THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND AUDIT QUALITY ON FIRM PERFORMANCE

NURUL FATHIN BINTI MAZLAN

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By

NURUL FATHIN BINTI MAZLAN

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Universiti Utara Malaysia

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Tandatangan *(Signature)* :

DR. ADILAH BINTI AZHARI
Senior Lecturer
School of Economics,Finance and Banking
UUM College of Business
Universiti Utara Malaysia

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Abstract

The purpose of this study aims to identify the relationship between audit quality and board characteristics and firm performance. Past studies regarding the impact of characteristics of audit quality and board characteristics on firm performance are more focus on the mandatory obligations which are particularly need to make disclosure as declared by listing standards of Bursa Malaysia. The target population selected for this research is the listed companies in Malaysia. Secondary data of this study will be collected from annual reports published on Bursa Malaysia. The data collected is subsequently analyzed by adopting correlation and multiple regression analysis. Pearson Correlation Analysis and Multiple Linear Regression Analysis are used to analysis the collected data. With the application of agency theory, this study provides additional knowledge to future academicians and researchers that wish to study in this area. Besides, the results of this study contribute to the companies and its management in decision making. Nevertheless, the audit quality and board characteristics that influence the firm performance most efficiently are identified. Therefore, the structure of audit quality in listed companies is able to be enhanced and lead to a higher level of firm performance.

Keywords: board characteristics, audit quality, firm performance, Bursa Malaysia

Abstrak

Tujuan kajian ini bertujuan untuk mengenal pasti hubungan antara kualiti audit dan ciri-ciri lembaga dan prestasi firma. Kajian terdahulu mengenai kesan ciri-ciri kualiti audit dan ciri-ciri lembaga pada prestasi firma adalah lebih tertumpu kepada kewajipan mandatori yang khususnya perlu dibuat pendedahan seperti yang diisytiharkan oleh penyenaraian piawaian Bursa Malaysia. Populasi sasaran yang dipilih untuk penyelidikan ini adalah syarikat tersenarai di Malaysia. Data sekunder kajian ini akan diambil dari laporan tahunan yang diterbitkan di Bursa Malaysia. Data yang dikumpul kemudiannya dianalisis dengan menggunakan korelasi dan analisis regresi berganda. Analisis Korelasi Pearson dan Analisis Regresi Berganda Berganda digunakan untuk menganalisis data yang dikumpulkan. Dengan penerapan teori agensi, kajian ini memberikan pengetahuan tambahan kepada ahli akademik dan penyelidik masa depan yang ingin belajar di kawasan ini. Selain itu, hasil kajian ini menyumbang kepada syarikat dan pengurusannya dalam membuat keputusan. Walau bagaimanapun, kualiti audit dan ciri-ciri lembaga yang mempengaruhi prestasi firma yang paling cekap dikenalpasti. Oleh itu, struktur kualiti audit dalam syarikat tersenarai dapat ditingkatkan dan membawa kepada prestasi firma yang lebih tinggi.

Kata kunci: ciri – ciri lembaga, kualiti audit, prestasi firma, Bursa Malaysia

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LIST OF ABBREVIATION

MCCG	Malaysia Code of Corporate Governance
ROA	Return on Asset
ROE	Return on Equity
BCHAR	Board Characteristics
BCHAR1	Board Ownership
BCHAR2	Board Sizes
BCHAR3	CEO Duality
AUDQ	Audit Quality
AUDQ1	Audit Tenure

CHAPTER 1

INTRODUCTION

1.1 Introduction

Most companies are seeking to improve their performance in any way possible. The winning card can be held by those who endeavour to innovate, to obtain and sustain performance. Thus, competing in a continuously changing environment is very necessary to comprehend and monitor performance (Al-Matari, Abdullah & Faudziah, 2014). Therefore, assessing the determinants related to performance of organizations has always been of interest to management teams and researchers. In this study, the determinants of firm performance being assessed is board characteristics and audit quality. As to date, multiple studies have been done regarding the function of board characteristics and audit quality towards firm performance (Elewa & Rasha, 2019; Kramaric, Aleksic & Pejic-Bach, 2018; Athalia & Sidharta, 2016; Mawih & Zaroug, 2015; Shehu & Musa, 2014; Ebrahim et al., 2014). Hence, the research meant to investigate the dynamic correlation between audit quality and board characteristics as well as its impacts on overall firm performance.

This chapter discusses the introductory aspects of the chapter comprises of background of research, statement of problem, objectives and research questions while also covers scope and limitations in this study. Discussion also includes significance of research, hypothesis and conceptual and operational of terms related in this study. Finally, the summary will conclude the first chapter.

1.2 Background of Research

These days, companies' performance is the primary indicators of overall profit-loss experienced in a given period. Stakeholders such as investors surround the globe has paid more attention to the wellbeing of a company measured by its financial conditions. With technological advancement going around, business environment has become more competitive and companies has put in extra efforts just to make sure that survive in the market which includes restructuring of corporate governance and budget provisions in order to grow and maintain its position. Moreover, company with the highest performance have more advantage in terms of attracting potential investors and talented individuals as workers.

In this regard, management plays a crucial role in determining the overall performance because they are the ones managing the company and is responsible in ensuring the wellbeing of the company financial position. Further, company management are responsible in overseeing business expansion through provisions of new structures and regulations in place of its out-of-date current business operations and conduct. In general, companies' performance was determined by internal and external factor such as Return on Equity (ROE). The performance of a company was measured through a process of evaluating operational effectiveness and also efficiency (Al-Matri et al., 2014). As per

Taouab and Issor (2019) study, performance measurement is a process whereby a set of companies' trait and abilities were evaluated to determine its relevancy in business setting.

Performance measurement is an important aspect in management of business. Chen (2017) argue, performance assumes a critical role in the company as it determines the company's overall condition. Yang, Muhammad and Muhammad (2018) conclude with Chen (2017) and added, management is the central focus in performance measurement as it monitors and evaluate the performance of a company while also responsible in aligning performance with company's corporate objectives and strategies. Samiloglu, Oztop and Kahraman (2017) note that a good performance measurement report indicates healthy growth and secure shareholders interest which is to make profit in the long term. Accordingly, financial report frequently seen as the indicator of company's performance where it was note that quality financial reporting will bring about better corporate image.

Management is responsible in making sure that report is done in good quality and does not contain any bias or inconsolable mistake such as data faking. Hence, company strive towards ensuring effective management through the conduct of good performance measurement. Performance measurement is an outcome-based process and is crucial for any companies in with the goals of improving. Ndemezo and Kavitana (2017) argue that performance measurement was used to help company recognize which stages in the operation process posed significant effect to the performance. Success of a firm is therefore being interrelated with how the company perform in a given time. In this case, corporate governance plays significant role in maintaining performance of a firm. The functions of corporate governance are that it served as system which directs and control how the company behave.

According to Azhar and Razak (2017), corporate governance refers to an embodiment of both public and private institutions which comprises of specific set of rules and regulations that is used to govern business conduct. The elements of corporate governance include sound relationship amongst stakeholders and corporate executives. While Dzingai and Fakova (2017) establish that corporate governance is a process whereby company activities were handled and governed in a good faith so as to safeguard long term profit and value of shareholder as well as stakeholders' interests. Therefore, a good system of corporate governance strives for both performance and responsibility of the company (Quang, Kwang & Yu Yi, 2014). Tornyeva and Wereko (2012) view corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers).

The structure of an effective corporate governance outlines the responsibilities of each unit in the company encompasses board members, stakeholders and shareholders while at the same time apply a set of rules in determining the decision made by the management. This helps in setting a goal and direction as well as important in monitoring and evaluation process. As a central functional institution in the internal governance of the company, the presence of the board of directors and board of commissioners are important because of their role in giving strategic direction (board of directors) and providing the key monitoring function (board of commissioners) in dealing with the agency problems of the company (Hidayat & Utama, 2016).

According to Selvam, Gavatthri & Vasanth (2016), a good corporate governance helps the company to appeal investors to inject funds into the operation which in turn enable company to produce higher productivity and subsequently resulting in a higher performance level. To put it differently, company will experience tremendous growth and achievements if it practices good corporate governance routine as it will help the company to sort out challenges faced and focus on how to grow better. Corporate governance is the broad term describes the processes, customs, policies, laws and institutions that directs the organizations and corporations in the way they act, administer and control their operations (Mohan & Chandramohan, 2018; Pang & Nik Intan, 2015).

Furthermore, corporate governance concerns with establishing a good report amongst board company stakeholders which includes shareholders and also not to mention, the backbone of the company; board members. On a theoretical perspective, corporate governance work as an intermediate to resolve any issue related to principal and agent relationship. Shahrudin, Michael and Tan (2019) maintains that an effective corporate governance work as a mediator to an environment where investment sourcing helps in attracting fund and consequently boost competitiveness and promote market which are efficiency-oriented. In essence, it was proven that the presence of effective corporate governance as the main ingredient in good business performance.

1.3 Problem Statement

The financial scandals such as the Enron disaster and WorldCom in 2002 resulted in the further need of corporate governance. Each of these monumental activities led to the loss of self-assurance of manageable buyers in the accounting approaches (Allen, Imbierowicz & Rauch, 2012). Another case took place in the US Sunbeam Company incident (2001) where the stakeholder member of its company indulged in illegal actions with other party which were indicted through capital punishment and the results is loss of confidence among investors (Erkens, Hung & Matos, 2012).

