International Journal of Multidisciplinary and Current Educational Research (IJMCER)
ISSN: 2581-7027 ||Volume|| 4 ||Issue|| 2 ||Pages 302-313 ||2022||

Board Characteristics and Audit Quality

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ABSTRACT: This study examines the relationship between corporate governance quality and audit quality in Malaysia. The notion of corporate governance quality was assessed by examining the characteristics of the audit committee of the firms and this study utilized the audit fee as its proxies for audit quality. The sampling frame is 511 public listed companies in Malaysia over the period of 2013 to 2019. This study uses multiple linear regression in testing the research hypotheses. The results show that audit committee characteristics have a relationship on the audit fees, as a proxy of the audit quality. This result suggests that the existing corporate governance framework in Malaysia in relation to the audit committee proven to be effective in monitoring audit process. This study provides an insight for the Malaysian Accounting Standard Board (MASB), regulatory authorities, Malaysian Institute of Accountant (MIA), accounting professionals and academicians on the best practice of corporate governance especially in Malaysia.

KEYWORDS: Corporate governance; audit quality; audit committee

I. INTRODUCTION

Corporate Governance (CG) defined as the process and structure for directing and managing a company's business and affairs in order to promote business prosperity and corporate accountability, with the ultimate goal of maximising long-term shareholder value while taking other stakeholders' interests into account [1]. As a result of high-profile scandal cases like Adelphia, Enron, and WorldCom, corporate governance garnered a lot of attention, which resulted on the basis of most comprehensive corporate governance in the US, the Sarbanes-Oxley Act 2002 [2]. The Malaysian Code on Corporate Governance (MCCG), which was launched in the year 2000, is the primary source of corporate governance in Malaysia.The MCCG is an important tool for corporate governance reform, and positively influences corporate governance standards that reflect the global principles and internationally recognised practices of corporate governance [1]. Revisions to the MCCG were made in 2007, 2012 and recently in 2017 with the view to strengthen the board of directors and audit committee's roles and responsibilities. Many studies have been undertaken in the past in the areas of corporate governance and audit quality, focusing on the role of the board of directors and audit committee in relation to the external audit process.

Previous studies conducted in the Australia and UK pointed out different opinions and arguments. In the UK, audit committee independence and financial expertise have a significant and positive relationship with audit fees [3]. While in Australia, the number of audit committee meetings held annually has a less significant and positive relationship with the audit fees [4]. In Malaysia, studies have found that the effectiveness of the audit committee has no significant influence on the audit fees in the pre and post MCCG 2007 Code period [5]. As of July 2020, there are approximately 967 companies listed on Bursa Malaysia. Bursa Malaysia's listing requirements must be complied by listed companies. These listing requirements are in alignment with the MCCG for listed companies to abide. Therefore, the primary objective of this research is to examine the relationship between corporate governance quality and audit quality for the period.This research has a longer time frame between 2013 to 2019 which enabled us to contribute further empirical evidence that lends support to the post MCCG 2012 corporate governance quality. This study uses characteristics of the audit committee as a proxy of corporate governance quality. The data were collected from secondary data resources, extracted from the financial statements and online databases from 100 companies. Even though the importance of the audit committee has the effect towards audit quality, it still shows the sign of lacking in terms of the study performed on the characteristics of the audit committee towards audit quality.

Many researchers in Malaysia indicated a mixed result between the relationship of the audit committee and audit quality. Yatim, Kent and Clarkson [6] found that board independence, audit committee expertise and the frequency of audit committee meetings have no significant relationship with audit fees. Meanwhile, the above findings contrasted withanother researcher who found that board independence and frequency of audit meetings have no significant relationship with audit fees [7].

Therefore, this research aims to examine the quality of corporate governance towards the quality of external audit, which the characteristics of the audit committee are used as proxy of corporate governance quality post MCCG 2012 Code.

