AUDIT COMMITTEE BUSYNESS AND FINANCIAL REPORTING QUALITY

MOHAMAD AZLAN JAAFAR

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MOHAMAD AZLAN JAAFAR

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(Date)

Nama Pelajar
(Name of Student)
: **Mohamad Azlan Jaabar**

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Prof. Dr. Wan Nordin Wan Hussin

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ABSTRACT

The objective of this study is to investigate the busyness of audit committee and its relationship with financial reporting quality. Increasing corporate governance reforms have made the responsibilities of audit committee more onerous; therefore, there is now widespread concern whether busy audit committees can carry out their monitoring duties effectively. To address the concern with audit committee busyness in an emerging economy like Malaysia, the study, which is drawn from the agency and resource dependence theories, examines if there is any relationship between audit committee busyness and financial reporting quality. The samples in this study comprise the top 150 listed companies in Malaysia, where audit committee busyness is analysed from the perspective of multiple directorships and overlapping board committees, using audit delay and financial restatements as proxies to financial reporting quality. It is observed that financial experts on the audit committee are busier than non-financial experts in terms of multiple directorships. Similarly, the audit committee chair has significantly higher multiple directorships than non-chair members. Findings from the study reveal that the presence of an audit committee financial expert in the remuneration committee is an important determinant to reduce audit delay. The relationship between multiple directorships of audit committee and audit report delay is also found to be statistically significant. Further evidence suggests that companies whose audit committee chair has overlapping membership, are more likely to restate their financial statement. Findings from this study also indicate that the overlapping committee membership of audit committee financial experts is significantly and negatively related to financial restatement. Findings from this study provide additional knowledge by suggesting that the board needs to examine the busyness of the audit committee chair and financial experts separately to improve the company's financial reporting quality. This would be relevant to policy-makers in evaluating the merits of regulating multiple directorships.

Keywords : multiple directorships, overlapping board committees, audit delays, restatements, financial reporting quality

ABSTRAK

Matlamat kajian ini adalah untuk mengkaji hubungan antara kesibukan jawatankuasa audit dengan kualiti laporan kewangan. Pelbagai peningkatan dalam pembaharuan tadbir urus korporat telah menjadikan tanggungjawab jawatankuasa audit semakin membebankan. Justeru itu, ia menyebabkan kebimbangan yang tinggi sama ada jawantankuasa audit yang sibuk boleh menjalankan tugas pemantauan secara berkesan ataupun tidak. Untuk menangani kebimbangan isu kesibukan jawatankuasa audit dalam konteks ekonomi yang pesat membangun seperti Malaysia, kajian yang berdasarkan teori agensi dan teori bergantungan sumber ini telah memeriksa hubungan antara kesibukan jawatankuasa audit dengan laporan kewangan berkualiti. Kajian ini menggunakan sebanyak 150 sampel yang terdiri daripada syarikat besar di Bursa Malaysia. Kesibukan jawatankuasa audit dikaji dari segi pengarahan berbilang dan lembaga jawatankuasa bertindih dengan menggunakan kelewatan audit dan penyataan semula laporan kewangan sebagai proksi kepada kualiti laporan kewangan. Keputusan kajian telah menunjukkan bahawa pakar kewangan jawatankuasa audit adalah lebih sibuk daripada bukan-pakar kewangan jawatankuasa audit dari segi pengarahan berbilang. Begitu juga pengerusi jawatankuasa audit mempunyai lebih banyak pengarahan berbilang berbanding dengan bukan-pengerusi jawatankuasa audit. Keputusan kajian juga menunjukkan kehadiran pakar kewangan jawatankuasa audit dalam jawatankuasa imbuhan adalah penentu yang penting untuk mengurangkan kelewatan laporan audit. Hubungan antara pengarahan berbilang dalam kalangan ahli jawatankuasa audit adalah berhubungan secara signifikan dengan kelewatan laporan audit. Kajian ini juga telah membuktikan bahawa lembaga jawatankuasa bertindih bagi pengerusi jawatankuasa audit adalah lebih cenderung untuk menyatakan semula laporan kewangan. Walau bagaimanapun, lembaga jawatankuasa bertindih bagi pakar kewangan jawatankuasa audit adalah berhubungan secara signifikan dan negatif dengan penyataan semula laporan kewangan. Keputusan daripada kajian ini memberi maklumat tambahan dengan mencadangkan agar lembaga pengarah perlu meneliti kesibukan pengerusi dan pakar kewangan jawatankuasa audit secara berasingan. Kajian ini adalah relevan kepada penggubal dasar dalam menilai merit mengawal selia pengarahan berbilang.

Kata kunci : pengarahan berbilang, lembaga jawatankuasa bertindih, kelewatan audit, penyataan semula laporan kewangan, kualiti laporan kewangan

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AC	Audit Committee
ACC	Audit Committee Chair
ACE	Access, Certainty, Efficiency, which is the new name for the formerly MESDAQ (Malaysian Exchange of Securities Dealing and Automated Quotation) market
ACFE	Audit Committee Financial Expert
Big 4	Big four external auditor
BRC	Blue Ribbon Committee (US)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
ESOS	Employee Share Options Scheme
MCCG	Malaysian Code on Corporate Governance
NASDAQ	The National Association Securities Dealer Automated Quotation system (the largest electronic equity exchange in the US)
REIT	Real Estates Investment Trusts
ROA	Return on assets
SC	Securities Commission of Malaysia
SOX	Sarbanes-Oxley Act 2002
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER 1

INTRODUCTION

1.0 Introduction

The chapter is the introductory chapter for this study. This chapter comprises the background of the study, followed by the problem statements, audit committee busyness, research motivation and objectives as well as the research questions of the study. Further, the chapter discusses the uniqueness of the study, followed by the significance and scope of the study. Finally, the chapter highlights the organisation of the dissertation and summary.

1.1 Background of the Study

Audit committee is not a new concept in developing countries, like Malaysia. In Malaysia, all listed companies have been mandated to establish an audit committee since 1 August, 1994 under section 15A of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) Listing Requirements (Rahman and Salim, 2009). Various measures have been undertaken by the regulators to improve audit committee effectiveness as part of a strong corporate governance structure. For example, in 2007, the Malaysian Code on Corporate Governance was revised with additional requirements, that in the audit committee must consist of at least three directors, with the majority comprising independent non-executive directors and the chairman has to be an independent non-executive director with no alternate director allowed. These requirements have been reinforced through the Bursa Listing Requirements (para 15.09), including one additional requirement that at least one member of the audit committee must be a member of the Malaysian Institute of Accountants or have at least three years' working experience, as prescribed or approved by Bursa Malaysia. The minimum functions of the audit committee are also prescribed in the Bursa Listing Requirements (para 15.12).

Notwithstanding numerous corporate governance reforms in Malaysia, it is still of concern that corporate fraud in Malaysia is on the rise and 46% of respondents have knowledge about corporate fraud in their own organisations (KPMG, 2013a). Apart from corporate fraud, there has been a series of accounting irregularities among listed companies in Malaysia, such as Transmile Group Berhad, Megan Media Berhad and Silver Bird Berhad. The core of accounting scandals can be attributed to financial reporting quality (Goncharov, 2005). The relevance and reliability of the listed companies' financial reporting quality has been a significant and continuous concern among industry players, regulators and academicians. More importantly, it is argued that financial misreporting, that is linked to financial statement manipulations and insider trading, may disguise the company's actual financial performance (Beneish, 2001). Therefore, the role of the audit committee in ensuring reliable and quality financial reporting is becoming more important today than ever before. Clearly, the audit committee's responsibilities are escalating, getting more difficult and challenging, compounded by increasing expectations from the stakeholders. Further, a survey conducted by KPMG on 1,500 audit committee members in 35 countries reveals that 74 % of the audit committee directors (respondents) said that their roles have become more challenging and the time required to discharge their responsibilities has increased substantially (KPMG, 2015). This explains the requirement for more studies in this area to assist the audit committee in meeting those expectations.

1.2 Problem Statements

Financial reporting quality is an essential element in the modern capital market as it provides a primary source of independently verified information about the performance of management in terms of efficient resource allocation (He et al., 2009). Further, it has been argued that despite various regulatory interventions, there has been a dramatic increase in the number of financial reporting scandals over the years, attributable to three factors: 1) failure to implement corporate governance practices; 2) lax auditing; and 3) aggressive remuneration incentives for the management. Pomeroy et al. (2008) argue that the act of manipulation or opportunistic financial reporting by the management will result in higher information asymmetry and costs of capital, to the detriment of shareholders' value.

Numerous studies have attempted to explain financial reporting quality but the concept of financial reporting quality is still elusive (Habib and Jiang, 2015). To date, the debate continues on the association between audit committee attributes and financial reporting quality, following the wide range of accounting proxies for operationalising financial reporting quality (Pomeroy et al., 2008; Habib and Jiang, 2015). It has been debated that high-quality proxies for financial reporting quality, such as abnormal returns, are significantly different from low-quality proxies for financial reporting quality, such as fraud related financial restatements. The relationships are not linear and are complicated by possible endogenous relationships between the corporate governance variables and financial reporting quality (Habib and Jiang, 2015). For example, financial restatement is a proxy to low financial reporting quality and is evident in the case of Transmile Group in Malaysia, where the company restated its audited financial statements and thereafter, was associated with fraudulent financial reporting (Wahab et al., 2014; Hasnan et al., 2013).

The audit committee is also an important mechanism in the corporate governance structure to ensure the quality, credibility, objectivity and integrity of the company's financial reporting process. As audit committee directors have an oversight responsibility on the company's financial reporting quality, their attributes can enhance the effectiveness of the audit committee (Abbott et al., 2002).

Prior studies have examined the effectiveness of the audit committee and its association with the company's financial reporting quality through decreased earnings management (Bedard et al., 2004) and financial fraud (Sharma, 2004) and increased unqualified audit reports (Carcello and Neal, 2000). Therefore, extant literature has adequately highlighted that a well-structured audit committee is an effective mechanism to uphold the integrity of financial reporting.

However, the escalating accounting irregularities and financial reporting fraud over the years have put the role of the audit committee and its effectiveness into the spotlight.

The effectiveness of the audit committee has been widely debated, especially in relation to its monitoring of financial reporting quality (Carcello et al., 2011).

Further, there is an expectation that an effective audit committee will ensure the company has high quality of financial reporting (Felo et al., 2003). Some empirical findings support the notion that audit committee independence and financial expertise are positively associated with financial reporting quality (Bedard and Gendron, 2010; Puat Nelson and Devi, 2013). However, there has been little conclusive evidence on the association of other attributes of audit committee and financial reporting quality (Pomeroy et al., 2008). Further, Sharma and Iselin (2012) argue that the mandating of audit committee independence and financial expertise in recent years has increased the homogeneity of audit committee directors. Therefore, to improve the audit committee's effectiveness, more studies are required on the characteristics, other than independence and financial expertise. There are at least three recent studies that have called for additional research to address specific characteristics of the audit committee other than independence and expertise (Ghafran and O' Sullivan, 2013; Carcello et al., 2011; DeFond and Francis, 2005). Therefore, this study is in response to this research gap and focuses on the additional attributes of the audit committee, i.e., busyness and its association with financial reporting quality.

In recent years, there has been a series of corporate governance reforms, such as the Sarbanes-Oxley Act (2002) in the United States (US) and the Cadbury Report in the United Kingdom (UK), which have led to an increase in the scope and authority of the audit committee. For example, through these reforms, the audit committee is expected to review and approve non-audit services and the appointment of and remuneration fees for the external auditors. These reforms also mandate the audit committee to be wholly-independent (in the US) with at least one of the directors being a financial expert. Following these corporate governance reforms, the roles and responsibilities of the audit committee directors are becoming more stringent and onerous (Tanyi and Smith, 2014). Busyness is becoming one of the new challenges faced by the audit committee directors and to date, there has been little agreement on its implication to the audit committee's effectiveness (Tanyi and Smith, 2014). Audit committee busyness is also becoming a serious concern and a topic of significant discussion among the regulators as there is some doubt whether busy audit committees can dedicate their time to and focus on accounting issues.

In the context of developing countries, like Malaysia, the Securities Commission (2011) has highlighted that overcommitted directors may not be able to allocate sufficient time to discharge their duties as directors. Given the increased responsibilities of the directors, multiple directorships is an onerous commitment as the directors are expected to participate in board meetings as well as play an active role in the board committees. Additionally, insufficient attention, time and over-commitment by the directors are among the contributing factors of non-compliance with the regulatory requirements and escalating number of fines on the listed companies (Securities Commission, 2011). To this end, the regulators do not prescribe the amount of time that directors have to allocate to overseeing their company. This is because the onus is on the directors to ensure that they allocate sufficient time; inability to commit may lead to breach of their fiduciary duties (Bursa Malaysia, 2013).

Hong Kong, which is another developing country, is also facing the same dilemma. The Hong Kong Stock Exchange has expressed concern that too many directorships may compromise the directors' ability to devote sufficient time and energy to their duties (Lei and Deng, 2013). Further, the study highlights that there are only a limited number of studies on multiple directorships in developing countries, where the authorities are pressured to increase the proportion of independent directors on the board while limiting the number of multiple directorships among the board members. The apparent shortage of capable independent directors may lead to an increase in overlapping directors, i.e., a director serves on multiple board committees (Chang, Luo and Sun, 2011). Multiple board appointments and overlapping board committees are contemporary corporate governance issues (The Borneo Post, July 12, 2011; KPMG and Assocham, 2011; Chang et al., 2011) and fast becoming one of the main focus areas among regulators in developing countries (Lei and Deng, 2013; Securities Commission, 2011; Sarkar and Sarkar, 2009). Therefore, external busyness (multiple directorships) and internal busyness (overlapping board committees) factors are chosen as the focus of this study to investigate audit committee effectiveness.

Accordingly, the goal of this study is to understand the busyness of the audit committee and its association with financial reporting quality. To date, there has been little agreement on the implications of audit committee busyness on financial reporting quality (De Vlaminck and Sarens, 2015). This study advances the study on financial reporting quality by using audit delay and financial restatement as proxies in the context of emerging economies, like Malaysia. Both proxies are well suited for this study as both have little measurement error in detecting potential financial misreporting by companies (DeFond and Zhang, 2014). Further, this study acknowledges empirical findings from a recent study in the US that the busyness among audit committee directors is not homogenous (Abernathy et al., 2014; Tanyi and Smith, 2014). This study also advances the literature by investigating the relationship between overlapping committee memberships of the audit committee chair and the financial expert and their monitoring roles in financial reporting quality, as examined by Karim et al. (2015) and Kusnadi et al. (2015).

1.3 Research Motivations

There are several factors that motivate this study on the association between audit committee busyness and financial reporting quality. First, the recent high profile financial reporting scandals involving large companies, such as Toshiba and AirAsia, have created significant concern among institutional investors and regulators about the financial reporting quality of listed companies, despite their long established audit committees. Even a large listed company in developed markets, such as Toshiba in Japan, is not insulated from financial reporting scandals; it was alleged that Toshiba overstated its operating profits by at least USD 1.2 billion from 2008 to 2012 (The Wall Street Journal, July 21, 2015). In emerging economies like Malaysia, Air Asia Berhad was questioned by a Hong Kong-based research firm, GMT Research, that the company overstated its profit using transactions with affiliate companies (Financial Times, June 17, 2015).

Second, the consequences of audit committee busyness are still contentious, both in the industry and among academia. Some shareholder groups, such as the National Association of Corporate Directors and the Council of Institutional Investors, have expressed concern that multiple directorships may cause some directors to be too busy to perform their monitoring oversight effectively. They therefore have proposed limiting the number of directorships that can be held by a director (Sharma and Iselin, 2012). This is because the commitment of directors is becoming more burdensome; in fact, some of the regulators have serious concerns whether busy directors can dedicate their time and attention to financial reporting issues of the listed companies (Lei and Deng, 2014; Securities Commission, 2011). There is an on-going discussion among the regulators that insufficient attention and commitment by the busy directors are the contributing factors to the escalating number of fines imposed on the listed companies (Securities Commission, 2011).

To date, the academic literature offers contradictory findings on the merits of busy vs non-busy audit committee directors. One strand of research views busy audit committee directors as a positive indicator of the directors' reputation, i.e., the "Reputation Hypothesis". The reputational benefit and recognition from holding multiple directorships allow these directors to optimise their skills and knowledge in discharging their fiduciary duties. However, the other strand of research under the "Busyness

Hypothesis" posits that busy directors may not be able to commit their time and attention, consequently undermining their oversight responsibilities, and thus becoming ineffective monitors.

Third, this issue has grown in importance in the light of the apparent shortage of capable independent directors in some jurisdictions, especially in the developing countries (Lei and Deng, 2013). The regulators are strongly advocating the listed companies to increase the proportion of independent directors on the board, while at the same time, restricting multiple directorships in listed companies. Therefore, with limited number of capable independent directors in the market, it is becoming a more difficult balancing act. As such, it is fast becoming a subject of dispute and debate on the possible trade-off implications (Chang et al., 2011).

Finally, the results from this study can provide more insight to the regulators, like Bursa Malaysia, in assessing the effectiveness of multiple directorships among directors of listed companies in Malaysia from its ruling that came into effect on July 2013. The revised listing requirements prohibit any director from holding more than five directorships in Malaysian listed companies. Accordingly, the busyness of audit committee directors has become a contemporary corporate governance issue which needs to be further examined to determine its effectiveness. This study intends to respond to this emerging issue by focusing on the additional attributes of the audit committee, namely the external and internal busyness and their association with financial reporting quality.

1.4 Research Questions

The foregoing discussion on audit committee busyness and its effectiveness motivates the researcher to investigate the following research questions:

1. What is the extent of busyness among the audit committee directors?
2. What are the relationships between the multiple directorships of audit committee members and the company's financial reporting quality?
3. What are the relationships between the overlapping audit-remuneration committee memberships and the company's financial reporting quality?
4. What are the relationships between the multiple directorships of audit committee chair and the company's financial reporting quality?
5. What are the relationships between the overlapping audit-remuneration committee memberships of audit committee chair and the company's financial reporting quality?
6. What are the relationships between the multiple directorships of audit committee financial experts and the company's financial reporting quality?
7. What are the relationships between the overlapping audit-remuneration committee memberships of audit committee financial experts and the company's financial reporting quality?

1.5 Research Objectives

The main objective of this study is to investigate the relationships between audit committee busyness and financial reporting quality. Specifically, this study investigates the impact of multiple directorships and overlapping audit-remuneration committee memberships of audit committee members, specifically the audit committee chair and audit committee financial experts on the company's audit delay and financial restatement.

Given that the studies on the association between busyness of the audit committee and the company's financial reporting quality in the context of emerging economies, like Malaysia, are still limited, this study aims to examine the association between audit delay and audit committee busyness (measured by multiple directorships and overlapping board committee memberships), and the association between financial restatements and audit committee busyness, using data subsequent to the corporate governance reform in 2012.

1.6 Uniqueness of the Study

While there are several studies on the association between audit committee busyness and financial reporting quality (e.g., Sharma and Iselin, 2012; De Vlaminck and Sarens, 2015; Tanyi and Smith, 2014; Kusnadi et al., 2015), this study extends the literature by measuring the busyness of audit committee from two perspectives. First, 'external busyness', i.e., multiple directorships in other listed companies. Second, 'internal busyness', where audit committee directors have additional roles in the remuneration committee ("overlapping board committees"). Overlapping board committees is becoming prevalent and yet, evidence on its impact on financial reporting quality, is still limited (Habib et al., 2015; Kusnadi et al., 2015).

Further, this study acknowledges empirical findings from recent studies that the busyness among audit committee directors is not homogenous (Abernathy et al., 2014; Tanyi and Smith, 2014). In responding to these findings, this study advances the extant literature by investigating the relationship between overlapping committee memberships of the audit committee chair and financial experts and their monitoring roles in financial reporting quality. While there are findings on these relationships (e.g., Karim et al., 2015; Kusnadi et al.; Habib et al., 2015), this paper significantly differs from previous studies in a number of ways.

First, to the best of the researcher's knowledge, this study is one of the first studies that examine overlapping board committee memberships of audit committee chair and financial experts. Further, it is interesting to analyse and understand if the dual role of audit committee chair and remuneration committee membership influences the company's financial reporting quality, especially in developing countries where the practice is unavoidable due to limited supply of capable non-executive directors (Chang et al., 2011).

Second, Habib et al. (2015) and Karim et al. (2015) measure overlapping committee membership at the company level, compared to this study, which examines overlapping committee membership at individual audit committee level. Further, this paper extends Kusnadi et al. (2015) by examining the presence of audit committee chair in the remuneration committee, in addition to audit committee financial expert.

Third, the study extends a prior study by Abernathy et al. (2014), who conclude that the audit committee financial expert is critical to reduce audit delay, by further examining the additional attributes of audit committee financial expert, i.e., overlapping roles in the remuneration committee over and above the audit committee.

Fourth, there are few empirical evidences on the association between audit committee financial expert and audit delay (e.g., Abernathy et al., 2014; Sultana et al., 2015). Prior studies have not examined other attributes than financial expert such as governance or industry expert with respect to audit delay (Baatwah et al., 2013). This study advances the literature on the governance expert of audit committee and audit delay. Bedard and Gendron (2010) claim that audit committee directors with multiple directorships are the governance expert.

In addition, this study uses audit delay and financial restatement as proxies to financial reporting quality as opposed to earnings management (e.g., Habib et al., 2015; Kusnadi et al., 2015) and audit fees (Karim et al., 2015). Both audit delay and financial restatement can detect potential financial misreporting, as they have little measurement error as compared to arbitrary calculations per earnings management (DeFond and Zhang, 2014), therefore providing strong evidence of low financial reporting quality (Blankley et al., 2014). Additionally, it has been reported that audit delay is still an empirical issue in Malaysia as the listed companies in Malaysia have an average audit delay of 100 days which is significantly longer than other countries. Yet, only a few studies have been undertaken on the developing countries to understand the cause of audit delay (Wan-Hussin et al., 2016; Che-Ahmad and Abidin, 2009).

In using financial restatement as another proxy to financial reporting quality, a recent study by Sharma and Iselin (2012) concludes that multiple directorships of audit committee members have contributed to increasing financial restatements. This study advances the study by Sharma and Iselin (2012) by examining busyness, not only at the overall audit committee level (as per prior studies), but also at the individual director level, such as the audit committee chair and financial expert.

1.7 Significance of the Study

1.7.1 Literature Contributions

This study contributes to knowledge by addressing four important issues. Firstly, the findings of this study provide more information that multiple directorships of audit committee members are beneficial in reducing the company's audit delay. The impact on audit delay from the 25th to 75th percentile (i.e. from 0.238 to 0.667) on audit committee multiple directorships (AC_3MD) is eight (days), and therefore, economically significant. The potential impact of audit committee busyness (AC_3MD) on audit delay represents an important issue for practical recommendation and further studies.

Secondly, this study gives more information on how to improve audit committee effectiveness. In an effort to strengthen audit committee effectiveness, the board should re-examine the busyness of its audit committee members, through their directorships in other listed companies and commitments in other board committees. This will enable them to give their commitment to improve financial reporting quality, either by reducing the company's audit delay, reducing the possibility of restating the financial statements or both.

Thirdly, this research advances the literature on the board committees and the interaction between them. It is evidenced that more of the board's work load has been delegated to the board committees to accomplish more in their limited time. Therefore, investigation on the effectiveness of board committees, especially their interplay through overlapping board committees, provides relevant empirical data in the context of developing countries, like Malaysia. The findings suggest that the overlapping board committee memberships by financial experts are beneficial for improving financial reporting quality. This finding extends a recent study based on US firms that concludes that an audit committee financial expert is critical for reducing audit delay (Abernathy et al., 2014), while this study has further suggesting that overlapping roles in the remuneration committee can also reduce audit delay. To the researcher's knowledge, the current study is among the pioneer studies in Malaysia that examines the extent of overlapping committee memberships of different audit committee directors and to investigate their association with audit delay and financial restatement. This study provides strong support that audit committee busyness through multiple directorships and remuneration committees by the financial expert improves audit report delay.

Finally, this study adds to the body of knowledge by further confirming that busyness among audit committee directors is not homogenous through the findings on the internal and external busyness of the audit committee chair and financial experts. The board should therefore, examine the busyness of audit committee directors separately to improve audit committee effectiveness. It is also important to further understand the distribution of busyness among the audit committee directors, especially the chair and the financial expert, who play significant roles in the effective functioning of the audit committee. Therefore, in summary, this study examines who on the audit committee is busy, apart from whether the audit committee as a whole is busy.

1.7.2 Theoretical Contributions

This paper seeks to address the previous research gaps by examining the attributes required for audit committee effectiveness, given that the studies thus far are still inconclusive. By extending research in financial reporting, the study intends to have a better understanding of the efforts to enhance audit committee effectiveness. The primary responsibilities of the audit committee include monitoring the company's financial reporting quality. Therefore, a direct connection with financial reporting may provide greater insights on effective corporate governance mechanisms.

The study confirms the agency theory that the presence of audit committee financial expert improves the company's financial reporting. The results prove that the overlapping committee membership of the audit committee financial expert is associated with more timely audited report and less likelihood of restating the financial statement, thus supporting the "Reputation Hypothesis".

The results also show that the multiple directorships of audit committee members have a negative and significant association with audit delay, signifying that the resource dependence theory is relevant in the context of audit committee busyness. Their multiple directorships are beneficial and resourceful in reducing audit delay of the companies.

Finally, by examining the busyness of individual audit committee directors, findings from this study shed more light on the effect of busy audit committee chair and financial expert on financial reporting quality, which in turn, give a better understanding of financial reporting quality and audit committee effectiveness.

1.7.3 Practical Contributions

From the practical perspective, the results from univariate analysis suggest that audit committee financial expert is busier than non-financial expert in terms of multiple directorships. This study extends the literature by further suggesting that the board needs to examine the busyness of their audit committee chair and financial expert separately in efforts to improve audit committee effectiveness as the findings indicate that busyness among audit committee directors has different implications to the financial reporting quality.

In terms of the accounting outcomes of audit committee busyness, the findings reveal that multiple directorships of audit committee members can reduce delay in issuing the audited financial statement. Therefore, the findings can augment the debate on the merits of regulating multiple directorships in listed companies, especially among audit committee directors. Currently, there is much variation in the practices across the countries in imposing a limit on multiple directorships. Most countries have taken the approach of not imposing such rules; instead, they advocate the companies' boards to formalise their own policies on limiting multiple directorships. Malaysia is one of the few countries, together with India and Pakistan that impose a maximum cap on multiple directorships. Other developed countries, such as the US, the UK and Australia do not regulate multiple directorships; their Code only suggests that the board to formalise its own policies on multiple directorships of the directors. With restriction on multiple directorships and existing short supply of capable independent directors in the developing markets, like Malaysia, the board may appoint less capable independent directors which may compromise the board's monitoring effectiveness. Findings from this study, therefore, are relevant to the policy-makers in Malaysia, such as the Securities Commission and Bursa Malaysia, to evaluate the merits of regulating multiple directorships. Evidence from this study reveals that multiple directorships of audit committee members can reduce audit delay and the relationships are economically significant.

Finally, given that there are limited studies on the overlapping board committee memberships, this study sheds more light on the effect of overlapping board committee memberships by audit committee chair and financial expert on financial reporting quality. The findings suggest that the overlapping board committee memberships by financial expert are beneficial to improve financial reporting quality; however, overlapping committee memberships by the audit chair has adverse implications with a high tendency to restate financial statement. Therefore, the board may have to give more attention to the audit committee financial expert and chair for possible board committee reassignments to improve financial reporting quality.

1.8 Scope of the study

This study is not without its limitations in terms of the scope of the study. Firstly, the population from which the samples are selected comprises large non-financial listed companies on Bursa Malaysia in 2013 (by market capitalisation). The top 150 listed companies by market capitalisation are chosen due to their wide coverage of the required information in the annual reports and subscribed online databases. Hence, the results are not suitable for small companies.

Secondly, 2013 is chosen as the year of study as it is approximately one year after the implementation of the new and revised corporate governance code in Malaysia, i.e., the Malaysian Code on Corporate Governance 2012.

Thirdly, for the purpose of this research, data is collected from only one country, that is Malaysia. Therefore, the results of this study may not be generalisable to other countries with different institutional settings.

Fourthly, evidence is also limited to the sample size and in the context of emerging economies with limited investor protection, closely held shareholdings and more family ownership. Therefore, generalisation should be made with careful consideration, especially in different market environments. A larger sample of listed companies in several countries with different institutional environments will be an added advantage and present a better understanding of audit committee busyness.

Additionally, the busyness of audit committee directorships in this study excludes directorships in non-listed companies or listed companies overseas. Notwithstanding this limitation, the strength of this research and potential importance of the findings are not diminished.

Finally, this study adopts multiple and logistic regression models and archival data in explaining the relationships between audit committee busyness and financial reporting quality. Some unique observations and behaviours may not be captured in the models.

There is still limited in-depth understanding on these areas. A qualitative research design using interview method may offer a richer understanding on audit committee busyness.

1.9 Organisation of Thesis

Chapter Two highlights literature relating to the key variables in the study with a focus on the audit committee and financial reporting quality. The objective is to articulate the gap in the extant literature on audit committee busyness and justify the research questions of the study.

Chapter Three highlights the theoretical and research framework and formulates hypotheses for further analysis. It draws upon the agency and resource dependence theories to provide the theoretical foundation for the research framework. The agency theory is applied as it explains audit committee as an effective monitoring mechanism of the management on behalf of the shareholders, while the resource dependence theory is used to explain the busyness of audit committee as a link to external resources. Further, this chapter involves discussion on the operationalisation and measurement of variables, data collection and sample selection, sources of data and the empirical models. The research design of the study is deliberated on in this section using two proxies to measure financial reporting quality.

Chapter Four highlights data analysis, the findings of the study and discussion of the findings. The chapter begins with the presentation of descriptive statistics and univariate analysis, followed by a description on the data screening process prior to conducting regression analysis. It is then followed by a discussion on the diagnostic tests, which include the tests to determine and eliminate the outliers, multicollinearity issues and fulfillment of statistical assumptions prior to performing regression analysis. The chapter then proceeds with the presentation of multivariate analysis using two proxies to financial reporting quality - audit delay and financial restatement.

Finally, Chapter Five concludes with the results of hypotheses testing and research questions. It also explains the study's limitations, as well as the implications and suggestions for future research.

