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THE ROLE OF CONTROL-OWNERSHIP WEDGE IN MODERATING THE INFLUENCE OF BOARD DIVERSITY AND AUDIT COMMITTEE ON AUDIT QUALITY

AREE SAEED MUSTAFA

DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
August 2017
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SCHOOL OF ACCOUNTANCY  
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ABSTRACT

The objective of this study is to examine the effect of board diversity and audit committee on audit quality with respect to the influence of a wedge (divergence between control rights and cash flow rights) in Turkey. Turkey has made essential amendments in the field of external audit in order to enhance the quality of financial report and integrate its own capital market with that of EU. An analysis of the influence of these changes should be of interest to examine its influence on clients demand for high quality audit. This study used the data of 146 firms listed on the Borsa Istanbul (BIST) over the period from 2011 to 2015. Using logistic regression and Feasible Generalized Least Square (FGLS), the findings explained that clients’ incentives and abilities to demand high audit quality increased because of board demographics, cognitive and structural diversity and the audit committee proxies (by audit committee size, audit committee independence and audit committee meeting). However, the wedge weakened the influence of board diversity and the audit committee to demand high audit quality, which will be an unfavourable outcome for the minority shareholders. Thus, this study proposes that regulators, particularly the Capital Market Board of Turkey (CMBT), should increase law enforcement to enhance good corporate governance in Turkey to accommodate the unique features of wedge firms and provide a protected environment for investors particularly, the minority shareholders.

Keywords: audit quality, board diversity, audit committee, wedge, Turkey
ABSTRAK

Objektif kajian ini adalah untuk meneliti kesan kepelbagaian lembaga pengarah dan jawatankuasa audit terhadap kualiti audit dengan pengaruh baji (perbezaan antara hak kawalan dan hak aliran tunai) di Turki. Turki telah membuat pindaan penting dalam bidang audit luar untuk meningkatkan kualiti laporan kewangan dan menyepadukan pasaran modalnya sendiri dengan EU. Analisis terhadap pengaruh perubahan ini penting untuk menilai pengaruh mereka terhadap permintaan pelanggan bagi audit yang berkualiti tinggi. Kajian ini menggunakan data daripada 146 buah syarikat yang tersenarai di Borsa Istanbul (BIST) dari tahun 2011 hingga 2015. Dengan menggunakan regresi logistik dan Feasible Generalized Least Square (FGLS), kajian ini mendapati bahawa insentif pelanggan dan kebolehan untuk menuntut kualiti audit yang baik meningkat disebabkan oleh demografi lembaga, kepelbagaian kognitif dan struktur, serta proksi jawatankuasa audit (contohnya, saiz jawatankuasa audit, kebebasan jawatankuasa audit, dan mesyuarat jawatankuasa audit). Walau bagaimanapun, baji melemahkan pengaruh perbezaan antara lembaga pengarah dan jawatankuasa audit untuk menuntut kualiti audit yang baik, yang akan menjadi satu perkara yang tidak menguntungkan kepada pemegang saham minoriti. Oleh itu, kajian ini mencadangkan supaya pengawal selia, terutamanya Pasaran Lembaga Modal Turki (CMBT) perlu memperkuatkan penguatkuasaan undang-undang untuk meningkatkan tadbir urus korporat yang baik di Turki bagi menampung ciri-ciri unik syarikat baji dan menyediakan persekitaran yang dilindungi untuk pelabur terutamanya pemegang saham minoriti.

Kata kunci: kualiti audit, kepelbagaian lembaga pengarah, jawatankuasa audit, baji, Turki
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LIST OF APPREVIATIONS

CML    Capital Market Law
CMBT   Capital Market Board of Turkey
ABA    American Bar Association
TCL    Turkey Company Law
WFE    World Federation of Exchanges
ISE    Istanbul Stock Exchange
BIST   Bursa Istanbul
CSD    Central Securities Depository
TDE    Turkish Derivatives Exchange
TCGC   Turkey Corporate Governance Code
ABA    American Bar Association
SEC    Securities and Exchange Commission
GAAP   Generally Accepted Accounting Principle
AMEX   American Stock Exchange
ASE    Australia Stock Exchange
ISE    Istanbul Stock Exchange
CSMAR-A China Stock Market Finance Database
CSMAR-T Shenzhen Guotaian Information Technology Traded Data Base
SZ     Shenzhen Stock Exchange
BVB    Bucharest Stock Exchange
TUSISE: IND Tunisia Stock Exchange
IIF    Institute of International Finance
ISAs   International Standards on Auditing
CEO    Chief Executive Officer
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<td>TCC</td>
<td>Turkish Commercial Code</td>
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<tr>
<td>IFRSs</td>
<td>International Financial Report Standards</td>
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<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
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<td>KFTC</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
Audit quality plays a vital role in capital market as an effective monitoring tool to attest of the credibility of accounting information, which improves resource allocation and contracting efficiency. The main objective of audit quality is assumed to mitigate information asymmetry present between shareholders, outside users and management and support users to make decisions. Thus, audit quality has attracted much attention globally from the beginning of the twentieth century. Corporate collapses and financial scandals also increased the global concern for corporate governance and audit quality for instance, WorldCom, Enron, Parmalat, One-Tel, Harris Scarfe and HIH (Turel, Genç, Özden, & Taş, 2017).

The quality and accuracy of financial reports are determined by two key factors: an independent external audit and effective corporate governance mechanisms (Karaibrahimoğlu, 2013). Previous evidence documented that the capital market categorise reputable external auditors as an effective external monitoring mechanism (Ashbaugh & Warfield, 2003; Fan & Wong, 2005). Li et al. (2014) examine the role of the auditor as an external monitoring mechanism to assure more reliable information for investors and minimise the agency conflicts. The authors identify that the external mechanism has an essential role to enhance corporate governance in the Type II Agency Problem environment. The effectiveness of the external independent auditor and corporate governance mechanisms also depend on specific firm characteristics (DeFond & Zhang, 2014). There are many types of firm
The contents of the thesis is for internal user only
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