II. LITERATURE REVIEW

Corporate Governance: Corporate governance is the system by which companies are directed and controlled and thegovernance of the companies is the responsibility of the boards of directors. Mahenthrian andKasipillai [8] defined corporate governance as the process and structure employed tomanage company business and affairs, towards improving business prosperity and corporateaccountability. Therefore, corporate governance can be described as what the board of acompany does and how it sets the values of the company.This should be distinguished from the full-time executives who normally perform the dailyoperational management of the company.In recent years, interest in audit committees as partof overall corporate governance has increased significantly. Past researcher stated that due tothe increasing number of earnings misstatement and restatementsalong with allegations of financial statement fraud committed by high profile companies, thepublic had lost confidence in corporate governance, the audit functions and also the financialreporting process [9].
Malaysia has a range of corporate governance reforms that have been strengthened overthe years. In the year 2000, MCCG was introducedand has been an important tool for corporate governance reform which has positivelyinfluenced corporate governance practices of companies in Malaysia. This is because MCCGreflect international principles and practices of corporate governance which are above theminimum required by statute, regulations or those prescribed by Bursa Malaysia[1].Therefore, good corporate governance is necessary to enable companies to operate more efficiently,to improve access to capital, and safeguard stakeholders' companies because they will be moreaccountable and transparent to the investors. In fact, performance of the firm is positively and significantly related with corporate governance [10].

Board of Directors: The board of directors (BOD) is an elected group of individuals that represent shareholders and is responsible for protecting and managing shareholders' interests in the firm. The board is a governing body that normally meets at regular intervals to set policies for corporate management and oversight. The board of directors does play an important role in influencing the company's decisions and compliance with the Corporate Governance Code of Practices, indicating the effectiveness of the board.Chin and Zakaria [11] stated that the ability of the company to access debt financing is somewhat improved by the effectiveness of the board in monitoring the top management's etiquettes. Managers are more likely to comply with social and environmental performance since they do not contribute to the capital of the firm [12]. A study carried out on the board's effectiveness and competencies of Malaysian Public Listed Company [13] reflected that the characteristics of boards of directors' members were important components of the effectiveness of Malaysian PLCs' boards.

Audit Committee: The audit committee is the one responsible for overseeing financial reporting and disclosure of the company. The role of an audit committee includes the monitoring of accounting policies, the oversight of any external auditors and also the discussion of risk management policies with the board of directors and the management. Chartered Financial Analyst (CFA)in 2020 highlighted that all U.S. publicly traded companies must maintain a qualified audit committee in order to be listed on a stock exchange, as the audit committee is the main operating committees of a company's board of directors. CFA also stated that at least one audit committee member who qualifies as a financial expert and the audit committee members must be made up of independent outside directors.

In Malaysia, given the importance of an audit committee to the governance structure of a company, the establishment of an audit committee is mandated for listed issuers by Bursa Malaysia (www.bursamalaysia.com). The board of directors should appoint the audit committee by the recommendation of the nominating committee, in consultation with the audit committee chairman. The board should take into account factors to determine the composition of the audit committee such as size, independence and desired skills of the audit committee members.Paragraph 15.09(1)(a) of the Listing Requirements stated that the size of the audit committee will vary depending on the needs of the company, the board and the extent of responsibilities delegated. It also stated that the audit committee should comprise non-executive directors with a majority being independent and appropriate level of expertise, experience and commitment amongst members essential to the fulfilment of the committee's mandate.To ensure the accuracy and completeness of the company'sfinancial statement, normally the audit committee works closely with auditors with the condition that no conflicts of interest exist between auditors employed by the company. In addition, in order to review the most recent audit by the auditors, Paragraph 15.09 of Bursa's Listing Requirements Bursa Malaysia stated that the audit committee should meet at least four times a year either in-person or via teleconferencing.

Additional meetings should also be held if other issues need to be addressed and the audit committee also has the authority to investigate any cases where there is problematic accounting practice or when there are any serious issues that arise among the employees.