Also, in another separate case, the crisis in Middle Eastern UAE in 2008 has outlines a concrete reasons as to why corporate governance is important in business process.

Agency Theory is often associated with corporate governance. Agency theory is the relationship between the shareholder (principal) and the manager (agent), where the agent has been assigned to perform the service on behalf of the principal (Kultys, 2016). This means that the principal will empower and issue capital to finance the activities of the company by appointing agents to represent them in administering and managing the company with the aim of profit. Separation between these principals and agents will create conflicts in which it will create imbalance of information (information asymmetry) between principals and agents (SMustapha, 2017). Here, issues arise in which agency theory, separation between principals and agents will create conflicts where agents tend to maximize their personal wealth and not to maximize the wealth of principals.

As investor, government and regulators considered firm performance is one of the main criteria in an evaluation process in deciding for investing. Therefore, mostly firms use some characteristic such as the influence of the board characteristics and audit quality in reducing the agency problems and focusing on enhancing performance up to the optimum level. Corporate governance is of paramount importance in the current economic context (Fulop, 2014). Therefore, it is important to determine the origin of the term and to note its essential features. During the credit crisis, the lack of corporate governance (Al-Malkawi, 2014) as well as audit quality (Salehi, 2009) are the main causes of many corporate scandals across the world.

The problem indicates that, in terms of corporate governance, Malaysian companies are less interested by the responsible parties. Hence, the corporate governance mechanisms (board of directors, audit committees and audit quality) are expected to assist in reducing agency costs and costs, thereby enhancing the performance of the company. The trade and service sector companies is selected as a sample in this study is because it contributes to Malaysian economy and growth. In this study, trade and services sector is selected as a sample to examine the relationship and effect between the internal and external corporate governance mechanisms with the company's performance. Previously, most corporate governance research studies only focused on the effectiveness of internal corporate governance mechanisms in resolving conflicts between shareholders and managing agencies.

Based on statement by Tipuri and Podrug (2010), theory of agency problem by which agent (manager and/or employee) seeks to maximize personal goals and achieve economic objectives. As the companies with the large number employees managing capitals in the best interest of shareholders. (Brigham and Houston, 2007) stating several measures that can motivate managers to act in shareholders' best interest ae the managerial compensation, direct intervention by shareholders, firing and threat of takeover. (Lasher, 2008) also state that the effective management of the agency problem includes monitoring of the agent's work. This research can conclude that internal corporate governance mechanism trying to keep up the firm's performance. However, it is increasingly recognized that contractual relationships with an organization with various entities within the external environment, such as customers, suppliers, accountants, lawyers, overseas subsidiaries and network partners, may also experience the same problem that is related with the inequalities of information and behavior of selfish parties.

Malaysia Code of Corporate Governance (MCCG) 2012, surely enhance the roles and responsibilities of the board, strengthen the number of independent director in the board, examine director independences, separation of chairman and CEO position, improves the company management framework and internal controls system, improves the standard of company financial reporting standard, and to have the better relationship between company and shareholders. Moreover, all directors should receive regular training, particularly on relevant new laws, regulations, and changing commercial risks from time to time. Therefore, this study aims to examine the relationships between board characteristics and audit quality and its impact towards company performance.

1.4 Research Objective

The general objective of this research is to examine the relationship between board characteristics and audit quality and its impact on firm performance. This research uses four corporate governance mechanisms which is board size, CEO duality, board ownership and audit quality. Detailed objectives as below;

i. To investigate the relationship between board characteristics with firm performance.

ii. To examine the relationship between audit quality with performance of firm.

1.5 Research Questions

i. How is board characteristics related with firm performance?

ii. How is audit quality related with firm performance?

1.6 Scope and Limitations

The researchers faced a few challenges amid the course of this study. To begin with, the accuracy of the information is completely subordinate on the accessibility of corporate administration information and firm execution. The information collected as it were based on factors displayed in this consider. In expansion, outside and inside components such as information inaccessibility can too influence the result of the think about. This consider is conducted as it were in Malaysia with tests of companies in exchange and benefit segments which cannot speak to the populace as an entirety. The study is limited to the performances analysis from 77 recorded firms on Bursa Malaysia Stock Trade within 5 years period between the year of 2014 to 2018 that exclude banks, financial companies, insurance firms and investment funds.

1.7 Significance of Research

This study can be used as a feedback to the audit process, especially to improve audit quality among companies in service sectors. There are two interests in this study divided into theoretical and practical importance, as follows:

1.7.1 Theory

Theoretically, the outcome of this study is expected to enhance the understanding on corporate governance and firm performance and supporting evidence to the existing research findings. In addition, the results of this study also provide awareness of the importance of good corporate governance towards enhancing to direct, organize, and control the firm's performances, as the corporate governance is a system designated to professionally direct the company based on good corporate governance principles.

1.7.2 Practical

Practically, the results of this study are intended as useful feedback companies, board of directors and stakeholders. For company management, this research study is expanded to be used as a reference in designing a better corporate governance strategy. Company are expected to improve their corporate governance practice to enhance firms' performance. The findings of this study are also expected to motivate stakeholders to learn about best practice in corporate governance such as demonstrating good citizenship through environmental awareness, ethical behaviour, and sound corporate governance practices. Hence, a transparent set of rules and controls created which shareholders, directors, and officer have aligned incentives.

1.8 Summary

The chapter discusses the background, problem statement, research objectives and analysis, scope and limitations, research significance and also definition of terms related to the topic under study. The next chapter will explain about the related studies on the topic based from previous research in order to support the argument put forth in the research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter will explain in details the theoretical framework underlying this study. This chapter also present the reviews of previous research on independent and dependent variables involved which are firm performance, board characteristics and audit quality.

2.2 Theoretical Framework

2.2.1 Agency Theory

The foundation of agency theory that has evolved to date stems from a study entitled Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. This research was conducted by Jensen and Meckling in 1976. However, this research broadly does not only discuss the agency relationship. This research integrates elements of agency theory, ownership rights theory and financial theory to develop the theory of corporate ownership structure. Jensen and Meckling (1976) define agency relationships as contracts in which one or more people (principal) involve another person (agent) to perform several services on their behalf that involve the delegation of decision-making authority to the agent.

As a result of this agency relationship, the emergence of agency problems in this case the agency will try to maximize its own interests while ignoring the interests of the principal even though the main goal of a company is to maximize the welfare of the owners of capital. Therefore, we need a form of control to control the actions of the agent. Because the relationship between shareholders and company managers fits the definition of a pure agency relationship, it should not be surprising to know that the problems associated with "separation of ownership and control" in modern companies with diffuse ownership are closely related to general agency issues (Jensen and Meckling, 1976).

Eisenhardt (1989) states that there are two aspects of the problem found in agency problems, namely:

1) Adverse Selection, which refers to conditions where the principal cannot ascertain whether the agent's capabilities are in accordance with his abilities.

2) Moral Hazard, which refers to the actions of agents who do not comply with what was agreed with the principal. This can occur because of the separation between ownership and control that surrounds most business organizations.

According to Fama and Jensen (1983), agent-principal problem was governed by a system of decision making which splits the corporate conduct while at the same time control evaluation and monitoring process to promote good decision making in an institution. As such, the measures in terms of controlling decision and separates decision management comprises of;

1) Hierarchy in decision making which reflects how agents in the low level provide input and passed it on to those in higher level for approval and subsequently, monitoring process.

2) The approval was made by the board members such as the director in order to make sure that the decision taken has its reliability.

3) An incentive structure that encourages joint monitoring among decision agents. The cost of such a mechanism to separate decision management from decision control is part of the price that public companies pay for the benefit of an unlimited claim of ordinary shares.

According to Messier et al. (2017), the relationship between owners and managers generally creates information asymmetry between the two parties. Information asymmetry means that managers generally have more information about the financial position and the actual operating results of the entity rather than the owner. Then, Messier et al. (2017) explains that because there are different goals, there is a conflict of interest that naturally arises between managers and owners.

If both parties try to maximize personal interests, the manager is believed to not frequently arrive in a decision that satisfy the company owner. Of these two problems, Messier et al. (2017) explain that the manager may agree to certain types of monitoring provisions in his work contract, giving the owner certainty that he will not abuse resources.

The certainty referred to above is through an audit. Jensen and Meckling (1976) argue that principals can control agent behaviour through a provision of adequate monitoring and evaluation process which were specifically made to control further unlawful activities amongst agents. The first method is through reward program, where compensation aims to motivate managers so that managers is motivated to act in company’s best interest and enhance performance and he or she can obtain incentives in the form of additional income even though basically managers can make deviations known as bonus plan hypotheses that stated by Watts and Zimmerman (1986). However, when the manager is unable to reach the targets that were previously set, then the manager will receive a penalty or sanction.