1.10 Summary

The study extends the literature on audit committee busyness in relation to financial reporting quality. The objectives are twofold: firstly, to examine the extent of audit committee members' busyness, including the audit committee chair and financial expert; and secondly, to investigate the association between audit committee busyness and financial reporting quality, using two proxies of financial reporting quality, namely audit delay and financial restatement.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter begins with an overview of the literature on corporate governance. Next, sections 2.1, 2.2 and 2.3 elaborate on empirical studies on the functioning of the board of directors, its committees, including the audit committee and its growing importance through corporate governance reforms. Section 2.4 discusses literatures on audit committee busyness and its monitoring effectiveness. Sections 2.5 and 2.6 examine studies on financial reporting quality, which are measured differently in this study - financial restatement and audit delay. Section 2.7 draws on the extant audit committee busyness literature and identifies the research gaps in financial reporting quality to justify the motivation for this study.

2.1 Corporate Governance

The main participants for effective corporate governance are the management, the board of directors, board committees and the audit function (Cohen et al., 2004). Further, corporate governance mechanisms are applied from the internal and external perspectives. Block holders and the board of directors are classified as the primary internal monitoring mechanisms, while external monitoring mechanisms include external auditing and market for corporate control (Habib and Jiang, 2015). The combination of the internal and external mechanisms influences the corporate governance of an organisation.

Numerous cases of corporate failures and accounting scandals in both developed and emerging markets have prompted the regulators to re-evaluate their corporate governance requirements. With proper functioning of the corporate governance practices and institutions, the company's financial reporting quality is expected to be upheld (Cohen et al., 2004). However, from observation throughout advanced and developing countries, such expectations are still inconsistent (Pomeroy and Thornton, 2008).

2.1.1 Board of Directors

The highest level in monitoring mechanism within a company is the board of directors, given its power to compensate decisions made by the management (Fama and Jensen, 1983). In that respect, the board characteristics are critical to ensure that they are effective in their monitoring responsibilities. Examples of board characteristics that have been found to significantly influence the board's effectiveness are the presence of outside directors (Beasley, 1996; Dechow et al., 1995), board size (Vafeas, 2000) and board independence (Sharma, 2004; Carcello et al., 2002; Davidson et al., 2005).

Among researchers who have studied the effect of outside directors are Helland and Sykuta (2005), who claim that a board that is dominated by outside directors has more effective monitoring and control over the management. This argument is consistent with

Agrawal and Knoeber (2001) who highlight that outside directors who are independent from the management bring a greater depth of experience to the firm. As for the studies on outside directors and financial reporting quality, Beasley (1996) reveals that fraudulent firms have a significantly lower percentage of outside directors, suggesting that increasing outside directors' involvement is a remediating measure for fraud detection. The findings are further supported by Dechow, Sloan and Sweeney (1996) who argue that firms that manipulate earnings and violate generally accepted accounting principles (GAAP) comprise board members who are dominated by management. A more recent study by Kim, Mauldin and Patro (2014) reveals that outside directors promote both advising and monitoring performance roles. Collectively, these studies have suggested better board monitoring from outside directors on the board.

Board size is another significant characteristic revealed by some studies as contributing to the board's effectiveness. Research findings by Yermack (1997) highlight that small boards are more effective monitors than large boards, indicating the board size is negatively related to financial reporting quality. This is possible because small board size reduces the incidence of misunderstanding, communication breakdown and consequent errors among the board members, resulting in lower incidence of restatements (Abbott et al., 2004; Vafeas, 2000).

There are also a number of studies that have examined the impact of board independence. Sharma (2004) finds that as the percentage of independent directors increases, the likelihood of financial statement fraud decreases. Likewise, a stream of literature on independent boards and financial reporting quality concludes that firms with more independent boards are associated with a higher audit effort (Carcello et al., 2002) and lower earnings management incidences (Xie et al., 2003; Davidson et al., 2005). To sum up, these studies acknowledge board independence as an effective monitoring mechanism.

Therefore, the attributes of the board and board committees, such as audit committee, are important in any corporate governance research to examine whether they have any bearing on monitoring effectiveness.

2.1.2 Board Committees

Given the greater demand, complexity of businesses and expectations placed on the board, some of the work involved is being delegated to board committees. The work is delegated and divided among board members so that they can accomplish more in their limited time (Rahman and Salim, 2009). Some companies have additional board committees, such as risk management, tender, safety and investment committees.

Most of the academic discussion on board committees has focused on three core board committees – audit, remuneration (also known as compensation) and nomination committees. These three core board committees are important for taking over some of the board's critical duties, such as financial oversight to the audit committee, implementation of formal procedures for the selection of board members to the nomination committee and review and approval of management performance and compensation policies and schemes to the remuneration committee (Rahman and Salim, 2009).

Numerous studies have attempted to explain the impact of the board of directors as the primary group for all board's decisions, but only some have acknowledged that most of the board's work is being performed by the board committees and few have examined their effectiveness (Hoitash and Hoitash, 2009; Chandar et al., 2014; Habib et al., 2015). Therefore, another motivation for this study is to advance the literature on board committees.

2.1.3 Audit Committee

The audit committee is a mechanism of good corporate governance as it ensures the quality, credibility, objectivity and integrity of the company's financial reporting. Prior studies have recognised the board of directors as partly accountable for ensuring good corporate governance of a company (Petra, 2005; Uzun et al., 2004). Subsequently, the audit committee is becoming an important mechanism in corporate governance as the board has delegated several important tasks, such as oversight of financial reporting to its standing committees (Zhang et al., 2007), specifically the audit committee (Blue Ribbon Committee, 1999; Dhaliwal et al., 2010).

As all audit committee members have an oversight responsibility on the company's financial reporting process, their characteristics can enhance the effectiveness of the audit committee (Abbott et al., 2002). Prior studies have concluded that the existence of an effective audit committee and its association with the company's financial reporting quality can decrease earnings management (Bedard et al., 2004) and financial fraud (Sharma, 2004) and increase unqualified auditor reports (Carcello and Neal, 2000). While the primary responsibilities of the audit committee are to assist the board on financial reporting, Wolnizer (1995) discusses in-depth that the audit committee is also expected to assist the board on matters related to internal controls, fraud, changes and significant matters that can affect the financial statement. In addition, the study reveals that the audit committee is expected to review and monitor external auditors' activities, such as their findings and fees, internal audit function and other corporate governance issues, such as corporate and ethical policies and risk management. Therefore, the audit committee has become an accepted and effective mechanism for ensuring good governance of an organisation and the effort of identifying what constitutes an "effective" audit committee is a continuous process (DeFond and Francis, 2005).

2.1.4 Attributes of Effective Audit Committee

Based on the agency theory, the board and audit committee are deemed as the monitoring mechanisms because of the separation of ownership from control and issues on the alignment of interests between owners and managers (Fama and Jensen, 1983). Further, as the owners, shareholders require some protection as the management may have different motives and not always act in the best interests of the owners. Therefore, the agency theory argues that it is the audit committee's duty to protect the owners' interests and ensure the management performs its contractual duties. However, a mere formation and existence of the audit committee does not guarantee an effective monitoring mechanism (DeZoort et al., 2002), as it may be a mere symbol to conform to social expectations (Cohen et al., 2004).

The concept of audit committee effectiveness has been associated with its ability to fulfil its responsibilities. As the roles and responsibilities for the audit committee have expanded through a series of corporate governance reforms in recent years, there are many approaches to measure audit committee effectiveness (Beasley et al, 2009). Among the expanded scopes for the audit committee after the corporate governance reforms, are the oversight of the internal audit function, external auditors' activities, including their independence and fees, risk management and related corporate governance issues, such as policies and ethical considerations (BRC, 1999; Beasley et al., 2009).

There are many studies on audit committee attributes which bring about audit committee effectiveness. Among the key determinants of audit committee effectiveness are composition (independence and expertise), authority, resources and diligence. Among the prominent early studies are DeZoort et al. (2002) that highlights the key determinants of audit committee effectiveness, i.e., its composition (independence and expertise), authority (responsibilities and influence), resources (access to other parties) and diligence. Similarly, the Blue Ribbon Committee (BRC) (1999) has made 10 recommendations to enhance audit committee effectiveness by mandating the independence and expertise of the audit committee.

Audit committee independence is one of the determinants for audit committee effectiveness and is reported to have an association with the board size, board independence and firms' growth opportunities (Klien, 2002b). This finding is further supported by another study by Carcello and Neal (2003) which concludes the positive relationship between audit committee independence and financial reporting quality.

Another characteristic that is linked to audit committee effectiveness is audit committee expertise. The Sarbanes-Oxley (SOX) Act (2002) has imposed a requirement that all audit committee members have to be financial literate and at least one of the members must be a financial expert. An earlier study has suggested that both financial expertise and financial literacy bring different perspectives to the audit committee and will improve the company's financial reporting quality (McDaniel et al., 2002). The argument is in line with another study by DeZoort and Salterio (2001), where it is concluded that an audit committee, whose members have accounting and auditing knowledge, is positively related to supporting external auditors in a contentious situation with management over accounting issues. Further, Krishnan (2005) reveals that an audit committee with financial expertise is significantly less likely to be linked to major issues and problems concerning internal controls. Collectively, these studies suggest that more knowledgeable and financially expert audit committee members may result in greater cooperation with the external auditors and improve the audit committee's oversight functions.

Audit committee diligence is also linked in some studies to audit committee effectiveness. The most common proxy used is the number of audit committee meetings in one year. Among researchers who have examined the effect of audit committee meeting frequency are Abbott et al. (2000) and Beasley et al. (2000), where both studies conclude that fewer audit committee meetings are more likely associated with misleading or fraudulent financial reporting.

Collectively, prior literature indicates that the right combination of audit committee characteristics, such as independence, expertise and diligence, are essential for an audit committee to function effectively. This study aims to contribute to the literature by investigating other characteristics of the audit committee, i.e., busyness and its implication to audit committee effectiveness. Other audit committee characteristics, such as independence and financial expertise, are also included as the control variables.

2.1.5 Remuneration Committee

Among the critical roles of the remuneration committee are to review and approve the company's policy on executive remuneration, any specific remuneration for the executive directors and senior management personnel and any other form of remuneration payments (Rahman and Salim, 2009). Therefore, the remuneration committee plays an oversight role to prevent the executive directors and senior management from designing and taking advantage of their own remuneration package that is not in the best interests of the company or shareholders. The remuneration committee may face a lesser degree of legal implication in the event of its failure to exercise its duties compared to the audit committee, but any abuse or excessive remuneration package to the executive directors or senior management may dilute the company's performance and shareholders' value.

The Malaysian Code on Corporate Governance (2007) requires the board to appoint a remuneration committee, consisting of all or mainly non-executive directors to recommend to the board the remuneration of the executive directors. Therefore, the executive directors do not participate in the decision-making process of their own remuneration package or performance incentives. Apart from abstaining in deciding their own remuneration, the remuneration committee should have formal and transparent procedures in deciding the appropriate targets for performance incentives and reviewing the actual performance against the approved target (Rahman and Salim, 2009).

Apart from that, the other main function of the remuneration committee is to review the contract employment of senior executives (Carson, 2002). Lack of proper monitoring and control on the executives' compensation may lead to alliance between the Chief Executive Officer (CEO) and management in setting a high compensation for themselves (Yermack, 1997). There are several studies that have looked into the remuneration committee as a monitoring mechanism and its association with the company's financial reporting (McDaniel et al., 2002), selection of top and key management personnel (Dalton et al., 1998) and reviewing top management's compensation package and performance (Carson, 2002). With that, it is argued that the remuneration committee's specific functions represent the board's critical oversight duties for the organisation and influences the board's evaluation and decision-making (Zahra and Pearce, 1989). Further, Carson (2002) argues that the effectiveness of the remuneration committee is affected by its characteristics. However, there are only a few studies on the interaction between the different board committees (Hoitash and Hoitash, 2009; Sharma and Iselin, 2012). Therefore, this study investigates the interplay between the audit and remuneration committees in relation to financial reporting quality, in particular the knowledge spillover flows from the remuneration committee to the audit committee, as proven by Chandar et al. (2012).

2.1.6 Nomination Committee

Even though the shareholders have the authority to appoint directors, they have minimal involvement in the selection process. The nomination committee performs the selection process of new directors and thereafter, seeks the board's approval to propose the candidates to the shareholders to vote (Rahman and Salim, 2009). Therefore, the listed companies are required to have a structured recruitment policy that is led by the nomination committee with minimal interference from the management.

According to the Malaysian Code on Corporate Governance (2007), a nomination committee, consisting of exclusively non-executive directors and majority independent directors, adopts a formal procedure to appoint or reappoint directors to the board (Securities Commission, 2007). Therefore, the nomination committee is responsible to assess the performance of current directors and succession planning by identifying talent gaps, and if necessary, to propose appointment of new directors to the board. Further, all assessments and evaluations undertaken by the nomination committee must be properly documented (Malaysian Code on Corporate Governance, 2007).

2.1.7 Other Board Committees

To expedite the board's decision-making, the board delegates certain tasks to the board committees to enable a closer scrutiny of certain issues. Other benefits of having board committees are the ability to optimise use of specialised skills, experience and knowledge of directors as well as fair apportionment of board workload among directors. Apart from the three board committees (audit, remuneration and nomination committees), there are other board committees that are not prescribed in the Malaysian Code of Corporate Governance (2007) and (2012) but are commonly adopted by the listed companies in Malaysia. They are ESOS and option committee, risk management committee, tender committee, budget committee, safety committee and many others.

Among the critical success factors to ensure the effectiveness of board committees are their structure and the role of independent directors on the board committees (Rahman and Salim, 2009). It is important that the decision-making of the board committees are independent without any influence from the management. Additionally, the independent directors on the board committees play a prominent role in exercising their independent judgment and freedom to express their concern or disagreement with the management on key important issues (Rahman and Salim, 2009).

2.1.8 External Audit

The primary duties of the external auditor are to form an opinion on the financial statement of a company and also to report to the shareholders in the general meeting. In performing their work, the external auditors may identify and report financial adjustment which may lead to adjustment of the financial statement prepared by the management. The independent attestation by the external auditor is viewed as a reliable financial reporting process, and therefore, provides confidence to the stakeholders and ensures effective functioning of the capital market (Bursa Malaysia, 2013). The external auditor also plays an important role in the process of accountability to the shareholders, in that the regulators have assigned the audit committee as the oversight monitoring function to the external auditors (Bursa Malaysia, 2013; Securities Commission 2012). From the literature, external audit plays a critical role in reducing information asymmetry and mitigating agency problems between management and shareholders. Therefore, shareholders appoint external auditors to verify financial information prepared by the management (Jensen and Meckling, 1976).

In addition, Fan and Wong (2005) conclude that the external auditor plays a corporate governance role in an organisation to mitigate agency conflict between the controlling owners and the outside investors. There are many variables of external auditors that have been examined in prior literature, such as external auditors' selection and switching (Archambeault and DeZoort, 2001; Abbott et al., 2004), external auditor reporting (Carcello and Neal; 2003; Carcello and Neal, 2000) and audit fees (Abbott et al., 2003a). Collectively, these studies have shown the external auditor's major role in the context of audit committee characteristics.

2.2 Corporate Governance Reforms

In the early 2000s, there were a series of accounting irregularities in Malaysia, such as in Trasnmile Group Berhad, Megan Media Berhad and NasionCom Holdings Berhad. These companies were found to have irregularities and misreporting of their financial statements following their inability to sustain growth when reporting the companies' revenue and/or profit (Rahman and Salim, 2009).

The numerous corporate failures and accounting scandals have resulted in the regulators continuously reforming the requirements and functioning of audit committee practices to ensure their effectiveness (Hasnan et al., 2013). The audit committee's roles and responsibilities are important to safeguard the company's performance. With many corporate governance reforms over the years, the responsibilities of the audit committee have expanded (Tanyi and Smith, 2014), and the work of the audit committee is becoming more onerous and challenging in the face of exercising its fiduciary duties diligently.

The subsections below discuss the reforms introduced by the regulators in Malaysia and other countries over the years after the financial crisis in 2000. The reforms have expanded the scope of the audit committee and significantly increased the responsibilities of its directors to ensure the audit committee's functions remain effective and can uphold the company's financial reporting quality.

2.2.1 Corporate Governance Reforms in Malaysia

Pursuant to many accounting irregularities during the financial crisis in 1997, the Malaysian Institute of Accountants (MIA) called for better corporate transparency, improvement in corporate governance practices and accountability to restore investors' confidence on the sustainability of businesses in the Malaysian capital market (Liew, 2007). Following this, the Malaysian Code on Corporate Governance was issued in 1999 to set out principles and best practices on structures and processes for an optimal governance framework. The Code comprehensively highlights the critical elements in corporate governance, i.e., board of directors, shareholders, accountability and audit. The Code was subsequently revised in 2007, and thereafter, in 2012, to keep up with the capital market development, whilst ensuring the board and audit committee can discharge their duties effectively (Securities Commission, 2012).

In terms of financial reporting, in March 1999, all listed companies were required to release their quarterly financial statements to Bursa Malaysia within two months after the end of financial quarter (Liew, 2007). The requirement is to ensure timely financial information is being communicated to the investing public for their decision-making.

In July 1998, a restriction on multiple directorships among the directors was enforced; the listing requirements stipulated that directors of a listed company are not allowed to hold more than 10 directorships in listed companies and not more than 15 directorships in non-listed companies (Rahman and Salim, 2009). Further, in July 2000, there were several amendments to the Companies Act to improve the timeliness of financial reporting quality with the requirement for notice period for the annual general meetings increased from 14 to 21 days and to allow proxy representation by mail (Liew, 2007). With a view to protect the interests of minority shareholders and increase the level of shareholders' activism in Malaysia, the Minority Shareholders Watchdog Group (MSWG) was set-up in 2001. The watchdog group acts as a non-profit organisation to create awareness on the rights of minority shareholders and to deter potential abuses by controlling shareholders of the listed companies.

In February 2001, the Securities Commission launched the Capital Market Masterplan to improve corporate governance practices in Malaysia through best governance practices and to develop a strong and facilitative regulatory framework. Among others, specific recommendations made were enhancing shareholders' rights, especially minority shareholders and broadening avenues for enforcement against listed companies (Rahman and Salim, 2009).

2.2.2 Reforms in the Functioning of the Audit Committee in Malaysia

Prior to the Asian financial crisis in 1997/1998, there was limited focus on corporate governance in an emerging market, like Malaysia, which caused many corporate failures (Haniffa and Hudaib, 2006). Following this, a special committee called, 'Finance Committee on Corporate Governance' High Level Finance Committee on Corporate Governance was set up in 1998, consisting of both government and industry. The Finance Committee introduced a reform on corporate governance through the Malaysian Code on Corporate Governance ("Code") which was issued in March 2000, to promote more transparency and accountability as well as restore the investors' confidence in the Malaysian stock market. Among others, the Code stresses on the importance of majority independent directors in the audit committee and the requirement for audit committee chair to be an independent director (Liew, 2007). The High Level Finance Committee on Corporate Governance (2000) stresses that the independence of the audit committee will enhance its oversight function in several ways, including in the review of financial reporting process, internal controls, ensuring the independence of external auditor and in playing an oversight role in the external and internal audit function. The independence of the audit committee is expected to further reinforce the independence of the company's external audit, thereby upholding the financial reporting quality of listed companies.

Subsequently, Bursa Malaysia incorporated the requirements of the Code into the listing requirements for all listed companies in Malaysia through Chapter 15, Corporate Governance in 2001. Therefore, all listed companies are required to include a Statement on Corporate Governance in their annual reports, indicating whether the Code's recommendations have been complied with or otherwise to justify any departure from the Code.

Further revisions were made to the Code in 2007 by the Securities Commission to strengthen the roles and responsibilities of the board, especially the independent directors and the audit committee. To ensure that the audit committee discharges its duties effectively, this revised Code requires that the audit committee comprises non-executive directors exclusively, the majority of whom must be independent and all of whom are financially literate (Bursa Malaysia, 2013b).

The Listing Requirements were then amended in response to the revised Code where the key amendments were concerning the audit committee; its responsibilities were expanded to include the oversight of audit function and financial reporting quality. The latest revision of the Code was issued in 2012 and released as the Malaysian Code on Corporate Governance, 2012. The revised Code in 2012 focuses on clarifying the role of the board in providing leadership, enhancing board effectiveness through its composition and independence and promoting principles of good disclosure. Overall, the reforms of audit committee practices in Malaysia are significantly explained in the directions contained in the Capital Market Masterplan, the Malaysian Code on Corporate Governance and the Bursa Malaysia Listing Requirements.

Therefore, the recent developments in corporate governance reforms (section 2.2.1) and reforms in the functioning of audit committee (section 2.2.2) have heightened the need for more time commitments by the audit committee directors. As there is a small pool of experienced and capable audit committee directors, most of them are overcommitting themselves with multiple directorships (Tanyi and Smith, 2014) and overlapping board committee memberships (Chandar et al., 2012), raising concerns on their ability to discharge their oversight function diligently (Sharma and Iselin, 2012).

2.2.3 Reforms in the Functioning of the Audit Committee in Other Countries

The escalating accounting irregularities and financial reporting frauds have put the role of the audit committee and its effectiveness into the spotlight. This became more apparent following the collapse of Enron and WorldCom in early 2000s that sparked a series of corporate governance reforms in the US and the UK.

In response to these scandals concerning financial reporting issues, the regulators in the UK introduced the Cadbury Report, which focuses on improving the monitoring roles of non-executive directors, audit committee and auditors, through a voluntary "code of best practices". Further, the UK listed firms have to appoint all audit committee members who are independent rather than non-executive (Smith Committee, 2003). In the US, the

BRC was formulated in 2000; this committee presented 10 recommendations to improve the audit committee's effectiveness. The report is considered as the starting point for the transformation of the audit committee to ensure the effectiveness of its function and recognition of its critical role in the larger context of corporate governance and oversight of financial reporting (BRC, 1999). In addition, the audit committee should consist of a minimum of three directors, all of whom are financially proficient. Additionally, at least one member of the audit committee must be a financial expert in the related discipline that is recognised by a relevant professional accounting body (BRC, 1999; Smith Committee, 2003).

Subsequent to this, the SOX Act 2002 was legislated, focusing on corporate disclosures, internal controls and governance best practices. With the aim to improve the integrity of financial reporting, the Act requires the senior management of listed companies to furnish a comprehensive report on internal controls pertaining to financial reporting and to certify the reliability of financial statements, disclosures, processes and quality of the internal controls. Therefore, SOX has elevated the important role of the audit committee and significantly expanded its scope by stipulating new responsibilities, such as requiring all audit committee directors to be independent and disclose whether there is at least one financial expert in the audit committee (Sarbanes Oxley Act, 2002). Similarly, their scope of work and authorities have also expanded. For instance, the audit committee is required to approve non-audit services provided by the external auditor (section 202), review the independence of the external auditors and approve the appointment and their remuneration fees (section 301), mandate the audit committee to engage an independent counsel or other advisors deemed necessary to carry out its duties effectively (section 301), disclose the committee's financial expert (section 407) and formalise procedures in dealing with complaints on financial reporting and audit related matters (section 301) (Sarbanes Oxley Act, 2002).

Pursuant to the SOX requirements, other listing regulators, such as the New York Stock Exchange and the NASDAQ, have updated their listing requirements. Eventually, the regulators in other jurisdictions followed suit and incorporated similar requirements in their listing requirements and/or corporate governance codes.

With the escalating roles and responsibilities of the audit committee directors across different jurisdictions in recent years as discussed above, busyness is one of the new challenges faced by the audit committee today and yet, there is little agreement on its implication to the audit committee's effectiveness. This phenomenon is supported by a survey conducted by the KPMG Audit Committee Institute that 75% of the 1,500 audit committee directors in 35 different countries have said that the job of audit committee director has become more challenging and more time commitment is required to discharge these responsibilities (KPMG, 2015).

2.3 Exploring the Audit Committee Busyness Dimension

The issue on the directors' 'busyness' is a serious concern as there is some doubt whether the directors can fulfil their duties diligently (Fich et al., 2006). Further, it is not uncommon to hold more than one directorship, i.e., sitting on more than one board committee, such as audit and remuneration committees (i.e., overlapping board committee memberships). Therefore, 'busyness' is arguably associated with overlapping board committee memberships in the same company as well as multiple directorships in other companies. In discussing directors' busyness, the section is divided into two sub-sections. Sub-section 2.4.1 provides an overview on studies related to external busyness (multiple directorships); while sub-section 2.4.2 highlights studies on internal busyness (overlapping board committee memberships).

2.3.1 Multiple Directorships

There are two groups of studies with different theoretical approaches and conclusions as to whether multiple directorships can result in effective monitoring. One group of studies views multiple directorships as a positive indicator of the directors' reputation, implying the 'Reputation Hypothesis' (Fama and Jensen, 1983). The reputational benefit and recognition from holding multiple directorships, allow these directors to optimise their skills and knowledge in discharging their fiduciary duties. Most of the findings that support the 'Reputation Hypothesis" have concluded that busy directors are resourceful and an important source of knowledge, experience, qualifications and networks but remain unclear if busy directors are associated with a company's superior performance (Field et al., 2013; Harris and Shimizu, 2004). Other scholars believe that busy directors are a negative sign of over-commitment and lack of time to discharge their fiduciary duties diligently (Busyness Hypothesis). This group recognises the reputational benefit and recognition from holding multiple directorships, but they strongly believe that busy directors may not be able to optimise the recognition, skills and reputation due to over-stretching. The empirical evidence on the effect of busy directors thus far remains inconclusive (Lei and Deng, 2013; Sharma and Iselin, 2012; Jiraporn et al., 2009).

Multiple directorships have been specifically restricted in some of the corporate governance guidelines and codes in developed and developing countries. They are summarised in Table 2.1.

Table 2.1
Restrictions on multiple directorships in other countries

Corporate Governance Code	Limits on Directorial Positions
Report of the NYSE Commission on Corporate Governance (NYSE, 2010)	No limit imposed. However, the Code recommends the Board to impose policies limiting the number of boards on which a director may sit with input from management and shareholders (part IV, section A, item 1, page 26).
Full Council Institutional Investors Corporate Governance Policies (The Council of Institutional Investors (CII), 2013)	No limit imposed. Companies should establish and publish guidelines on how many other boards that their directors may serve (section 2.11, page 6).
Principle of Corporate Governance (Business Roundtable USA, 2012)	No limit imposed. Consideration should be given to whether it is appropriate to limit the number of audit committees on which a corporation's audit committee members may serve (page 17).
The UK Corporate Governance Code (The Financial Reporting Council, 2014)	Limit is only imposed on a full time executive director with not more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company" (B.3.3, page 12)
Hong Kong Exchanges and Clearing (2011)	No limit has been imposed. An overwhelming majority of respondents opposed a cap on the number of independent directors' positions an individual may hold. (item 74, page 22).
Code of Corporate Governance Singapore (The Corporate Governance Council of MAS, 2012)	No limit has been imposed.
Corporate Governance Voluntary Guidelines (Ministry of Corporate Affairs India, 2009)	The maximum number of public companies in which an individual may serve as an independent director should be restricted to seven (B.2.iv, page 12).
Code of Corporate Governance Pakistan (Securities and Exchange Commission of Pakistan, 2012)	No person shall be elected or nominated as a director of more than seven listed companies simultaneously (para 35 item d (ii), page 7).
Code of Good Corporate Governance Indonesia (National Committee on Governance, 2006)	No limit has been imposed.
The Corporate Governance of Listed Companies Thailand (The Stock Exchange of Thailand, 2006)	No limit has been imposed.
Bursa Malaysia Listing Requirements (2013b)	A director of a listed issuer must not hold more than five directorships in listed companies (para 15.06 and 15.07)

From Table 2.1, most of the corporate governance guidelines and codes in different countries do not impose maximum limit on the number of directorships that a director can hold except for few countries - India, Pakistan, and Malaysia. As for the UK, restriction on multiple directorships is only placed on a full-time executive director for holding not more than one non-executive directorship. Even though developed countries, such as the US, the UK and Australia, do not impose such restrictions, their Codes and Guidelines suggest for the company's board of directors to formalise their own policies on limiting the number of directorships that a director can hold. The opposite position is taken by regulators in countries, like India, Pakistan and Malaysia, where they have imposed a maximum cap on the number of directorships that a director can assume in listed companies.

Therefore, the practices across the countries on multiple directorships in listed companies do not appear to be consistent. Since there is variation among the regulators across different jurisdictions in imposing a limit on the number of directorships in listed companies, this study intends to examine the merits of imposing restrictions on multiple directorships. Given the continuous short supply of good quality independent directors in some countries, multiple directorships may be unavoidable.

2.3.2 Overlapping Board Committee Memberships

Most of the regulators and corporate governance codes have imposed the requirement to increase the proportion of independent directors on the board of directors. For example, Bursa Malaysia Listing Requirements require one third of a company's board of directors to be independent (Bursa Malaysia, 2013). However, the apparent shortage of capable independent directors may significantly increase the number of multiple board appointments as well as possible increase in overlapping board committee memberships, i.e., a director serves on several board committees in the same company (The Borneo Post, July 12, 2011; KPMG and Assocham, 2011; Chang, Luo and Sun, 2011). This issue has grown in importance in light of restrictions by Bursa Malaysia on the number of directorships that can be held in listed companies to a maximum of five listed companies per director effective from 1 June 2013 (Bursa Malaysia, 2013b). With this restriction, overlapping board committee memberships is unavoidable; therefore, this study plans to explore the influence of overlapping board committee memberships on the audit committee's monitoring effectiveness.

2.3.3 Directors' Busyness and Regulations in Malaysia

In the local context, the Securities Commission of Malaysia issued the Corporate Governance Blueprint in 2011 that outlines the regulator's strategic initiatives towards achieving excellence in corporate governance. Further, the Securities Commission (2011) has expressed concern that the directors' roles have increased significantly pursuant to various corporate reforms in recent years that have resulted in the directors' responsibilities becoming more onerous than before. Busy directors with multiple board appointments may compromise their time and attention to discharging their fiduciary duties diligently. It has also been highlighted that increasing enforcement actions by the regulators over the years on some of the directors in Malaysia are attributable to their over-commitment as well as lack of attention and focus (Securities Commission, 2011).