Hypothesis development

Size of the audit committee: The first hypothesis is if the firm has a bigger size of the audit committee, theexternal audit report will have higher quality. According to MCCG, the audit committeeestablished by the board of directors should be composed of not less than threemembers. This was supported by previous research that larger board size contributes more towards firm performance as a whole [14]. Larger audit committee members mean that there are more ideas and skills that can be shared among the audit committee.Zaman, Hudaib and Haniffa [15] stated that a company with a larger auditcommittee is able to increase resources hence increase its effectiveness in fulfilling itsmonitoring role. Larger size of the audit committee may be more valuable due to a widerange of knowledge and experience available. Based on the research conducted previously, we can deduce that as the size of the audit committee increases, the quality of the auditreport will also increase. Therefore, the first hypothesis is as follows:

H1: There is a relationship between size of the audit committee and the qualityof the external audit report.

Number of meetings by the audit committee: For the second hypothesis, if the audit committee meets regularly and has a highnumber of meetings, the external audit report will have higher quality. Audit committees that meet more frequently are often moreeffective than those committees that meet less often [16]. This is because the auditcommittee who meet regularly might have a better understanding on current auditingissues and have a positive influence on the scope at different stages of the audit.In order for the audit committee to be effective, it is necessary for auditcommittee directors to expend one of their most valuable resources, time, in executing their duties.MCCG recommended that the audit committee established by the board of directorsshould be no fewer than four meetings during the years.Similarly, firms whose audit committees meetat least four times annually are less likely to have restated their audited financial statements [3].Therefore, the second hypothesis is asfollows:

H2: There is a relationship between number of meetings held by the auditcommittee and the quality of the external audit report.

Financial expertise of the audit committee: For the third hypothesis, if the audit committee has financial expertise, the external audit report will have higher quality. Board members with higher education can provide a rich pool of ideas from which to develop policy initiatives, with analytical depth and rigour, and which, in turn, contribute to good decision making [17]. DeZoort and Salterio[18] conducted a research on the effects ofcorporate governance experience and financial reporting and audit knowledge on auditcommittee members' judgments and concludethat the audit committee with financialexpertise has a better understanding on the auditing risks, issues and the auditprocedures that auditors propose to overcome the risks and issues.MCCG highlighted that at least one member of the audit committee is a member of theaccounting association or body. Thus, based on past research, we include the financialexpertise of audit committee members that have an impact on the quality of the auditreport. Therefore, the third hypothesis is as follows:

H3: There is a relationship between financial expertises of the audit committeeand the quality of the external audit report

Independence of the audit committee: For the final hypothesis, if the audit committee has high independence, theexternal audit report will have higher quality. An independent audit committee demandsa larger scope of audit from the external auditors, therefore willing to support theexternal auditors during scope intervention with management. Past researcher stated thatthat firms that commit fraud are likely to have lessindependent audit committees [19]. Krishnan [20]also stated that independent audit committees are significantlyless likely to be associated with any incident of internal control problems.Based on recommendation by MCCG, all audit committee members are non-executive directors with a majorityof independent directors. Audit committees that arenon-executive directors and independent directors will be used to test the hypothesis.Therefore, based on the past research and recommendation by the MCCG, the lasthypothesis is as follows:

H4: There is a relationship between independence of the audit committee andthe quality of the external audit report

III. METHODOLOGY

Research Design: In order to test the relationship between the dependent variable and the independent variables, a quantitative approach was adopted. This is due to the fact that this approach is more suitable for handling general conclusions from large quantities of data. Sekaran [22] suggested a quantitative approach, as it will be able to collect a large number of data which can be easily organized into a report for analysis purposes by using statistical software, for example Statistical Package for the Social Science (SPSS).