Here, reward and punishment applies to managers. Second, monitoring means that there is principal control over the agent. The audit previously mentioned is a form of monitoring. In addition to auditing, the most common form of monitoring currently aimed at reducing agency conflict is corporate governance, which will be explained in a separate section. There are several alternatives to reduce agency cost quoted from Susilawati (2007), namely:

(1) By expanding the company's share possession by the manager, so that the chief feels straightforwardly the benefits of the choices taken and on the off chance that there are misfortunes that emerge as a result of off-base choice making. This possession will adjust the manager's boundary with interested parties (Jensen & Meckling, 1976). Hence, manager proprietorship offers is a motivating force for supervisors to progress company

execution and supervisors will utilize obligation ideally, subsequently minimizing agency costs.

(2) Increase in pay-out ratio (dividend) to make sure that there was adequate level of cash flow available and if not, managers are urged to attain external sources of funding to boost company productivity and to survive the daily operation (Crutchley et al., 1989).

(3) By increasing funding from debt. Increasing debt will reduce the amount of struggle amongst investors and executives. Further, debt will also reduce the excess cash flow in the company, thus decreasing or limiting the likelihood of manager misuse the funds for non-beneficial activities (waste) (Susilawati, 2007).

The ownership of institutional investors comprises of banking and investment firms as well as ownership through public acquisition will encourage more optimal oversight of manager performance. These efforts were made to minimize any rising struggles in the company relations. Keep in mind, the main essence that causes agency problems is due to the egoism of each individual, in this case principals and agents.

2.3 Boards Characteristic

Based on (Garcia-Sanchez, 2009) the board is seen as the backbone of corporate governance as their main responsibility is to provide effective governance over the company affairs. It is crucial for a listed company to have an effective board with the capabilities and focusing on aligning the management's interests and the shareholders' interests as the board bears overall accountability for the performance of the company. A suitable board characteristic is necessary to produce an effective board while an effective board on the other hand would likely produce positive performance by the company. Board independence and size are among structural measures to determine board effectiveness in its monitoring function (John and Senbet, 1998) while changes in the board characteristics for example appointment of independent directors, creation of board committees and separation of the roles of chief executive officer (CEO) and the chairman contribute to board effectiveness and have been long advocated by corporate governance codes and experts (Van den Berghe and De Ridder, 1999).

2.3.1 Board Sizes

Total number of directors in a company refers to board size of a firm stated (Abdullah, 2004). According to Lipton and Lorsch (1992) and Jensen (1993), both scholars argued that larger boards tend to increase the coordination and lead to decision making problems. Hence they suggested that smaller boards are more effectively managed for the firms. Number of directors should be sufficient to ensure that the board can effectively discharge its roles and responsibilities. At the same time, the size must be contained so that the board does not become too large, which could then compromise board dynamics and the accountability of individual directors.

2.3.2 Board Ownership

Hu, Tam and Tan (2010) identified that corporate governances issue increasing from concentrated board ownership in emerging economies have received growing attention. They employed structural equation modelling to evaluate the independent and interdependent effects of corporate governance mechanism consists role of the board of director, supervisory boards, role duality and board size. Their study covering 304 publicly listed companies over 3 year data set from 2003 until 2005. Results indicate that board ownership concentration has the most significant governance effect and negative impact on firm performance. Meanwhile, role of board directors, role duality and supervisory boards have a positive relationship with performance and others mechanism didn't show any impact since not significant.

2.3.3 CEO Duality

CEO duality refers to a board leadership structure in which the chief executive officer (CEO) is also the chairman of the board (Bozec, 2005). Ideally, from agency theory perspective, Chairman segregates some authority to the CEO rather than solely company owner held the office. This can increase the accuracy balance of accounting, at the same time increase the firm performance (Valenti et al., 2011). However, some studies report no significant relationship (Dalton et al., 1998) while other studies suggest a negative relationship between CEO duality and profitability (Ezzamel and Watson, 1993). On the other hand, according to (Norazian, 2012) CEO duality was found to have a significant effect on firm performance using Return on Asset (ROA) and financial strength (shareholder's right ratio).

2.4 Audit Quality

Concurring to Zheng (2018), review quality of a company with adequate independence and competence which the evaluator ought to be able to discover the fabric misstatements and report them hence completing the review with tall quality. Thus, review quality can be seen through the reviews agreement with examining benchmarks. Also, Pitkanen (2016) characterizes review quality to be the market-assessed joint likelihood of finding a blunder within the monetary articulations and announcing it to the partners. In this consider, review quality will be surveyed in respects to its connection with board characteristics. Examining is one of the control components is utilized by companies to address office issues (Jensen & Meckling 1976; Watts & Zimmerman 1986).

Through auditing, the manipulation of accounting information can be reduced. Auditors are more sensitive to earnings management and make every effort to prevent manipulation of earnings (Hirst 1994). However, the auditing value of each firm varies depending on the quality of the audit firm. Audit quality is defined as the probability that the auditor detects fraud and fraud in the client's accounting system and reports the fraud (DeAngelo 1981). In previous studies, large audit firms (Big 8, Big 6 or Big 5) were frequently used as proxies of audit quality (DeAngelo 1981; Davidson & Neu 1993; Becker, Defonel, Jiambalvo and Subvomanyam 1998; Francis, and Sparks 1999; Gul et al 2001). Non-Big

6 firm customers report higher selections than Big 6 audit firm customer selections on average 1.5% and 2.15% of total assets (Becker et al. 1998). This finding was supported by Francis et al. (1999) found that Big 6 audit firm customers had lower selectable accruals compared to non-Big 6 audit firm subscribers, although Big 6 audit firms had larger accruals.

2.4.1 Audit Tenure

Audit Tenure is the period of engagement time that exists between KAP with the same audited (Hartadi, 2009, Nuratama, 2011). The issue of audit tenure is usually associated with its effect on auditor independence Research conducted by Ghosh and Moon (2003 in Kusharyanti, 2003) resulted in findings that audit quality increases with the length of audit tenure. This is contrary to the results of a research conducted by Indah (2010) which states that the longer the auditor relationship with clients, could decrease the level of audit quality, because the longer the auditor relating to client led the auditor to be bias and impaired the independency.

2.5 Corporate Governance

According to Nuryaman (2008), corporate governance encompasses the stages or relationships to produce efficiency in economic achievement of a firm, and it dictates how a company behave or arrive in a decision satisfying the needs and interests of all parties. The concept derived from theory related to agency which serves as company measures to increase confidence level in investors. In sum, corporate governance is to guarantee investors of their profit return (Herawaty, 2008). Also, it was a concept proposed for the sake of improving company performance through supervision and monitoring of management performance and ensuring management accountability to stakeholders by basing it on a regulatory framework (Nasution, 2007).

According to the Forum for Corporate Governance in Indonesia (FCGI, 2004), corporate governance is a set of regulations that establish the relationship between shareholders, managers (managers) of the company, creditors, government, employees and other internal and external stakeholders relating to rights and their obligations, or in other words a system that regulates and controls the company. Whereas the World Bank defines good corporate governance as a collection of laws, regulations and rules that must be met, which can encourage the performance of company resources to function efficiently to produce long-term sustainable economic value for shareholders and the public around as a whole (Effendyy, 2009). Corporate governance is a system that regulates and control companies which includes providing and improving company value to parties-of-interest (Siallagan, 2006).

2.5.1 Corporate Governance and Agency Theory

In 1992, a report known as the Cadbury report was published and contained a number of recommendations to improve corporate governance practices. This report forms the basis for the formation of corporate governance practices. The many fraud scandals that occurred in the 1990s and involving large companies such as Enron, Worldcom undermined the trust of capital owners. Corporate governance then becomes one way to restore the trust of capital owners. Corporate governance is a system which govern and control the company. The top executives and company management as a whole is exclusively accountable to the performance of the company and the provision of a good corporate governance practice. Shareholders in the management process function to select and hire auditors (internally or externally) based on the corporate governance principles of clean company conduct.

The responsibilities of the board of directors include setting the company's strategic goals, providing leadership to implement them, overseeing business management and reporting to shareholders on their stewardship. The actions of the board are subject to the laws, regulations and shareholders at a general meeting. According to Rankin et al. (2012), corporate governance direct and control company’s practice so that it adheres to a set of rules and abstain from misconduct. OECD describes corporate governance a process-procedures system that govern the company wellbeing. It outlines the job scope and function of each company entities such as stakeholders (managers, directors) and shareholders (investors – private or institution) and assist in helping these units in making sound decision.

By doing this, it also provides a structure through which the company's goals are set, and how to achieve those goals and monitor performance. The Forum for Corporate Governance in Indonesia (FCGI) in Randy (2013) defines corporate governance as a set of rules governing relationships between shareholders, management (managers) of companies, creditors, governments, employees, as well as other internal and external stakeholders related with their rights and obligations or in other words a system that regulates and controls the company. Corporate governance is very much interrelated with theory of agency issue. For example, the case of Enron company which depicts the disparity in knowledge possessed by both agent and principal. Enron Energy is one of America's biggest energy, service and commodity based company which suffered a huge backlash stemming from conspiracy and fraud conducted by its Chief Executive.

The company eventually bankrupt and the cause was known as window dressing situation where the company falsify data to appear that the company is doing good to attract investors. Thus, window dressing is similar to the act of inaccurately report the condition of the company to attract external funds when in fact, the company is in the brink of losses. Not only Enron Chief was responsible in the cover-up, but the auditor which were hired to provide a fair report of the company condition was also found guilty of fraud. The actions have caused Enron to collapse and shut its doors permanently. Theory of agency maintains that the principal (company management) and agents (auditors) should work towards creating a balanced environment where all the data and information shared were accurately depicted.