Prior to 2013, under Bursa Listing Requirements of Malaysia, a director is restricted from holding more than 10 directorships in listed companies. The Securities Commission (2011) argues only a small percentage of directors hold more than five (less than 1 %) directorships and that the issue is not about multiple directorships but rather the capacity and commitment by individual directors. Therefore, the regulator has proposed for individual directors to seek approval from their respective boards in the event that they wish to take up additional directorships in another listed company. Similarly, the Nomination Committee of the prospective board has to assess the workload and commitment of new directors and set out expectation on time commitment as a director before formalising the new appointment (Securities Commission, 2011). In tandem with this, effective from 1 June 2013, Bursa Malaysia revised restrictions on multiple directorships, where a director is allowed to hold up to a maximum of five directorships in listed companies in Malaysia (Bursa Malaysia, 2013b).

2.4 Prior Studies on Audit Committee Busyness and Monitoring Effectiveness

2.4.1 Multiple Directorship and Monitoring Effectiveness

Director busyness is one of the contemporary corporate governance issues and has become the regulators' focus in the wake of escalating accounting scandals (Tanyi and Smith, 2014). A number of studies on corporate governance have examined the extent of "busy directors" and "busy boards" in recent decades (Ferris et al., 2003; Fich and Shivdasani, 2006; Perry and Peyer, 2005). These studies classify a busy director as someone who holds at least three directorships, while a busy board is a board with more than 50% of its directors as busy directors.

There are two conflicting perspectives in the literature on the effect of appointing busy directors to the board. Some studies, on the 'Busyness Hypothesis', conclude that busy directors may not be able to commit their time and attention and consequently, undermine their oversight roles and in some cases, diminish the company's performance (Shivdasani and Yermack, 1999; Fich and Shivdasani, 2006). This group believes that busy directors are overcommitted and thus have to grapple with lack of time to discharge their fiduciary duties diligently. For instance, Fich and Shivdasani (2006) investigated samples from the Forbes 500, where companies with 50% or more of its board members holding more than two directorships are associated with lower company value (market-to-book value) and profitability. In another study based on companies listed on the Zurich Stock Exchange, a negative relationship is reported between busy directors (average number of directorships) and firms' value (Tobin's Q) (Loderer and

Peye, 2002). Similar findings supporting the "Busyness Hypotheses" are also shown by another study based on the US firms for the period between 1988 and 2007 by Falato et al. (2014). The aforesaid study reveals that busy directors and busy boards are detrimental to the boards' monitoring quality, which in turn, deteriorate the shareholders' value. Another study by Chen and Chen (2012) also finds that less busy boards are associated with better governance structure and more efficient allocation of the companies' funds, supporting the "Busyness Hypotheses". Therefore, there are a considerable number of studies that have predicted that busy board and directors are ineffective monitors. Further empirical studies on the effect of multiple directorships on the board's monitoring effectiveness are highlighted in Table 2.2. Among the negative impacts that have been associated with busy directors (Busyness Hypotheses) are summarised in Table 2.2, which include lower shareholders' wealth (Ahn et al., 2010), poor board meeting attendance (Jiraporn et al., 2009), high likelihood of financial reporting fraud (Hasnan et al., 2013), poor firm performance and firm value (Jackling and Johl, 2009; Cashman et al., 2012), value destruction from corporate diversification (Jiraporn et al., 2008) and risky lending (Muller-Kahle et al., 2011).

The other strand of research views multiple directorships as a positive indicator of the directors' reputation, i.e., the "Reputation Hypothesis". The reputational benefit and recognition from holding multiple directorships allow these directors to optimise their skills and knowledge in discharging their fiduciary duties. There are several studies which support the "Reputation Hypothesis". For example, based on a sample of 3,190 US firms in 1995, Ferris et al. (2003) find no evidence that busy boards shirk their responsibilities and no association with high likelihood of fraud litigation. Further, the authors suggest that busy directors with directorships in other companies have better knowledge, experience and exposure, which in turn, enhance the firms' performance. In another study based on top 500 large companies listed on the Bombay Stock Exchange in 2002 and 2003, Sarkar and Sarkar (2009) conclude that independent directors with multiple directorships are positively associated with the firms' value, supporting the "Reputation Hypothesis". This is further supported by Benson et al. (2014) who conclude that busy directors can be a valuable source of the firms' value in mergers and acquisitions and therefore, are not detrimental to shareholders. Based on 1,049 sample firms in the US from 1997 to 2008, the authors further argue that restricting multiple directorships among directors is not always in the best interests of shareholders. In another study based on the Italian business context, Di Pietra et al. (2008) also find that busy directors tend to be well connected with reputable corporate standing and therefore, have a significant and positive influence on firms' market performance. This study is based on 71 listed companies in Italy for the period between 1993 and 2000, where the market is characterised by family, concentrated ownership and low investors' legal protection, signifying the characteristics of emerging markets, like in Asian countries. Another study that is based on emerging markets supporting the "Reputation Hypothesis" is a study by Lei and Deng (2014), which is based on 2,953 independent directors from 611 Hong Kong listed companies from 2001 to 2009. Lei and Deng (2014) conclude that independent directors with multiple directorships enhance the firms' value and argue that the benefits of holding multiple directorships are more than the costs. Collectively, these streams of research show similar results on the benefits of multiple directorships. More studies supporting the "Reputation Hypothesis" are summarised in Table 2.2 below.

There are only a few empirical studies in the context of Malaysian companies that deal with multiple directorships. For example, based on a survey questionnaire on 112 directors of Malaysian listed companies, Kamardin and Haron (2011) show that multiple directorships of non-executive directors are negatively related to their oversight roles, and therefore, they advocate that the regulators pay particular attention to the practice of multiple directorships in listed companies. However, in another study by Hashim and Rahman (2011) based on 554 firm-years in 2003 to 2004, the authors conclude that multiple board appointments are associated with higher earnings quality and provide incentives for diligent board monitoring following the knowledge, expertise and skills acquired from other board appointments. In contrast, in a more recent study, Kamardin et al. (2014) highlight the implications on the monitoring roles by 1,023 directors from 134 listed companies in Malaysia for the year of 2008, showing that directors with multiple directorships have the likelihood to be absent from board meetings. In summary, there are many interesting results that indicate the benefits and costs of multiple directorships on monitoring effectiveness. However, empirical studies in the context of the Malaysian market are still mixed and scarcely reported.

Table 2.2
Studies on Multiple Directorships

Study	Independent Variable(s)	Test Variables	Related Findings	Data country/year
Fich and Shivdasani (2006)	Busy outside directors	Firm performance (market-to-book ratio)	Support Busyness Hypothesis. Busy boards are associated with lower companies' values.	3,366 annual observations for 508 US firms from 1989 to 1995
Loderer and Peyer (2002)	Board overlap	Firms' value (Tobin's Q)	Support Busyness Hypothesis. Board overlap through seat accumulations is negatively related to firms' values.	All firms traded on the Zurich Stock Exchange in 1995.
Jackling and Johl (2009)	Board composition (size, duality and busyness)	Firm performance (measured with Tobin's Q and ROA)	Support Busyness Hypothesis. Outside directors with multiple appointments appear to have negative effect on firm performance.	180 firms in India from 2005 to 2006
Jiraporn, Singh and Lee (2009)	Board of Directors	Board's ability to serve on other committees	Directors who hold more outside directorships may serve on fewer board committees but the relationship is non-linear, implying that both hypotheses are applicable.	1,400 US firms from 1999 to 2003
Jiraporn, Kim and Davidson (2008)	Board of Directors	Value creation from corporate diversification	Support Busyness Hypothesis. Busy Directors are likely to overcommit and therefore, compromise the quality of board monitoring with value destroying diversification.	3,605 US firms from 1998 to 2002

Study	Independent Variable(s)	Test Variables	Related Findings	Data country/year
Ahn, Jiraporn and Kim (2010)	Board of Directors	Shareholders wealth (acquisition performance)	The costs of multiple directorships offset the benefits when directors become too busy beyond a certain point, suggesting a non-linear relationship.	US firms from 1998 to 2003
Sarkar and Sarkar (2009)	Board of Directors	Firm Performance	Support Reputation Hypothesis. Multiple directorships by independent directors to correlate positively with firm value.	500 listed firms in India (2002 to 2003)
Muller-Kahle and Lewellyn. (2011).	Board of Directors	Risky strategic initiatives (subprime lending).	Support Busyness Hypothesis. Board busyness is significantly correlated (positive) with subprime lending supporting the views that busy board may not be effective board when it comes to overseeing risky strategic initiatives.	74 US public traded firms from 1997 to 2005
Chen and Chen (2012)	Board of directors	Investment efficiency (excess value of diversified firms)	Support Busyness Hypothesis. Less busy directors have a substantial impact on the decision of investment allocations and the excess value of diversified firms. Thus, diversified firms with less busy directors allocate their funds efficiently.	6,366 Taiwanese firms in 2005

Study	Independent Variable(s)	Test Variables	Related Findings	Data country/year
Cashman, Gillan and Jun (2012)	Board of Directors	Firm value	Support Busyness Hypothesis. A negative association between board busyness and firm performance.	11,494 US firms from 1999 and 2008.
Benson, Davidson and Wang (2014)	Board of Directors	Mergers and acquisitions (merger premium)	Support Reputation Hypothesis. Busy directors are not universally detrimental to shareholders. This study provides further evidence that busy directors can be a valuable source of firm value in mergers.	1,409 US firms from 1997 to 2008
Falato, Kadyrzhanova, and Lel. (2014).	Board of Directors	Firm valuation	Support Busyness Hypothesis. Additional demand on directors' time has adverse consequences for board monitoring quality and firm value.	633 directorships between 1988 and 2007 in the US
Lei and Deng (2014)	Board of Directors	Firm value	Support Reputation Hypothesis. Investors perceive independent directors with multiple appointments as being high quality and thereby higher value firms with such independent directors	2,953 independent directors from 611 firms from 2001 to 2009 in Hong Kong
Rickling (2014)	Audit Committee	Earnings management (earnings forecast)	Support Busyness Hypothesis. Busy audit committee can affect the audit committee effectiveness in providing financial reporting oversight.	3,157 US firms during 2005 to 2007

Study	Independent Variable(s)	Test Variables	Related Findings	Data country/year
Ghosh (2007)	Board of Directors	Firm Performance	Support Reputation Hypothesis. Board busyness exerts a positive influence on corporate performance.	200 listed firms in 2005 in India
Di Pietra et al. (2008)	Board of Directors	Market value	Support Reputation Hypothesis. Busy Directors have significant and positive influence on firm's market performance.	Italian firms from 1993 to 2000.
Harris and Shimizu (2004)	Board of Directors	Corporate acquisitions (abnormal returns)	Support Reputation Hypothesis. Positive correlation between proportion of overboarded directors and abnormal returns.	US top 100 deals reported from 1981 to 1989
Tanyi and Smith (2014)	Audit Committee	Earnings Management (discretionary accruals and abnormal working capital accruals)	Support Busyness Hypothesis. Audit committee chair and financial expert busyness is significantly associated (negative) with earnings management	US firms from 2004 to 2008
Sharma and Iselin (2012)	Audit Committee, Independent Directors	Financial Restatements	Support Busyness Hypothesis. Significant positive association between financial restatements and busyness of board and audit committee	US firms from 1999 to 2006

Study	Independent Variable(s)	Test Variables	Related Findings	Data country/year
Kiel and Nicholson (2006)	Board of Directors	Firm Performance	Support Reputation Hypothesis. No relationship between holding multiple directorships and firm financial performance.	656 Australian firms in 2003.
Kamardin and Haron (2011)	Board of Directors	Board Monitoring roles (management oversight and performance evaluation roles)	Multiple directorships of non-executive directors have negative relationships with monitoring and oversight roles but no influence on the performance evaluation roles of the board.	Malaysia listed companies in 2006
Haniffa and Hudaib (2006)	Governance structure	Performance (market and accounting measures)	Support Reputation Hypothesis. Significant relationship between multiple directorships and market performance.	347 Malaysian firms from 1996 to 2000
Hashim and Rahman (2011)	Board of Directors	Earnings Quality	Support Reputation Hypothesis. Increase in multiple directorships has a positive role in determining the quality of earnings (measured by accruals quality model).	554 Malaysian firms from 2003 to 2004
Latif, Kamardin, Mohd and Adam (2013)	Board of Directors	Firm Performance (market to book)	Support Reputation Hypothesis. Multiple directorships affect firms' market performance positively but not significantly.	134 Malaysian firms in 2008

Study	Independent Variable(s)	Test Variables	Related Findings	Data country/year
Hasnan, Rahman & Mahenthiran (2013)	Governance characteristics	Fraudulent Financial Reporting	Support Busyness Hypothesis. Significantly positive association between multiple directorships and fraudulent financial reporting	1996 to 2007 samples of 53 fraud firms and matched with 53 non-fraud firms
De Vlaminck and Sarens (2015)	Audit Committee	Earnings management (Financial statement quality)	Support Reputation Hypothesis. Significant association between audit committee with more than three directorships with positive effect on financial statement quality	60 Belgian listed companies from 2008 and 2009

2.4.2 Overlapping Board Committees and Monitoring Effectiveness

As businesses nowadays are getting more complex and higher expectations are being placed on the board, some of the responsibilities are being delegated to the board committees (Rahman and Salim, 2009). Therefore, it is common for independent directors to sit on more than one board committee, leading to the practice of "overlapping board committee memberships" (Hoitash and Hoitash, 2009). Most of the studies on overlapping board committee memberships have been undertaken on the audit and remuneration committees, given their importance and they are commonly represented by the independent directors (Zheng and Cullinan, 2010). Among the common measures used to examine the effect of overlapping board committee memberships are summarised in Table 2.3, which include incentive based compensations (Zheng and Cullinan, 2010), CEO pay-for-performance (Hoitash and Hoitash, 2009) and financial reporting quality (Chang et al., 2011; Chandar et al., 2012; Liao et al., 2013).

There also two conflicting perspectives in the literature when examining the implications of overlapping board committee memberships. On the one hand, one group of scholars claims that overlapping board committee memberships is beneficial as the knowledge spillover from dual committees improves the monitoring intensity (Habib et al., 2015; Chandar et al., 2012). For example, based on data from S&P 500 firms over the period of 2003 to 2005, Chandar et al. (2012) find that firms with overlapping board committees improve financial reporting quality, proxied by discretionary accruals. The findings are consistent with the study by Habib et al. (2015), using similar proxy for financial reporting quality and based on the Australian listed companies for the period of 2001 to 2011, which concludes that overlapping committees are associated with higher financial reporting quality. On the other hand, another group of scholars argue that the monitoring effort of overlapping directors is affected by over-commitment and insufficient time to perform their duties in both committees, therefore, compromising the board committee's optimal decisions (Hoitash and Hoitash, 2008). In a study by Chang et al. (2011), based on sample firms in the US from 1999 to 2004, the authors conclude that overlapping board committees weaken the monitoring mechanism and oversight roles of the audit committee in financial reporting quality. Other shortcomings which are related to overlapping board committees are high likelihood of approving lower incentive-based compensation, unwillingness to bear the additional workload and shirking of responsibilities (Laux and Laux, 2009). It is also reported that overlapping board committees are associated with companies with inherent resource limitations, financial constraints and weak governance (Liao et al., 2013). Further, in a more recent study by Karim et al. (2015), using US archival data from the years of 2000 to 2011, the overlapping audit-remuneration committees are found to have a negative and significant association with audit fees, indicating a lower monitoring effort and weak governance.

In general, there are still scant studies on the effectiveness of overlapping board committees in their monitoring roles and the empirical results are inconclusive (Karim et al., 2015; Chandar et al., 2012; Habib et al., 2015). Habib et al. (2015) further indicate that these studies thus far have only looked at the board committees in isolation and do not investigate their interplay in examining the corporate governance implications. Table 2.3 shows prior studies related to overlapping audit-remuneration committees across different markets and related findings from the studies.

Table 2.3
Studies on Overlapping Board Committees

Study	Independent Related Variable(s)	Test Variables	Related Findings	Data country/year
Zheng and Cullinan (2010)	Audit Committee Remuneration Committee	Design of compensation systems (incentive based compensation)	Cash compensation is not associated with overlapping board committee membership. Option compensation is negatively associated with director overlap.	US - 1997 to 2005
Habib et al. (2015)	Audit Committee Remuneration Committee	Earnings Management (Discretionary accruals)	Support overlap board committees. Overlapping audit committees are associated with financial reporting quality.	Australian firms - 2001 to 2011
Chandar, Chang & Zheng (2012)	Audit Committee Remuneration Committee	Earnings Quality (Performance-matched abnormal accruals)	Support overlapping board committees. Overlapping audit and remuneration committees are associated with financial reporting quality with a U-shaped relationship.	US - 2003 to 2005
Liao and Hsu (2013)	Audit Committee Remuneration Committee	Financial Reporting Quality (restatement and earnings quality)	Do not support overlapping board committees. Firms that make common board committee memberships are associated with poor governance and therefore, not an effective monitoring scheme.	US - 2004 to 2008

Study	**Independent Related Variable(s)**	**Test Variables**	**Related Findings**	**Data country/year**
Hoitash and Hoitash (2009)	Audit Committee Remuneration Committee	CEO pay-for-performance (the proportion of incentive pay and non-incentive pay to incentive compensation ratio)	Do not support overlapping board committees. The number of overlapping committee members is positively associated with a higher proportion of base salary (non-incentive) and therefore, lower proportion of incentive pay.	US firms in 2004
Chang, Luo & Sun (2011)	Independent directors Audit Committee Remuneration Committee	Earnings management	For earning management, the study supports Laux et al. (2009) that an overlapping board structure weakens the oversight mechanisms of audit committee in monitoring financial reporting.	US firms from 1999 to 2004
Kusnadi et al. *(2015)*	Audit Committee Remuneration Committee	Accruals quality	No significant relationship between financial reporting quality and overlapping membership in audit and remuneration committees.	423 listed companies in Singapore as at 31 December 2010
Karim et al. *(2015)*	Audit Committee Remuneration Committee	Audit fees	A negative and significant relationship between audit committee overlap and audit fees resulting in weak monitoring efforts	US firms from 2000 to 2011

2.5 Financial Reporting Quality

The next part of the literature review that is relevant to this study is financial reporting quality. Financial reporting quality is an important requirement for attracting investment as investors make decisions and allocate their resources based on financial reports (Healey et al., 2001). However, the definition for financial reporting quality is still unclear and this explains its unobservable measures (Pomeroy et al., 2008). Previous studies have applied a number of proxies, such as earnings management (measured by abnormal accruals by Klein (2002)), financial restatements (Abbott et al., 2004), fraudulent financial reporting (Hasnan et al., 2013), low quality financial reporting arising from the regulator's enforcement actions (Wan-Hussin and Abdullah, 2009) and earnings forecasts accuracy (Ahmad Zaluki and Wan-Hussin, 2010).

From an agency theory perspective, board independence is critical for functioning as an effective oversight of management in the areas of financial reporting (Beasley, 1996). Therefore, it is a reasonable to expect that board independence is significantly associated with financial reporting quality. However, the empirical results on the association between board independence and financial reporting quality are inconclusive. For instance, Davidson et al. (2005) find empirical evidence supporting the effective function of independent directors in upholding financial reporting quality. Conversely, another study by Bradbury et al. (2006) reveals that there is no significant relationship between board independence and financial reporting quality.

Another critical attribute of the board is board size where empirical results thus far are also mixed. Chen et al. (2006) conclude a positive association between board size and financial reporting quality, while another study by Xie et al. (2003) and Bradbury et al. (2006) reveals no significant relationship between board size and financial reporting quality.

Apart from the characteristics of the board, the attributes of audit committee also play an important role in upholding the company's financial reporting quality (Felo et al., 2003). However, despite the apparent recognition on the importance of audit committee, the empirical results on the association between audit committee characteristics and financial reporting quality are still inconclusive. For example, in examining the association between audit committee independence and financial reporting quality, Klein (2002) and Abbott et al. (2004) conclude a negatively and significant relationships, but studies by Yang and Krishnan (2005) and Abdul Rahman and Mohamed Ali (2006) do not find such any significant relationship.

Of late, researchers have shown an increased interest in studying the association between audit committee and three areas within financial reporting quality (Ghafran and O'Sullivan, 2013): financial fraud or restatements, analysis on earnings manipulation and the company's level of disclosure. The first area, i.e., financial fraud or restatements, already indicates the ineffectiveness of the audit committee in fulfilling its oversight role (Gharfan and O'Sullivan, 2013). The incidences of financial fraud or restatements affect the investors' investment decisions and can turn out to be costly mistakes. Therefore, the incidences have reputational consequences and litigation risks to the audit committee directors. The second area in financial reporting quality is analysis of the company's earning management practices. Earnings management is an emerging issue in financial reporting quality as it may mislead stakeholders on the underlying economic performance of the company or influence contractual outcomes that depend on the reported financial results (Healey and Wahlen, 1999). It is also used by the controlling shareholders or key management for financial gains (Schipper, 1989). The application of earnings management by the management of a company may result in financial gain to shareholders (Healy and Palepu, 1995) or costly financial implications (Holthausen, Larcker and Sloan, 1995). There are two methods of earnings management being practiced by the management. They are either manipulation of financial information without violating the GAAP (Abdul Rahman and Mohamed Ali, 2006); or by changing the way the company manages its business operations, such as by cutting back on advertising campaigns, selling non-core assets, deferring maintenance programmes and cutting back on staff development programmes (Peasnell et al., 2005). Finally, the third important area in financial reporting quality is the company's disclosure practices. Empirical studies have indicated that certain audit committee attributes, such as financial expertise and diligence, have a positive impact on the level of company's disclosure and transparency (Ghafran and O'Sullivan, 2013).

In summary, many studies have indicated that audit committee independence and financial expertise are positively associated with financial reporting quality (Bedard and Gendron, 2010). However, far too little attention has been given to the association between other attributes of audit committee and financial reporting quality (Pomeroy et al., 2008). Therefore, the present study intends to investigate whether there is any association between audit committee busyness and financial reporting quality. To capture the true essence of financial reporting quality, the study uses two proxies, audit delay and financial restatement.

2.5.1 Audit Delay

One of the main drivers of good corporate governance is timely disclosure of financial information with a view to minimise information asymmetry between the management and shareholders. Therefore, a company with good corporate governance practices is more likely to have timely disclosure of financial information and lesser audit delay.

Audit delay is defined as the number of days from the financial year-end of a listed company to the date of the audited financial statement (Ashton et al., 1987). Further, authors argue that delay in finalising audited financial statements is equated to low financial reporting quality as it may increase uncertainty in the investors' decision-making and may lose its relevance. This is also supported by other studies which claim that timely financial reporting is an important qualitative characteristic of financial reporting quality (Puasa et al., 2014; Baatwah et al., 2013).

Given the importance of releasing timely financial information to the public and to increase the efficiency of financial reporting information in the market, Bursa Malaysia

Listing Requirements require that listed companies in Malaysia submit and announce their audited financial statements to the Exchange within a period not exceeding four months from the company's financial year-end (Bursa Malaysia, 2013b). Any non-compliance to the listing requirements may make the company liable to a number of enforcement actions by the regulator, including a reprimand or a fine or both. Therefore, any delay in finalising the audited financial statement ("Audit Delay") will compromise the usefulness of the financial information to the shareholders (Naimi et al., 2010) and create more uncertainties in the capital market (Ashton et al., 1987). Therefore, timely release of audited financial statement is important for the investors and identifying the determinants of audit delay may improve the company's financial reporting quality (Shukeri and Islam, 2012).

2.5.2 Audit Delay and Regulations in Malaysia

According to the Malaysian Companies Act 1965, the financial statement of all listed companies must be audited by a qualified accountant. Listed companies that do not comply with the Companies Act 1965 and Bursa Malaysia Listing Requirements can be publicly reprimanded by the regulators. The regulators expect all listed companies not to delay announcing their annual financial statement and will take action on the directors of listed companies, especially audit committee, should the company fail to release its annual audited financial statement within the required timeline as per the listing requirements (Che-Ahmad and Abidin, 2009).

In the local context, audit delay is a significant concern despite the fact that most of the listed companies in Malaysia comply with Bursa Malaysia Listing Requirements that mandate the release of audited financial statement within four months after their financial year-end (Wan-Hussin et al., 2016). This is because the average period for the Malaysian companies to announce their audited financial statement is approximately 100 days, which is far longer than other countries' practices. For example, the US companies are reported to have an average audit delay of 55 days (Abernathy et al., 2014), the listed companies in Australia with average audit delay of 81 days (Sultana et al., 2015) and the European companies of 79 days (Robert and Yuan, 2012). Despite many studies on audit delay from the perspective of corporate governance, there are still only a few studies on audit delay in the context of developing countries (Che-Ahmad and Abidin, 2009; Leventis et al., 2005). Both studies suggest that audit report lag is still an empirical issue in developing countries, such that the regulators in these countries need to understand the causes of audit delay to reduce the gap compared to developed countries.

2.5.3 Financial Restatements

The issue of whether the audit committee has been effective in discharging its fiduciary duties has been the focus of many studies. This is because of the pervasive cases of financial statement errors, which in some cases, has led to fraudulent reporting (Ismail et al., 2011). Several incidents of financial reporting irregularities in Malaysia, include large companies, like Megan Media Holdings Berhad, NasionCom Holdings Berhad and Transmile Group Berhad. As such, Bursa Malaysia requires any errors in the financial statements to be restated immediately in the following financial report. Therefore, many studies on audit committee effectiveness have observed the financial restatements made in the financial reports (Ismail et al., 2011).

Financial restatement is the second proxy to measure financial reporting quality, consistent with studies undertaken by Wahab et al. (2014) and Paterson et al. (2011). Financial restatement is also arguably a direct admission by management of past manipulation of earnings (Agrawal and Chadha, 2005). Apart from being a measure for financial reporting quality, financial restatement is also used to measure audit quality (Paterson et al., 2011). The authors argue that the users of financial statements rely on the audited financial reports and therefore, any financial restatement is an indication of low financial reporting quality.

By definition, financial restatement involves corrections to the financial statement due to non-compliance with GAAP in terms of disclosure, measurement or recognition of financial information in the previously released financial statement (Palmrose and Scholz, 2000). Findings from prior studies have highlighted that when a company restates its financial statement, it indicates to the investors that its prior financial statement is of low quality (Cornil, 2009). Similarly, the investors may also question the reputation of management as restating a prior financial statement which has been audited, implies its low quality as it still contains errors or irregularities (Hennes et al., 2008). Studies have shown that companies with restatements are likely to engage in intentional misstatement or fraud (Palmrose and Scholz (2004). Among other adverse implications and significant costs associated with restating of the financial statement are decline in share prices and future earnings (Palmrose et al., 2004), increasing costs of capital (Hribar and Jenkins, 2004) and high attrition of management and directors (Desai et al., 2006).

There are six categories of financial misstatements, namely: revenue recognition, core expenses, non-core expenses, reclassifications and disclosure, underlying events and others (GAO, 2013). Further, the Government Accountability Office (GAO) (2013) outlines that any misstatements affecting the main operations of the companies, such as revenue, cost of sales and operating expenses, are classified as core misstatements as they are operational in nature and significantly affect the companies' earnings sustainability. Nevertheless, the primary factor in examining financial restatements, according to Spathis (2002), is the motivation of the companies. Further, the author argues that this may involve the practice of overstatement of income or understatement of expenses to portray good financial performance or even to the extent of understating income or overstating expenses to avoid paying high taxes.

2.5.4 Financial Restatements in Malaysia

The issue on financial restatements has been the focus of regulators in Malaysia, following its association with various corporate scandals, such as Transmile, Megan Media and Nasioncom (Hasnan et al., 2013). The Securities Commission of Malaysia and Bursa Malaysia constantly review and monitor the release of quarterly financial results and annual audited financial statements by looking for potential "red flags".

Additionally, upon complaints by investors, whistle blowers, professional advisors, public or media, the regulators may initiate queries or investigations. This study chooses financial restatement as another proxy to financial reporting quality. Although there are many studies on financial restatements, they have mostly been based in developed countries and only few of them are in the context of developing countries, like Malaysia (Abdullah et al., 2010; Wahab et al., 2014). In addition, financial restatement is a more direct measure compared to earnings management, and therefore, provides strong evidence of low financial reporting quality (DeFond and Zhang, 2014; Blankley et al, 2014).

2.6 Prior Studies on Financial Reporting Quality

2.6.1 Prior Studies on Audit Delay

Prior studies that have examined the timeliness of audited financial statements find that the companies' specific attributes are significantly associated with audit delay (Nelson and Shukeri, 2011). For example, the size of companies (proxied by total assets or market capitalisation), whereby large companies are expected to announce their financial reports on a more timely basis than smaller companies as they are being more closely monitored by the shareholders and regulators (Ashton et al., 1989). In addition, audit delay is also expected to be influenced by the profitability of a company, whereby companies with strong financial standing, are more likely to disclose their financial results early (Dogan et al. ,2007). Further, industries which have variations in their type of assets, technology requirements, commitments on capital expenditures and growth rate, have a significant association between the type of industry and the company's audit delay (Afify, 2009).

Several studies have examined the association of auditor's attributes and audit delay, such as size of the audit firm (Carslaw et al., 1991), auditor opinion (Soltani, 2002) and audit technology (Ashton et al., 1989). In addition, it is also reported that the financial year of a company influences the company's audit delay (Ashton et al., 1989; Carslaw et al., 1991). These studies report that companies with the financial year-end of 31 December to 31 March are considered as 'peak audit period' and therefore, have longer audit delay.

As shown above, most of the earlier studies on audit delay have examined other attributes, such as the company and auditor but only few have investigated the corporate governance variables as determinants of audit delay (Wan-Hussin and Bamahros, 2013). Apart from that, most of the recent literature examining the association between audit delay and corporate governance variable, has shown inconsistent evidence (Baatwah et al., 2013). To illustrate, while Afify (2009) concludes a negative association between board independence and audit delay, Yaacob and Che-Ahmad (2012) reveal a significantly positive relationship between board independence and audit delay. This is true also for audit committee characteristics, where there is little agreement on the audit committee characteristics as important determinants of audit delay (Wan-Hussin and Bamahros, 2013; Baatwah et al., 2013). Based on the above, to date, there has been little agreement about the significant relationship between audit committee characteristics, such as multiple directorships and overlapping committee memberships and audit delay.