Data Collection and Sample: The total population for this research consisted of companies listed on Bursa Malaysia and also ranked as top 100 companies by Minority Shareholders Watch Group (MSWG). MSWG ranks the companies based on its governance disclosure. Ranking by MSWG was chosen because it is one avenue of market discipline to encourage good governance amongst public listed companies, whether the companies have a good disclosure and comply with the corporate governance principles in Malaysia. These top 100 ranked companies were chosen to control for other corporate governance qualities.However, from the total sample of 100 companies, only 73 were used as a final sample for this study. 13 financial companies have been excluded because these companies are governed by a different regulatory body. In addition, 14 companies which had incomplete information were also excluded. A timeframe of seven years over the period of 2013 to 2019 was used. The total amount of data for the specific time period is 551 Malaysian non-finance listed companies.

Measurement of Variables

Independent Variable: There are four independent variables in relation to characteristics of the audit committee including size, number of meetings held annually, financial expertise and independence of the audit committee. This is consistent with a previous study [6] which claimed that audit committee size, independence, frequency of audit committee meetings and audit committee with financial expertise contribute to effectiveness of audit committee on the quality of the audit.The first independent variable is the size of the audit committee. Audit committee may increase its effectiveness if the company has a larger audit committee [22]. Hence, the size of the audit committee is measured by at least three members in the audit committee, and this is consistent with the recommendation by MCCG, best practice of corporate governance in Malaysia. The second independent variable in this research is the number of meetings held annually by the audit committee. The audit committee which meets regularly may increase its effectiveness as they have better understanding on the scope at different stages of the audit [3]. Hence, this research follows the best practice in MCCG which states that the number of meetings is measured by at least four times of meetings held annually.The third independent variable is the financial expertise of the audit committee. Consistent with the best practice in corporate governance that was recommended in MCCG, this research measures this independent variable by using their 'financial expertise' and at least one member is a member of an accounting association or a professional body.

Finally, the fourth independent variable is the independence of the audit committee. Carcello, Hermanson, Neal and Riley [23] stated that the board needs a more independent and diligent audit committee and directors on the board to be truly effective. This was supported by Beasley [24] noted that a higher percentage of independent directors helps to reduce fraud in the financial reporting. Based on the recommendation by MCCG, it was noted that independence is measured by examining all audit committees that are non-executive directors with a majority of independent directors.

DependentVariable: The dependent variable used in this study is audit quality. An effective audit committee will demand additional audit procedures from the external auditor, therefore the audit fees will increase [25]. This is consistent with recent study conducted in Malaysia, dependent variable is the statutory audit fees paid to the external auditors and the audit fees are measured as the natural logarithm of the total audit fees to achieve a better linear fit to the other variables in the regression model [5]. Hence, the audit fees paid to the external auditor as a proxy of the audit quality were measured as the natural logarithm of audit fees. Therefore, the dependent variable in this study was the audit fee which reflects on the amount the companies in Malaysia paid the statutory audit fees to the external auditors. The higher the audit fees paid to the external auditor, the higher the quality of the external audit report. This is due to the fact that the audit committee demands a wider scope and higher quality of audit from the external auditor to ensure reliability of financial statements. Ferguson and Stokes [26] highlighted that more effort may be expanded, and more costs (audit fees) may be incurred by the firm in ensuring high quality audit.

Control Variable: The addition to the four independent variables, this research controls for the effects of other variables on the audit fees. The control variables include total assets, leverage, loss and Big 4. To measure the size of the company, total assets were used for this research. Hay, Knechel and Wong [27] in their research which examined the competitiveness of audit markets, investigated client and auditor's attributes associated with higher or lower levels of audit fees. One of the variables in their research is client size, and the size was measured as the firm's total assets. According to Joakim and Mattias [28] there is a substantial variation between the largest and smallest firms if absolute value of total assets is used. To achieve a better linear relationship between dependent, independent and control variables, the natural logarithm of total assets is used for this research.