Since the collapse of the Enron, the Sarbanes Oxley Law was published, which contained regulations regarding the transparency and disclosure of public companies in America.

Corporate governance then absolutely needs to be present in every company. The aim is to reduce behaviours that can harm the principal as explained in the agency theory. As explained above, corporate governance is a set of mechanisms that can regulate the relationships between many parties involved in the company. This corporate governance can then protect the interests of principals who are often harmed due to deviant agents. La Porta et al. (2000) describe corporate governance in general refer to a pre-determined instruments used by the stakeholders (investors) in order to safeguard their interests from being manipulated or misappropriated by company management which includes takeover. Takeovers is available in several types and the typical ones is that company management misappropriate company fund or profit for personal use.

Another type of takeover is when the company management sold accumulated assets or output in which they have full control in but were bought using investors' funds to external forces such as the competitors. The transfer and disposal of assets, although often legal, for the most part have the same effect as theft. In general, takeovers relate to the condition where company manage the operation in a way that it affect the profit in behalf of the investors. As such, company management is said to have used the fund for other purpose undesired by the investors and are motivated by greed. La Porta et al., (2000) reported, instead of giving back the profit to the rightful owner of the company, the management executives use that money for personal benefit and is committing fraud. Hence, corporate governance served as a mediator between investors and company management and to align the interest of both parties to achieve maximum profit. Hence, corporate governance exists to further reduce and harmonize differences in interests between principals and agents, which often do not have the same view.

This has been well explained by agency theory which assumes that every human being or person is interest maximize. The egoism of every human being plays an important role in this regard. Therefore, corporate governance can be one mechanism that reduces this agency problem. Corporate governance can monitor existing contracts between principals and agents. When a violation of a contract is found by the agent either, there will be sanctions imposed by the principal as the party that delegates authority to the agent.

2.6 Relationship Between Board Characteristic and Firm's Performances

It cannot be denied that board size is the one of an important mechanism of effective corporate governance (Bonn, 2004). Despite considerable amount of effort in research on board size, there are still no exact answers among researchers. Based on previous studies, some researchers stated that there is positive relationship between board size and firm performance (Shukeri, 2012) and Lakhal (2005) found that there is a positive but a very weak between board size and firm performance. In addition, Chen (2006) also found that board size is positively related to firm's earning per share (EPS) among listed companies in China while Shukeri (2012) also indicated that board size also positively influences firm's return on assets (ROA). In another study by Sanda et al. (2003), small board size was found to be positively correlates with firm performance but this statement is opposed when it comes to a large board. On the other hand, some researchers argued that there has negative relationship between these two variables (Mishra, 2001). Forbes and Milliken (1999) also argued that board size is not truly a demographic attitudes, thus it is unlikely to affect the board functioning. This statement is also supported by Holthauson and Larcker (1993) who are failed to relate board size with firm performance. Eisenberg (1998) also found negative correlation between board size and profitability when using sample of small and medium Finnish firms. The result is consistent with study on corporate governance of family firms in Norway state by (Mishra, 2001).

2.7 Relationship Between Audit Quality and Firm's Performances

The demand for quality audit has also been motivated by the need to manage agency conflict. Information asymmetry between shareholder and manager creates a moral hazards problem. According to Jensen and Meckling (1976) managers will pursue their self-interest at the expense of shareholders. Agency theory that predicts the agent and principals will recognize that it can be mutually beneficial and interest to reduce the moral hazard and will revising arrangement to align with their self-interest. Independent audit will provides a monitoring device designed to improve information about company performance and reduce information asymmetry. The greater the agency conflict between manager and shareholders, the greater agency cost, and the greater the demand for audits identified as high quality (Palmrose 1986; Francis and Wilson 1988; De Fond 1992; Creswell et al. 1995). Assuming that quality audit might reduce the agency cost where auditor provide an indicators about the credibility of financial statement information concluding lower monitoring cost could lead to better performance of corporation.

2.8 Previous Research

According to Muchemwa et al., (2016), board size refers to the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year. Gunasekar (2014) note that the average board size is 9.2 members, and most boards range from 3 to 31 members. In this study, the size of board members for each company will be analyzed to see its relationship with audit quality and further, firm performance. As stated by Mohammadi, Basir and Loof (2015), CEO duality is when the same person holds both the CEO and board chairperson positions in a corporation. Goergen (2019) on the other hand refer CEO duality as one of the most contentious issues in the area of corporate governance where firms delegate the task of decision management to the CEO, and decision control to the board. In this study, company will be identifying if it involved in CEO duality type or not to give a further understanding on its relation with audit quality and subsequently, firm performance.

According to Pang et al., (2016), board ownership refers to concentrated ownership leads to effective monitoring. This can be understood as ownership structure where the presence of dispersed ownership increases expectation of a positive relationship between measures of corporate governance and firm performance, other things being equal (Afshan, Chhetri & Pradhan, 2011). Thus, in this study, the type of company ownership will be analysed in its relation with audit quality and firm performance. Brickley et al. (1988) concluded that the board's ownership is an encouragement for board members. This encouragement will help board members supervise management in a more efficient way. Consistent with this view, Jensen and Murphy (1990), Raouf and Harun (2011), Chung and Pruit (1996) considered that boards' ownership will improve company performance. Mehran (1995) presented empirical evidence that there is a positive correlation between board ownership and firm's performance.

2.9 Summary

This chapter explains the theoretical framework underlying this study. The concept of corporate governance, empirical discussion on the relationship between corporate governance and firm's performance is also presented. The next chapter will discuss on the methodology approach in this study.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter will explain the method adopted by this research. This chapter will mention every component involved in conducting this research. Finally, this chapter provide a details explanation of the selected mode of analysis used and data collection method.

3.2 Research Framework

3.2.1 Framework

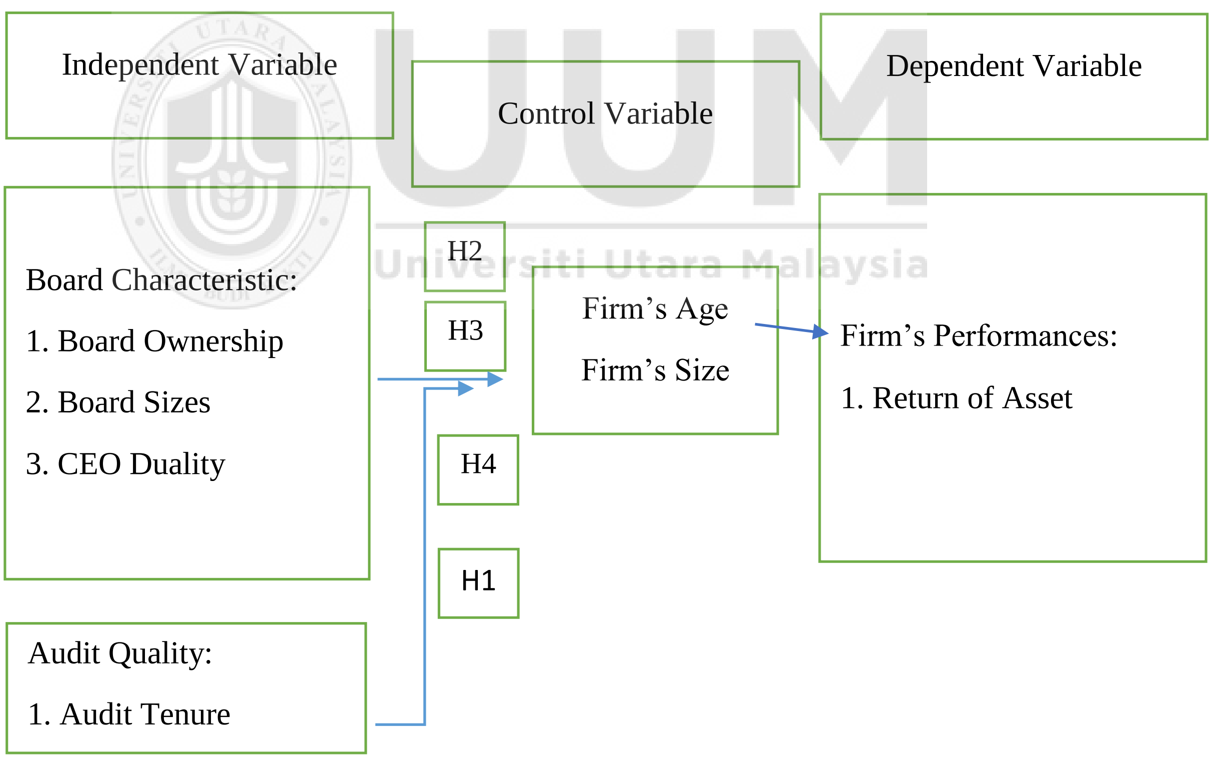

Figure 3. 1:

Research Framework Based on variables

3.3 Hypotheses Development

Evidence from previous empirical studies from academic literature has sought to confirm the effect of corporate governance on a firm's performance. A literature review from relevant academic studies has indicated the following characteristics applied to corporate governance such as: (i) Audit Tenure; (ii) Board Ownership; (iii) Board Sizes; and (iv) CEO Duality. Each of these characteristics will be discussed in details and in turn below;

3.3.1 Audit Tenure

Audit Tenure is the number of period-years an audit firm, an auditor audits a client or the number of years a company employs the same auditor. Long audit tenure may increase the knowledge about the client's internal operation but, the downside is that the auditor's independence may get compromised (Islam, 2016; Feleke, 2017).

