and control variable (firm size).

The outcomes are measured by R^2 and this denotes the effect of independent variables (board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, AC experience) external auditor (Large audit firms)) over the dependent variable (FR quality). According to the R^2 of 45.5%, it can be ensured that above 40% of the relationship with FR quality can be determined by the seven independent variables while the remaining impact over FR quality is determined by other factors. To further strengthen the analysis the value of Durbin Watson has been calculated. The threshold level for Durbin Watson is that the value should be in between 1.5 to 2.5; these ranges suggested that the issue of autocorrelation is not there (Fomby & Guilkey, 1978). The calculated value of Durbin Watson is 2.114 which show that the model is acceptable (Hill & Flack, 1987).

Table 4.6

Model Summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.674[a]	.455	.424	.53862	2.114

a. Predictors: (Constant), Firm Size, Board experience, Board Composition, Large Audit Firms, Audit Committee Size, Audit Committee Independence, Audit committee experience, Board Size

b. Dependent Variable: Financial Reporting Quality

Later on, the coefficients have been calculated to check the hypothesis of the study. In Table 4.7, the analysis of multiple regressions with the dependent variable FR quality is illustrated.

Based on the FR quality equation as stated in Table 4.6, if the board composition of the company is mainly based on independent directors it will have a negative impact on the FR quality as the value is negative but the t value shows that the impact is insignificant, if the board size is increased, BOD have diverse expertise AC is mainly comprised of independent members AC size is good, AC members have diversified expertise and external audit of the company is performed by one of the big firms the FR quality will increase. In brief all the variables except board composition have a significant and positive influence over the FR quality.

Table 4.7

Coefficients

Model		Standardized Coefficients Beta	T	Sig.
1	(Constant)		-1.877	0.063
	Board Composition	-0.002	-0.022	0.983
	Board Size	0.438	5.532	0.000
	Board experience	0.231	3.118	0.002
	Audit Committee Independence	0.194	2.664	0.009
	Audit Committee Size	0.184	2.378	0.019
	Audit committee experience	0.160	2.159	0.033
	Large Audit Firms	0.149	2.299	0.023
	Firm Size	0.201	1.994	0.041

The results of regression analysis regarding the dependent variable FR quality and independent variables (board composition, board size, and board experience, AC independence, AC size, AC experience Big Four), and control variable (firm size) are displayed in Table 4.6. In the following section, the findings are discussed to check the hypotheses that have been drawn to meet the objectives of the study.

4.6.1 Hypothesis 1

Based on Table 4.7 this study has identified that FR quality is not influenced by board composition as it has shown an insignificant negative relationship as depicted by the beta value which is -0.002 and t value which is -0.022. The findings are partially supported by the study conducted by Bhagat and Bolton (2008) who argued that large Board composition number has a negative influence over financial reporting quality. At the same time Einsenberg, Sundgren and Wells (1987) argued that large Board composition number has a negative and insignificant impact over financal reproting quality. The basic reason behind this insignificant relation is that higher ratio of independent directors in the board appears to worsen audit lag (Dehaan, Hodge, & Shevlin, 2013). Considering the same way Li, Mangena and Pike (2012) documented that independent non-executive directors negatively affect the dimensions of monitoring roles of management. In the similar way the relationship between the independent variable and the dependent variable is insignificant and negative. Therefore, hypothesis 1 is rejected, that there is a significant relationship between board composition and FR quality.

4.6.2 Hypothesis 2

Based on Table 4.7 this study highlighted that FR quality is influenced by board size as it has a significant positive relationship as shown by beta value of 0.438 and t value of 5.532. The relationship between the independent variable and the dependent variable is positive and significant. The results of the study are in association with the findings conducted by Cohen, Krishnamoorthy and Wright (2004). Therefore, hypothesis 2 is accepted, that there is a positive relationship between board size and FR quality.

4.6.3 Hypothesis 3

Based on Table 4.7 this study discovered that FR quality is influenced by board expertise and has a significant positive relationship as shown by beta value β i.e. 0.231 and t value i.e. 3.118. The relationship between the independent variable and the dependent variable is significant. The findings are in support of studies conducted by Peecher (2002) and Be´dard, Chtourou and Courteau (2004). Therefore, hypothesis 3 is accepted, that there is a positive relationship between board experience and FR quality.

4.6.4 Hypothesis 4

Based on Table 4.7 this study signifies that FR quality is influenced by AC independence as it has a significant relationship with FR quality because the beta value is 0.194 and t value is 2.664. The relationship between the independent variable (AC independence) and the dependent variable (FR quality) is significant. The findings of the study are in accordance with the findings of Be´dard, Chtourou and Courteau (2004). Therefore, hypothesis 4 is also accepted, that there is a positive relationship between AC independence and FR quality.

