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Purpose: The main objective of the current study is to examine the effect of audit quality on audit committee towards financial reporting quality in Malaysia. It also aims to determine the moderation effect of audit quality on the relationship between board committees and financial reporting quality.

Background: The issues of financial reporting quality relating to real earnings management (REM) are essential to academics, professionals and regulators. The interest in examining earnings management is due to the assumption that such behaviour may lead to serious activities such as fraudulent financial reporting. Financial decisions that are based on mislead financial statements will hurt the company’s credibility in the eyes of stakeholders. Therefore, many countries including Malaysia have emphasized on the role of good corporate governance practices particularly with regards to the function of board committees. This study investigates the audit quality in Malaysian listed companies and more specifically it examines how audit quality moderates the relationship between board committee, namely, audit committee and quality of financial reporting (FRQ). In as among others 1 Malaysian Development Berhad, and Felda Corporation demand for further research on audit committee effectiveness, audit quality and financial reporting quality. In this paper, three conceptual models are developed. The first model explains the board committee and financial reporting quality. The second model examines the relationship between audit quality on FRQ. The third framework explains on the moderating model.

Design/Methodology/Approach: The study uses secondary data of Malaysian public listed companies and is to determine the moderation effect of audit quality on the relationship between board committees and financial reporting quality. The population of the study consists of Malaysian listed companies on the Main Market of Bursa Malaysia. The population includes 814 companies for 2018 listed on the Main Market of Bursa Malaysia; the study period covers six years (from 2013 to 2018).

Results/Findings: This study updates knowledge about the Malaysian earnings management and offers evidence on the factors that affect EM in Malaysia. Another contribution of this study is to find out which types of corporate governance mechanisms are more likely to influence EM. The results of the study will fill the gap in corporate governance literature and report the importance of the audit committee in ensuring the quality of financial reporting in an emerging economy such as Malaysia.

Conclusion and Implications: Regarding practical significance, this study is expected to help several concerned parties to understand the level of earnings management by Malaysian firms. For Practical contribution, this study will help the investor and stakeholder to make a decision on investment by looking at the firm that has lower risks with higher profitability. However, there is limited evidence from the prior literature that empirically examines audit committee towards financial reporting quality represented by EM as a proxy (REM). Besides, it is interesting to determine the moderation effect of audit quality proxy by audit fee and big 4 auditors on the relationship between board committees and financial reporting quality by EM as proxy (REM) in Malaysia.

Keywords: audit committee, financial reporting malaysia, earnings management quality