2.6.2 Prior Studies on Financial Restatement

Although there are many studies which have investigated the influence of corporate governance, such as board independence on financial restatement, the empirical findings are still inconclusive (Abbott et al., 2012a). For example, while some studies conclude no significant association between corporate governance and financial restatement (Agrawal and Chadha, 2005; Abbott et al., 2002), some other studies have claimed a significantly negative association between board independence and the probability of financial restatement (Dechow et al, 1996; Beasley, 1996; Farber, 2005). While corporate governance variables, such as board independence and governance, are critical factors to increase the board's monitoring intensity, only few studies have shown support for the relationship between independence and governance variables and the likelihood of financial restatement (Abbott et al., 2012a). This limitation has prompted the consideration for other factors that may be affecting monitoring and that are related to financial restatement. For example, external pressures from the capital market, especially in developing economies, that have motivated the company to record consistent earnings growth and surprises with aggressive accounting policies that lead to restatement (Wang and Wu, 2011). Other external factors that contribute to financial restatement, include motivation to profit from insider trading (Griffin, 2003) and significant portion of management incentives in the form of equity (Richardson et al., 2003).

In developing countries like China and Malaysia, studies linking corporate governance and financial restatement of listed companies are still limited (Wahab et al., 2014) and not yet conclusive (Zhizhong et al., 2011, Abdullah et al., 2010). Therefore, in addressing this research gap, the current study attempts to explore the influence of audit committee characteristics, such as busyness on financial restatement. It is believed that financial restatement as a proxy is well suited for this study as it is capable of detecting potential financial misreporting by a company which is in line with the study's objectives.

2.7 Research Gap

This section draws together the streams of discussion as presented in sections 2.1 to 2.5, by summarising related studies on the relationship between audit committee busyness and financial reporting quality, which are the primary foci and the variables for this research.

Despite the fact that there is wide recognition that the audit committee is the primary internal governance mechanism for overseeing financial reporting quality (DeZoort et al., 2002), there has been little conclusive evidence that the audit committee can improve financial reporting quality; it is felt that just establishing an audit committee may not necessarily improve financial reporting quality (Baxter, 2009). The inconsistent findings can possibly be due to the use of many different measures, leading to significant variation in their quality (Pomeroy et al., 2008). This is due to high-quality proxies, such as abnormal accruals, being likely to differ in its impact compared to proxies for low financial reporting quality (e.g., financial restatement or regulator's enforcement actions). This study seeks to advance the study on financial reporting quality by using two separate proxies, audit delay and financial restatement.

After the SOX Act (2002), Sharma and Iselin (2012) highlight the increased homogeneity among audit committee directors with respect to their independence and financial expertise . Therefore, other characteristics of audit committee, such as their busyness through multiple directorships and other appointments could be further examined and analysed for audit committee effectiveness. Some studies have claimed that multiple directorships have diluted the board's oversight function effectiveness (Jiraporn et al., 2009; Ahn et al., 2010). Further, based on studies in Malaysia, Hasnan et al. (2013) conclude a significant and positive association between multiple directorships and financial fraud reporting, implying a negative association between multiple directorships and the board's monitoring function. Another study by Kamardin and Haron (2011) concludes that multiple directorships have a negative relationship with the board's monitoring roles (based on questionnaires completed by 112 directors of main board listed companies in Malaysia) but no influence on the board performance evaluation roles. Further, the researchers acknowledge the limitation of studies on multiple directorships in Malaysia and recommend more empirical studies, especially to determine the optimum multiple directorships for each director in Malaysian firms.

In relation to the overlapping board committees, it is highlighted that there is limited studies on the interaction among board committees (Carcello et al., 2011). Further, the authors claim that lack of interaction between these two board committees may result in undetected material financial reporting risks by the audit committee. Similarly, Habib et al. (2015) reiterate that there is far too little attention given to the effect of overlapping board committees on financial reporting quality; studies thus far have looked at the audit and remuneration committees in isolation to examine governance implications. To the best of the researcher's knowledge, there has been minimal, if not negligible, studies in Malaysia, that have investigated the relationship between overlapping of audit and remuneration committee memberships and financial reporting quality. To sum up, the results from literature on the association between busyness (multiple directorships and overlapping board committee memberships) and financial reporting quality are still inconsistent and contradictory. Accordingly, the present study attempts to develop a better understanding of the relationship between the variables.

2.8 Summary of the Chapter

The chapter reviews prior studies which are related to corporate governance, evolution of corporate governance reforms, audit committee and financial reporting quality. Past studies have highlighted that the audit committee is an important governance mechanism to uphold financial reporting quality. However, prior studies have not provided conclusive evidence on the relationships. Busyness is one of the contemporary corporate governance issues faced by the audit committee directors. This follows a series of corporate governance reforms in the recent years that have increased the scope and responsibilities of the audit committee. In examining audit committee busyness, there is still limited literature in emerging markets, like Malaysia on its effect on financial reporting quality. Audit committee busyness is investigated from the perspective of multiple directorships and overlapping audit-remuneration committee memberships. This research addresses this research gap and contributes to the extant literature on the audit committee, whilst at the same time, sharing some insights on multiple measurement of financial reporting quality as undertaken in this study.

CHAPTER 3

RESEARCH FRAMEWORK AND METHODOLOGY

3.0 Introduction

The objective of this chapter is to discuss and justify the main theories related to this study. The agency theory and resource dependence theory are relevant to this study and can support the hypotheses developed in relation to the research questions. The relevant theoretical framework is also developed based on these theories to support the hypotheses. Then, this chapter formulates related hypotheses on the multiple directorships and overlapping membership in the audit committee and other board committees. Next, the chapter discusses the research design and empirical models to test these hypotheses.

3.1 Research Framework

3.1.1 The Agency Theory

The agency theory is among the well-known theories of finance that underpin the practices of the audit committee on various aspects, including its characteristics and role. The agency theory is relevant to this study because it explains how the audit committee functions as a monitoring mechanism in mitigating agency costs (Menon and William, 1994). The agency theory framework is applied in this study to examine the impact of holding multiple directorships and overlapping board committee memberships by audit committee members. The agency theory suggests that separation between the owner and manager will lead to agency costs. Eisenhardt (1989) highlights that two main issues concerning agency costs are conflict of interests and different business risk preferences between owners and managers. To mitigate the agency problem, an arrangement called, 'agency relationship' is undertaken between the two parties which consists of bonding costs and monitoring costs (Jensen and Meckling, 1979). These costs are incurred due to the appointment of oversight function, both externally, of external auditors, and internally, of the board of directors. Given its wide and broad roles, the board has delegated some of its monitoring functions to its committees.

In line with the agency theory, past studies have revealed that the demand for specific attributes of audit committee is associated with its oversight role to reduce agency costs (Bedard et al., 2004; Klein, 2002; Xie et al., 2003). The empirical results from these studies confirm the agency theory's claims that an effective audit committee acts as internal governance and monitoring mechanism to reduce agency costs in financial reporting quality.

Bursa Malaysia has mandated the establishment of the audit committee to monitor the company's financial reporting quality. This requirement will ensure that there is an oversight function to ensure that listed companies comply with the listing requirement to release the audited financial statement within four months after the company's financial year-end. Therefore, it is also the role of the audit committee to alleviate the external auditor's task complexity in finalising the audited financial statement within the required time frame. With that, the audit committee plays an equally important role to reduce audit delay of the listed companies. As such, the appointment of audit committee, is in line with the agency theory, i.e., to act on behalf of the owners and play an important role in upholding the company's financial reporting quality.

3.1.2 Resource Dependence Theory

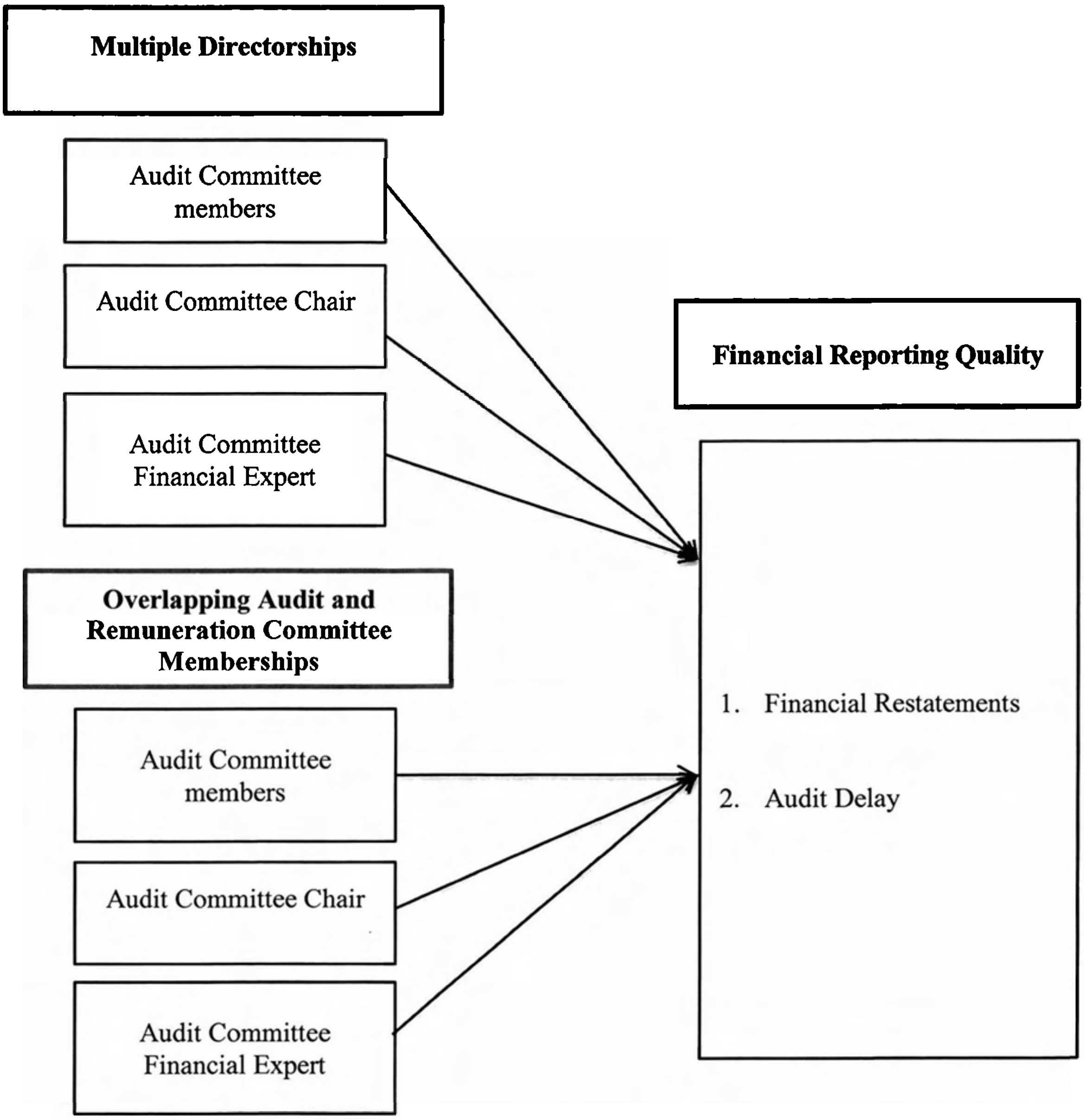
The resource dependence theory focuses on the interdependence between the company and the external environment that controls important resources. In this respect, the board members are seen as providing resources and directly influencing the ability of the board to bring resources to the company (Pfeiffer and Salancik, 2003). From the perspective of corporate governance, a successful company is one that is able to attract resources to the extent that it enjoys the community's support (Hillman et al., 2009). Further, the theory also recognises the influence of external factors on the organisation's behaviour and views the board as a link between the company and external resources. It is the boards that have expertise, knowledge, professional network and experience, that make available these resources to the companies. In another study by Zahra and Pearce (1989), the authors state that the resource dependence theory provides useful theoretical perspective on directors' busyness. This is because busy directors with their external contacts and extensive professional network can connect to new markets and facilitate competitive advantage in the market.

3.1.3 Theoretical Framework

This study includes audit committee busyness as one of the audit committee characteristics to provide evidence of its monitoring role for financial reporting quality. Empirical evidence from prior studies validate the agency theory's claims that the audit committee is an effective monitoring mechanism (Klein, 2002; Xie et al., 2003, Bedard et al., 2004). However, the results are still inconclusive on the effectiveness of audit committee in mitigating earnings management and financial restatement, common measures for financial reporting quality. Apart from that, there is still limited literature in emerging countries like Malaysia that conclude the impact of audit committee busyness on its oversight responsibilities. Therefore, this study fills this gap by investigating the relationship between audit committee busyness and financial reporting quality. Audit committee busyness is investigated from the perspective of external busyness (multiple directorships on other listed companies) and internal busyness (overlapping board committee memberships in the same company).

Further, the resource dependence theory believes that the directors, as resource providers and their connection with outsiders (through multi-directorships), provide insights into how other companies manage their financial reporting process. The exposure to different management styles and monitoring behaviours in other companies may help the audit committee to effectively monitor and maintain the company's high financial reporting quality.

The model presented in Figure 3.1 assumes that audit committee effectiveness (measured by financial reporting quality) is a function of the characteristics of the audit committee members. This is given the fact that the characteristics of audit committee members, such as having multiple directorships in other listed companies and overlapping board committee memberships (combination of both are termed as 'busyness') are important to ensure that they can perform effectively.



Control Variables
Board independence
Audit committee size
Audit committee meetings
Audit committee independence
Log of audit fees
Cash flow scaled by total assets
Debts scaled by total assets
Return on assets
Segments
Big 4
Board size
Log of non-audit services

Figure 3.1
Theoretical Framework

This study seeks to address the call by studying "busyness", as another attribute of the audit committee directors, and its relationship with financial reporting quality. Although there are some studies on the association between audit committee busyness and financial reporting quality, the empirical evidence is still inconclusive with contradictory perspectives that busyness is either an effective monitor (e.g., Lei and Deng, 2014; Chandar et al., 2012; Habib et al., 2015) or plays an ineffective oversight role (e.g., Tanyi and Smith, 2014; Rickling, 2014; Sharma and Iselin, 2014). Therefore, this study seeks to address the gap by investigating audit committee busyness from the perspectives of multiple directorships and overlapping board committee memberships using audit delay and financial restatement as proxies.

In discussing audit delay as one of the measures for financial reporting quality, several studies have shown the association between audit committee characteristics (e.g., independence, financial expert, size and meetings) and audit delay (e.g., Wan-Hussin and Bamahros, 2013; Abernathy et al., 2014; Sultana et al., 2015). However, Baatwah et al. (2013) claim that far too little attention has been paid to attributes, such as governance expertise or industry expertise, with respect to audit delay. In view of this, this paper seeks to address this gap by investigating the influence of audit committee multiple directorships, as the governance expertise, on audit delay.

As for financial restatement, a recent study by Sharma and Iselin (2012) concludes that multiple directorships of audit committee members have contributed to increasing the possibility of restating the financial statement. This study advances the study by Sharma and Iselin (2012) by examining busyness at the individual director's level (i.e., audit committee chair and financial expert) and not just at the overall audit committee level, following recent findings based on US firms that busyness among audit committee directors is not homogeneous (Tanyi and Smith, 2014).

3.2.2 Audit Committee Multiple Directorships and Financial Reporting Quality

There are two opposing empirical evidences - multiple directorships are considered as a positive sign of the directors' reputation (Reputation Hypothesis) (Fama and Jenson, 1983; Lei and Deng, 2014; Benson et al., 2014; Ghosh, 2007); and multiple directorships are a negative sign of over-commitment and inadequate time to discharge their fiduciary duties diligently (Busyness Hypothesis) (Fich and Shivdasani, 2006; Sharma and Iselin, 2012; Tanyi and Smith, 2014). Both arguments for and against multiple directorships have potentially positive and negative effects on audit committee effectiveness.

The audit committee has been delegated by the board to oversee financial reporting quality. Despite there being many studies on directors' busyness, the impact on audit committee's monitoring effectiveness is still unclear (Ghafran and O'Sullivan, 2013). This is also supported by Sharma and Iselin (2012) and Ricking (2014) that it is still an open question whether multiple directorships of audit committee members makes the audit committee an effective monitor. Among the few studies are Sharma and Iselin (2012) with findings that support the "Busyness Hypothesis". Using a sample of US listed companies, the study concludes that the multiple directorships of audit committee members lead to higher likelihood of financial restatement. Similar findings are presented by Rickling (2014) that audit committee busyness is associated with more likelihood of a company to repeatedly meet-beat analysts' forecasts. On the other hand, in a more recent study based on sample firms in Belgium, De Vlaminck and Sarens (2015) conclude a positive and significant relationship between audit committee members' multiple directorships and financial statement quality. The findings advocate the "Reputation Hypothesis", highlighting that a busy audit committee is more likely to preserve its credibility and reputation, therefore, discharging its fiduciary duties responsibly. Collectively, the literature documents inconclusive evidence as to whether audit committee busyness improves or compromises financial reporting quality. Therefore, this study seeks to advance the literature using audit delay and financial restatement as proxies for financial reporting quality. As the direction of the relationship is also ambiguous, the hypotheses are stated as follows:-

H1 : Multiple directorships of audit committee members are significantly associated with financial reporting quality

3.2.3 Overlapping Audit Committee Memberships and Financial Reporting Quality

Among the critical requirements for reviewing and approving compensation plans by the remuneration committee, are to determine which performance measures to use, how those measures will be used and to what extent the measures adopted relate to firm performance (Carter and Lynch, 2012). Murphy (2000) presents that accounting earnings are the most preferred and commonly used performance measure for setting compensation. Key challenges faced by the remuneration committee are to prevent the CEO and management from setting high compensation for themselves (Yermack, 1997) and some of the remuneration committee members may not have the accounting expertise to disentangle attempts by the management to manipulate earnings (Carter and Lynch, 2012).

To meet these challenges, there is a significant discussion and two conflicting views in the literature on the merits of having an audit committee member sitting on the remuneration committee, i.e., 'overlapping audit-remuneration committee membership'. On the one hand, there is a group of studies that oppose the overlapping board committee membership because the monitoring effectiveness of overlapping directorships may be affected by over-commitment and insufficient time to perform their duties in each board committee (Laux and Laux, 2009). Laux et al. (2009) proposed a model that promotes task separation between audit and remuneration committees and argue that it is always beneficial from the perspective of shareholders. Findings from Hoitash and Hoitash (2009) support Laux et al.'s (2009) model by revealing that having separate members in audit and remuneration committees (i.e., no overlapping memberships) may contribute to the effectiveness of board decisions. As such, the authors argue that task separation in the board committees increases the board's monitoring intensity and therefore, stronger governance. Similarly, Liao and Hsu (2013) conclude the disadvantages of having overlapping board committees by proving that overlapping board committees lead to poorer earnings quality. Apart from that, in a more recent study by Karim et al. (2015), firms with committee overlap, especially common members in both audit and remuneration committees, are found to have lower monitoring effort following the diminishing effort by over-extended directors.

This notion has been challenged by different scholars who argue that despite additional workload and increased 'internal busyness', the overlapping audit committee members can transfer the knowledge gained on compensation issues and improve the effectiveness in monitoring quality of financial reporting, thus promoting 'knowledge spillover' (Chandar, Chang and Zheng, 2012). The benefits of knowledge spillover are also supported by Falaye, Hoitash and Hoitash (2011) with their findings suggesting overall improvement on the board's monitoring quality with independent directors sitting on at least two of the board committees. Additionally, Chandar, Chang and Zheng (2012) suggest that overlapping audit committee has advantages up to a certain level, then the advantages of overlapping may decline. Further, using Australian archival data, Habib et al. (2015) find that overlapping board committees improve financial reporting quality but may have a detrimental effect if the directors have shares in the company. However, in a more recent study that is based on listed companies in Singapore, Kusnadi et al. (2015) indicate that there is no significant association between overlapping audit committee membership and financial reporting quality.

Thus far, studies on the relationship between overlapping board committee membership and financial reporting quality are still limited and mixed (Karim et al, 2015). Based on the mixed conclusions above, the hypothesis on the non-directional relationship is predicted as below:-

H2: Overlapping audit-remuneration committee membership is significantly associated with financial reporting quality

3.2.4 Busy Audit Committee Chair and Financial Expert

Various corporate governance reforms in recent years have prompted the audit committee chair and financial expert to be more proactive in the functioning of the audit committee (Tanyi and Smith, 2014, Beasley et al., 2009). Audit committee chair, which is one of the important board leadership roles, is responsible to set the audit committee's agenda, lead the meeting and discussions, maintain good relationships with auditors and management as well as relationships among audit committee directors (Abernathy et al., 2014). Another important player in the audit committee is the financial expert who is the main reference person to address accounting issues which may include technical standards, professional judgement, estimates and assumptions in dealing with financial reporting and audit processes (Beasley et al., 2009).

As there is a small pool of experienced and capable audit committee members, most of them are overcommitting themselves with multiple directorships (Tanyi and Smith, 2014; Rickling, 2014; Sharma and Iselin, 2012). This may compromise their ability to discharge their oversight function diligently. To understand the issues of audit committee multiple directorships in greater depth, there is a need to examine the distribution of multiple directorships among the members of the audit committee. This is especially for the chair and financial expert as they are among the highly sought after candidates for possible audit committee appointments (Tanyi et al., 2014). Most prior studies have examined multiple directorships at the broad level (Abernathy et al., 2014), without investigating the effect at the individual level, especially audit committee chair and financial expert levels (Tanyi and Smith, 2014). Recognising that the role and busyness among audit committee directors are not homogeneous (Abernathy et al., 2014; Tanyi and Smith, 2014), what is more important is to better understand 'who on the audit committee is busy' apart from whether the audit committee is busy as a whole. With a view to develop an understanding on the busyness of audit committee chair and financial expert, this study examines two aspects of audit committee chair and financial expert busyness, namely multiple directorships (external busyness) and overlapping board committee membership (internal busyness).

3.2.5 Busy Audit Committee Chair and Financial Reporting Quality

Several studies have documented the importance of audit committee chair, but there is still little research that has separately examined the role of the audit committee chair in enhancing audit committee effectiveness (Carcello et al., 2011). Among the rare studies is a study by Tanyi and Smith (2014) using US listed companies from the years of 2004 to 2008 with discretionary accruals as proxy to financial reporting quality. Supporting the "Busyness Hypothesis", Tanyi and Smith (2014) suggest that busy audit committee chair has a significant and negative association with financial reporting quality. In the aforesaid study, the authors measure busy audit committee chair as the number of directorships of the audit committee chair holds in other listed companies. This study extends the study by Tanyi and Smith (2014) by measuring busy audit committee chair from different perspectives - multiple directorships (external busyness) and overlapping committee memberships (internal busyness) of audit committee chair. Given the scarcity of evidence in the literature, the hypotheses are stated non-directionally and separately as below:-

H3a :Multiple directorships of audit committee chair are significantly associated with financial reporting quality

H3b :Overlapping committee membership of audit committee chair is significantly associated with financial reporting quality

3.2.6 Busy Audit Committee Financial Expert and Financial Reporting Quality

As accounting earnings is widely used as performance measures in setting compensation for the senior management, the audit committee financial expert plays an active role in the pay-setting process (Cater and Lynch, 2012). His or her presence in the remuneration committee will improve the review on the discretionary components of accounting earnings in approving the compensation plans proposed by the management.

Further, Cater et al. (2012) defend their view that the audit committee financial expert who is also appointed as a remuneration committee member, has a better understanding on financial reporting and therefore, will be able to rectify potential misreporting in determining the compensation for management

Several studies have documented that the presence of the audit committee financial expert has a significant and positive relationship with financial reporting quality (e.g., Abbott et al, 2004; Dhaliwal et al., 2010). However, only few have focused on the busyness of audit committee financial expert (Abernathy et al., 2014). One of the few studies is Tanyi and Smith (2014) that concludes a significantly negative association between busy audit committee financial expert and earnings management. Another recent study is Kusnadi et al. (2015) that there is no significant relationship between overlapping membership of financial expert and financial reporting quality, using earnings management as proxy. Given the limited empirical findings in this area, the study examines the busyness of audit committee financial expert from external and internal busyness perspectives with non-directional hypotheses and stated separately as below:-

H4a :Multiple directorships of audit committee financial expert are significantly associated with financial reporting quality

H4b :Overlapping committee membership of audit committee financial expert is significantly associated with financial reporting quality

3.3 Operational Definition and Measurement of Dependent Variables

This section provides a discussion on the definition of dependent variables used in the study. For the dependent variables, the paper adopts two most common proxies for financial reporting quality – audit delay and financial restatement.

3.3.1 Audit Delay

Consistent with studies on the relationship between corporate governance variables, such as audit committee and audit delay, audit delay is measured by the number of calendar days from the financial year-end to the date of the audit report (Abernathy et al., 2014; Wan-Hussin and Bamahros, 2013). The measure of audit delay is also a more objective measurement compared to earnings management or earning quality and has little measurement error (DeFond and Zhang, 2014). This is premised on arguments by Ashton et al. (1987) that delay in issuing audited financial statements is considered as low financial reporting quality as it has lost its relevance and created uncertainties in the capital market.

3.3.2 Financial Restatements

As adopted by Abdullah et al. (2010), this study defines financial restatement as a dichotomous variable, indicating '1' if the following year's financial statement is restated and '0' otherwise. As the objective of this study is to measure low financial reporting quality, the study excludes restatement that is related to change in accounting policies. In line with arguments by Hennes et al. (2008) and Blankley et al. (2014), when a company restates its prior audited financial statement, it implies that the company has low financial reporting quality as it contains errors notwithstanding its unintentional misstatement.

3.4 Operational Definition and Measurement of Independent and Control Variables

In this section, there are six independent variables that are presented and discussed as follows: multiple directorships of audit committee, overlapping audit-remuneration committees, multiple directorships of audit committee chair, overlapping committees of audit committee chair, multiple directorships of audit committee financial expert and overlapping committees of audit committee financial expert.

3.4.1 Audit Committee Members' Multiple Directorships

Hypothesis 1 *(H1)* suggests that multiple directorships of audit committee members are associated with financial reporting quality (audit delay and financial restatement). Audit Committee members' multiple directorships are captured using a continuous variable, measured as the proportion of audit committee members serving as directors on at least three boards on listed companies in Bursa Malaysia. Three directorships are used as a threshold to identify high multiple directorships (i.e., busyness) and its impact on financial reporting quality. This measure is consistent with Sharma and Iselin (2012), Rickling (2014) and Cashman et al. (2012).

3.4.2 Overlapping Audit-Remuneration Committees

Hypothesis 2 *(H2)* refers to the association between overlapping audit and remuneration committee membership and financial reporting quality (audit delay and financial restatement). Overlapping of the audit-remuneration committee membership is measured by the number of audit committee directors in the sample firms that have also been appointed as the remuneration committee directors.

3.4.3 Multiple Directorships of Audit Committee Chair

Hypothesis 3a (*H3a*) refers to the association between multiple directorships of audit committee chair and financial reporting quality (audit delay and financial restatement). Multiple directorships of audit committee chair are measured by the number of outside directorships that the audit committee chair holds, following Perry and Peyer (2005) and Jiraporn, Singh and Lee (2009).

3.4.4 Overlapping Committees of Audit Committee Chair

Hypothesis 3b (*H3b*) relates to the overlapping committees of audit committee chair and is measured using a dichotomous variable. A value of '1' is used if the audit committee chair sits on the remuneration committee and '0' otherwise.

3.4.5 Multiple Directorships of Audit Committee Financial Expert

Meanwhile, Hypothesis 4a (*H4a*) proposes an association between multiple directorships of audit committee financial expert and financial reporting quality (audit delay and financial restatement). Similarly, multiple directorships of audit committee financial expert are measured using a continuous variable as the number of outside directorships that the audit committee financial expert holds (Perry and Peyer, 2005; Jiraporn, Singh and Lee, 2009).

3.4.6 Overlapping Committees of Audit Committee Financial Expert

Hypothesis 4b (*H4b*) suggests that overlapping committee membership of the audit committee financial expert is associated with financial reporting quality (audit delay and financial restatement) Overlapping audit committee membership of the financial expert is measured using a dichotomous variable. A value of '1' is used if the audit committee financial expert sits on the remuneration committee and '0' otherwise.

3.4.7 Control Variables

In performing tests on the relationship between financial reporting quality and audit committee busyness (multiple directorships and overlapping board committees), the control variables are split into two main characteristics – governance and business characteristics.

For the governance related control variables, firstly, this study includes the percentage of independent directors on the board (BOD_ind) as adopted by Yaacob and Che-Ahmad (2012), that high presence of independent directors requires higher financial reporting quality. Similarly, in another study on audit delay of Egyptian listed companies, Afify (2009) reveals that board independence improves financial reporting quality, that in turn, improves the audit process and reduces audit delay. The second control variable is the size of board, i.e., the number of directors on the board, (BOD_size) as shown in Naimi et al. (2010) that larger board size tends to exacerbate audit delay which may be due to communication or coordination issues. The next control variable is audit committee size (AC_size) as more audit committee members will draw upon more knowledge and skills (Tanyi and Smith, 2014). The results are also supported by Naimi et al. (2010) and Ahmad-Zaluki and Wan-Hussin (2010) that a larger audit committee improves the quality of oversight and therefore, improves financial reporting quality. The study also controls for meetings of audit committee (AC_meetings) as frequency of audit committee meetings may indicate good corporate governance (Vafeas, 1999; Xie et al., 2003; Tanyi and Smith, 2014). The finding is also consistent with Abbott et al. (2004), who show that higher level of audit committee activities are significantly related to a lower incidence of financial restatement.

Another control variable is the percentage of independent directors in the audit committee (AC_ind) as undertaken in the study by Abdullah et al. (2010) that the audit committee is deemed ineffective if it does not have any power to improve the company's financial reporting process. Research finding by Naimi et al. (2010) also points towards the suggestion that more emphasis must be given to audit committee independence to improve audit delay. Next, the study controls the natural logarithm of the company's total audit fees of the external auditor (Ln_audit_fees) and the natural logarithm of the company's non-audit fees (Ln_NAS), as suggested by Cao et al. (2012) that companies that pay high non-audit services to their external auditor are more likely to restate their financial statement. In addition, the audit delay model also incorporates a dichotomous variable, equal to '1' if the external auditor is one of the big four (4) in the year of study or '0' otherwise ("Big_4"). The Big 4 audit firms have a better motivation to complete their audit work quicker to maintain their reputation (Afify, 2009). As shown in the study by Naimi et al. (2010), the Big 4 audit firms tend to have a shorter audit delay. The last governance-related control variable is a dichotomous variable, that is indicated as '1' if the sample firm has outsourced its internal audit function in the year of study and '0' otherwise (IAF_Outsource_1), in line with the recent findings by Pizzini et al. (2015) that internal audit quality is negatively related to audit delay.