4.6.5 Hypothesis 5

Based on Table 4.7 this study endorsed that FR quality is influenced by AC size and it has a significant relationship with FR quality, the beta value of the variable is 0.184 and t value is 2.378. The relationship between the independent variable i.e. AC size and the dependent variable i.e. FR quality is significant and positive. The results of the study are in consistent with the studies performed by Felo, Krishnamurthy and Solieri (2003). Therefore, hypothesis 5 is accepted, that there is a positive relationship between AC size and FR quality.

4.6.6 Hypothesis 6

Based on Table 4.7 this study has an opinion that FR quality is influenced by AC experience and has a significant relationship with FR quality as shown by the beta value of 0.160 and t value of 2.159. The relationship between the independent variable and the dependent variable is positive and significant and is consistent with the results of Be´dard, Chtourou and Courteau (2004). Therefore, hypothesis 6 is accepted, that there is a positive relationship between AC experience and FR quality.

4.6.7 Hypothesis 7

Based on Table 4.7 this study has an opinion that quality of FR is influenced by large audit firm and has a significant relationship with FR quality as shown by the beta value of 0.149 and t value of 2.299. The relationship between the independent variable and the dependent variable is positive and significant and is consistent with the results of DeAngelo (1981). Therefore, hypothesis 7 is accepted, that there is a positive relationship between large audit firm and FR quality.

4.6.8 Control variable

For control variable it has been observed that it is showing a positive and significant relationship. This clearly shows that control variable has a significant positive controlling effect over the FR quality.

4.7 Summary

The results of this study are measured through a variety of tools. The results are discussed and presented in this chapter. In order to validate the data, the assumptions of multiple regressions were fulfilled. For checking the relationship both correlation and regression analyses are conducted. The initial testing regarding the normality of the data was analyzed and the data was found to be normal. Later on the issue of multicollinearity has been checked and the data was free of multicollinearity. All the hypotheses laid in the study to fulfill the purpose of the research have been checked and are found to be significant. The summary of the results has been given in the following table:

Table 4.8

Summary of the Hypotheses Testing

Hypotheses	Statement	Findings
H_1	Board composition effects financial reporting quality.	Negative and Insignificant
H_2	Board size effects financial reporting quality.	Positive and Significant
H_3	Board experience effects financial reporting quality.	Positive and Significant
H_4	Audit committee independence effects financial reporting quality.	Positive and Significant
H_5	Audit committee size effects financial reporting quality.	Positive and Significant
H_6	Audit committee experience effects financial reporting quality.	Positive and Significant
H_7	External auditor effects financial reporting quality.	Positive and Significant

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

The purpose of the research was to identify the importance of FR quality. Along with that the study analyzed the relationship between board characteristics, (board composition, board size, and board experience) AC characteristics (AC independence, AC size, and AC experience) external auditor (Large audit firms) and firm size as the control variable over the dependent variable (FR quality). The hypothesis testing helps in identification of the most influential variables that have a major impact over the FR quality. In this chapter the results and findings have been discussed that have been obtained from the analysis that was conducted in the previous chapter. Finally a few limitations that were faced during the research have been mentioned. The line with the same, the research gives avenue for further study in the same line. At the end, all of the discussion is summarized in conclusion.

5.2 Discussion of the Results

The first hypothesis of this study was to analyze the relationship between Board composition and FR quality. Results indicate that Board composition has a negative but insignificant impact on FR quality. In other words according to result the FR quality is not affected by Board composition.

Likewise, the second hypothesis of this study is to analyze the relationship between board size and FR quality. Findings of this study suggest that the impact of board size is strong and significant on FR quality.

The third hypothesis of this study was to analyze the relationship between board experience and FR quality. Results of the study indicates that the impact of board experience significantly affect FR quality in a positive way.

The hypothesis of this study was to identify and check the relationship between AC independence and FR quality. The findings of the study are that FR quality is influenced by independence of AC. AC independence significantly affects FR quality.

Fifth hypothesis of this study was to identify the effect of AC size on FR quality. The results of the study show that FR quality is significantly influenced by AC size. Therefore, AC size has a significant impact over FR quality.

The sixth hypothesis of this study was to check the relationship between AC experience and quality of FR. According to the results of the data analysis AC experience significantly affects FR quality. There is a positive impact of AC experience of FR quality.

The last and seventh hypothesis of this study was to examine the relationship between external audit quality and quality of FR. The findings of the study shows that if audit is being conducted by the big four then audit is considered as good quality which has a significant impact on FR quality.

