AUDIT COMMITTEE INDEPENDENCE, FINANCIAL EXPERTISE AND FINANCIAL RESTATEMENTS: EMPIRICAL EVIDENCE IN MALAYSIA

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EMPIRICAL EVIDENCE IN MALAYSIA

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ABSTRACT

This study examines the effect of audit committee characteristics namely audit committee independence, accounting background of the chairman of audit committee and financial expertise of audit committee members on the financial restatements of the public listed companies in Malaysia. Many studies that investigated the relationship between audit committee characteristics and financial restatements were done in foreign countries. Therefore, this study contributes to the literature in this field of study in Malaysia. The theoretical foundation of this relationship was supported by agency theory. The main source of information for this study was obtained from the annual reports for the fiscal year 2014. By using the logistic regression analysis, the results show that there is negative relationship between the audit committee independence and financial restatements. However, with regards the results for the accounting background of the chairman of audit committee and the financial expertise of audit committee members show that the relationship are not statistically significant. In order to get better understanding of the relationship between audit committee characteristics and financial restatements, this study also has discussed the implications and suggestions for future research.

Keywords: corporate governance, financial restatements, audit committee independence, accounting background of the chairman of audit committee, and financial expertise of audit committee members.

Kata kunci: tadbir urus korporat, penyata semula kewangan, kebebasan jawatankuasa audit, latar belakang pengerusi jawatankuasa audit dan kepakaran kewangan ahli jawatankuasa audit.
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<table>
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<th>Full Form</th>
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<tbody>
<tr>
<td>AC</td>
<td>Audit Committee</td>
</tr>
<tr>
<td>CCM</td>
<td>Companies Commission Malaysia</td>
</tr>
<tr>
<td>CSRC</td>
<td>China Securities Supervisory Commission</td>
</tr>
<tr>
<td>FPLC</td>
<td>Federation of Public Listed Companies</td>
</tr>
<tr>
<td>HLFC</td>
<td>Level Finance Committee on Corporate Governance</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>JSX</td>
<td>Jakarta Stock Exchange</td>
</tr>
<tr>
<td>MAICSA</td>
<td>Malaysian Association of The Institute of Chartered Secretaries and Administrators</td>
</tr>
<tr>
<td>MCCG</td>
<td>Malaysia Code on Corporate Governance</td>
</tr>
<tr>
<td>MIA</td>
<td>Malaysian Institute of Accountants</td>
</tr>
<tr>
<td>MICG</td>
<td>Malaysian Institute of Corporate Governance</td>
</tr>
<tr>
<td>MICPA</td>
<td>Malaysian Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>MID</td>
<td>Malaysian Institute of Directors</td>
</tr>
<tr>
<td>MSWG</td>
<td>Minority Shareholder Watch-dog Group</td>
</tr>
<tr>
<td>SCM</td>
<td>Securities Commission of Malaysia</td>
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<td>SEC</td>
<td>Securities Exchange Commission</td>
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CHAPTER 1
INTRODUCTION

1.1 Research Interest

Financial restatements issue has received considerable attention from the regulators in Malaysia. In 2007, cases involving The Maxbiz Corp Bhd., Transmile Bhd., and Megan Media Holdings Bhd. signaled accounting irregularities cases in Malaysia. As the financial restatements issue affects the investors’ confidence in Malaysia companies, therefore it should be addressed. According to Abbott, Parker & Peters, (2010), audit committee is seen as an independent body to an organization that provides the assurance that the company is practicing good governance to the external parties. The audit committee liaises much with the external and internal auditors Abbott et. al. (2010), as these two parties are the frontlines to ensure that good governance practices are in place, thus the likelihood of errors in the financial statement is reduced.

The audit committee establishment is to protect the interests of the stakeholders, especially the minority shareholders in addition to monitor and to fulfill the governance structure of a public company. Raghunandan & Rama (2003) found that the tasks and roles of the audit committee members are increasingly important, over the years. Companies nowadays operate under greater risk environment and are subjected to higher level of public scrutiny. With the increase in public’s awareness on financial restatement issues, audit committee members have to be diligent in discharging their duties.
The contents of the thesis is for internal user only
REFERENCES


*Contemporary Accounting Research, 28*(5), 1510-1536.