The company's business characteristics are also applied as control variables given their roles in influencing audit committee and financial reporting quality. The first two control variables in the study are cash flows generated from operating activities scaled by total assets (CF_by_TA) and total debts scaled by total assets (Debts_by_TA), measured by total long-term debts divided by total assets. Several studies have shown that total assets, representing the size of the company, is an important determinant of audit delay. This is because large firms have more resources to complete their annual audit on a timely basis and therefore, have lesser audit delay (Davies and Whittred, 1980; Owusu-Ansah and Leventis. 2006). Using different sample firms in Pakistan, India and Bangladesh, Ahmed (2003) also finds that company size is a significant determinant of audit report delay.

Another firm-specific control variable is return on assets (ROA) that is measured as net income scaled by total assets, representing the company's profitability as undertaken by Ahmed (2003) and Abernathy et al., (2014). ROA is also a measure for profitability; when a company has to report a loss-making financial position, the company may delay the announcement of audited loss-making results to avoid the discomfort of releasing bad news to the public (Afify, 2009). Further, the researcher argues that listed companies with higher profitability may complete their audit process quickly so that they can announce the good financial results earlier to the market. The last control variable is the number of business segments operated by the company (Segments), representing the degree of diversification that more complex businesses tend to have longer audit delay (Abernathy et al., 2014).

A summary of the operationalisation and measurement of the dependent, independent and control variables are presented in Table 3.1 below:-

Table 3.1
Operationalisation and Measurement of Variables

Variables	**Operationalisation**	**Sources**	**References**
1. Dependent Variables			
Audit_Delay	The number of calendar days from the financial year-end to the date of the audit report.	Datastream	Abernathy et al. (2014); Wan-Hussin and Bamahros (2013)
RES	Financial restatement with dichotomous variable indicated as "1" if the firm restates its financial statement in subsequent year, and "0" otherwise.	Annual Report	Abdullah et al., (2010); Wahab et al. (2014)
2. Test Variables			
AC_3MD *(H1)*	The percentage of audit committee members serving on at least three boards	Annual Report	Sharma and Iselin, (2012); Rickling, (2014)
No_AC_Olap *(H2)*	The number of audit committee members sitting on the remuneration committee	Annual Report	Hoitash and Hoitash (2009); Chandar et al. (2012)
ACC_MD *(H3a)*	The number of multiple directorships that audit committee chair holds	Annual Report	Tanyi and Smith (2014)
ACFE_MD *(H4a)*	The number of multiple directorships that audit committee financial expert holds	Annual Report	Tanyi and Smith (2014)

Table 3.2 -Continued

Variables	Operationalisation	Sources	References
ACC_Olap *(H3b)*	Dichotomous variable equals "1" if audit committee chair sits in the remuneration committee and "0" otherwise	Annual Report	-
ACFE_Olap *(H4b)*	Dichotomous variable equals "1" if the audit committee financial expert sits in the remuneration committee and "0" otherwise	Annual Report	Kusnadi et al. (2015)
3. Other Control Variables			
BOD_ind	The percentage of independent directors on the board.	Annual Report	Yaacob and Che-Ahmad (2012); Afify (2009)
AC_size	The size of audit committee (number of members)	Annual Report	Tanyi and Smith (2014); Naimi et al. (2010)
AC_meetings	The number of meetings in the year of study	Annual Report	Vafeas (1999); Tanyi and Smith (2014)
AC_ind	The percentage of independent directors on the audit committee	Annual Report	Abdullah et al. (2010)
Ln_audit_fees	The natural logarithm of the company's total audit fees to external auditor	Annual Report	Cao et al. (2012)
CF_by_TA	Cash flow from operations scaled by total assets	Annual Report	Tanyi and Smith (2014)

Table 3.3 -Continued

Variables	Operationalisation	Sources	References
Debts_by_TA	Total debts scaled by total assets	Annual Report	Sharma and Iselin (2012)
ROA	Return on assets (net income to total assets)	Datastream	Abernathy et al. (2014)
Segments	The number of business segments	Annual Report	Abernathy et al. (2014)
Big_4	Dichotomous variable equals "1" if the external auditor is a big four firm in the year of study and "0" otherwise	Annual Report	Naimi et al. (2010)
IAF_outsource_1	Dichotomous variable equals "1" if the firm has outsourced the internal audit function and "0" otherwise	Annual Report	Pizzini et al. (2015)
BOD_size	Size of board (number of directors)	Annual Report	Naimi et al. (2010)
Ln_NAS	The natural logarithm of the company's total non-audit fees	Annual Report	Cao et al. (2012)

3.5 Data Collection

This study employs secondary sources to gather the data sourced from the listed companies' annual reports and financial database from Datastream. Data from company annual reports was extracted from the website (www.bursamalaysia.com), while the financial data was downloaded from Datastream. The main advantage of using secondary data is its high-quality and availability in a form required by this study (Steward and Kamins, 1993).

3.5.1 Sample Selection

The research focuses on audit committees of large listed companies in Malaysia. Therefore, the samples for the study were selected from the top 150 largest non-financial companies ranked by market capitalisation on Bursa Malaysia as at 31 December 2013. Sampling of this nature will represent the largest companies by market value on Bursa Malaysia and therefore, represent a wide spectrum of stakeholders' interests and shareholders' wealth in Malaysia. This is also justified by the "large-firm phenomenon" that multiple directorships are perceived to be heavily skewed towards large organisations (Ferris et al., 2003). In the study, the authors have proven that directors of large companies have better capability than directors of smaller companies following their exposure from overseeing more complex organisations, which in turn, results in their multiple directorship roles. Further, a random sample is used for this study's restatement model (highlighted in section 3.6.2), rather than a match-paired sample, in line with random samples chosen in the studies of Wahab et al. (2014) and Bloomfield and Shackman (2008). This is to avoid biases and inconsistencies in using matched-paired samples, especially problems of biases in matching by size (Bloomfield and Shackman, 2008).

3.5.2 Data Sources

Data for this research were collected from secondary sources, mainly from the companies' annual reports and the financial database, Thomson Financial Datastream Advance ("Datastream"). In the annual report, data related to the directors' reports, directors' profile, Chairman and CEO reports, statement on corporate governance, shareholding statistics, statement of directors' shareholdings, the financial statements and notes to the accounts, were analysed and interpreted together with financial data that were downloaded from Datastream.

3.5.3 Research Approach

This study extracts information from the annual reports of listed companies for the year ended 2013 and the subscribed database system, Datastream. Another option is to undertake surveys of a wide range of stakeholders, i.e., to obtain the respondents' perceptions in studying their associations and potential impact. For example, Kamardin and Haron (2011) used questionnaire survey to examine the relationship between the directors' multiple directorships and their monitoring roles. While a survey can obtain useful insights from the respondents, there are also some limitations which include possible low response rate from the respondents and the possibility of developing subjective measurement on audit committee effectiveness since the responses are perceptions-based (Spangler and Braiotta, 1990). Given the inherent limitations of the survey method, this study uses archival data in the form of the company's annual report and financial database.

3.6 Research Models

3.6.1 Audit Delay Model

The hypotheses related to audit delay as outlined in section 3.2 above, are rephrased as below:-

H1	:	*Multiple directorships of audit committee members are significantly associated with audit delay*
H2	:	*Overlapping audit-remuneration committee membership is significantly associated with audit delay*
H3a	:	*Multiple directorships of audit committee chair are significantly associated with audit delay*
H3b	:	*Overlapping committee membership of audit committee chair is significantly associated with audit delay*
H4a	:	*Multiple directorships of audit committee financial expert are significantly associated with audit delay*
H4b	:	*Overlapping committee membership of audit committee financial expert is significantly associated with audit delay*

To examine the effect of hypotheses H1, H2, H3a, H3b, H4a and H4b, the regression model is applied as below which is consistent with prior studies in the audit delay literature (e.g. Abernathy et al., 2014; Wan-Hussin and Bamahros, 2013) :-

$$\textbf{Audit\_Delay} = \alpha + \beta_1 \text{ AC\_3MD} + \beta_2 \text{ ACC\_MD} + \beta_3 \text{ ACFE\_MD} + \beta_4 \text{ No\_AC\_Olap} + \beta_5 \text{ ACC\_Olap} + \beta_6 \text{ ACFE\_Olap} + \beta_7 \text{ BOD\_ind} + \beta_8 \text{ AC\_size} + \beta_9 \text{ AC\_meetings} + \beta_{10} \text{ AC\_ind} + \beta_{11} \text{ Ln\_audit\_fees} + \beta_{12} \text{ CF\_by\_TA} + \beta_{13} \text{ Debts\_by\_TA} + \beta_{14} \text{ ROA} + \beta_{15} \text{ Segments} + \beta_{16} \text{ Big4} + \beta_{17} \text{ IAF\_outsource\_1} + \varepsilon \qquad \textbf{(1)}$$

where:

Variables	**Operationalisation**
Dependent Variables	
Audit_Delay	The number of calendar days from the financial year-end to the date of the audit report;
Independent Variables	
AC_3MD	The percentage of audit committee members serving on at least three boards;
ACC_MD	The number of directorships that audit committee chair holds;
ACFE_MD	The number of directorships that audit committee financial expert holds;
No_AC_Olap	The number of audit committee members sitting on the remuneration committee;
ACC_Olap	Dichotomous variable equals '1' if audit committee chair sits on the remuneration committee; '0' otherwise
ACFE_Olap	Dichotomous variable equals '1' if the audit committee financial expert sits on the remuneration committee; '0' otherwise
Control Variables	
BOD_ind	The percentage of independent directors on the board;
AC_size	The size of audit committee (number of members);
AC_meetings	The number of meetings in the year of study;
AC_ind	The percentage of independent directors on the audit committee;
Ln_audit_fees	The natural logarithm of the company's total audit fees to external auditor fees;
CF_by_TA	Cash flow from operations scaled by total assets;
Debts_by_TA	Total debts scaled by total assets;
ROA	Return on assets (net income to total assets);
Segments	The number of business segments;
Big4	Dichotomous variable equals '1' if the external auditor is one of the big 4 in the year of study; '0' otherwise
IAF_outsource_1	Dichotomous variable equals '1' if the firm has outsourced the internal audit function; '0' otherwise

3.6.2 Financial Restatement Model

For testing of hypotheses related to financial restatements in H1, H2, H3a, H3b, H4a and H4b (as outlined in section 3.2), the effect of audit committee multiple directorships and overlapping board committees and financial reporting quality are as below:-

H1 : *Multiple directorships of audit committee members are significantly associated with financial restatement*

H2 : *Overlapping audit-remuneration committee membership is significantly associated with financial restatement*

H3a : *Multiple directorships of audit committee chair are significantly associated with financial restatement*

H3b : *Overlapping committee membership of audit committee chair is significantly associated with financial restatement*

H4a : *Multiple directorships of audit committee financial expert are significantly associated with financial restatement*

H4b : *Overlapping committee membership of audit committee financial expert is significantly associated with financial restatement*

The regression model is used to examine the effect of hypotheses as above on financial restatement as per prior studies by Sharma and Iselin (2012) and Abdullah et al. (2010):-

$$\mathbf{RES} = \alpha + \beta_1\ AC\_3MD + \beta_2\ ACC\_MD + \beta_3\ ACFE\_MD + \beta_4\ No\_AC\_Olap + \beta_5\ ACC\_Olap + \beta_6\ ACFE\_Olap + \beta_7\ BOD\_size + \beta_8\ BOD\_ind + \beta_9\ AC\_size + \beta_{10}\ AC\_ind + \beta_{11}\ CF\_by\_TA + \beta_{12}\ Debts\_by\_TA + \beta_{13}\ Ln\_audit\_fees + \beta_{14}\ Ln\_NAS + \varepsilon \qquad \mathbf{(2)}$$

where:

Variables	Operationalisation
Dependent Variables	
RESit	Dichotomous variable is '1' if the firm restates its financial statements in the following year's annual report; or '0" otherwise;
Control Variables	
BOD_size	Size of board (number of directors)
Ln_NAS	The natural logarithm of the company's total non-audit fees

Other variables are as previously defined.

3.7 Data Analysis

The study uses descriptive and multivariate approaches as the methods of analysis. Descriptive statistics, such as minimum, maximum, mean and standard deviation, are applied to describe the effect of independent variables (audit committee busyness) on the dependent variables (financial reporting quality) of the Malaysian listed companies for financial year ended 2013. Further, this study applies multivariate tests involving multiple ordinary least squares (OLS) regression with the application of multivariate analysis.

3.8 Chapter Summary

The study categorises the variables into two main categories of busyness – multiple directorship and overlapping audit-remuneration committee membership. Each category of the independent variable not only looks at the audit committee as a whole, but also conducts an investigation on several other aspects of the corporate governance variables – firstly, the interaction between audit committee and remuneration committee; and secondly, the role of audit committee chair and financial expert. Secondly, this approach assesses how the interaction between board committees and the two critical positions in the audit committee, can influence the audit committee's effectiveness.

CHAPTER 4

FINDINGS AND DISCUSSION

4.0 Introduction

This chapter starts with a discussion on the sample companies, characteristics and sample distribution. Then, it is followed by the descriptive, univariate and multivariate analyses that are relevant to the research questions. In addition, the process of conducting diagnostic test prior to the regression model is tested, is outlined. This chapter, among others, presents the results of additional tests to determine the robustness of the main analysis. Further, the discussion on the findings and a summary of all findings at the end of the chapter, are provided.

4.1 Sample Characteristics

The study focuses on the audit committees of large listed companies in Bursa Malaysia for the year ended 2013. The year 2013 is chosen as the study aims to reflect the corporate governance reforms instituted by the Securities Commission of Malaysia through the issuance of the MCCG 2012, superseding prior corporate governance codes. The population of this study was selected and ranked by their market capitalisation on Bursa Malaysia for the year of 2013. There are a total of 894 listed companies with overall market capitalisation of approximately RM 1,593.07 billion for the year ended

31 December 2013. Further, the top 150 largest listed companies (ranked by their market capitalisation) were selected, excluding the finance and REIT sectors, since they are governed by different regulations and standards. Total market capitalisation of these 150 large listed companies is approximately RM 1,111.55 billion, representing 70% of total market value of Bursa Malaysia for the year ended 31 December 2013. From the ratio, it is evident that they represent a significant and wide spectrum of stakeholders' interests in Bursa Malaysia. The list of the sample companies is provided in Appendix I. Table 4.1 below shows the selection of sample companies from the population frame:-

Table 4.1
Sample Selection

Datastream	894
Less : ACE market, REITs, Finance	(144)
Population Frame	750
Total sample selected based on highest market capitalisation	150

The sample size of 150 represents 16.7% of the total population of 894 listed companies in Bursa Malaysia. The size is justified given that it exceeds the minimum sample of 139 to test the maximum of 17 predictors employed in this study (Green, 1991). It is also due to time limitation and resource constraints as the researcher had to hand-collect data on the attributes of audit committee members and non-financial data on the companies from the annual reports. The financial-related data of the companies were downloaded from Datastream. Table 4.2 below shows the distribution of sample firms by sector.

Table 4.2
Distribution of Sample Firms by Sector

Sector	No. of firms	Percentage (%)
Construction	8	5.3
Consumer Products	18	12.0
Hotels	1	0.7
Industrial Products	22	14.7
IPC	5	3.3
Plantation	17	11.3

Sector	No. of firms	Percentage (%)
Properties	18	12.7
Technology	3	2.0
Trading Services	57	38.0
Total	**150**	**100**

It is noted from Table 4.2 that almost 38 % of the large sample firms are classified under trading and services, while another 15 % under industrial products. Thus, companies from both trading and services and industrial products appear to make up almost half of the total sample large firms. There are also companies from other sectors with less than 5 % of total distribution by sector, such as hotels (0.7 %) and technology (2 %).

Further analysis was made on the size of board and audit committee of the companies. Table 4.3 below highlights the number of board and audit committee members in large listed companies in 2013. Panel A shows that majority of the large listed companies have board size of 8 to 10 (55%) directors ,while about 14 % of listed companies have board size of more than ten directors, while Panel B indicates most of the listed companies have audit committee size of three (3) members (65%), which is the minimum size of audit committee required by the Bursa Malaysia listing requirements (part 15.09, item 1a).

Table 4.3 Distribution of Board and Audit Committee Size

Panel A : Distribution of Board Size and Number of companies

Board Size	No. of companies	Percentage (%)
5-7	47	31.3
8-10	82	54.6
11-14	21	14.1
Total	**150**	**100**

Panel B : Distribution of Audit Committee Size and Number of Companies

AC Size	No. of companies	Percentage (%)
3	98	65.3
4	41	27.3
5	11	7.4
Total	**150**	**100**

4.2 Descriptive Statistics

This section begins with a discussion on the overall attributes of audit committee members and financial characteristics of the sample companies as represented in Table 4.4. The next sub-section presents analysis on the financial restatement among the sample companies. Further, section 4.2.2 discusses descriptive statistics for continuous variables, while section 4.2.3 explains descriptive statistics for dichotomous variables.

4.2.1 Introduction

As an introduction to the overall audit committee attributes, Panel A of Table 4.4 highlights the analysis on the 513 audit committee members from the sample companies, while Panel B of Table 4.4 displays the financial characteristics of sample firms. Among key observations noted from Panel A of Table 4.4 are: (a) Total audit committee meetings in a year is about five times with minimum of two and maximum of 14; (b) On average, slightly more than half of the audit committee members sit in the remuneration committee; (c) Average multiple directorships of audit committee members is 2.3 directorships with a range between one to six ; (d) There is only one member who is a financial expert in the audit committee; and (e) Average tenure of audit committee chair is 7.6 years while audit committee financial expert is 5.8 years. Panel B of Table 4.4 below highlights the financial variables of the sample companies.

Among the notable observations are the companies' sound financial standings with total assets of RM7.6 billion and shareholdings that are tightly held with top 20 shareholders holding about 75% of the companies. The companies have also about three business segments, indicating their focus on the core business activities.

Table 4.4 Descriptive statistics of AC members and financial variables

Panel A : Descriptive statistics of AC members

	Mean	Std. Dev.	Min.	Max.	Skew
AC meetings	5.2	1.68	2	14	1.74
AC Multiple Directorships	2.35	1.42	1	6	0.69
Overlapping committees (%)	0.55	0.50	0	1.00	-0.20
Number of financial experts	1.3	0.55	1	3	1.18
Tenure of AC chair (years)	7.6	5.9	0*	34	1.36
Tenure of AC financial expert (years)	5.8	4.7	0*	23	0.95

Note   ** appointed in Q4 2013*

Panel B : Descriptive statistics of the Sample Firms

	Mean	Std. Dev.	Min.	Max.	Skew
Total assets (RM million)	7,693	12,093	834	58,931	2.80
Top 20 shareholders (%)	75.4	11.8	44.5	97.0	-0.46
Number of segments	3	1.625	1	9	0.75

Table 4.5 below shows the financial restatement among the sample companies where 10% have restated their financial statement in the following year. As discussed earlier, the study excludes financial restatements that are related to change in accounting policies so that the restatement in this study only reflects variation in the financial reporting quality. To have better understanding on the incidence of financial restatement among the sample companies, further analysis was undertaken as shown in Panels A and B of Table 4.5 and Appendix VII. From Panel A, 60% of the restatement companies are in the trading services industry, while the property industry has the least number of

restatement firms. This may imply that companies in the trading services industry are more prone to financial restatement compared to other industries.

Further, Panel B of Table 4.5 presents the breakdown of financial restatement among the sample companies in accordance with the GAO's categories of restatements – revenue, core expenses, non-core expenses, reclassification, underlying events and others (GAO, 2013). From the data in Panel B, it is apparent that 40% of the financial restatements are related to expenses and another 40% are attributable to reclassifications within the financial statements. Further descriptions on the category of financial restatements and examples of financial restatements as reported in the sample companies' in their annual reports are shown in Appendices V and VI. The list of the sample firms that restated their financial statement are provided in Appendix VII and it is interesting to note that 14 out of 15 (93%) of the external auditors of the restated firms are Big 4 audit firms.

Table 4.5 Financial Restatement of sample companies (n=150)

Panel A : Distribution by Industry

Industry	No	%
Trading Services	9	60
Industrial Products	3	20
Plantation	2	13
Properties	1	7
Total	**15**	**100**

Panel B : Category of Financial Restatements

	No	%
Core expenses	2	13
Non core expenses	4	27
Reclassification	6	40
Underlying events	3	20
Total	**15**	**100**

4.2.2 Descriptive Statistics of Continuous Variables

This section discusses descriptive statistics of all continuous variables – dependent, independent and control variables for the sample companies. Table 4.6 highlights the sample distribution with mean, median, standard deviation, the 25^{th} percentile and 75^{th} percentile of the sample companies.

It is interesting to note that the mean for audit delay has reduced to 88.7 days, compared to the audit delay documented by Apadore and Noor (2013) and Naimi et al. (2010) of 99.87 days and 100.30 days, respectively. Both studies were based on the listed companies in Malaysia for the period of 2002 and 2009, respectively. The results therefore suggest an improvement in the financial reporting timeliness by the listed companies in Malaysia. In terms of audit committee busyness, the mean (median) of an audit committee who has at least three multiple directorships (AC_3MD) is 38.7% (33.3%), which is significantly higher than the percentage reported in the US of 7.8% (0.00%) (Rickling, 2014). As for the multiple directorships of audit committee chair (ACC_MD) and financial expert (ACFE_MD), the mean (median) reported in this study is 2.69 (2.50) and 2.70 (2.58) directorships, respectively. Both results are slightly higher than the results reported in the US listed companies of 2.53 (2.00) and 2.35 (2.00) directorships, respectively (Tanyi and Smith, 2014). As for the overlapping audit-remuneration committee memberships (No_AC_Olap), about 1.88 of audit committee members have overlapping roles in the remuneration committee, which is also higher compared to the US with mean of 1.37 as reported by Hoitash and Hoitash (2009). The findings show that the incidence of overlapping audit-remuneration committee membership in Malaysia is low at 1.88 and therefore, may not be of concern for possible other board committee appointments.

Some of the results for corporate governance variables do not show significant variation from the previous studies in Malaysia. For example, the board size (BOD_size) is 8.6 compared to 7.6 as documented by Naimi et al. (2010). There are some improvements observed in some of the best practices compared to prior studies, such as the proportion of audit committee independent members (AC_ind) and board independence (BOD_ind). The audit committee independence observed in this study is 89% compared to 68% (Naimi et al., 2010) and 86% (Apadore and Noor, 2013). In terms of board independence, the study shows a mean of 48% compared to 44% by Nelson and Shukeri (2015). As for the size of audit committee (AC_size), the mean (median) is 3.42 (3.00) which is almost similar to prior studies by Naimi et al. (2010) of 3.51 and Apadore and Noor (2013) of 3.28. Similarly, the results for number of audit committee meetings (AC_meetings) in this study is 5.25 compared to 4.93 (Apadore and Noor, 2013).

The characteristics of the sample firms indicate that the sample consists of large and profitable companies. For example, the ratio of cash flows to total assets (CF_by_TA) is 10% while the ratio of debt to total assets (Debts_by_TA) is 14%. Further, the return on assets (ROA) from this study is also higher at 9% compared to 1% as reported by Puasa et al. (2014). The number of segments (Segments) is 3.4 in comparison to 2.9 in an earlier study by Wan-Hussin and Bamahros (2013). Similarly, the audit fees (audit_fees) is RM1.2 million compared to RM0.5 million by Wan-Hussin and Bamahros (2013) while the mean for non-audit services (NAS) of the sample firms is RM0.7 million.

Table 4.6
Descriptive statistics of Continuous Variables

	25th Percentile	Mean	Median	75th Percentile	Std. Dev
Audit_Delay (days)	60.8	88.7	98.0	113.0	26.58
AC_3MD	23.8	38.7	33.3	66.7	28.5
ACC_MD	1.00	2.69	2.50	4.00	1.47
ACFE_MD	2.00	2.70	2.58	3.50	1.28
No_AC_Overlap	1.00	1.88	2.00	2.00	0.94
BOD_size	7.00	8.63	9.00	10.00	1.89
BOD_ind	38.00	47.53	44.00	56.25	12.87
AC_size	3.00	3.42	3.00	4.00	0.63
AC_ind	0.75	0.89	1.00	1.00	0.14
AC_meetings	4.00	5.25	5.00	6.00	1.68
CF_by_TA (%)	3.41	9.50	6.84	13.16	10.64
Debt_by_TA (%)	0.44	13.65	11.34	21.63	13.96
ROA	4.18	9.09	6.81	10.87	8.86
Segments	2.0	3.39	3.00	4.25	1.63
Audit_fees (RM '000)	260	1,199	515	1,061	2,428
Ln_audit_fees	12.47	13.26	13.15	13.87	1.11
NAS (RM '000)	33	682	119	430	1,637
Ln_NAS	10.69	11.87	11.75	13.00	1.81

4.2.3 Descriptive Statistics of Dichotomous Variables

Table 4.7 below shows the descriptive statistics of dichotomous (binary) variables which include independent, dependent and control variables. Findings of this study show that about 10% (15 out of 150 companies) of the sample companies restated their financial statement in the following year. The percentage of restatement is almost similar to the study by Wahab et al. (2014) of 10.25% covering the period of 2007-2009. In another study, Ishak and Yusof (2013) report about 28% of the companies restated their financial statement from 2008 to 2010. For Busy_AC_1 variable (Busy AC), an indicator of '1' is given should more than 50% of the audit committee members have at least three other directorships and '0' otherwise as per the measure used by Fich and Shivdasani (2006). The findings suggest that 49 out of 150 listed companies have busy audit committee, representing 33% of the sample companies. With respect to the overlapping audit-remuneration committee membership, about 55% of the audit committee chairs (ACFE_Olap) have overlapping committee roles with 51% for audit committee financial expert (ACFE_Olap). This suggests the prevalence of overlapping audit-remuneration committee membership in Malaysia among the audit committee chair and financial expert. As for audit services, 85% of the sample firms appointed Big 4 audit firms as their external auditors while another 16% outsourced their internal audit function to a third party service provider.

Table 4.7
Descriptive statistics of Dichotomous Variables

Dichotomous Variables		Yes =1	No = 0
RES	Frequency	15	135
	Percent	10.0	90.0
Busy_AC_1	Frequency	49	101
	Percent	32.6	67.4
ACC_Olap	Frequency	83	67
	Percent	55.3	44.7
ACFE_Olap	Frequency	77	73
	Percent	51.3	48.7
Big_4	Frequency	127	23
	Percent	84.7	15.3
IAF_outsource_1	Frequency	24	126
	Percent	16.0	84.0

n = 150

4.3 T-test

4.3.1 Busy vs Non-Busy Audit Committee Members

Table 4.8 presents test of differences in the mean and t-value between busy and non-busy audit committee members. This analysis is conducted to answer the research question on the extent of busyness among audit committee members. As such, the analysis was undertaken by splitting the 513 audit committee members from the 150 sample companies into busy and non-busy audit committee members. Consistent with the measure used by Fich and Shivdasani (2006), a busy audit committee member was coded as '1' should he or she hold at least three other directorships in the listed companies and '0' otherwise. The results indicate that there is a significant difference in terms of the age, audit committee chair and financial expertise between busy (39%) and non-busy audit committee members (61%). The results reveal that audit committee chair and financial expert are busier with significantly higher multiple directorships than audit committee members who do not hold the chair or are financial experts, respectively. However, there is no significant difference between busy and non-busy audit committee members in terms of overlapping committee membership, independence and tenure.

Table 4.8
Comparing Busy and Non-Busy Audit Committee members

	Busy AC	**N**	**Mean**	**Std. Dev**	**T-test**
Overlapping AC	No =0	312	0.58	0.494	t-stat = 1.72
	Yes =1	201	0.50	0.501	p-value (2 tailed) = 0.09
Independence	No =0	312	0.88	0.33	t-stat = -1.09
	Yes =1	201	0.91	0.29	p-value (2 tailed) = 0.28
Tenure (years)	No =0	312	7.0	6.30	t-stat = 0.14
	Yes =1	201	6.9	5.92	p-value (2 tailed) = 0.89
Age (years)	No =0	312	60.9	9.16	t-stat = -3.40
	Yes =1	201	63.5	7.67	p-value (2 tailed) = 0.01
AC chair	No =0	312	0.24	0.43	t-stat = -3.17
	Yes =1	201	0.37	0.49	p-value (2 tailed) = 0.00
AC financial expert	No =0	312	0.33	0.47	t-stat = -4.31
	Yes =1	201	0.52	0.50	p-value (2 tailed) = 0.00

n = 513

4.3.2 Overlapping vs Non-overlapping Audit Committee Membership

Table 4.9 highlights test of differences in the mean and t-value on the overlapping committee (55%) and non-overlapping committee memberships (45%) among the audit committee members. An audit committee member is considered as an 'overlapping committee member' and coded as '1' should the audit committee member be also a member of the remuneration committee in the same listed company and '0' otherwise. The only significant difference between overlapping (33%) and non-overlapping audit committee members (49%) is in terms of the financial expert. This may indicate that audit committee financial expert has fewer incidences of overlapping committee membership than ordinary members, and therefore, may not be of concern.

Table 4.9
Comparing Overlapping and Non-Overlapping Audit Committee Memberships

	Overlapping Committees	N	Mean	Std. Dev	T-test
Busy AC	No =0	231	0.43	0.49	t-stat = 1.72
	Yes =1	282	0.36	0.48	p-value (2 tailed) = 0.09
Independence	No =0	231	0.86	0.35	t-stat = -1.62
	Yes =1	282	0.91	0.29	p-value (2 tailed) = 0.11
Tenure (years)	No =0	231	6.48	6.04	t-stat = -1.53
	Yes =1	282	7.31	6.22	p-value (2 tailed) = 0.13
Age (years)	No =0	231	61.4	8.9	t-stat = -1.32
	Yes =1	282	62.4	8.5	p-value (2 tailed) = 0.19
AC chair	No =0	231	0.29	0.46	t-stat = -0.106
	Yes =1	282	0.29	0.46	p-value (2 tailed) = 0.92
AC financial expert	No =0	231	0.49	0.50	t-stat = 3.87
	Yes =1	282	0.33	0.47	p-value (2 tailed) = 0.00

n = 513

Generally, both tests of differences in Tables 4.8 and 4.9 suggest that relative to the non-busy audit committee members (i.e., less than three multiple directorships and non-overlapping committee memberships), the most busy audit committee member is the financial expert. This may indicate the varying distribution of busyness among the different audit committee directors – chair, financial expert and ordinary members.