Level of risk, using leverage as a proxy, is the second control variable. Leverage used for this research is a percentage of total long-term finance represented by long term debt. This was measured by the ratio of non-current liabilities (long-term debts to total assets). Financial leverage can reduce agency costs because it will lead to a lower demand for corporate governance [29]. However, firms with 24 higher leveragesrequire careful monitoring to protect themselves from business, financial and insolvency risks. This is in line with past research [15] who stated that high leverage results in high audit fees charged by the auditor.The third control variable is loss which is an indicator if the company is making loss during the year. Binary code or variable is used for loss. The variable is equal to 1 if the company is making a loss, otherwise 0. It is argued that better performing companies can afford to pay for extensive audits and hence result in higher audit fees. However, firms experiencing loss are also associated with higher audit fees. This may be due to the reason that poorly performing firms are more likely to ask for higher external consulting services to improve their profitability [30,31]. This is also supported by Parkash and Venable [32] who stated that a poorly performing company is expected to have internal control problems and is also more likely to demand more external consulting services to improve profitability. Therefore, loss can be viewed as presenting a higher risk to both clients and auditors where loss is expected to be associated with a higher audit fee.

Finally, the last control variable used for this research is Big 4. Big 4 is an indicator if the company is audited by the Big 4 audit firms such as PricewaterhouseCooper (PWC), Ernst & Young (EY), KPMG and Deloitte during the year. The variable is equal to 1 if the company is audited by a Big 4 auditor, otherwise 0. Big 4 auditors tend to receive an audit fee premium [33] due to the belief that Big 4 auditors provide a higher level of quality. Normally, as the number of large sized companies appointing Big 4 auditors is higher than the number of small-sized companies, the audit fee should increase with company size due to the premium of the audit fees charged by the Big 4 auditors.

Data Analysis: This research used the Statistical Package for Social Sciences (SPSS) version 23 to perform analysis on the data collected from the annual financial statement for seven consecutive years, covering the period 2013 to 2019. The data analysis for this research is in line with the previous research performed in Malaysia where the data were analyzed using descriptive analysis (statistics) and regression analysis, using simple multiple regression models.

Multiple Regression Analysis: In accordance with Lind, Marchal and Wathen[34]a multiple regression modelcan be used to find a relationship between a dependent variable and independent variables. Consistent with previous research [35, 36] that focused on audit fee determinants, a multiple linear regression model was used in this study. Specifically, the multiple linear regression analysis was used to examine the significant relationship between the board characteristics (audit committee), control variables and the quality of the external audit report.

As a result, this study developed the following regression models:

$$ln\hat{y} = \beta 0 + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \beta 5x5 + \beta 6x6 + \beta 7x7 + \beta 8x8$$

Where:

$ln\hat{y}$ = Natural Logarithm of Audit fees (RM'000)
$x1$ = Size
$x2$ = Number of meetings
$x3$ = Financial Expertise
$x4$ = Independence
$x5$ = Natural Logarithm of Total Assets
$x6$ = NCL/TA

$x7$ = Loss
$x8$ = Big4.

Other than that, this research used Tolerance and the Variance Inflation Factor (VIF) to detect the existence of multicollinearity in order to avoid the effects of highly correlated independent variables. The independent variable should be excluded if the observed value from the VIF-test is more than 10 [34].

IV. RESULTS

Descriptive Analysis: Descriptive analysis is shown in Table 1 below which depicts the minimum, maximum, mean and standard deviation for the overall observations of the sample data of this research, for both continuous and binary statistics.