The examination of top 150 Malaysian non-financial companies from Bursa Malaysia with maximum capitalization has provided very interesting results. With respect to variables, like board size, board experience, AC independence, AC size, AC experience and external audit quality with relation to FR quality, have shown results. It is also proven that out of seven, six variables (board size, board experience, AC independence, AC size, AC experience, and external audit quality) has significant relationship with FR quality. Only one variable i.e. Board composition has an insignificant negative impact over FR quality. The study is unique and has shown novelty in the form of variable's selection. Previous studies have been conducted on the relationship between AC characteristics and FR quality. In contrast, this study has taken the Big Four along with board characteristics to support the argument that it's not only the internal AC but the BOD and Big Four' role that also influence the FR quality.

The value of R^2 is 0.455 in present model which shows that 45.5% of the change in the dependent variable (FR quality) can be predicted by included explanatory variables in the regression model.

The value of the Durbin-Watson statistic in this auxiliary regression is 2.114 which when compared to its corresponding table values shows the absence of any specification bias in the regression model which further supports our model.

The control variable in this study (firm size) along with the independent variables was also analyzed to find out the impact of independent variables with controlling effect of firm size over FR quality. On the basis of the regression analysis that is mentioned in table in Table 4.6 depicts that firm size and FR quality of companies have a significant relationship and thus, the size of the firm affects the quality of FR.

Based on the problem raised by this study regarding quality of FR, it has been observed that board characteristics, AC characteristics and Big Four are the three precise measures that can improve the quality of financial statements of the companies. According to the findings it is said that board characteristics especially the board size and expertise of the board, AC characteristics especially AC independence, AC size and AC expertise and the Big Four have a major influence over the quality of FR. If any company pays special consideration over these variables, the company can enhance its FR quality.

5.3 Implications of the Study

The results of this study provide numerous insights that may be of great interests for the scholars, government, shareholders, and policy makers. This study has theoretical and practical implications. The study is supported by two theories and further expands the horizon of agency theory and resource dependency theory. For practitioners, the study provided the most influential and common factors that may enhance the quality of financial reporting.

5.4 Limitation and Future Research

After summarizing the analysis limitations that were faced in the study have been discussed and afterwards recommendations are given to the future researchers in the relevant field.

5.4.1 Limitations of the Study

The results of this study provide numerous insights that may be of great interests for the scholars, government, shareholders, and policy makers. Along with different contributions of this study, there are several limitations attached with it. The present study tested the effect of few selected factors on quality of FR.

Likewise, the measurement of FR quality has been made on only one method. Furthermore, the study does not focus on any specific industry and chose 150 companies from different sectors.

Another limitation is that the research focused only on non-financial firms and excluded other financial institutions. Therefore, the result and findings of the research may be generalized to non-financial companies operating in Malaysia.

Along with that, the study has measured a different way of measuring FR quality. There are several ways of measuring FR quality which were not applied.

The study used cross-sectional data; all the values were extracted from the financial statements of the financial years 2014 only. The reason for not taking year 2015 was that several companies have not published their annual reports up till now.

5.4.2 Suggestions for Future Research

On the basis of results of this research and limitations that have been faced while conducting this study, several recommendations have been given to future researchers.

Based on the results, this research suggests that future research need to overcome its limitations and provides more insight to the relationship between independent and dependent variables of the research.

Future studies may apply the same model in different geographical portions to see the difference with FR quality. Therefore, it is suggested that same methodology can be used by future studies for other countries where this relationship has not yet been tested. The basic reason behind this suggestion is that countries differ in environment, cultures, education, policies, legal systems etc. It is also suggested that future researchers can extend these results by increasing the number of sample companies if more annual reports are available.

Future study can also adopt different models of measuring and estimating the influence on FR quality or combine the use of models as in other studies with will allow comparison of the present results.

Furthermore, the further researchers may also focus on different aspects of CG including other committees and other characteristics of BOD.

5.5 Summary

This chapter summarized the findings and results discussed in chapter four with complete details. The objective of this research was to find how FR quality is influenced by board characteristics (board composition, board size, and board experience) AC characteristics (AC independence, AC size, AC experience). This study used three dimensions of board characteristics and three dimensions of AC characteristics. Results indicated that two out of three dimensions of board characteristics and all the three dimensions of AC characteristics along with external audit quality have strong and significant relationship with quality of FR. The results of the research contribute to the theory by giving a precise model to determine the quality of FR. The companies by concentrating only on the significant variables can enhance the quality of FR.

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