4.3.3 Audit Committee Financial Expert vs Non-Financial Expert

Table 4.10 indicates that there is significant difference in the incidence of overlapping committee memberships between audit committee financial expert (45%) and ordinary members. Further, audit committee financial expert has significantly higher number of multiple directorships (2.7 directorships) than ordinary members (2.1 directorships). Independent t-test results also indicate that there is a significant difference between audit committee financial expert and ordinary members in terms of tenure and audit committee chairmanship. For tenure, there is a significant difference between audit committee financial expert (six years) and ordinary members (7.5 years).

Similarly, there is a significant difference in the chairmanship of audit committee between audit committee financial expert (50%) and ordinary members (16%), indicating a relatively common practice for audit committee financial expert to also be the chair of the audit committee.

The results as shown in Table 4.10 also highlight that there is no significant difference between audit committee financial expert and ordinary members in terms of age and independence. Overall, it is interesting to note that audit committee financial expert holds more directorships but has fewer incidences of overlapping committee membership than the ordinary members.

Table 4.10
Comparing Audit Committee Financial Expert vs Non- Financial Expert

	ACFE	N	Mean	Std. Dev	T-test
AC multiple directorships	No =0	307	2.15	1.366	t-stat = -4.052
	Yes =1	206	2.66	1.445	p-value (2 tailed) = 0.00
Overlapping audit committee	No =0	307	0.62	0.486	t-stat = 3.875
	Yes =1	206	0.45	0.498	p-value (2 tailed) = 0.00
Independence	No =0	307	0.89	0.314	t-stat = 0.201
	Yes =1	206	0.88	0.322	p-value (2 tailed) = 0.84
Audit committee chair	No =0	307	0.16	0.364	t-stat = -8.339
	Yes =1	206	0.50	0.501	p-value (2 tailed) = 0.00
Tenure	No =0	307	7.52	6.839	t-stat = 2.929
	Yes =1	206	6.01	4.787	p-value (2 tailed) = 0.00
Age	No =0	307	62.28	8.614	t-stat = 1.011
	Yes =1	206	61.49	8.803	p-value (2 tailed) = 0.31

n = 513

4.3.4 Audit Committee Chair vs Non-chair

As presented in Table 4.11 below, the audit committee chair has significantly higher multiple directorships (2.69) than a non-chair member (2.22). However, 55 % of audit committee chair members also sit on the remuneration committee, similar to the non-chair members. The independent t-tests also indicate that there are significant differences in the tenure, financial expertise and independence between audit committee chair and audit committee ordinary members. All audit committee chair members are independent directors, compared to 84 % for non-chair members, consistent with the Bursa Malaysia listing requirements (part c, para 15.10) mandating the independence of the audit committee chair. Audit committee chair is more likely to have longer tenure and be a financial expert than non-chair members. The results in Table 4.11 also indicate that there is no significant difference between audit committee chair and non-audit committee chair in terms of overlapping board committee membership and age.

Table 4.11
Comparing Audit Committee Chair vs Audit Committee Members

	ACFE	N	Mean	Std. Dev	T-test
AC multiple directorships	No =0	363	2.22	1.382	t-stat = -3.440
	Yes =1	150	2.69	1.457	p-value (2 tailed) = 0.00
Overlapping audit committee	No =0	363	0.55	0.49	t-stat = -0.106
	Yes =1	150	0.55	0.49	p-value (2 tailed) = 0.92
Independence	No =0	363	0.84	0.367	t-stat = -8.297
	Yes =1	150	1.00	0.00	p-value (2 tailed) = 0.00
Audit committee financial expert	No =0	363	0.29	0.453	t-stat = -8.866
	Yes =1	150	0.68	0.468	p-value (2 tailed) = 0.00
Age	No =0	363	61.87	8.52	t-stat = -0.370
	Yes =1	150	62.18	9.11	p-value (2 tailed) = 0.71
Tenure	No =0	363	6.52	6.09	t-stat = -2.272
	Yes =1	150	7.87	6.17	p-value (2 tailed) = 0.02

n = 513

4.4 Correlation Analysis

This section outlines the Pearson Correlation between variables of audit committee multiple directorships (the whole audit committee, chair and financial expert), overlapping audit-remuneration committee membership (the whole audit committee, chair and financial expert) and all control variables in the Audit Delay and Financial Restatement models. The computation of the correlation coefficients was undertaken to analyse the relationships between all the variables, including identifying the significant correlations among the independent variables as well as detecting potential multicollinearity among the variables in the study.

4.4.1 Correlation Coefficients of the Audit Delay Model

Correlation statistics are reported in Table 4.12 between all sets of variables. The correlation analysis shows that all correlations are less than the threshold of 0.70 for potential multicollinearity threats (Pallant, 2007). The correlations in column 1 indicate how each of the test variables is associated with the dependent variable, Audit Delay. There are six test variables with negative sign and double asterisks, indicating their negative and statistically significant correlations with Audit Delay at one percent: percentage of audit committee with at least three multiple directorships (AC_3MD); number of multiple directorships of audit committee chair (ACC_MD); number of multiple directorships of audit committee financial expert (ACFE_MD); the proportion of board independence (BOD_ind); cash flows scaled by total assets (CF_by_TA); and return on assets (ROA). The negative and significant correlation between Audit Delay and audit committee multiple directorships test variables (AC_3MD, ACC_MD and ACFE_MD) may indicate a potential sign of supporting the 'reputation hypothesis', where more directorships are associated with lesser audit delay. This may be a guide to answering the research question on the distribution of busyness among audit committee directors (chair, financial expert and ordinary members) with financial reporting quality (measured by audit delay).

The results of this study also indicate that audit committee size (AC_size) has negative and significant correlations with Audit Delay at five percent, consistent with Apadore and Noor (2013). The dichotomous variable of outsourcing internal audit function (i.e., coded as '1' if the internal audit is outsourced and '0' otherwise) is found to have a positive and significant correlation with Audit Delay at five percent.

Columns 2, 3 and 4 show the correlations between the audit committee's multiple directorships test variables that are represented by three test variables – the whole audit committee (ACC_3MD), audit committee chair (ACC_MD) and audit committee financial expert (ACFE_MD). The results show significant and positive associations between these three sets of variables, and none of the variables is found to be more than 0.7. For example, number of audit committee chair directorships (ACC_MD) and number of directorships of audit committee financial expert (ACFE_MD) are positively correlated with the percentage of audit committee with at least three directorships (AC_3MD) at 0.59 and 0.57, respectively. The results do not suggest any multicollinearity problem as they are still below the threshold of 0.70, as suggested by Pallant (2007) and Sekaran and Bougie (2009). Further analysis was undertaken with the use of variance inflation factor (VIF) and as shown in Table 4.14 of section 4.6.1, none of the VIF values in the data is more than 10, indicating minimal multicollinearity threat that may affect the validity of the regression analysis.

Other variables that show significant correlations with the audit committee multiple directorships test variables are log of audit fees (Ln_audit_fees) with positive correlations, dichotomous variable on the outsourcing of internal audit function (IAF_outsource_1) with negative correlations and ratio of debts to total assets (debts_by_TA) with positive correlations.

Similarly, column 5, 6 and 7 present the correlations between the three overlapping committees test variables, that are represented by the whole audit committee overlap

(No_AC_Olap), audit committee chair overlap (ACC_Olap) and audit committee financial expert overlap (ACFE_Olap). The associations between the three test variables are positive and significant but none of the variables is found to be more than 0.7. To illustrate, audit committee chair overlap (ACC_Olap) and audit committee financial expert overlap (ACFE_Olap) are positively correlated with the number of audit committee overlaps (No_AC_Olap) at 0.51 and 0.56, respectively. Further analysis was undertaken where none of the VIF values in the data is more than 10, as shown in Table 4.14 of section 4.6.1. The results indicate minimal threat for multicollinearity in the regression analysis.

Other variables that show positive and significant correlations with the 'overlapping committees' test variables are audit committee size (AC_size) (column 5) and dichotomous variable on the outsourcing of internal audit function (IAF_outsource_1) (column 7).

In addition, the correlation table also presents that there is a positive correlation between BOD_ind and AC_size ($p < 0.05$) and high proportion of board independence creates a larger pool and increases the size of the audit committee. Similarly, the analysis indicates that BOD_ind is also positively related to AC_ind ($p < 0.01$).

Table 4.12 indicates that there is a significantly negative correlation between AC_size and AC_ind but a positive correlation between AC_size and Big 4. The positive correlation suggests that larger audit committees prefer to appoint Big 4 external auditors as part of their external governance mechanism. With regards to audit committee meetings, correlation analysis reveals its significantly positive correlation with Ln_audit_fees ($p < 0.01$). This correlation indicates that a company with more active audit committee members tends to have higher audit fees and therefore, higher audit quality.

The analysis further shows that AC_ind is significantly and negatively correlated with cashflows scaled by total assets (CF_by_TA) but is significantly and positively correlated with the ratio of debts to total assets (Debts_by_TA). These correlations may suggest that higher percentage of audit committee independence are appointed in companies with cash flow issues and higher debts.

As indicated in Table 4.12, Ln_audit_fees has a significantly positive correlation with Big 4, Debts_by_TA and segments. On the other hand, the results show that Ln_audit_fees is significantly and negatively correlated with IAF_outsource_1 and ROA. In addition, the analysis indicates that Big 4_1 is negatively correlated with IAF_outsource_1 at one percent confidence level. CF_by_TA is also negatively correlated to Debts_by_TA and segments but positively correlated to ROA. Further, debts_by_TA has a significantly negative correlation with ROA at one percent confidence level. As for the ROA and segments, the correlation analysis shows that there is a significantly negative correlation at one percent confidence level.

Table 4.12 Pearson Correlation Coefficients for Audit Delay Model

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	1
1.Audit_Delay	1																	
2.AC_3MD	-0.34**	1																
3.ACC_MD	-0.31**	0.59**	1															
4.ACFE_MD	-0.30**	0.57**	0.66**	1														
5.No_AC_OLap	0.04	-0.13	-0.01	-0.05	1													
6.ACC_Olap	0.07	-0.14	-0.09	-0.02	0.51**	1												
7.ACFE_Olap	-0.04	-0.14	-0.03	-0.09	0.56**	0.52**	1											
8.BOD_ind	-0.24**	0.06	0.10	0.09	-0.01	-0.26**	-0.02	1										
9.AC_size	-0.17*	0.09	0.11	0.04	0.28**	-0.04	0.01	0.19*	1									
10.AC_meetings	0.14	-0.06	0.07	0.11	0.12	-0.01	0.08	0.10	0.09	1								
11.AC _ind	0.15	0.06	0.09	0.10	-0.06	-0.07	-0.02	0.21**	-0.18*	0.13	1							
12.Ln_Audit_fees	-0.08	0.24**	0.10	0.15	0.08	-0.01	0.01	0.05	0.06	0.30**	0.04	1						
13.Big4	-0.15	0.09	0.08	0.09	-0.05	0.03	-0.12	0.04	0.17*	-0.00	-0.12	0.20*	1					
14. IAF_outsource	0.27**	-0.17*	-0.17*	-0.11	0.09	0.10	0.17*	-0.03	-0.09	-0.01	0.10	-0.25*	-0.22**	1				
15. CF_by_TA	-0.25**	-0.02	0.11	0.12	-0.03	-0.07	0.02	-0.09	-0.01	-0.08	-0.17*	-0.14	0.02	0.07	1			
16.Debts_by_TA	0.03	0.25**	0.18*	0.23**	0.00	0.01	-0.15	-0.11	0.05	0.11	0.17*	0.29**	-0.02	-0.14	-0.19*	1		
17.ROA	-0.25**	-0.06	0.05	0.01	-0.09	-0.10	-0.07	-0.02	-0.03	-0.13	-0.15	-0.32**	-0.10	0.05	0.72**	-0.24**	1	
18.Segments	0.11	0.10	-0.00	-0.06	0.14	-0.01	0.12	-0.01	0.02	0.110	-0.00	0.42**	-0.08	-0.07	-0.25**	0.11	-0.26**	1

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

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

4.4.2 Correlation Coefficients of the Financial Restatement Model

Table 4.13 shows correlations between the dependent variable, financial restatement and all test variables. Column 1 of Table 4.13 shows three test variables with asterisks, indicating their statistically significant correlations with financial restatement.

The correlations of three test variables on audit committee multiple directorships (ACC_3MD, ACC_MD, ACFE_MD) are shown in columns 2, 3 and 4. As expected, the results indicate significant and positive correlations between these three sets of variables at above 0.50 but below 0.70. Since they are all below 0.7, it does not suggest any multicollinearity threat (Pallant, 2007; Sekaran and Bougie, 2009). Other variables that show positive and significant correlations with the audit committee multiple directorships test variables are debts scaled by total assets (Debts_by_TA), Ln_audit_fees (column 2 only), Ln_NAS and BOD_size (column 4 only).

Table 4.13 Pearson Correlation Coefficients for Financial Restatement model

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.RES	1														
2.AC_3MD	0.01	1													
3.ACC_MD	0.01	0.59**	1												
4.ACFE_MD	0.06	0.57**	0.66**	1											
5.No_AC_OLap	0.02	-0.13	-0.01	-0.05	1										
6.ACC_Olap	0.08	-0.14	-0.09	-0.03	0.51**	1									
7.ACFE_Olap	-0.12	-0.14	-0.03	-0.09	0.56**	0.52**	1								
8.BOD_size	-0.04	0.11	0.14	0.21*	0.01	-0.11	-0.08	1							
9.BOD_ind	0.01	0.06	0.10	0.09	-0.01	-0.26**	-0.02	-0.21**	1						
10.AC_size	-0.05	0.09	0.11	0.04	0.28**	-0.04	0.01	0.24**	0.19*	1					
11.AC_ind	0.06	0.06	0.09	0.10	-0.06	-0.07	-0.02	0.15	0.21**	-0.18*	1				
12.CF_by_TA	-0.13	-0.02	0.11	0.12	-0.03	-0.07	0.02	-0.02	-0.09	-0.01	-0.17*	1			
13. Debts_by_TA	0.21**	0.25**	0.18*	0.23**	0.00	0.01	-0.15	0.19*	-0.11	0.05	0.17*	-0.19*	1		
14.Ln_Audit_Fees	0.22**	0.24**	0.10	0.15	0.08	-0.01	0.01	0.22**	0.05	0.06	0.04	-0.14	0.29**	1	
15. Ln_NAS	0.18*	0.30**	0.24**	0.24**	0.15	0.01	0.00	0.16*	0.07	0.18*	-0.10	-0.11	0.21*	0.69**	1

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

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

4.5 Data Screening and Diagnostic test

To ensure data is accurate and provides a reliable analysis, data screening was performed by carefully examining the accuracy and completeness of data before running the main analysis. After data screening was performed and prior to each model being tested, regression diagnostic test was undertaken to validate the assumptions for multiple regression and to ensure the results are reliable. The assumptions for multiple regressions are multicollinearity, outliers and normality.

4.5.1 Data Screening

The data was entered and processed by using excel sheet and SPSS version 21. The researcher took the following steps to ensure the data accuracy and completeness before performing data analysis. For financial variables downloaded from Datastream, the researcher performed data comparisons with the hand-collected data from the annual reports, such as total assets, revenue, cash flows from operating activities, return on assets, etc. In relation to the audit committee directorships data, the researcher hand-collected the directorships of audit committee directors for all sample firms from the annual reports and re-verified the original data in the annual reports against the data file in excel sheet to ensure the accuracy and completeness of the data file. Therefore, by performing the comparison of the hand-collected data from the annual reports of the sample firms against the data downloaded from Datastream, the accuracy of the financial variables was enhanced.

4.5.2 Multicollinearity

High multicollinearity is a situation where two or more independent variables in a regression model are highly correlated (Pallant, 2007). To ensure assumption for multicollinearity in this study is not violated, two methods were applied in this study – VIF and the Pearson correlation matrix. For VIF, the rule of thumb states that a variable with VIF exceeding 10 is highly correlated (Pallant, 2007). VIF for all variables in the models were examined.

As presented in Table 4.14 of section 4.6.1, VIF for the multiple regressions are within the range of 1.2 to 2.4 that are below the threshold of 10. For the second method, Pearson Correlation matrix, none of the correlations among independent variables as discussed in 4.4.1 and 4.42 is with values exceeding 0.7 (Pallant, 2007) and 0.9 (Tabachnick and Fidell, 2007). Therefore, multicollinearity is not likely to affect analysis of the regression model.

4.5.3 Outliers

The presence of extreme value or "outliers" in one or more variables may distort statistical analysis (Tabachnick and Fidell, 2007). There are several methods to check potential outliers and this study used standardized residuals and Cook's distance. Results as presented in Appendix II show that the minimum and maximum values of standardized residuals does not exceed ± 3 and the values for Cooks' distance is less than 1 (Tabachnick and Fidell, 2007). Therefore, concern on outliers is not observed and unlikely to affect statistical analysis in this study.

4.5.4 Normality and Homoscedasticity

Assumptions that the residuals are normally distributed and independent are critical in the multiple regression model (Pallant, 2007).One of the methods is by reviewing the model's normal probability plot (P-P) of the regression standardized residual and the Scatter plot. As part of analysis in this study, normal P-P plot of the model was reviewed together with the scatterplot as documented in Appendix III. Normal P-P plot was observed as having a relatively straight diagonal line from bottom left to top right, suggesting no major departure from normality (Pallant, 2007). As for the Scatter plot of the standardized residuals, Pallant (2007) suggests that pattern of the residuals that appear in curvilinear and deviate from the centralized rectangle may violate the assumptions of normality and homoscedasticity. As shown in Appendix IV, the residuals are generally distributed with most of the scores in the center, and therefore, do not appear to violate assumptions in the analysis. In addressing potential problem of heteroscedasticity in the regression analysis, the researcher performed robust standard errors in STATA statistical package. The standard errors and t values have changed but the results of significance tests for independent variables do not vary from SPSS.

4.6 Multivariate Analysis

Multivariate statistics were conducted to determine the effect of the six independent variables of audit committee busyness on financial reporting quality. Two models were applied in the regression analysis with different proxies used to test the hypotheses. In particular, the first model was based on the proxy of audit delay and employed multiple regressions to analyse the association between the variables. The second model used logistic regression with the proxy of financial restatement to study the relationships between the variables. Therefore, the dependent variable for the second model is dichotomous, coded as '1' if the company restated its financial statement in the following year of the study period and '0' otherwise.

4.6.1 Audit Delay (Model 1)

This section discusses findings from the statistical tests to answer the following research hypotheses on the association of the audit committee busyness and financial reporting quality:-

H1 : *Multiple directorships of audit committee members are significantly associated with audit delay*

H2 : *Overlapping audit-remuneration committee membership is significantly associated with audit delay*

H3a : *Multiple directorships of audit committee chair are significantly associated with audit delay*

H3b : *Overlapping committee membership of audit committee chair is significantly associated with audit delay*

H4a : *Multiple directorships of audit committee financial expert are significantly associated with audit delay*

H4b : *Overlapping committee membership of audit committee financial expert is significantly associated with audit delay*

Table 4.14 shows the results of the hypothesized and control variables under the first model (audit delay). The R^2 value for the model is 39.1%, explaining 39.1% of the variance in audit delay. R^2 in this study is higher than Rochmah and Mohd Ghazali (2012), which has R^2 value of 24.7%, (the relationship between audit committee effectiveness and timeliness of reporting in Indonesian listed companies). However, this study's R^2 is lower than Abernathy et al. (2014) with R^2 of 41.4%, based on the listed companies in the US with 19 control variables in the model. This may indicate the comparability of this study's R^2 with other studies on audit committee and audit delay.

Audit_Delay $= \alpha + \beta_1$ AC_3MD $+ \beta_2$ ACC_MD $+ \beta_3$ ACFE_MD $+ \beta_4$ No_AC_Olap $+ \beta_5$ ACC_Olap $+ \beta_6$ ACFE_Olap $+ \beta_7$ BOD_ind $+ \beta_8$ AC_size $+ \beta_9$ AC_meetings $+ \beta_{10}$ AC_ind $+ \beta_{11}$ Ln_audit_fees $+ \beta_{12}$ CF_by_TA $+ \beta_{13}$ Debts_by_TA $+ \beta_{14}$ ROA $+ \beta_{15}$ Segments $+ \beta_{16}$ Big4 $+ \beta_{17}$ IAF_outsource_1 $+ \varepsilon$ **(1)**

Table 4.14
Multiple Regression Results – Audit Delay (First Model)

	Coefficient estimate	Std. Error	β	t statistic	p-values	VIF
Independent Variables						
Constant	143.695	30.862	-	4.656	0.000	-
AC_3MD	-18.633	8.878	-0.200	-2.099	0.038*	1.963
ACC_MD	-0.572	1.800	-0.032	-0.318	0.751	2.147
ACFE_MD	-2.719	2.057	-0.131	-1.322	0.188	2.121
No_AC_Olap	2.451	2.686	0.087	0.912	0.363	1.958
ACC_Olap	0.339	4.941	0.006	0.069	0.945	1.863
ACFE_Olap	-11.303	4.897	-0.213	-2.308	0.023*	1.850
Control Variables						
BOD_ind	-49.451	15.879	-0.239	-3.114	0.002**	1.282
AC_size	-3.813	3.316	-0.09	-1.150	0.252	1.325
AC_meetings	2.390	1.184	0.151	2.019	0.046*	1.217
AC_ind	23.049	13.915	0.125	1.656	0.10^	1.237
Ln_audit_fees	-2.448	2.151	-0.103	-1.138	0.257	1.763
CF_by_TA	-18.997	26.319	-0.076	-0.722	0.472	2.406
Debts_by_TA	1.036	14.898	0.005	0.070	0.945	1.327
ROA	-0.596	0.318	-0.199	-1.873	0.063^	2.440
Segments	1.644	1.303	0.101	1.262	0.209	1.383
Big_4_1	-3.288	5.528	-0.045	-0.595	0.553	1.225
IAF_outsource_1	14.690	5.378	0.203	2.731	0.007**	1.200
R^2	0.391					
Adjusted R^2	0.313					
F-value	4.984					
N	150					

** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed);
^ Correlation is significant at the 0.10 level (2-tailed)

As documented earlier in chapter three, this study does not make any directional predictions for the relationships between audit committee busyness (H1, H2, H3a, H3b, H4a and H4b) and audit delay, given the competing theories and empirical evidence that director busyness has both benefits and cost implications. Overall, as shown in Table 4.14, two hypotheses are supported, namely multiple directorships of audit committee (AC_3MD) and overlapping committee membership of audit committee financial expert (ACFE_Olap). Therefore, the results suggest that multiple directorships of audit committee (H1) and overlapping audit-remuneration committee membership of financial expert (H4b) are associated with audit delay. Both AC_3MD and ACFE_Olap have negative and significant association with audit delay at five percent confidence level. The results indicate that companies with audit committee multiple directorship of the chair and overlapping committee membership of the financial expert tend to have higher financial reporting quality (lower audit delay from faster reporting timeliness).

However, the hypotheses on multiple directorships of audit committee chair (H3a) and financial expert (H4a), overlapping audit-remuenration committees (H2) and overlapping committee membership of audit committee chair (H3b) are not supported as none of the four coefficients are statistically significant. Further, Table 4.14 shows that the coefficient estimate for AC_3MD is negative and statistically significant (-18.633). In terms of the economic significance, an increasing percentage of AC_3MD from the 25^{th} to 75^{th} percentile (i.e., from 0.238 to 0.667 as per Table 4.6) reduces audit delay by eight days. The economic significance is estimated by multiplying AC_3MD coefficient estimate by a change from the 25^{th} to 75^{th} percentile of AC_3MD values. Therefore, the economic significance is computed as (-18.633) * (0.667 – 0.238) = - 8 days. The computation is consistent with Abbott et al. (2012b) where the evaluation is made based on the marginal effect of the test variable that is subject to audit delay reduction. With the mean of audit delay of 88.7 days (Table 4.6), it implies a reduction of 9% from the mean and therefore, is economically meaningful in reducing audit report delay.

With respect to control variables, five variables are found to have significant association with audit delay. First, the results indicate a significantly negative relationship between BOD_ind and audit delay ($p < 0.01$), which is in line with the study conducted by

Yaacob and Che-Ahmad (2012). This suggests that higher percentage of board independence and lower audit report delay, improve financial reporting quality. Second, the audit committee meeting (AC_meetings) is significant at 5% level with a positive relationship, implying the more active the audit committee is by holding many meetings, the longer the time required for audit finalisation. The results support prior studies by Abernathy et al. (2014) and Wan-Hussin and Bamahros (2013). The third control variable is a dichotomous variable, outsourcing of internal audit function (IAF_outsource_1) ($p < 0.05$) which also shows positive and significant relationship with audit delay as per Pizzini et al. (2015). The fourth control variable is audit committee independence (AC_ind) ($p < 0.10$) which shows a positive and significant relationship with audit delay, in line with Puasa et al. (2014). Return on assets (ROA) is the fifth control variable with a significantly positive association with audit delay ($p < 0.10$), consistent with Abernathy et al. (2014) and Puasa et al. (2014).

4.6.2 Additional Analysis – Audit Delay

Supplementary tests were conducted to further test the sensitivity and robustness of the main results using audit delay as proxy to financial reporting quality as reported in section 4.6.1. The subsection below describes three additional analyses conducted as alternative measurement for audit committee busyness. In the previous test, this study used an indicator variable of AC_3MD to measure multiple directorships at the audit committee level as adopted by Ricking (2014) (i.e., the percentage of audit committee members serving at least on three boards).

Three supplementary tests were employed to replace AC_3MD as variation to audit committee multiple directorships' measurement. First, the same model was reexamined by extending audit committee members holding at least four or more directorships (in percentage) (Model 1b). Second, the same model was rerun by substituting AC_3MD with the percentage of audit committee members who hold at least five or more directorships (Model 1c). Further, the third test replaced AC_3MD with dummy variable as '1' if more than 50% of the audit committee members hold at least three directorships and '0' otherwise as adopted by Benson et al. (2014) (Busy_AC) (Model 1d). The additional test results for Model 1b, 1c and 1d are highlighted in Table 4.15.

From the additional tests as shown in Table 4.15, only the third test (Model 1d) shows that busy audit committee (Busy_AC) has a significantly negative relationship with audit delay ($p < 0.10$). This finding confirms the audit delay model results that a busy audit committee reduces audit delay of listed companies. The regression results of the other two additional tests (Model 1b and 1c) indicate none of the supplementary variables is significant in determining audit delay. The findings from Model 1b and Model 1c imply that holding additional directorships by the audit committee members does not result in audit delay by the companies. The results of control variables for Models 1b, 1c and 1d are also consistent with the main regression as per model 1. BOD_ind, AC_meetings, IAF_outsource_1, ROA and AC_ind (Model 1d only) consistently show a significant and same directional impact on audit delay as per model 1. Therefore, these results further support findings from the main test in section 4.6.1.

Table 4.15
Multiple Regression Results (supplementary tests) – Audit Delay

	Model 1b			Model 1c			Model 1d		
	Coef	t-stat	p-value	Coef	t-stat	p-value	Coef	t-stat	p-value
AC_4MD	-0.140	-1.499	0.136	-	-	-	-	-	-
AC_5MD	-	-	-	-0.14	-1.617	0.108	-	-	-
Busy_AC	-	-	-	-		-	-0.154	-1.853	0.066
ACC_MD	-0.062	-0.628	0.531	-0.069	-0.718	0.474	-0.052	-0.531	0.597
ACFE_MD	-0.140	-1.376	0.171	-0.132	-1.290	0.199	-0.164	-1.704	0.091
No_AC_Olap	0.121	1.269	0.207	0.116	1.225	0.223	0.087	0.911	0.364
ACC_Olap	0.012	0.133	0.894	0.012	0.128	0.898	0.024	0.260	0.795
ACFE_Olap	-0.213	-2.283	0.024	-0.204	-2.191	0.030	-0.217	-2.336	0.021
BOD_ind	-0.228	-2.938	0.004	-0.229	-2.962	0.04	-0.238	-3.088	0.002
AC_size	-0.109	-1.388	0.168	-0.119	-1.513	0.133	-0.104	-1.327	0.187
AC_meetings	0.171	2.299	0.023	0.182	2.470	0.015	0.155	2.058	0.042
AC_ind	0.111	1.446	0.151	0.116	1.514	0.132	0.134	1.760	0.081
Ln_audit_fees	-0.119	-1.325	0.187	-0.144	-1.613	0.109	-0.131	-1.477	0.142
CF_by_TA	-0.076	-0.713	0.477	-0.076	-0.714	0.476	-0.059	-0.565	0.573
Debts_by_TA	0.008	0.097	0.923	-0.015	-0.185	0.853	0.008	0.103	0.918
ROA	-0.185	-1.715	0.089	-0.191	-1.779	0.078	-0.200	-1.878	0.063
Segments	0.086	1.068	0.287	0.086	1.066	0.288	0.103	1.285	0.201
Big4	-0.033	-0.439	0.661	-0.038	-0.500	0.618	-0.041	-0.548	0.584
IAF_outsource_1	0.204	2.718	0.007	0.206	2.751	0.007	0.203	2.721	0.007
Constant		4.738	0.000		5.028	0.000			
R^2	0.381			0.383			0.387		
Adjusted R^2	0.301			0.303			0.308		
F-Value	4.782			4.817			4.894		
N	150			150			150		

Audit_Delay= the number of calendar days from the financial year end to the date of the audit report; **AC_4MD** = The proportion of audit committee members serving on at least four boards ; **AC_5MD** = The proportion of audit committee members serving on at least five boards ; **Busy_AC** = dummy variable with '1' if more than 50% of audit committee members have at least three directorships; **ACC_MD** = Number of outside directorships that audit committee chair holds; **ACFE_MD** = Number of outside directorships that the ACFE holds; **No_AC_Olap** = The number of audit committee members who sit in the remuneration committee; **ACC_Olap** = Dummy variable equals '1' if the audit committee chair is in the remuneration committee; **ACFE_Olap** = Dummy variable equals '1' if audit committee financial expert is in the remuneration committee; **BOD_ind** = The proportion of independent directors on the board; **AC_size** = Size of audit committee (number of members); **AC_meetings** = Number of meetings in the year of study; **AC_ind** = The proportion of independent directors on the audit committee; **Ln_audit_fees** = The natural logarithm of the company's total audit fees to external auditor fees; **CF_by_TA** = Cash flow from operations scaled by total assets; **Debts_by_TA** = Total debts scaled by total assets; **ROA** = Return on assets (net income to total assets); **Segments** = the number of business segments; **Big 4** = Dummy variable equals '1' if the company's external auditor is one of the big 4 audit firms in the year of study; **IAF_outsource_1** = Dummy variable equals '1' if the company has outsourced the internal audit function to a third party advisory firm.