Table 1: Descriptive analysis

	N	Min	Max	Mean	Std. Deviation
Statistics (continuous)					
AC size	511	3	6	3.66	0.762
AC meetings	511	2	18	5.76	1.994
AC financial expertise	511	1	5	2.00	0.842
AC independence	511	0.60	1.00	0.88	0.147
Log total assets (‘000 000)	511	5.46	10.58	9.15	0.870
Total assets (‘000 000)	511	0.287	38019	4933.77	7308.17
Leverage	511	0.00	0.89	0.13	0.160
Log audit fees (‘000)	511	4.08	6.37	5.16	0.441
Audit fees (‘000)	511	12	2353	260.16	394.66
Statistics (binary)					
Loss	511	0	1	0.10	0.297
Big 4	511	0	1	0.84	0.369

Dependent variable: Based on the result of the descriptive analysis in Table 1 above, the natural logarithm of audit fees has a mean of 5.16 with a standard deviation of 0.441. The result also proves that the average amount public-listed companies in Malaysia paid approximately RM 260,000 of audit fees paid to the external auditor with a minimum of RM 12,000 and the maximum amount of RM 2,353,000. From the total sample of 73 companies, 21.9% or 16 companies paid more than RM260,000 of audit fees.This result shows that most of the Malaysian public-listed companies paid a lower statutory audit fee to the external auditor. However, it is higher than the previous studies which reported an average audit fee among the listed companies of RM244,970 using the data of 2001 and an average audit fee of RM191,980 using the data of 2003 [37,6].

Independent variable: Based on the descriptive statistics shown in Table 1 above, audit committees have, on average, 3.7 members with a minimum of 2 and the maximum of 6. The recommendation for a minimum of three members in the Malaysia Code of Corporate Governance seems adhered to with 100 percent (%) of public-listed companies meeting these recommendations. The next independent variable was the number of meetings, which is the frequency of meetings held annually by the audit committee. Past research [3] stated that an effective audit committee will meet regularly to have better understanding on the current issues and the audit committees that meet at least four times annually which are less likely to have restated their audited financial statements. Based on the descriptive shown above, the audit committees in this study meet on average 5.74 times during the year with a minimum of 2 and maximum of 18 meetings per year. Based on the data collected, it shows that there is a large number of audit committees that meet more than 5 times per year as currently recommended by MCCG. By using data from 2001 to 2004, prior research found that only 21 percent of audit committees met at least three times during the year [15]. This indicates that the level of audit committee diligence has greatly improved after MCCG's recommendation. The third independent variable analysed was the financial expertise, which was also intended to measure the number of the audit committee who is a member of the accounting association or body. Based on the descriptive statistics shown above, audit committees have, on average, 2 members who are financially expert with a minimum of 1 and the maximum of 5 members. Based on the data collected, it appears that a large proportion of of Malaysian public-listed companies which have no problem in following the recommendation by MCCG which statedthat at least one member of the accounting association or body. This good practice of corporate governance on the composition of audit committees which have higher financial expertise is likely to have the advantage of relying on a wider knowledge base and thereby undertake their role more effectively. This was supported by Adhikary and Mitra [38] which highlighted that having an expert on the audit committee can help ensure a firm's quality reporting.

Finally, the last independent variable to be analyzed was the audit committee independence. The purpose of this calculation was to determine the percentage of the independent directors from all of the non-executive directors in the audit committee. The formula of this independence is: 'Total Independent Directors ÷ Total Non-Executive Directors'. Based on the descriptive statistics shown in Table 1 above, there are companies having 100 percent (%) independent audit committees as proportion of non-executive directors. Some companies only have 60 percent (%) independent audit committees and the average proportion is 88 percent (%). The percentage calculated is an important measure to ensure that companies in Malaysia practice good corporate governance as MCCG suggested that all audit committees are non-executive directors with a majority of independent directors.

Control variable: The first control variable analysed was the total assets which act as an indicator of the size of the firm. Each company size measure exhibits advantages and disadvantages, therefore no measure can capture all characteristics of firm size [39]. In 2000, Forbes Global used four measures which are total assets, sales, profits, and market cap to rank all the large companies, while Fortune 500 only uses sales and profits. Since there is no standardized measure on the total assets to reflect the small or big size of the company, natural logarithm of the total audit fees was used to achieve a better linear fit to the other variables in the regression model. There will be a substantial variation between the largest and smallest firms if absolute value of total assets is used [28]. To achieve a better linear relationship between dependent, independent and control variables, the natural logarithm of total assets is used for this research.