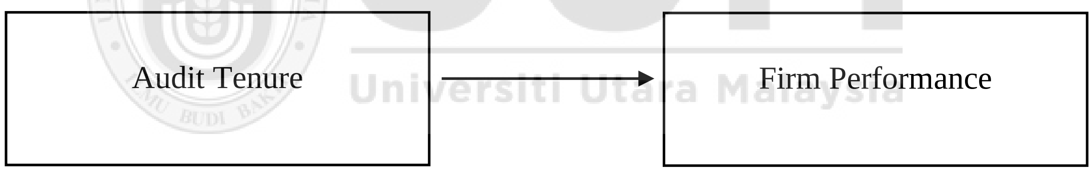

Figure 3.2:
A relationship between audit tenure and firm performance

Figure 3.2, illustrates the relationship between audit tenure and firm performance. Therefore the relationship between audit tenure and firm performance is hypothesized as follows.

H1: There is a relationship between audit tenure with firm performance.

3.3.2 Board's ownership

Brickley et al. (1988) concluded that the board's ownership is an encouragement for board members. This encouragement will help board members supervise management in a more efficient way. Consistent with this view, Jensen and Murphy (1990), Rouf and Harun (2011), Chung and Pruitt (1996) considered that, board's ownership will improve firm's performance. Mehran (1995) presented empirical evidence that there is a positive correlation between board ownership and firm's performance.

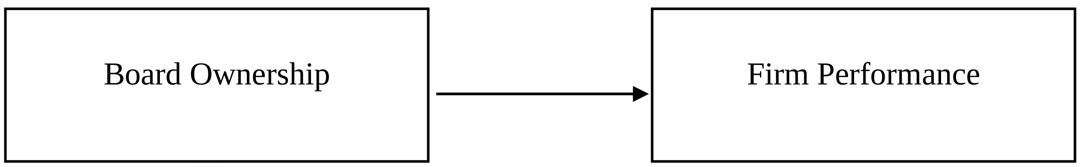

Figure 3.3:
A relationship between board ownership and firm performance

Figure 3.3, illustrates the relationship between board ownership and firm performance. Therefore the relationship between board ownership and firm performance is hypothesized as follows.

H2: There is relationship between board ownership with firm performance

3.3.3 Board Size

In relation to a relationship between the size of a board and a firm's performance, there are two distinct schools of thoughts. The first school of thought argues that a smaller board size will contribute more to the success of a firm (Lipton & Lorsch, 1992; Jensen, 1993; Yermack, 1996). However, the second school of thought considers that a large board size will improve a firm's performance (Klein, 1998; Rouf, 2011). These studies indicate that a large board will support and advise firm management more effectively because of a complex of business environment and an organizational culture (Klein, 1998). Moreover, a large board gather much more information. As a result, a large board size appears to be better for firm performance (Dalton, 1999). On the ground of this study, a research hypothesis is formed as below:

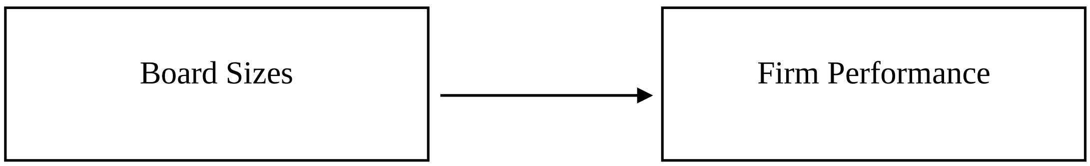

Figure 3.4:
A relationship between board sizes and firm performance

Figure 3.4, illustrates the relationship between board sizes and firm performance. Therefore the relationship between board sizes and firm performance is hypothesized as follows.

H3: There is relationship between board sizes with firm performance

3.3.4 Duality of the CEO:

In Europe, 84 per cent of firms separate the roles of chair of a board and a CEO of a firm (Heidrick & Struggles, 2009). Accoring to a Hewa-Wellalage and Locke 2011 study, in Sri Lanka, the Sri Lankan code of best practice on corporate governance emphasizes the balance of power within a firm to minimize any one individual's influence to the decision making process. These rules provided recommendation that when there is a duality in a firm, a number of independent directors on a board should be a majority to provide balance and an effective and efficient operation of a board. As a result, this study's research hypothesis is developed as follows:

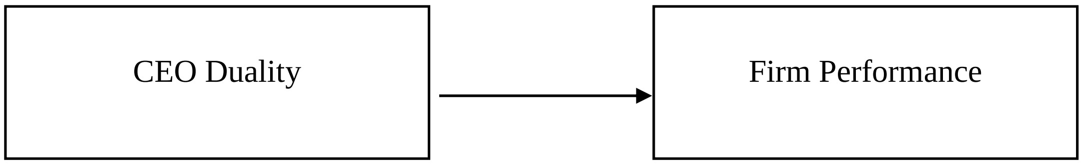

Figure 3.5:
A relationship between CEO Duality and firm performance

Figure 3.5, illustrates the relationship between CEO Duality and firm performance. Therefore the relationship between CEO Duality and firm performance is hypothesized as follows.

H4: There is relationship between CEO Duality with firm performance

The study by Abdullaha et al., in 2014 however contradicted with this research. They found that independence of audit committee does not play any significant impact in reducing companies' problem with efficiency and honesty in reporting financial data. Audit committee also was not involved with companies' profit accumulation and process and if there is a function of audit committee being so independent is that it was fraud waiting to happen (Abdullaha et al., 2014).

3.4 Research Design

This study was relying on quantitative design. Statistical analysis, table or graph was typically applied in this study. The evaluation and assessment of the firm performance was according to the data gathered from the company's' annual report.

3.5 Definition and Measurement of Variables

3.5.1 Independent Variable

There are two independent variables in this study which is the board characteristic and audit quality. The board characteristics analysed in this study involved board size, board ownership and CEO duality. Meanwhile, for audit quality analysed in this study involved only audit tenure.

3.5.2 Dependent Variable

In this study, the performance of the firm is used as the dependent variable which is measured through a method called accounting and market based approach. This study will use Return on Asset (ROA) will be utilized to depict approach for accounting method.

3.5.3 ROA

Return on Assets is obtained by the company in connection with the overall resources or the average amount of assets. In other words, Return on Assets or often abbreviated as

ROA is a ratio that measures how efficient a company is in managing its assets to generate profits during a period. ROA is expressed as a percentage (%).

3.5.4 Control Variables

In order to analyses the impact of the board characteristics and audit quality on firm performance, we have employed several other explanatory variables that may affect the board size and firm performance relationship. These control variables are employed in accordance with the variables used in the existing literature.

3.5.5 Firm Size

It is measured as a natural logarithm of total sales (Boone et al., 2007). Different researchers reported an ambiguous relationship between the firm size and the firm performance (Agrawal & Knoeber, 1996; Fama & Jensen, 1983).

3.5.6 Firm Age

Natural logarithm of the number of years between the observation year and the incorporation year of the firm is taken as the firm age (Boone et al., 2007; Garg, 2007).

3.5.7 Measurement of Variables

Variables	**Definition**	**Measurement**
Dependent Variable		
ROA	Return on Asset	(Earnings Before Tax and Interest)/Total Assets
Independent Variables		
Board size	Board members	Number of inside and outside directors on the board
Duality	CEO Dual	Coded "1" if Chairman also holds the position of CEO and "0" otherwise
Ownership	Board's Ownership	Ratio of shares held by director divided by total outstanding shares
Audit Tenure	Audit Tenure	Number of years of for auditor.
Control Variables		
Firm Size	Firm size	Natural logarithm of book value of total assets
Firm Age	Years of establishment	Natural logarithm of years since establishment

Table 3.1:

Measurement for each Variables

3.6 Statistical Analysis

In this study, descriptive statistics was employed. Also, to measure the degree of linear dependency among variables, correlation test using Pearson correlation was used. The thesis took into account the panel data regression models which is random effect and fixed effect model which was selected using Hausman test. To analyse the effect of board characteristics and audit quality towards firm performance, a technique called Feasible Generalized Least Square (FGLS) regression was employed. This method was used to estimate unknown parameter in the linear regression model.

3.7 Sample and Data

3.7.1 Sample

A sample was collected from 122 listed firms on the Bursa Malaysia Stock Exchange for the period of 5 years from 2014 to 2018 inclusive. This sample did not include banks, financial companies, insurance firms and investment funds due to significant difference of the capital structures and operations' requirements. It is noted that formats of annual reports and financial statements of these 122 listed firms are not similar. As such, missing data is unavoidable. As a result, listed firms missing any required data are excluded from the final sample of the study. The final sample only includes 77 listed firms with the total of 325 observations. This research sample includes listed companies in trade and services sectors.