4.6.3 Financial Restatement (Model 2)

In this section, findings from multivariate tests on the association between audit committee busyness and financial restatement are presented. The hypotheses are based on the research questions as below with financial restatement as proxy to financial reporting quality:-

H1	:	*Multiple directorships of audit committee members are significantly associated with financial restatement*
H2	:	*Overlapping audit-remuneration committee membership is significantly associated with financial restatement*
H3a	:	*Multiple directorships of audit committee chair are significantly associated with financial restatement*
H3b	:	*Overlapping committee membership of audit committee chair is significantly associated with financial restatement*
H4a	:	*Multiple directorships of audit committee financial expert are significantly associated with financial restatement*
H4b	:	*Overlapping committee membership of audit committee financial expert is significantly associated with financial restatement*

Table 4.16 below shows the output of Model 2, which uses financial restatement as dependent variable, that takes value of '1' if the following year's financial statement is restated and '0' otherwise. In measuring financial restatement, the study excludes any restatement that is related to changes in accounting policies so that the restatement in this study only reflects variation in the financial reporting quality. From the results, the regression model of financial restatement is statistically significant at five percent level. The pseudo R^2 ranges between 18.5% (Cox and Snell) and 39.4% (Nagelkerke) which indicates the model explains at least 18.5% of the total variance in the proxy of financial restatement. The pseudo R^2 in this study is comparable to other studies which have

documented pseudo R^2 of 26.8% (Sharma and Iselin, 2012) and 25% (Abbott et al., 2004) where both are based on US companies.

RES = $\alpha + \beta_1$ AC_3MD + β_2 ACC_MD + β_3 ACFE_MD + β_4 No_AC_Olap + β_5 ACC_Olap + β_6 ACFE_Olap + β_7 BOD_size + β_8 BOD_ind + β_9 AC_size + β_{10} AC_ind + β_{11} CF_by_TA + β_{12} Debts_by_TA + β_{13} Ln_audit_fees + β_{14} Ln_NAS + ε **(2)**

Table 4.16
Logistic Regression Results – Financial Restatement (Second Model)

	β	**SE**	**p-value**	**Odds ratio**	**95.0% C.I. for odds ratio**	
					Lower	**Upper**
AC_3MD	-2.368	1.783	0.184	0.094	0.003	3.085
ACC_MD	0.115	0.340	0.735	1.122	0.576	2.185
ACFE_MD	0.402	0.364	0.269	1.495	0.732	3.052
No_AC_Olap	0.091	0.529	0.863	1.095	0.388	3.092
ACC_Olap	2.283	1.021	0.025*	9.804	1.325	72.514
ACFE_Olap	-2.121	0.974	0.029*	0.120	0.018	0.808
BOD_size	-0.311	0.219	0.156	0.733	0.477	1.126
BOD_ind	0.190	3.715	0.959	1.209	0.001	1756.740
AC_size	-0.332	0.718	0.644	0.718	0.176	2.933
AC_ind	0.458	2.839	0.872	1.581	0.006	412.167
CF_by_TA	-10.358	5.158	0.045*	0.000	0.000	0.780
Debts_by_TA	5.819	2.701	0.031*	336.783	1.693	66999.213
Ln_audit_fees	1.047	0.454	0.021*	2.850	1.170	6.941
Ln_NAS	0.099	0.284	0.726	1.105	0.633	1.926
Constant	-16.286	5.817	0.005	0.000		
Hosmer & Lemeshow	0.458					
Cox & Snell R^2	0.185					
Nagelkerke R^2	0.394					
N	150					

Note: $\chi^2 (14) = 29.69$, p < 0.01**

** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed); ^ Correlation is significant at the 0.10 level (2-tailed)

As mentioned in chapter 3 and section 4.6.1, there is no directional prediction for the relationship between audit committee busyness (H1, H2, H3a, H3b, H4a and H4b) and financial restatement because of mixed empirical evidence on the implications of director busyness. Results from the logistic regression are shown in Table 4.16 where from the six hypotheses, only ACC_Olap and ACFE_Olap are significant at the 5% level. First, there is a negative and significant relationship between overlapping of audit committee membership of the financial expert (ACFE_Olap) and financial restatement. This finding is consistent with the results in model 1 as per Table 4.14 that shows negative and significant relationships between the presence of audit committee financial expert and audit delay. These results imply that companies where the audit committee financial expert also sits in the remuneration committee, tend to have a lower likelihood of financial restatement and therefore, higher financial reporting quality. The odds ratio for ACFE_Olap, is however recorded at 0.12 (Table 4.16), which is less than one. This implies that the odds to restate financial statement by a company with overlapping audit committee membership by the financial expert is 0.12 times lower than companies without their audit committee financial expert assuming dual role in the remuneration committee. Second, findings as shown in Table 4.16 also indicate that audit committee chair's overlapping membership (ACC_Olap) has a positive and significant association with financial restatement. The findings suggest that the overlapping committees of the audit committee chair tend to result in lower financial reporting quality, therefore supporting the "Busyness Hypothesis". The odds ratio of ACC_Olap as shown in Table 4.16 is recorded at 9.8. This suggests that the odds to restate financial statement by firms with overlapping committees of their audit committee chair is 9.8 times higher than companies without the presence of their audit committee chair in the remuneration committee. However, with limited sample size, caution must be applied given its wide range of values within a 95 % confidence interval (Table 4.16).

As for the control variables, three variables have significant relationship with financial restatement. First, this study finds that debts scaled by total assets (Debts_by_TA) has a positively significant relationship with financial restatement, consistent with a prior study by Abdullah et al. (2010) and Ishak and Yusof (2013). The results suggest that companies with high debts are more prone to restate their financial statement. Second, cashflows scaled by total assets (CF_by_TA) documents a significantly negative relationship with financial restatement. This indicates that firms with strong cashflows are less likely to restate their financial statement. Finally, natural log of audit fees (Ln_audit_fees) has a positive and significant association with financial restatement, which is contradictory to evidence documented by Cao et al.(2012), who find no significant relationship with financial restatement based on US companies. In the Malaysian context, findings from this study show that companies that pay higher audit fees to their external auditor are more likely to restate their financial statement. These rather contradictory results may be due to the negative perception of audit fees in Malaysia that higher external audit fees are not reflective of audit quality, but a form of compensation to the external auditors (Malek and Saidin, 2013). Another possible explanation is the nature of sampling in this study which cannot be extrapolated to all companies in Malaysia.

4.6.4 Additional Analysis – Financial Restatements

The previous section 4.6.2 discusses findings from additional tests using alternative measurement for busyness at the audit committee level, AC_3MD (i.e., the percentage of audit committee members serving at least on three boards). Similar to the three additional tests conducted in the audit delay model, this subsection describes the results of the same additional three tests extended to the financial restatement model. The first and second additional tests were employed by replacing AC_3MD with the percentage of audit committee members who hold at least four (model 2b) or five (model 2c) directorships, respectively. Further, the third test replaced AC_3MD with dummy variable as '1' if more than 50% of the audit committee members hold at least three directorships or otherwise '0' as adopted by Benson et al. (2014) (Model 1d). The additional test results for Models 2b, 2c and 2d are highlighted in Table 4.17.

The results from three additional tests on the financial restatement model as shown in Table 4.17 are identical to the main results (model 2) as discussed in section 4.6.3, showing that overlapping committee membership of the audit committee chair and financial expert are significantly associated with financial restatement ($p < 0.05$), with the exception of model 2c, significant at 10% level. Consistent with the additional tests for the audit delay model, only the third test (Model 1d) shows that a busy audit committee (Busy_AC) has a significantly negative relationship with financial restatement ($p < 0.10$). The results validate the audit delay model results that busy audit committee improves financial reporting quality of listed companies, supporting the "Reputation" hypothesis.

Three control variables in models 2b and 2c, CF_by_TA, Debts_by_TA, and Ln_audit_fees have a positively significant relationship with financial restatement. The results are in line with the results of the main tests in model 2. The coefficients of other control variables in all models are not significant, showing no association between these control variables and financial restatement. Therefore, these results further support findings from the main test in section 4.6.3. The pseudo R^2 in model 2d has slightly improved compared to model 2 while the values of Hosmer and Lemeshow are more than 0.05 in all models, indicating that these models' estimates fit the data at an acceptable level.

Table 4.17

Logistic Regression Results (supplementary tests) – Financial Restatements

	Model 2b			Model 2c			Model 2d		
	Coef.	*Wald*	*p-value*	*Coef.*	*Wald*	*p-value*	*Coef.*	*Wald*	*p-value*
AC_4MD	-1.140	0.347	0.556	-	-	-	-	-	-
AC_5MD	-	-	-	-3.251	1.308	0.253	-	-	-
Busy_AC	-	-	-	-	-	-	-1.796	3.063	0.080^
ACC_MD	-0.047	0.023	0.880	-0.062	0.041	0.839	0.169	0.264	0.607
ACFE_MD	0.403	0.950	0.330	0.625	1.697	0.193	0.332	0.849	0.357
No_AC_Olap	0.162	0.098	0.754	0.014	0.001	0.979	0.074	0.020	0.888
ACC_Olap	2.217	4.759	0.029*	2.321	4.888	0.027*	2.377	5.075	0.024*
ACFE_Olap	-2.117	4.818	0.028*	-1.822	3.598	0.058^	-2.053	4.423	0.035*
BOD_size	-0.326	1.776	0.183	-0.319	2.001	0.157	-0.317	1.999	0.157
BOD_ind	0.926	0.061	0.805	0.489	0.017	0.896	-0.103	0.001	0.978
AC_size	-0.455	0.405	0.524	-0.376	0.277	0.599	-0.275	0.140	0.709
AC_ind	0.396	0.019	0.890	0.527	0.034	0.854	1.650	0.309	0.579
CF_by_TA	-9.737	3.585	0.058^	-10.672	4.071	0.044*	-9.858	3.607	0.058^
Debts_by_TA	5.445	4.127	0.042*	4.726	3.145	0.076	5.995	4.790	0.029*
Ln_audit_fees	0.982	4.664	0.031*	0.893	3.761	0.052^	0.887	3.971	0.046*
Ln_NAS	0.112	0.152	0.697	0.155	0.277	0.599	0.186	0.386	0.534
Constant	-15.577	7.143	0.008	-15.368	6.563	0.010	-16.738	7.797	0.005
	$\chi^2(14) = 28.11$, $p < 0.05$*			$\chi^2(14) = 29.23$, $p < 0.05$*			$\chi^2(14) = 31.29$, $p < 0.01$**		
Hosmer & Lemeshow	0.107			0.153			0.458		
Cox and Snell R^2	0.176			0.183			0.194		
Nagelkerke R^2	0.375			0.388			0.413		
N	150			150			150		

** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed); ^ Correlation is significant at the 0.10 level (2-tailed)

RESit = '1' if the company misstates its financial statements identified through a subsequent restatement, '0' otherwise; **AC_4MD** = The proportion of audit committee members serving on at least four boards; **AC_5MD** = The proportion of audit committee members serving on at least five boards; **Busy_AC** = dummy variable with '1' if more than 50% of audit committee members have at least three directorships; **ACC_MD** = Number of outside directorships that audit committee chair holds; **ACFE_MD** = Number of outside directorships that the ACFE holds; **No_AC_Olap** = The number of audit committee members sitting in the remuneration committee; **ACC_Olap** = Dummy variable equals '1' if the audit committee chair is in the remuneration committee; **ACFE_Olap** = Dummy variable equals '1' if the audit committee financial expert is in the remuneration committee; **BOD_size** = Size of board (number of directors); **BOD_ind** = the percentage of independent directors in the board; **AC_size** = Size of audit committee (number of members); **AC_ind** = the percentage of independent directors in the audit committee; **CF_by_TA** = Cash flow from operations scaled by total assets; **Debts_by_TA** = Total debts scaled by total assets; **Ln_audit_fees** = The natural logarithm of the company's total audit fees to external auditor fees; **Ln_NAS** = The natural logarithm of the company's total non-audit fees

4.7 Discussion

4.7.1 Discussion on Busy Audit Committee Chair and Financial Expert

Table 4.4 of section 4.2.1 indicates that the average directorships of audit committee directors is 2.35 (Table 4.4) while it is 2.7 for both audit committee chair and financial expert (Table 4.6). To answer the research question on the distribution of busyness among audit committee directors, independent t-test was conducted between busy and non-busy audit committee directors as presented in Table 4.8 of section 4.3. As mentioned earlier, busy audit committee directors are coded as '1' if they hold more than two (2) directorships and '0' otherwise (Fich and Shivdasani, 2006). Findings indicate that there are significant differences in terms of audit committee chair and financial expert between busy and non-busy audit committee directors. This finding is in line with the recent results by Tanyi and Smith (2014) based on the US companies that the busyness of all audit committee directors is not homogenous. This can be attributable to the corporate governance reforms in the recent years that the expected responsibilities of audit committee chair and financial expert have risen significantly.

In addition, the findings as shown in Table 4.10 show that audit committee financial expert holds more directorships in other companies than ordinary members. Similarly, the audit committee chair as shown in Table 4.11 has significantly higher multiple directorships and therefore, is busier than those not holding the chair. These corroborate Tanyi and Smith (2014) that the busyness of all audit committee directors is not homogenous. Following the various corporate governance reforms in recent years, the workloads of audit committee chair and financial expert have increased significantly. Therefore, the busyness of audit committee chair, financial expert and other members should be examined separately in efforts to improve audit committee effectiveness.

In relation to the practice of overlapping committees, audit committee financial expert has fewer incidences of overlapping membership and therefore, may not be of concern for possible board committee reassignments. As presented in Table 4.10, it is not uncommon for audit committee financial expert to also be the audit committee chair. The duality of the two critical roles by the same person may have implications for audit committee effectiveness. It can also be argued that the person who assumes both roles can take advantage of leadership role as chair to improve audit committee monitoring. However, there is still limited reliable evidence to support this argument, providing another avenue for future research.

4.7.2 Discussion on Audit Delay

Descriptive statistics as reported in Table 4.6 of section 4.2.1 show that large listed companies in Malaysia finalise and release their year-end financial results in 89 days compared to the US in 55 days (Abernathy et al.,, 2014), Indonesian companies in 98 days (Rochmah and Ghazali, 2012), Chinese companies in 84 days (Robert and Yuan, 2012), European companies in 79 days (Robert and Yuan, 2012) and Omani companies in 52 days (Baatwah et al., 2015). Therefore, the companies in Malaysia still have high mean of audit delay compared to other countries, except for Indonesia. Further analysis was also undertaken on the sample companies in terms of their compliance to the four months' requirement to issue their annual report from the financial year-end (para 9.23 of Bursa Malaysia Listing Requirements). Only one sample (not tabulated) has audit delay of 122 days and therefore, does not comply with para 9.23 of the listing requirements (the financial reporting of four months is converted into 121 days, i.e., 365 days/12 x 4 months = 121 days).

The adjusted R^2 value for the audit delay model in this study is 31.3% and is significant in explaining the audit delay model. The results are higher than a study by Puasa et al. (2014) which documents R^2 value of 27.9% in the relationship between audit committee and audit delay in Malaysia. Other studies on audit delay which are based on the Malaysian listed companies are Naimi et al. (2010) with adjusted R^2 of 16.0%, Apadore and Noor (2013) with adjusted R^2 of 11.1% and Wan-Hussin and Bamahros with adjusted R^2 of 29.6%.

The results from this model indicate that two hypotheses are supported, namely multiple directorships of all the audit committee members (AC_3MD) and overlapping committee membership of audit committee financial expert (ACFE_Olap). Both hypotheses, H1 and H4b, are significantly and negatively associated with audit delay, suggesting that multiple directorships of audit committee members (H1) and overlapping committee membership of audit committee financial expert (H4b) are associated with timelier financial reporting, therefore supporting the "Reputation Hypothesis". Economically, the relationships between audit committee external busyness (ACC_3MD) and audit delay are also practically significant since the change from the 25th to 75th percentile of AC_3MD results in a reduction of audit report delay by eight days, thereby improving the firms' financial reporting quality. This finding, is however, inconsistent with most recent findings in the US on the accounting and auditing outcomes on the multiple directorships of the audit committee members, supporting the "Busyness Hypothesis" (Rickling, 2014; Tanyi and Smith, 2014; Sharma and Iselin, 2012).

There are a few possible explanations for the disparities in the results of this study with other recent findings based on the US companies as mentioned above. First, it is important to note that the average number of directorships of the audit committees in Malaysia is 2.4 (not tabulated) while audit committee chair and financial expert have average directorships of 2.7 (Table 4.6). The period covered in this study is based on the financial year of 2013, which is a post-event to the restriction imposed by Bursa Malaysia through the listing requirements effective 1 June 2013 on the maximum limit of five directorships in listed companies. Therefore, starting from early of 2013, this corporate governance rule may have reduced the practice of multiple directorships and variation in the attributes among the audit committee members. Second, the sample of this study is restricted to the large non-finance listed companies on Bursa Malaysia based on their market capitalisation. Therefore, the findings may not represent the extent of multiple directorships among audit committee members in the Malaysian listed companies.

With regards to the overlapping committee membership of audit committee members, the results of regression in model 1 show a negative and significant association between overlapping committee membership of audit committee financial expert (ACFE_Olap) and audit delay. This finding is in line with Habib et al. (2015) and Chandar et al. (2012) which documents that firms whose audit committee members also sit in the remuneration committee, are related to higher financial reporting quality. These results suggest the knowledge gained by the audit committee financial expert on remuneration issues enhances his or her oversight role on financial reporting. Therefore, overlapping committee membership of the audit committee financial expert promotes "knowledge spillover" and improves the audit committee's monitoring quality. One of the possible reasons may be due to the fact that audit committee financial experts are better informed than others, as they are able to relate to the company's strategies and key performance indicators (from remuneration issues) to deal with financial reporting issues effectively. This finding extends prior research by Abernathy et al. (2014), who conclude that audit committee financial expert is important to reduce audit delay, by further suggesting their attributes, i.e., overlapping committee membership.

Additionally, the association between overlapping audit-remuneration committee membership of audit committee members (No_AC_Olap) (H2), audit committee chair (ACC_Olap) (H3b) and audit delay are insignificant. Thus, the effect of having audit committee chair does not increase the financial reporting quality. One possible reason for the insignificant results may be due to the fact that knowledge spillover may only be applicable to the audit committee financial expert who is recognised as the subject matter expert in dealing with the complex accounting issues. The knowledge gained by audit committee financial experts on compensation issues, such as the remuneration policy and its link to the company's strategy and long-term objectives, may have enhanced their understanding on the company's business drivers, therefore, enabling them to deal with the financial reporting issues more effectively (Habib et al., 2015). This will, in turn, improve the audit committee's monitoring quality on financial reporting.

In addition, there are three governance characteristics that are significantly associated with audit delay, namely BOD_ind, AC_meetings and IAF_outsource_1. However, none of the firm characteristics is found to have significant association with audit delay. This interesting finding suggests that the company's governance characteristics are more important than its economic characteristics in explaining the timeliness in reporting financial statements.

Overall, the findings support multiple directorships of audit committee directors and the overlapping audit-remuneration committee membership of audit committee financial expert to improve the timeliness of financial reporting among listed companies. Both types of busyness are beneficial to improve financial reporting quality as argued by the "Reputation Hypothesis".

4.7.3 Discussion on Financial Restatement

Descriptive analysis on the categories of financial restatement as reported in Table 4.5 of section 4.2.1 reveal that 13% of the restated sample firms have restated their core expenses, while another 27% have restated their non-core expenses. The classification was made based on pervasiveness, where core expenses are attributable to the main operations of the company and non-core expenses are related to non-operational items (GAO, 2013). The high percentage may imply their motivation to engage in income-increasing or income-decreasing activities, and manipulating the reported financial results as suggested by Spathis (2002). As argued by Spathis (2012), income-increasing is to overstate income or understate expenses while income-decreasing is to understate income or overstate expenses. Further details on sample firms with details of their restatement, such as types, reasons and restatement category are highlighted in Appendix VII.

The Nagelkerke R^2 suggests that the test variables explain 39.4% of change in financial restatement and is highly significant in explaining the financial restatement model. However, the results are lower than Ishak and Yusof (2013) and Abdullah et al. (2010) that document Nagelkerke R^2 of 59.1% and 72.7%, respectively based on financial restatement of Malaysian listed companies.

The results from this model do not find any significant association between audit committee multiple directorships (AC_3MD, ACC_MD and ACFE_MD) and financial restatement. This evidence does not support recent findings by Sharma and Iselin (2012) who conclude a significantly positive relationship between financial restatements and audit committee multiple directorships of US companies. As discussed earlier, the inconsistent results may due to the regulation of multiple directorships in Malaysia with maximum limit of five directorships in listed companies effective July 2013, which is not the case for the directors in the US.

Two hypotheses, namely overlapping committee membership of audit committee chair (ACC_Olap) (H3b) and financial expert (ACFE_Olap) (H4b), are found to have significant relationship with financial restatement at the 5% level. ACC_Olap (H3b) has a positive and significant association with financial restatement, suggesting higher incidence of financial restatement with audit committee chair who sits in the remuneration committee as well. The finding supports the "Busyness Hypothesis" that busy audit committee chair may be overstretched and not able to commit time, thus compromising his or her oversight role. This finding corroborates findings by Liao and Hsu (2013) that firms with common board committees are associated with low financial reporting quality and ineffective monitoring scheme.

The overlapping committee membership of audit committee financial expert (ACFE_Olap) (H4b), however, has a negative and significant relationship with financial restatement. Consistent with the findings from the audit delay model, the overlapping committee membership of audit committee financial expert reduces the incidence of financial restatement, therefore, improving the monitoring intensity, thus supporting the

"Reputation Hypothesis". This may be due to the "knowledge spillover" benefited by the audit committee financial expert which can further improve monitoring intensity. The results further support findings by Habib et al. (2015) that overlapping committee memberships are associated with better financial reporting quality, based on the listed companies in Australia.

4.8 Conclusion

The univariate analysis of independent t tests (Table 4.8, section 4.3) suggests that compared to non-busy audit committee directors, busy audit committee directors are more likely to be the chair or the financial expert. The finding suggests that the busyness and its implication on the audit committee monitoring intensity are not homogenous across the entire range of audit committee directors. Therefore, in improving the audit committee's effectiveness, the board should examine the busyness of audit committee directors separately and pay more attention to the busyness of their audit committee chair and financial expert. Further, findings from the multivariate analysis as shown in Table 4.14 (section 4.6.1) reveal that the presence of the audit committee financial expert in the remuneration committee is an important determinant in reducing audit report delay. In addition, multiple directorships of audit committee members also show a negative and significant association with audit delay. These results extend prior literature on the "Reputation Hypothesis" that busyness of the audit committee is beneficial to reduce audit delay. Another observation that emerges from these results is that the company's governance characteristics, namely board independence, audit committee activities and outsourcing of internal audit function, are more important than the firms' financial characteristics in explaining the timeliness in reporting financial statements. In the second proxy, i.e., financial restatements, the significant and positive coefficient of audit committee chair's overlapping committee membership, confirms the "Busyness Hypotheses". The evidence suggests that busy audit committee chairs may undermine their oversight role as the company is more likely to restate its financial statement. However, the overlapping audit-remuneration committee membership of the financial expert, is significant but inversely related to financial restatement, supporting the "Reputation Hypothesis". A possible explanation to this is the "knowledge spillover" from sitting in the remuneration committee may only be beneficial to someone with technical accounting knowledge to make significant judgement when dealing with accounting or audit-related issues, such as unusual estimates or invalid assumptions in the financial reporting. The finding extends a prior study by Abernathy et al. (2014) by further revealing additional traits of audit committee financial expert that are associated with audit delay, i.e., overlapping committee membership. Overall, the summary of findings in the study are as below:-

Table 4.18
Summary of Findings

	Audit Delay	**Financial Restatement**
Independent Variables	• Multiple directorships of audit committee (H1) *(negative)*	• Overlapping committee membership of audit committee chair (H3b) *(positive)*
	• Overlapping committee membership of audit committee financial expert (H4b*) (negative)*	• Overlapping committee membership of audit committee financial expert (H4b) *) (negative)*
Control variables	• Percentage of board independence (*negative)* • Audit committee meetings *(positive)* • Dichotomous variable of outsourcing internal audit function *(positive)*	• Cashflows scaled by total assets (*negative)* • Debts scaled by total assets *(positive)* • Log of audit fees*(positive)*

CHAPTER 5

SUMMARY AND CONCLUSION

5.0 Introduction

The audit committee is becoming an important mechanism in corporate governance as the board has delegated the task of monitoring financial reporting quality to the audit committee. Therefore, efforts to identify what constitutes an "effective" audit committee, continues unabated. In recent years, the issue of audit committee busyness has become a serious concern as there is some doubt whether busy audit committees can cope with various corporate governance reforms and their onerous requirements. There is also significant discussion among the regulators that insufficient attention, time and commitment by the directors, are among the contributing factors to the escalating non-compliance with the regulations and number of fines imposed on the listed companies. Therefore, the busyness of audit committee directors is a contemporary corporate governance issue which can be further examined to determine the audit committee's effectiveness. This study is in response to this emerging issue; it focuses on additional attributes of the audit committee, namely the external and internal busyness and their association with financial reporting quality. While there are several studies on the association between audit committee busyness and financial reporting quality, this study extends the literature by measuring the busyness of audit committee, including audit committee chair and financial expert, from dual perspectives, namely external and internal busyness.

5.1 Conclusions on the Hypotheses

Following various corporate governance reforms in recent years, the scope of the audit committee has significantly expanded and this has resulted in the commitment from audit committee directors becoming more onerous. There is a serious concern with the audit committee busyness and some doubt whether busy audit committees can dedicate their time to and focus on accounting issues. This has motivated the researcher to conduct a study on the busyness of audit committee, especially in countries where there is a shortage of capable independent directors, such that the practice of multiple directorships and overlapping board committee memberships are unavoidable.

The hypotheses related to the audit committee busyness and their relationships with financial reporting quality are restated as below:-

H1 : *Multiple directorships of audit committee members are significantly associated with audit delay / financial restatement*

H2 : *Overlapping audit-remuneration committee memberships are significantly associated with audit delay / financial restatement*

H3a : *Multiple directorships of audit committee chair are significantly associated with audit delay / financial restatement*

H3b : *Overlapping committee membership of audit committee chair is significantly associated with audit delay / financial restatement*

H4a : *Multiple directorships of audit committee financial expert are significantly associated with audit delay / financial restatement*

H4b : *Overlapping committee membership of audit committee financial expert is significantly associated with audit delay / financial restatement*

In supporting the hypotheses related to the research questions, the study applies the agency theory and resource dependence theory, where both theories have provided various empirical implications to explain audit committee effectiveness. According to the agency theory, audit committees must play monitoring roles to prevent the management's opportunistic behavior by strengthening the financial reporting quality. This will mitigate agency conflicts between the management, who prepares the financial reporting, and shareholders. From the perspective of the resource dependence theory, audit committee is also viewed as comprising directors who are well-connected and capable of linking the company with external resources. Their busyness, through expertise and experience, will connect the company to external resources.

A quantitative research with multivariate statistical analysis was applied to test six specific hypotheses developed in this study. The audit committee busyness is measured by multiple directorships in listed companies, i.e., external busyness, and their dual roles in both audit and remuneration committees, i.e., internal busyness. Further, the audit committee monitoring effectiveness is studied from the perspective of the company's financial reporting quality. There are two different proxies for financial reporting quality, namely audit delay and financial restatement. Audit delay is chosen as proxy to financial reporting quality as it is still an empirical issue in Malaysia, given that a few recent studies based on the listed companies in Malaysia have reported that the audit report delay in Malaysia is longer than other countries. Financial restatement is selected as the second proxy to financial reporting quality as there are only a few studies on financial restatement in Malaysia. Additionally, both measures have been reported in recent studies as better measures as they have little measurement error and therefore, can provide strong evidence of low financial reporting quality. Following that, a linear multivariate analysis was performed for the audit delay samples while a logistic regression analysis was adopted for the financial restatement sample firms.

The above hypotheses were also tested by performing regression on two models, i.e., the audit delay and financial restatement models. The results of the regression for audit delay model suggest that multiple directorships of audit committee members (H1) and the overlapping committee membership of audit committee financial expert (H4b) are significant with negative relationship with the timeliness in issuing audited financial statement. The negative coefficients for both independent variables suggest that the busyness of audit committee and dual roles in board committees by their financial expert are beneficial for reducing the time of the company to be audited and the relationships are also economically significant. It is also interesting to note that the relationship between overlapping committee membership of audit committee chair (H3b) and audit delay is insignificant. The results may suggest that the benefit of "knowledge spill over" in reducing audit delay can only be realised by someone who is a financial expert and not by someone who is merely financially literate. This is because audit committee financial experts are better informed that others as they are more familiar on the remuneration issues and able to relate to the company's strategies and business drivers to deal with financial reporting issues effectively. For the control variables, only governance related controls variables (board independence, audit committee meetings, dichotomous variable of outsourcing internal audit function) are found to have significant association with audit delay. This may imply that the firms' governance characteristics are more critical than the firms' financial control variables in explaining variation in companies' audit delay.

On the financial restatement model, the study did not find any significant relationship between the multiple directorships of audit committee members and financial restatement (H1). The results are inconsistent with the recent findings by Sharma and Iselin (2012) who present a significantly positive association between audit committee members' multiple directorships and financial restatement of US listed companies. The inconsistent results may be due to different market environments, where the regulator in Malaysia has restricted multiple directorships in listed companies to a maximum of five but it is not the case for the US regulator.

Further, results of the logistic regression show that the overlapping committee membership of audit committee financial expert (H4b) has a negative and significant relationship with financial restatement. Hence, findings from both audit delay and financial restatement models indicate that the overlapping committee membership of audit committee financial expert (H4b) is an important determinant of financial reporting quality. By having audit committee financial expert also sitting in the remuneration committee, the evidence suggests that their overlapping roles in both board committees can expedite turnaround time in finalising audited financial statements and lower the incidence of restating the financial statement. Therefore, the practice of overlapping committee membership by the audit committee financial expert (H4b) is beneficial and the board may have to consider board committee reassignments to improve the company's quality of financial reporting. The findings also confirm the resource dependence theory on audit committee financial experts as the resource provider, where the resources are identified as their technical accounting knowledge and experience as well as their dual roles in the board committees.

On the other hand, the overlapping committee membership of audit committee chair (H3b) is found to increase the likelihood of restating financial statement in the following year. The evidence suggests that in the context of large companies in Malaysia, the dual roles in the board committees may cause audit committee chair to be overcommitted and grapple with lack of time to monitor financial reporting quality diligently.

With regards to the other three hypotheses, this study provides insufficient evidence to show that multiple directorships of chair (H3a), multiple directorships of financial expert (H4a) and overlapping audit-remuneration committee membership (H2), are important attributes in improving audit delay and reducing the incidence of restating the financial statement.

5.2 Conclusions on the Research Questions

The main research questions investigated in this research are summarised as below:-

1. What is the extent of busyness among the audit committee directors?
2. What are the relationships between the multiple directorships of audit committee members and the company's financial reporting quality?

3. What are the relationships between the overlapping audit-remuneration committee memberships and the company's financial reporting quality?
4. What are the relationships between the multiple directorships of audit committee chair and the company's financial reporting quality?
5. What are the relationships between the overlapping audit-remuneration committee memberships of audit committee chair and the company's financial reporting quality?
6. What are the relationships between the multiple directorships of audit committee financial experts and the company's financial reporting quality?
7. What are the relationships between the overlapping audit-remuneration committee memberships of audit committee financial experts and the company's financial reporting quality?

In answering the first research question, there are several conclusions on the results that have emerged from the univariate analysis as reported in section 4.3. First, the audit committee financial expert holds more directorships in other companies than ordinary members. Second, the audit committee chair has significantly higher multiple directorships, and therefore, is busier than non-chair members. These results support the recent study based on US archival data that the audit committee chair and financial expert are busier than other audit committee directors and therefore, their busyness is not homogenous. Third, the audit committee financial expert has fewer incidences of overlapping committee membership and therefore, many not be of concern for possible board committee reassignments. Finally, it is not uncommon for audit committee financial expert to also be the audit committee chair. The results from univariate analysis suggest that the board has to re-examine the external busyness of audit committee chair and financial expert separately so that they can give their commitment and fulfil their duties diligently.

There are two regression models that have adopted in answering research question number two to research question number seven as above. The two models are audit delay and financial restatements, that are chosen as proxies to measure financial reporting quality. Following that, a linear multivariate analysis was performed for the audit delay samples while a logistic regression analysis was adopted for the financial restatement sample firms. The results of the regression for audit delay model provide strong support that multiple directorships of audit committee members (second research question) and overlapping board committee membership of financial expert (seventh research question) improve financial reporting timeliness. This finding extends prior study by Abernathy et al. (2014) by further suggesting that overlapping committees of financial expert can also reduce audit delay. However, the results from the audit delay model do not find any significant association between overlapping audit-remuneration committees (third research question), multiple directorships of audit committee chair (fourth research question), overlapping board committees of audit committee chair (fifth research question), multiple directorships of audit committee financial expert (sixth research question) and audit delay.

Further, findings from the financial restatement model reveal that the audit committee chair who has another role in the remuneration committee, is likely to increase the incidence of financial restatement (fifth research question), thereby compromising financial reporting quality. The overlapping board committee membership of financial expert, however, has a negative and significant relationship with financial restatement (seventh research question). There is no significant association found between audit committee multiple directorships (second research question), overlapping audit-remuneration committees (third research question), multiple directorships of audit committee chair (fourth research question), multiple directorships of audit committee financial expert (fifth research question) and financial restatements. Therefore, the evidence from research question number two (audit delay model), five (financial restatement model) and seven (audit and financial restatement models) confirms the relationships between audit committee busyness and financial reporting quality.

5.3 Theoretical Implications

This study investigates the relationship between audit committee busyness and financial reporting quality. In that respect, this study contributes to the extant literature by providing further evidence on the attributes of audit committees, i.e., busyness, which can enhance its monitoring effectiveness.

From the agency theory perspective, the presence of audit committee is expected to reduce the incidence of irregularities in financial reporting, with the underlying assumptions that the audit committee directors can give their full commitment and fulfil their duties diligently. Findings from this study support this argument by providing evidence that overlapping committee membership of audit committee financial expert is associated with more timely issuance of audited financial statement with less likelihood of restating the financial statement. Therefore, the financial reporting quality of the companies will be further improved. Consistent with the results from the audit delay and financial restatement models, the overlapping board committees of financial expert improves the monitoring intensity of audit committee and therefore, supporting "Reputation Hypothesis".

In addition, the findings that the multiple directorships of audit committee members have a negative and significant association with audit delay also show that the resource dependence theory is prevalent in the audit committee busyness. The busyness that the audit committee acquires from their multiple directorships in other listed companies is beneficial and resourceful for improving the companies' timeliness in finalising their audited financial statements. Evidence from this study also contributes to the body of knowledge on the audit committee in the context of developing countries, like Malaysia, especially where the practice of multiple directorships and overlapping board committee memberships are prevalent.

5.4 Practical Implications

By investigating the association between the busyness of audit committee directors, audit committee chair and financial expert and financial reporting quality, this study contributes to the listed companies and shareholders in Malaysia in a number of ways.

Firstly, this study provides some insight on the merits of regulating multiple directorships by the regulator in Malaysia. Evidence from this study may be relevant to the regulators to review their current position in regulating multiple directorships in Malaysia. Particularly, the findings of the study show that the multiple directorships of audit committee can potentially reduce the delay in issuing audited reports. Other developed countries, like the US, the UK and Australia, including Singapore, do not regulate multiple directorships, where their corporate governance code only suggests for the board to formalise their own policies on multiple directorships for the directors. With restriction on multiple directorships and existing short supply of capable independent directors in the developing market, the board may appoint less capable independent directors which may compromise the board's monitoring effectiveness.

Findings from this study also add a critical dimension to the body of knowledge by highlighting to the board of directors and regulators that the busyness among the audit committee directors is not homogenous. Following the various corporate governance reforms in recent years, the workload of audit committee chair and financial expert have increased significantly. Therefore, busyness of audit committee chair and financial expert should be examined separately in the board's effort to improve the audit committee's effectiveness. This is because evidence from this study suggests that the overlapping board committee membership by the audit committee financial expert improves the company's timeliness in announcing audited financial statements and reduces the likelihood of restating the financial statement. On the other hand, the dual roles of audit committee chair in the board committees has a positive relationship with financial restatement. Thus, the board should pay more attention in the assignment of board committees among the audit committee chair and audit committee financial expert.

In addition, the findings of this paper have implications for the policy-makers, such as the Securities Commission, to understand the effect of audit committee members' multiple directorships on financial reporting quality. It may also be relevant to review the policy of restricting multiple directorships should there be a limited pool of capable independent directors in certain jurisdictions.

5.5 Limitations of the Study

This study has several limitations when evaluating the results. Firstly, the review on the extent of busyness among the audit committee directors is restricted to the largest listed companies in Malaysia given the notion that directors of large companies are busier than directors in smaller companies. Therefore, future research can examine medium and smaller listed companies to generalise the extent of audit committee busyness in Malaysia.

Secondly, the results of the study must be generalised to other years with caution since the data is based on the period of 2013, whereby effective 1 June 2013, Bursa Malaysia has imposed the maximum limit of five directorships in listed companies. Therefore, from 1 June 2013 onwards, the practice of multiple directorships among directors in Malaysia has reduced significantly to comply with the listing requirements. However, in light of this restriction, some of the directors may choose not to completely disclose their directorships in all listed companies in the annual report, which is the main source of data for multiple directorships adopted by the study. Therefore, extension to the current study by using several financial years, especially prior to 2013, can provide more powerful findings on the relationships investigated in the study.

Thirdly, evidence is also limited to the sample size and in the context of developing countries with low investor protection, closely held shareholdings and more family ownership. Therefore, generalisation should be made with careful consideration, especially in different market environments. Perhaps, a larger sample of companies selected from several countries in institutional environments will be an added advantage and will offer a richer understanding of audit committee busyness.

Fourthly, the busyness factor of audit committee directors in this study does not measure their directorships in non-listed companies or listed companies overseas. The audit committee members' directorships in non-listed companies or overseas listed companies, to some extent, affect their busyness, workload, time commitment and therefore, ability to discharge their fiduciary duties as directors diligently.

Finally, this study adopts multiple and logistic regression models and archival data in explaining the relationship between audit committee busyness and financial reporting quality. Some unique observations and behaviours may not be captured in the model. There is still a lack of in-depth understanding on these areas and qualitative research design using interview method may offer a richer understanding of audit committee busyness.

5.6 Areas for Future Research

There are several areas for possible extension to the current study as set out below:-

1. A study on the effect of audit committee busyness in family-controlled or government-linked companies, especially for busy directors who are nominated by the controlling family shareholders or the government.

2. Univariate analysis from the current study provides evidence that it is not uncommon for audit committee financial expert to also be the audit committee chair. The duality of the two critical roles by the same person may have implications for the audit committee effectiveness. It can also be argued that the person who assumes both roles can take advantage of leadership role as chair to improve audit committee monitoring. However, there is still limited reliable evidence in supporting this argument, providing avenue for future research.

3. In future studies, researchers can further investigate the extent of busyness among the executive vs non-executive chairs and executive vs non-executive directors of listed companies in terms of multiple directorships and overlapping board committee memberships. Based on this, one could argue that the busyness among full-time and non-full time directors, especially those who have retired from employment, are not

the same. Therefore, it will be interesting to investigate possible threshold for non-executive chair and non-executive (especially retired) directors in becoming "busy".

4. With respect to the multiple directorships of audit committee chair and financial expert, further studies are required to assess the effectiveness of the audit committee in monitoring financial reporting quality, given the inconclusive findings of this study. For future research, it is recommended that researchers gather the data through primary sources by conducting interviews with the busy audit committee chair and financial experts to obtain their points of view on their busyness and roles in monitoring financial reporting quality.

5. Most studies on overlapping board committee memberships relate to the overlapping of audit committee and remuneration committee memberships. The impact of other board committees, such as nomination, tender and risk management committees, is clearly an important avenue for further research and their implication to the accounting and auditing outcomes.

6. Future studies can further corroborate the current study's measures in financial reporting quality by examining the association of audit committee busyness with other accounting and auditing outcomes, such as audit quality, earnings quality, earnings management and audit opinion.

5.7 Conclusion

The present study investigates the association between audit committee busyness and financial reporting quality among the listed companies in Malaysia. To the researcher's knowledge, the current study is among the pioneer studies in Malaysia to examine the extent of overlapping committee membership of different audit committee directors and to investigate their association with audit delay and financial restatement. This study provides strong support that multiple directorships of audit committee members and overlapping committee membership of financial expert improve audit report delay.

On the other hand, this study suggests that the overlapping committee membership of audit committee chair may increase the likelihood of financial restatement and therefore, compromise financial reporting quality. The present study also suffers some limitations as highlighted in section 5.4 with some recommendations for future research.

The results of this study may also contribute to the audit committee effectiveness, particularly in the audit committee's effort to improve the company's financial reporting quality. Further, it is recommended that the board reviews the assignment of audit committee directors to the board committees more closely, especially for the audit committee financial experts. Findings of this study may also contribute to the debate on the merits of restricting multiple directorships among directors of listed companies, especially in countries with limited pool of capable independent directors. Other developed countries, like the US, the UK and Australia, do not regulate multiple directorships, whereby their code only suggests for the board to formalise its own policies on multiple directorships for the directors. Otherwise, the board may appoint less capable independent directors which may compromise the board's monitoring effectiveness.

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APPENDICES

Appendix I

Lists of Sample companies (top 150 non-financial listed companies)

No.	Name of companies	Market Capitalisation (RM '000)	No.	Name of companies	Market Capitalisation (RM '000)
1	Axiata	58,930,575	31	UMW Oil & Gas	8,669,620
2	Sime Darby	57,571,010	32	Genting Plantations	8,377,450
3	Petronas Chemicals	55,360,000	33	Batu Kawan	7,671,848
4	Maxis	54,550,116	34	SP Setia	7,548,249
5	Tenaga Nasional	49,268,726	35	IJM	7,535,366
6	Petronas Gas	48,043,613	36	Lafarge Malaysia	7,281,890
7	Digi.com	38,564,000	37	Dialog Group	6,790,495
8	Genting Berhad (Group)	37,906,337	38	Fraser & Neave	6,778,223
9	IOI	34,743,606	39	AirAsia	6,118,338
10	IHH Healthcare	31,401,000	40	Hap Seng Consol.	6,025,050
11	Petronas Dagangan	31,234,194	41	Boustead Holdings	5,812,204
12	MISC	25,443,621	42	Guiness Anchor	5,757,988
13	Genting Malaysia	24,840,895	43	Berjaya Sports Toto	5,641,400
14	Kuala Lumpur Kepong	24,068,225	44	MMHE	5,600,000
15	Telekom Malaysia	19,854,570	45	United Plantation	5,411,491
16	PPB Group	19,133,970	46	Oriental Holdings	5,266,872
17	BAT	18,308,184	47	Gas Malaysia	4,969,080
18	YTL	17,206,875	48	AEON Co.	4,914,000
19	Felda Global Venture	16,380,200	49	DRB-Hicom	4,891,090
20	Nestle Malaysia	15,946,000	50	Sunway	4,687,985
21	Sapura Kencana	14,612,749	51	Magnum	4,510,333
22	Astro Malaysia	14,503,257	52	Kulim	4,398,835
23	UMW Holdings	14,089,626	53	Bursa Malaysia	4,383,397
24	Bumi Armada	11,814,304	54	Parkson Holdings	4,217,903
25	YTL Power International	11,363,597	55	Berjaya Land	4,080,566
26	Malaysia Airports	11,091,995	56	Tan Chong Motor	4,040,912
27	Gamuda	10,836,825	57	KPJ Healthcare	3,809,520
28	UEM Sunrise	10,708,342	58	Top Glove	3,808,151
29	KLCC Property	10,561,199	59	Carlsberg Brewery	3,724,011
30	MMC	8,769,769	60	IGB	3,694,744

No.	Name of companies	Market Capitalisation (RM '000)	No.	Name of companies	Market Capitalisation (RM '000)
61	IJM Land	3,680,615	95	NCB Holdings	1,645,886
62	Hartalega	3,622,543	96	Star Publications	1,645,643
63	MSM	3,514,900	97	Jobstreet	1,575,110
64	Bintulu Port Holdings	3,450,000	98	Mudajaya Group	1,573,236
65	Mah Sing Group	3,194,770	99	Ta Ann Holdings	1,545,140
66	Dayang Enterprise	3,184,500	100	United Malacca	1,497,296
67	Dutch Lady Milk	3,016,960	101	Perisai Petroleum	1,489,056
68	Shangri-La Hotels	2,974,400	102	Datasonic Group	1,478,250
69	Media Prima	2,883,387	103	Hong Leong Indust.	1,444,016
70	Sarawak Oil Palms	2,853,027	104	Selangor Properties	1,439,755
71	Kossan Rubber	2,762,501	105	TDM	1,407,579
72	TSH Resources	2,699,797	106	Kian Joo Can Factory	1,385,803
73	QL Resources	2,512,697	107	Kretam Holdings	1,367,064
74	Keck Seng (Malaysia)	2,478,121	108	Puncak Niaga	1,329,978
75	IJM Plantations	2,405,172	109	Panasonic Malaysia	1,323,043
76	AirAsia X	2,358,519	110	Tropicana	1,322,866
77	Cahya Mata Sarawak	2,328,260	111	JCY International	1,278,577
78	Pos Malaysia	2,276,991	112	Wah Seong	1,269,870
79	Zhulian	2,244,800	113	Atlan Holdings	1,263,177
80	WCT Holdings	2,239,544	114	Alam Maritim	1,258,037
81	Litrak	2,225,290	115	MBM Resources	1,254,182
82	Berjaya	2,192,079	116	Padini Holdings	1,243,450
83	Hap Seng Plantations	2,143,928	117	Goldis	1,220,987
84	MRCB	2,130,191	118	Press Metal	1,181,694
85	Time Dotcom	2,034,480	119	Rimbunan Sawit	1,179,445
86	Amyway Holdings	1,972,628	120	Scientex	1,169,912
87	Jaya Tiasa	1,935,996	121	Perdana Petroleum	1,156,283
88	Shell Refining Co.	1,908,000	122	Pharmaniaga	1,152,025
89	Supermax	1,881,253	123	APM Automotive	1,133,034
90	Tasek	1,802,607	124	Benalec Holdings	1,080,447
91	Malaysia Bulk Carriers	1,770,000	125	Far East Holdings	1,046,286
92	Eastern & Oriental	1,747,768	126	Hock Seng Lee	1,029,167
93	Coastal Contracts	1,656,928	127	Matrix Concept	1,026,999
94	TH Plantations	1,655,364	128	DKSH Holdings	1,016,894

No.	Name of companies	Market Capitalisation (RM '000)	No.	Name of companies	Market Capitalisation (RM '000)
129	Berjaya Assets	1,007,303	140	YTL Land & Dev.	887,215
130	TA Global	964,995	141	Globetronics	885,229
131	SEG International	963,473	142	Mulpha International	874,884
132	Muhibbah Engineering	959,071	143	YTL e-solutions	867,736
133	Kumpulan Peransang	958,088	144	Naim Holdings	864,846
134	Scomi Energy	936,710	145	Ekovest	864,614
135	Faber Group	925,653	146	Iskandar Waterfront	863,948
136	MKH	918,538	147	Westport Holdings	862,730
137	MY EG Services	915,976	148	CB Industrial Product	851,611
138	TH Heavy Engineering	898,303	149	KSL Holdings	850,093
139	Oldtown	892,980	150	Sumatec Resources	848,366

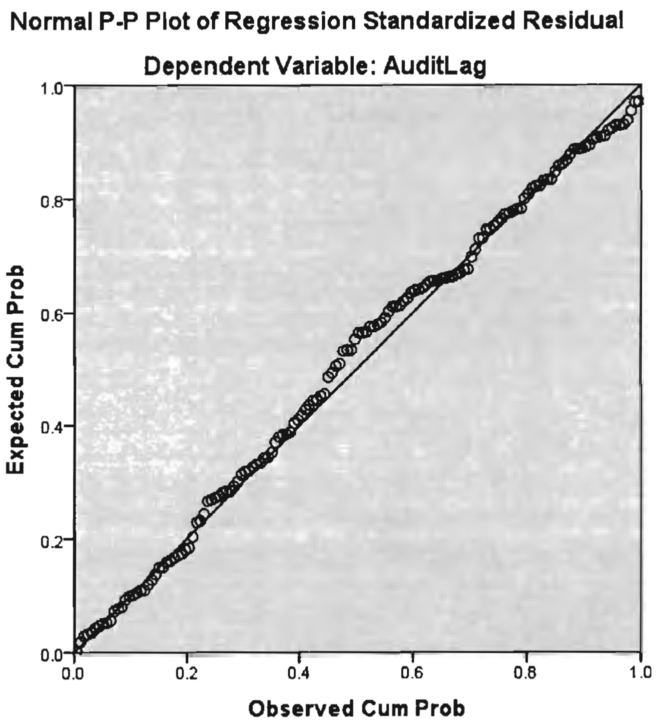
Appendix II

Residuals Statistics[a]

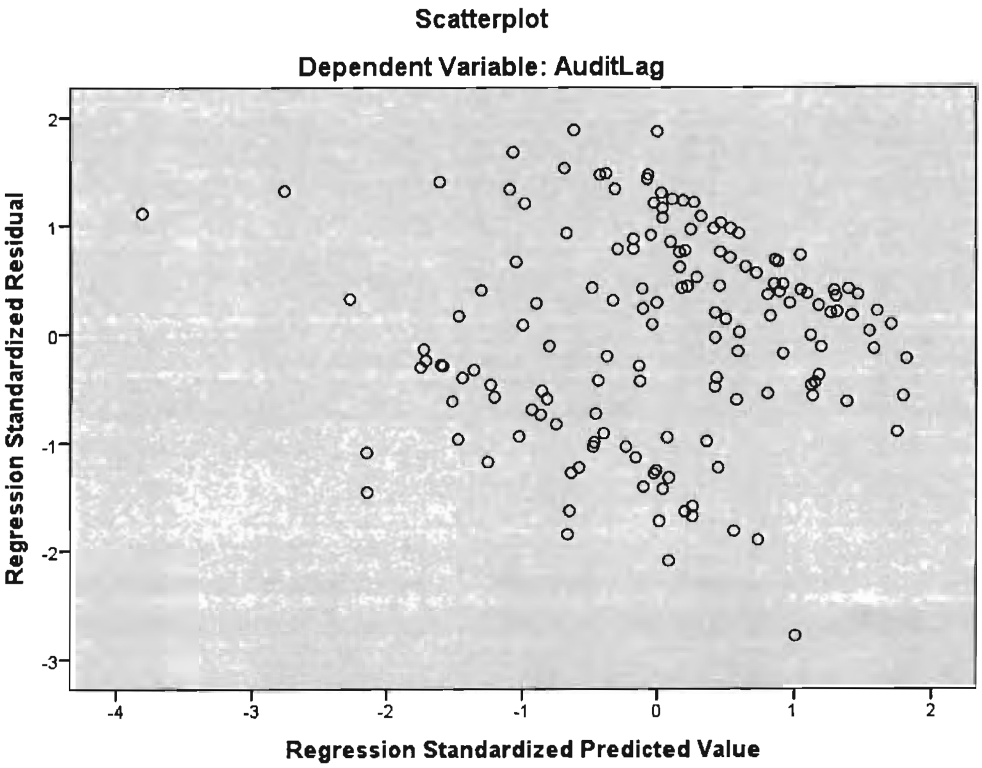
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	25.47	119.02	88.73	16.622	150
Std. Predicted Value	-3.806	1.822	.000	1.000	150
Standard Error of Predicted Value	4.586	12.471	7.511	1.378	150
Adjusted Predicted Value	14.40	121.79	88.65	17.113	150
Residual	-61.451	41.498	.000	20.747	150
Std. Residual	-2.788	1.883	.000	.941	150
Stud. Residual	-2.996	2.036	.002	1.004	150
Deleted Residual	-70.954	48.541	.081	23.625	150
Stud. Deleted Residual	-3.091	2.061	.000	1.010	150
Mahal. Distance	5.455	46.704	16.887	6.826	150
Cook's Distance	.000	.077	.008	.011	150
Centered Leverage Value	.037	.313	.113	.046	150

a. Dependent Variable: AuditLag

Appendix III



Appendix IV



Scatterplot
Dependent Variable: AuditLag
Regression Standardized Residual
2
1
0
-1
-2
-3
-4
-3
-2
-1
0
1
2
Regression Standardized Predicted Value

Appendix V

Category Descriptions of Financial Restatement

Category	Description
Revenue recognition	Restatements due to improper revenue accounting. This category includes restatements originating from a failure to properly interpret sales contracts for hidden rebate, return, barter, or resale clauses. They may also relate to the treatment of sales returns, credits and other allowances.
Core expenses	Restatements of companies ongoing operating expenses. This category includes cost of sales, compensation expenses, lease and depreciation costs, selling, general and administrative expenses and research and development costs
Non core expenses	Restatements that affect net income but do not arise from ongoing operating expenses. This category includes accounting for interest, taxes and derivatives. It also includes misstatements arising from accounting for non recurring events
Reclassification	Restatements due to improperly classified financial statement items (e.g. current liabilities classified as long term debt on the balance sheet or cash flows from operating activities classified as cash flows from financing activities). This category includes restatements that generally revise footnote information
Underlying event	Restatements due to improper accounting for acquisitions or mergers and issues from problems with foreign affiliates and their related accounting or financial reporting
Other	Any restatement not covered by the listed categories. This category includes restatements related to pensions and any other issues identified in the restatement

Source : GAO (2013)

Appendix VI

Examples of Financial Restatement by category

Category	Examples as reported in the following year Annual Report
Core expenses	During the financial year, the Group has restated the measurement for a certain lease obligation due to revision to the calculation of the estimated present value of the lease payment for the leased asset and the corresponding lease obligation (Tenaga Nasional Berhad). During the financial year, certain slow moving inventories were written down to net realisable value. The effects of this written down have been adjusted retrospectively (TSH Resources Berhad).
Non core expenses	The adjustments are due to the overstatement in prior years of the carrying values of investment in subsidiary in the financial statements of the Company; and the related goodwill in the financial statements of the Group (Coastal Contracts Berhad). During the financial year ended 30 June 2014, the Group made a prior year adjustment to recognise a provision for capital gains tax payable amounting to RM20 million. This amount has been restated as a prior year adjustment in the consolidated statement of financial position as at 1 July 2012. (Parkson Holdings Berhad). During the year ended 31 December 2014, an associate of a 51% owned subsidiary of the Company has reassessed the classification of certain qualifying and non-qualifying expenditures for tax purposes. As a result thereof, the associate has restated the deferred tax and retained earnings balances retrospectively (MMC Corporation Berhad). The Group has restated its comparative figure as at 31 December 2013 to reflect the adjustments to the provisional amounts used in the acquisition of Sri Manjung Specialist Centre Sdn Bhd.

Category	Examples as reported in the following year Annual Report
	Correspondingly, there was an increase in the deferred tax liabilities of RM 548,000 and a reduction in goodwill of RM1,803,000 (KPJ Healthcare Berhad).
Reclassification	The reclassifications of receivables are pertaining to prepayments and deposits which are non-current in nature. The reclassifications of borrowings and derivative financial instruments are in relation to accrual of interest on these instruments which were previously included in the payables (Astro Malaysia Berhad).
	Certain comparative figures in the statement of cash flows have been reclassified to conform with the current year's presentation (CBIP Industrial Product Holdings Berhad).
	Certain comparatives for the financial year ended 31 December 2013 were reclassified to better reflect the underlying nature and classification of these transactions (AirAsia Berhad).
	Prepaid lease payments relate to a leasehold which was acquired in 2013 and is, in substance, an operating lease. Such leasehold land is reclassified in current year from property, plant and equipment to prepaid lease payments to reflect the nature of the transactions. Accordingly, the comparative balances have been restated to conform with current year's presentation as disclosed (IHH Healthcare Berhad).
Underlying event	During the financial year, the Group completed the purchase price allocation of the assets and liabilities of subsidiaries acquired in the previous financial year namely Felda Holdings Berhad. The effects of prior year restatement on the Group's financial statements are reflected in the financial statements (Felda Global Venture Holdings Berhad).

Appendix VII

Sample Firms with Financial Restatement

No.	Companies	Industry	External auditor	Types of Restatements	Reasons	Category per GAO (2013)
1	Tenaga Nasional	Trading Services	PwC	Additional liabilities	Revision of prior year estimates (present value of lease payment).	Core expenses
2	IHH Healthcare	Trading Services	KPMG	Reclassification balance sheet items	Leasehold land is reclassified from property, plant and equipment to prepaid lease payments (i.e. operating lease).	Reclassification
3	Felda Global Venture	Plantation	PwC	Merger & acquisitions	Adjustment to purchase price allocation for acquisition.	Underlying events
4	Astro Malaysia	Trading Services	PwC	Reclassification balance sheet items	Reclassification of receivables to prepayments & deposits, borrowings & derivatives to accrual of interest.	Reclassification
5	MMC	Trading Services	PwC	Additional liabilities	Restatement of deferred tax and retained earnings of an associate retrospectively.	Non-core expenses

No.	Companies	Industry	External auditor	Types of Restatements	Reasons	Category per GAO (2013)
6	AirAsia	Trading Services	PwC	Reclassification of income statement items	Reclassification from other gain/(loss) (net) to finance income and foreign exchange loss.	Reclassification
7	Parkson Holdings	Trading Services	EY	Additional liabilities	Revision on provision for capital gain tax payable.	Non-core expenses
8	Berjaya Land	Trading Services	EY	Increase in investment in associates	An accretion in investment value in an associate company following a rights issue not proportionately take up by other shareholders.	Underlying events
9	KPJ Healthcare	Trading Services	EY	Additional liabilities	Revision of prior year estimates with additional provision for deferred tax liabilities and reduction of goodwill.	Non-core expenses
10	Mah Sing	Properties	Deloitte	Reclassification of income statement and statement of cashflows	Reclassification from other gain/(loss) (net) to finance income and foreign exchange loss	Reclassification

No.	Companies	Industry	External auditor	Types of Restatements	Reasons	Category per GAO (2013)
11	TSH Resources	Plantation	EY	Additional expenses and provision for stock obsolescence	Write down slow moving stock to net realisable value.	Core expenses
12	Berjaya	Trading Services	EY	Increase in investment in associates	An accretion in investment value in an associate company following a rights issue not proportionately take up by other shareholders.	Underlying events
13	Shell Refining Company	Industrial Products	PwC	Reclassification of balance sheet items and income statement	Reclassification from derivative financial assets to derivative financial liabilities, reclassification from cost of sales to purchases, manufacturing expenses and depreciation.	Reclassification
14	Coastal Contracts	Industrial Products	EY	Additional expenses	Adjustments to write down investment in subsidiary and goodwill of the Group.	Non-core expenses

No.	Companies	Industry	External auditor	Types of Restatements	Reasons	Category per GAO (2013)
15	CB Industrial Product Holding	Industrial Products	Crowe Horwath	Reclassification of balance sheet items	Reclassification from property, plant and equipment to plantation development expenditure.	Reclassification