3.7.2 Data

Data involved in this study was mainly from secondary sources. The main data panel was company annual financial report from year 2014 until 2018. The company selected was those listed in Bursa Saham Malaysia Stock Exchange. Data was analysed using Statistical Analysis Software (SAS) and Excel.

3.8 Method of Analysis

3.8.1 Multiple Linear Regression

Multiple linear regression (MLR), also known simply as multiple regression, is a statistical technique that uses several explanatory variables to predict the outcome of a response variable. The goal of multiple linear regression (MLR) is to model the linear relationship between the explanatory (independent) variables and response (dependent) variable. In essence, multiple regression is the extension of ordinary least-squares (OLS) regression that involves more than one explanatory variable. Below is the formula of MLR.

As in the formula i = n

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \ldots + \beta_p x_{ip} + \epsilon$$

A simple linear regression is a function that allows an analyst or statistician to make predictions about one variable based on the information that is known about another variable. Linear regression can only be used when one has two continuous variables which an independent variable and a dependent variable. The independent variable is the parameter that is used to calculate the dependent variable or outcome. A multiple regression model extends to several explanatory variables. The purpose of constructing of this model is to find out the impact of audit quality on firm performance using ROA and TQ as measures for firm performance. ROA measures firm profitability as proportion of net income to firm total assets, whereas TQ measures firm value as proportion of market capitalization of firm to firm total asset

The model used to test the hypothesis is a follows:

$$Y = a + b_i X_i + b_i X_2 + b_i X_3 + b_i X_4 + e$$

Description:

Y = Firm Performance

X1 = Audit Tenure

X2 = Board Ownership

X3 = Board Sizes

X4 = CEO Duality

e = Error

3.9 Summary of the Chapter

The chapter begin with an introduction then describe all hypothesis development in this study. Research design and framework is also mentioned before discussing the sample and measurement of variables. The data were collected are then analyzed and discussed and the results are displayed.

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings and results of the study. The data presented was processed using SAS software and the results reflect the importance of the assumptions projected in this study. Analysis will be presented using descriptive and inferential analysis.

4.2 Descriptive Analysis

4.2.1 Demographic Data

Table 4.1:

Demographic Profile of 77 Listed Companies in Malaysia

Sectors	**Frequency**	**Percentage (%)**
Plantation	5	6.00
Properties	10	13.00
Industrial Products	9	12.00
Construction	8	10.00
Trading or Services	20	26.00
Consumer Products	22	29.00
Technology	3	4.00
Total	77	100.00

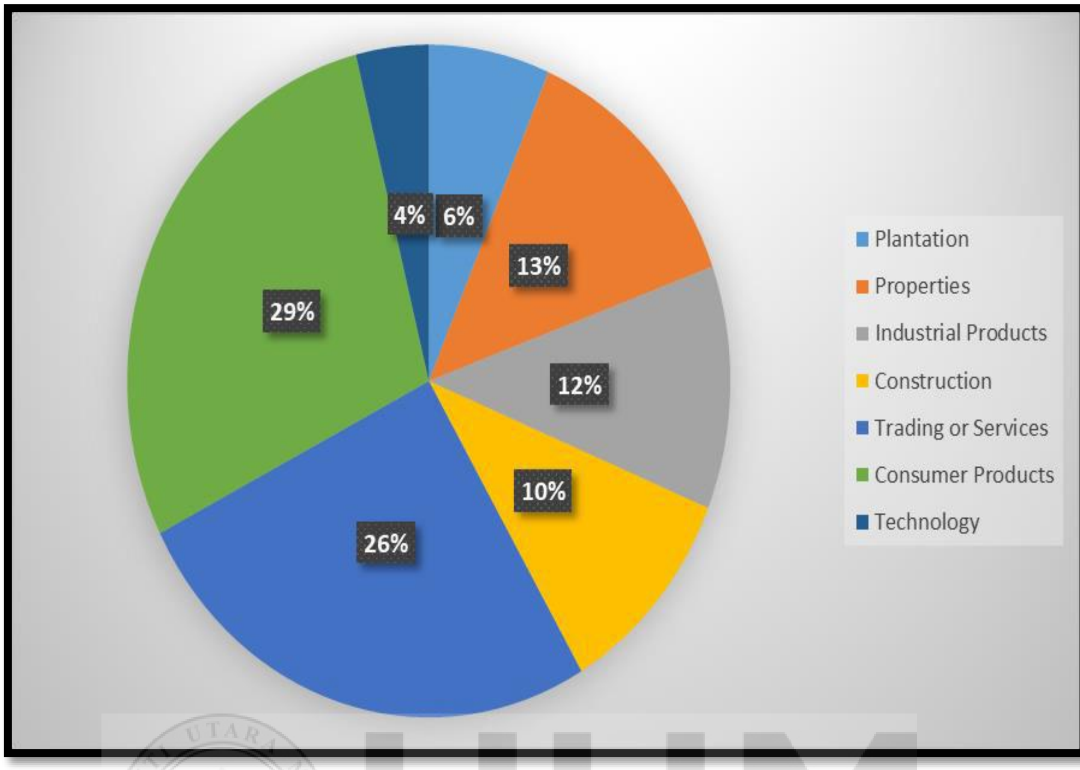

Figure 4.1:

Summary of Respondents Demographic Profile

Table 4.1 shows the information comes about appeared in term of recurrence and rate after the collected information being analysed. There are add up to seven (7) divisions for the 77 investigate test sample companies taken an interest within the advertise counting items of plantation, properties, industrial product, construction, trading or services, consumer products and technology. According to Figure 4.1, the consumer product division has possessed the biggest rate of 29% compared to other businesses, taken after by two other segments which is trading or services with 26% and properties with 13%.

The segments with the most reduced rate are the plantation with as it were 6% as well as the industrial product and construction segment has as it were shared by 12% and 10%

separately. As generally, among the seven divisions within the 77 list companies, there are three segments that shared less than 15% which are plantation (6%), industrial product (12%), construction (10%) and technology (4%). The divisions that in 6% is properties (10%). The trading or service (26%) and consumer product (29%) are the divisions that involved in between 20% to 30%. It is noted that formats of annual reports and financial statements of these 122 listed firms are not similar. As such, missing data is unavoidable. As a result, listed firms missing any required data are excluded from the final sample of the study.

4.2.2 Constructs in Central Tendencies Measurements

Table 4.2:

Central Tendencies Measurements (CTM) for Independent and Dependent Variables

N=77

Variable	Mean	Std. Deviation	Minimum	Maximum
Dependent Variable: Firm Performance				
ROE	10.7498	5.13862	-11.39	20.84
Independent Variable: Board Characteristics Audit Quality				
Board Ownership	0.61800	0.05395	0.30	1.00
Board Sizes	0.48690	0.50030	0.40	2.00
CEO Duality	0.16670	0.18765	0.30	1.00
Audit Tenure	3.16000	0.11508	0.67	1.00

This section presents the results of central tendencies measurements for independent and dependent variable. It was found that the performance of determined through the ROE rate. The data for dependent variable was recorded as 10.7498 with standard deviation of 5.13862. Further, the lowest ROE rate was recorded in negative number (-11.39) whereas the highest ROE rate were a solid 20.84. As for mean data, 0.9538 mean were recorded for Audit Tenure (SD= 0.11508). The results indicate that audit committee in the sample companies were independent or at least possess some sort of autonomy which enable them to take up their own decision. Minimum value recorded were 0.67 and 1.00. In term of Board Ownership, 0.61800 was the mean while 0.05395 was the standard deviation. It can measure by ratio of shares held by total outstanding shares. The maximum and minimum value of Board Ownership was 1.00 and 0.30. For Board Size with a mean of 0.48690 and standard deviation of 0.50030. Meanwhile, the maximum and minimum value of Board Sizes was 2.00 and 0.40. It also can be measure by number of inside and outside directors on the board. In relation to the CEO Duality, table 4.2 presented 0.16670 mean with a deviation of 0.18765. The minimum value of CEO Duality was 0.30 then the maximum value was 1.00.

4.3 Scale of Measurement

4.3.1 Test of Reliability

The data collected in this study were based on companies' financial reports which were retrieved from Bursa Malaysia Stock Exchange website. Period of data gathering only took into account reports for the year 2014 until 2018. As per the findings of Romi (2013), large companies are more susceptible to public perception because of its reputation. Hence, it will experience less external interception and have the ability to conduct its own decision. Being known and subjected to public perception, big companies have more tendency to provide an insightful information about their operation which includes financial reports, integration and related scheme (Sulaiman, Abdullah, & Fatima, 2014). Since reliability is about whether a set of data was fit to be used in a research context, the annual reports were considered reliable as it comes from companies' own database and internal investigation.

4.3.2 Normality Test

In general, normality tests were used to show whether a set of data is distributed normally within a given population (Singh, & Masuku, 2014). Ghasemi and Zabediasl in their 2012 study note that data dispersion often overlooked because it was subjected to external perception. Normality tests might be subjected to breach of privacy basically denote if a given variable can be used as a statistical measure. Hence, should a variable does not pass the test, it was referred as abnormality, caused by mainly outliers. According to Field (2009) and Elliot and Woodward (2007), the value of normality test should be based on the rate of less than 30 or 40 in order to make sure the data distribution validity.

Normality tests normally showed in terms of histogram which require a larger sample size in order to picture and accurate value of normality. However, other forms of graphical representation can be used if it is fit. In terms of statistical significance, normality tests are important in determining if a data is usable in the study. Therefore, normality tests were not applicable in this study because the data were taken from reputable sources.

4.4 Inferential Analysis

4.4.1 Pearson Correlation Analysis

Table 4.3:

Correlation between Variables

			BCHAR		AUDQ
	ROE	**BCHAR1**	**BCHAR2**	**BCHAR3**	**AUDQ1**
ROE	1				
BCHAR1	0.02431	1			
BCHAR2	0.06276	0.03213	1		
BCHAR3	0.09332	0.11521	0.0140	1	
AUDQ1	0.56145	0.06213	0.0700	0.0730	1

Where, N = 77

ROE = Return on Equity

AUDQ = Audit Quality

BCHAR = Board Characteristics

BCHAR1 = Board Ownership

BCHAR2 = Board Sizes

BCHAR3 = CEO Duality

AUDQ1 = Audit Tenure

Inferential analysis involved in this study were the Pearson Correlation test. In this test, the value recorded was coefficient expressed as R value which was responsible in determining the significance between independent and dependent variable. This test also showcases whether one variable impact positively or negatively with another. The outcome for correlation analysis in this study were shown in table above. Dependent variable is firm performance while independent variables were audit quality and board characteristics. ROE were used as statistical measure for firm performance which according to Garson (2006), work as an important tool to determine the issue multicollinearity.

Hence, the correlation value for AUDQ1 with ROE recorded at 0.56145. As for BCHAR2 and BCHAR3 with ROE, the significant value recorded at and 0.02431 and 0.09332 at 90% confidence level. For BCHAR1 with ROE, the significant value recorded at 0.06276 at 95% confidence level. In this sense, both BCHAR and AUDQ showcase a value of less than 1 which denote that multicollinearity does not applied. Hence, the correlation results are in line with Multiple Linear Regression assumptions which the basics of regression coefficient analysis. The results also show that there is some degree of significance between independent and dependent variable with firm performance.

4.4.1.1 Audit Tenure

In general, there the relationship between audit tenure and firm performance is significant. The value of R recorded in this study is between 0.41 and 0.70 and this signify that AUDO1 correlates positively with firm performance. The significance value is 0.56145 which is higher than $p<0.001$. Therefore, H0 (There is no correlation between audit tenure and performance) was not accepted while H1 was accepted.

4.4.1.2 Board Ownership

In this study, it was also revealed that board ownership correlates positively with the performance of a firm. Pearson correlation value for this relationship were recorded at 0.02431 which is higher than $p<0.05$. Hence, board characteristics is significantly correlated with firm performance. Therefore, H0 (There is no correlation between board ownership and performance) was not accepted while H2 was accepted.

4.4.1.3 Board Sizes

In this study, it was also revealed that board sizes correlates positively with the performance of a firm. Pearson correlation value for this relationship were recorded at 0.06276 which is higher than $p<0.001$. Hence, board characteristics is significantly correlated with firm performance. Therefore, H0 (There is no correlation between board sizes and performance) was not accepted while H3 was accepted.

4.4.1.4 CEO Duality

In this study, it was also revealed that CEO Duality correlates positively with the performance of a firm. Pearson correlation value for this relationship were recorded at 0.09332. Hence, CEO Duality is significantly correlated with firm performance. As such, H0 (There is no correlation between CEO Duality and firm performance) was not accepted and that H4 was acknowledged instead.

4.4.2 Multiple Linear Regression Analysis

Table 4.4:

Model Summary of Multiple Linear Regression Analysis

Model Summary

Root MSE	Dependent Mean	Coefficient Variance	R-Square	Adjusted R-Square
3.65874	10.74980	34.03540	0.5135	0.4930

a. Predictors: (Constant), AUDQ, BCHAR

b. Dependent Variable: ROE

The table above represent the value of R square (R^2) in model summary. It was referred to as a coefficient to determine value. The value of R^2 was recorded at 0.5135 and signified a variance level of 51.35% amongst firm performance which is the dependent variable in the study. Casually, the results mean that independent variable involved in this study which is audit quality and board characteristics can predict firm performance through value of ROE. Also, the percentage of remaining variance which is 48.65% was determined by other variables or factors which is not included in the study. Meanwhile, the adjusted R^2 refer to the value which were deemed as reliable in ROE determination. In order to explain variable explanation and its impact against performance of a firm, several conjecturers in terms of variables will be utilized in the model summary. To make it short, the model summary was deemed accurate and adequate to predict variation in data.

Table 4.5:

Analysis of Variance

Source	DF	Sum of Squares	Mean Squares	F Value	Pr> F
Model	4	1342.43260	335.60815	25.07	<.0001
Error	95	1271.70420	13.38936		
orrected Total	99	2614.13680			

a. Predictors: (Constant), AUDQ, BCHAR

b. Dependent Variable: ROE

In Table 4.5, analysis of variance was shown. It was found that the level of p-value (0.0001) is lower than 0.001 which means that the model summary in the study is significant in terms of statistical analysis and is acceptable in relation to the outcome. The value of F is 25.07 and the significant table is 0.001 (Weiers, 2010) while the level of numerator freedom recorded at 4 and denominator freedom level recorded at 95. In general, the variables in the study can be used to determine firm performance through ROE valuation determination. Overall, the model is significant and statistically fit in the research.

Table 4.6:

Parameter Estimates

MODEL	Unstandardized Coefficient		Standardized Coefficient		
	β	**Std. Error**	**Beta**	**t-value**	**Sig.**
(Constant)	12.80023	4.28196	0	-2.99	0.0036
AUDQ1	15.01703***	3.64943	0.33632	4.11	<.0001
BCHAR1	0.09542*	0.05123	0.13745	1.86	0.0642
BCHAR2	0.17541*	0.04122	0.31244	4.27	0.0621
BCHAR3	0.00521	0.02012	0.01933	0.25	0.8001

Where, *** = $p < 0.0001$

** = $p < 0.05$

* = $p < 0.10$

a. Dependent Variable: Firm Performance (ROE)

4.4.3 Unstandardized Coefficients

In order to find out the influence of independent variable towards dependent variable, unstandardized coefficients (β) were employed through developing a regression equation. The results generated in Table 4.6 has contributed to the development of the regression as below.

ROE = 12.80023 + 15.01703 (AUDQ1) + 0.09542 (BCHAR1) + 0.17541 (BCHAR2) + 0.00521 (BCHAR3)

Table 4.7:

Measurement for each Variables

Variables	**Definition**	**Measurement**
Dependent Variable		
Return On Equity	**ROE**	Net Income/ Shareholder Equity
Independent Variables		
Board Ownership	**BCHAR1**	Ratio of shares held by director divided by total outstanding shares
Board Sizes	**BCHAR2**	Number of inside and outside directors on the board
CEO Duality	**BCHAR3**	Coded "1" if Chairman also holds the position of CEO and "0" otherwise
Audit Tenure	**AUDQ1**	Number of years of for auditor.

H_1 expects a positive and significant relationship between Audit Tenure ROE. It was aligned with the outcomes showed in Table 4.6 whereby AUDQ1 was found to have a significant effect to ROE, as the p-value located at less than 0.0001, which is lower than 0.05. Meanwhile, AUDQ1 with highest positive beta weight (β=15.01703) indicates a positive relationship.

H_2 anticipates a positive and significant relationship between Board Ownership and ROE. It was aligned with the outcomes showed in Table 4.6 whereby BCHAR1 was found to have a significant effect to ROE, as the p-value located at 0.0642, which is lower than

0.10. Meanwhile, BCHAR1 with positive beta weight (β=0.09542) indicates a positive relationship.

H_3 showed a positive and significant relationship between Board Sizes and ROE. It was aligned with the outcomes showed in Table 4.6 whereby BCHAR2 was found to have a significant effect to ROE, as the p-value located at 0.0621, which is lower than 0.10. Meanwhile, BCHAR2 with positive beta weight (β=0.17541) indicates a positive relationship.

H_4 predicts a positive and significant relationship between CEO Duality and ROE. It was aligned with the outcomes showed in Table 4.6 whereby BCHAR3 was found no effect to ROE, as the p-value located at 0.8001, which is more than 0.05. Meanwhile, BCHAR3 with positive beta weight (β=0.00521) indicates a positive relationship.

4.4.2 Standardized Coefficients

Standardized coefficients were used in this study to identify the contribution of each variable in relation to the conceptual model. The larger beta of independent variable will lead to a remarkable change on dependent variable. According to Table 4.6 showed that the standardized coefficients (β) of all independent variable. The independent variable that showed the highest β value is AUDQ1 (0.33632), continued with BCHAR2 (0.13745), BCHAR1 (0.13745) as well as BCHAR3 (0.01933)

4.5 Summary of Statistical Analysis

4.5.1 Descriptive Analysis

This study investigates a total of 77 companies for which were dispersed in different sectors. All of the companies were listed in Bursa Malaysia Stock Exchange. Previously, Table 4.2 shows the summary of overall descriptive statistics which involves the mean and standard deviation value of audit quality, board characteristics and firm performance. The data of each companies' financial report was retrieved from Bursa Malaysia Stock Exchange official website. Dataset was limited to a period of 5 years starting from 2014 until 2015.

4.5.2 Inferential Analysis

4.5.2.1 Pearson Correlation Analysis

Table 4.8:

Summary of Pearson Correlation Analysis

Alternative Analysis	Pearson Correlation	Strength	Significant p- value	Significance of correlation	Result
H1: There is a significant relationship between audit quality with firm performance	0.56145	Moderate	<.0001	Significant	Reject H0 & Accept H1

H2: There is a significant relationship between Board Ownership with firm performance	0.02431	Moderate	0.0642	Significant	Reject H0 & Accept H2
H3: There is a significant relationship between Board Sizes with firm performance	0.06276	Moderate	0.0621	Significant	Reject H0 & Accept H3
H4: There is a significant relationship between CEO Duality with firm performance	0.00521	Slight but negligible	0.09332	Insignificant	Accept H0 & Reject H4

While the correlation between variables in this study was measured by Pearson correlation analysis. Independent variable includes AUDQ and BCHAR while dependent variable is ROE (performance of a firm). In summary, AUDQ1, BCHAR1 and BCHAR2 independent variables moderately correlate with the performance of the firm in this study with r value of 0.56145, 0.02431 and 0.06276. In addition, BCHAR3 was found have a insignificant relationship with ROE.

4.6 Discussion of Major Findings

4.6.1 Relationship between Audit Quality and Firm Performance

As for the first hypothesis testing (H1), there was significant relationship between audit quality and firm performance and that H1 was accepted, HO was rejected. The result indicates that audit quality with a degree of autonomy subsequently impact on how firms report on their financial data. The significant level is less than 0.001. The findings were supported by Jackson et al., (2007) states that the audit tenure can provide auditor firm a better understanding of his clients, thus increasing audit quality.

This will in turn help the company to portray a good governance image which boost the confidence among current and potential investors. Mamun et al., (2014) also in agreement with the findings of this study. Their study found that audit committee who are not influenced by external or internal forces will subsequently affect how the company report its data and furthermore can help in reducing mistakes in account-related facts and figures. Moreover, a study by Wang and Huynh in 2013 also revealed that independent audit board have some significance in firm’s investment ratio. In this sense, it was believed that independent audit committee is responsible in maintaining company honesty in data reporting especially related to their financial situation.

4.6.2 Relationship between Board Characteristics and Firm Performance

The findings for this hypothesis showed that there was a significant relationship between board ownership and board sizes with company performance. The value of p recorded is less than 0.001 which means that H2 and H3 was accepted and HO was rejected. Meanwhile, for relationship between CEO Duality with company performance, the value of p recorded is more than 0.001. Which means that H4 was rejected and H0 was accepted. The findings of this study is in line with majority of the previous studies which note that there was a significant relationship between board characteristics and firm performance. For example, the study by Amer et al., (2014) which found that the size of the board committee plays an important role in the performance of a firm. The study by Azim 92012) and Al-Rasas and Kamardin in 2015 also corroborate with this study. They state that board members are responsible in influencing audit quality in the sense that their position is directly associated with companies' performance. The large number of board members will either help audit committee to complete audit process faster and improve efficiency or either influenced in the auditing process in the sense of tampered audit outcomes

Also, Matari et al., (2012) noted that larger board members mean high authority provision and wider knowledge base to assist audit committee in completing the audit process. The findings by Chandrasegaram et al., (2013) however contradict with the findings of this study. They further added, the number of the board members do not significantly relate with how the company perform in a given time. They also questioned the assistance given by board members in helping audit committee to perform their intended tasks. In addition, board members with high knowledge and skills are unlikely to provide a helping hand to especially external audit members and thus, does not correlate with monitoring and evaluation process of a company's performance.

4.7 Conclusion

This chapter presents the findings and discussion of the results. The data was organized into tables to better accommodate understanding of readers. The research found that audit quality and board characteristics plays significant role in determining companies' performance. The p-value recorded for both independent variables was well under 0.0001 mark. The following Chapter 5 is the last chapter in this study which includes implications, study limitations and also recommendations for further research.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter discusses on several subsections which includes study implications, limitations and also recommendations for this study was also outlined in this chapter. Implications in this study were divided into two subthemes which is theoretical and managerial implications. Recommendation made was a string of suggestions on how to improve current research and provide insights to how future researchers who wanted to investigate the same topic would benefit from this thesis.

5.2 Implications of Study

5.2.1 Practical Implication

The study meant to assess the effect audit quality and board characteristics has to the firm performance of the recorded organizations. The findings showed that there is a relationship between audit quality and board characteristics which subsequently impact on how company perform. The findings of the study possess significant role towards the betterment of managerial role. For example, a company which are aware with how audit quality impact on overall performance will subsequently assist them in hiring reliable internal or external audit service to bring about sound financial report and better public image. Hence, management body of a company will be able to cater the needs of public demand for transparent financial reporting and also stakeholders' interest in making sure that company's image maintains good.

Further, in order to comprehend the basic impacts of audit quality and board characteristics to firm performance, the management will need to fork out bigger costs to cover the effects caused by inaccurate audit report. This could be in terms of tarnished image, sales plunge and also overridden debt due to investors pulling out from investing in the company. Hence, management need to be vigilant and are responsible in providing an environment which is not susceptible to fraud and other company wrongdoings, because if it was exposed in the audit report, the company will suffer bad consequences in general to their profit rate and performance. Other than that, the finding of this study encourage the company to practice good audit board members' selection process as to ensure that the hired auditors have the capacity to work together with the company without being subjected to company's board members' authority in providing a good and partial financial report.

In this sense, the management is responsible in making sure that the company outsource good external or internal audit members and to ensure board members have little to or no control over the autonomy of audit committee. Thus, the findings of this study is important to managerial functions and duties to preserve good financial report practice and maintain good overall company image.

5.2.2 Theoretical Implications

Studying firm performance is a challenging task because it involves many internal and external factors. The validity of the financial data depends on the subject itself. If a data was extracted from the company site, validity is one of the measure to determine whether the facts and figures tally with the current performance of the company. Since there may not be an ideal method of measurement or determination of firm performance, researcher have used a method that is considered the best that can be done according to the time and purpose of the study. For business and financial researchers, this kind of study is an update to many studies that have been carried out in the past especially in the context of Malaysia. Theoretically, this study contributes to how firm performance is impacted by audit quality and board characteristics which is among the factors influencing companies' decision and process.

5.3 Limitations of the Study

A few limitations which may impacted the understanding of discoveries in the exploration ought to be underscored. It is critical to distinguish the impediments that oblige the investigation with the goal that future scientists ready to utilize the restrictions as a chance to depict the requirement for future research. To begin with, this study is just to focus on board characteristics and audit quality as affected factors and their effects to companies' financial performance in Malaysia. Consequently, there are just constrained quantities of past examinations that completed in Malaysia to be utilized as reference. Accordingly, this may influence the academic writing and the examination of research issue into this topic.

Aside from that, this study was hypothetically developed based on null hypothesis in connection to audit quality, board characteristics and firm performance. In this way, the research was limited on focusing on only board characteristics and audit quality without taking thought on other related factors, for example, audit members. Aside from that, the researcher experiences a limitation in terms of time constraint. Since the project was expected to be completed within a timeframe, with careful efforts taken in terms of time management, the researcher was able to overcome the time constraints and conclude the project successfully.

5.4 Recommendation of the Study

Given that this study has its own limitations, several further studies are suggested. Further studies in the performance are needed to help identify the elements that help make the practice of sound audit review and board involvement more comprehensive and systematic. This study was conducted in involving only listed companies in Malaysia. It is recommended that a further study be conducted focuses on the process of audit and the extent of board involvement in audit process including selected board members and auditors of the company. The findings can be compared between company performances in different sectors constructs. In addition, this study should be conducted in settings other than business sectors. These may include the hospitals, schools and more because it also a part of economic institution. In Malaysia several initiatives and major development has been taken by the government to strengthen the board structure and composition in order to create good dynamics of board meetings discussion which will lead to better firm performance and create good value creation to shareholders and the firm itself. Future research could also explore on board characteristics and firm performance by using different research method and other approach. Semi structured interviews with board members will provide further insights and information on the effects of board characteristics and firm performance.

5.5 Conclusion

In conclusion, the study has successfully determined the relationship between audit quality and board characteristics with firm performance. The findings proved that firms in Malaysia were affected by how well the audit outcome and the elements in board characteristics in determining their overall business achievements and success. Implications of this study in terms of managerial perspective is that it can serve as a guideline for company management to take audit quality seriously. This includes to make sure that the board members do not directly intervene with the auditing process in the sense that it can tamper the outcome of the audit process.

This is not only beneficial in terms of company image, but also useful as a tool to attract potential investors due to reliable and sound audit records reflecting company past and current performances. In terms of theoretical aspect, this study provides a benchmark for future study intends to dive into the same topic circulating Malaysian business setting. Also, the researcher outlined several limitations faced in completing this study which was eventually resolved. However, future researchers were advised to take a different approach or upgrade the current measures in this study to yield a more diverse outcome.

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