Based on O'Sullivan [40], the log of total assets has a very significant and positive impact on audit fees. Based on the result of descriptive analysis in Table 1 above, the natural logarithm of total assets had a mean of 9.15 with a standard deviation of 0.870. The result also proves that on average, Malaysian public-listed companies have approximately RM4.9 billion of total assets during the financial year. From the total sample of 73 companies, 31.5% or 23 companies have total assets higher than RM4,933,700,000. The next control variable focused on was the level of risk, which uses leverage as a proxy. Leverage also refers to the amount of debt firms use to finance assets. The formula for this ratio is: 'Total Non-Current Liabilities ÷ Total Assets. The ratio was an indicator to determine a company's financial leverage. This ratio reflects the percentage of the company's total assets that were financed by long-term liabilities. Based on the results of the descriptive analysis shown above, the mean value of the leverage is 0.13 while the minimum value is represented by 0 and the maximum value is 0.89. From the total sample of 73 companies, 41% or 30 companies have higher leverage than the average of 13%. A majority of public-listed companies in Malaysia have a low leverage level. This indicates that public-listed companies in Malaysia are trying to protect themselves from business, financial and insolvency risk. Past research indicates that high leverage resulted in high audit fees charged by the auditor [15].

The third control variable analysed was loss, which was also intended to measure if the company is making a loss during the financial year. Binary code or variable is used for loss, the variable is equal to 1 if the company is making loss, otherwise 0. From the total sample of 73 companies, only 10% or approximately 7 public-listed companies in Malaysia incurred a loss during the financial year from 2013 to 2019. Based on the data collected, there is a high number of Malaysian public listed companies which have no problem in making a profit. A poorly performing company is more likely to have internal control issues and to require more external consulting services to increase profitability [32]. Therefore, loss might be seen as posing a greater risk to both clients and auditors, and as a result, loss is expected to be accompanied by a higher audit charge.The last control variable to be analysed was the Big 4, which is the indicator that the company is audited by the Big 4 external auditors in Malaysia. Binary code or variable is used, and the variable is equal to 1 if the company is audited by Big 4 accounting firms, otherwise 0. Big 4 audit firms tend to receive premium audit fees due to the assumption that Big 4 auditors provide a higher level of quality [33]. Therefore, as the companies appoint Big 4 auditors, the audit fee should increase due to the premium of the audit fees charged by Big 4 firm. From the total sample of 73 companies, 84% or 61 public-listed companies are being audited by Big 4 firms. This result reflected that most public-listed companies in Malaysia chose Big 4 to ensure high quality audit report.

Finally, from the control variables as described above, our samples concluded that 23 companies were big companies, while the remaining 50 companies were smaller companies based on the average total asset (RM4,933,700,000). For the big companies, 10 companies paid higher audit fees than average (RM260,000), 14 companies have leverage higher than 13%, 2 companies make a loss during the financial year and 20 companies were audited by Big 4 audit firms. Meanwhile, for the small companies, 6 companies paid higher audit fees than average (RM260,000), 17 companies have leverage higher than 13%, 6 companies make a loss during the financial year and 42 companies were audited by Big 4 audit firms.

Variance Inflation Factors (VIF): In regression analysis, VIF is used to determine multicollinearity. According to Woolridge [41], multicollinearity is not a significant concern in research if VIF values are less than 10.0. Based on this study, it can be inferred that the model does not have multicollinearity because none of the variables have VIF values more than 2.5.

Table 2: Variance Inflation Factors (VIF) Result

	Total companies (N=511)	
	Tolerance	**VIF**
AC size	0.734	1.362
AC meetings	0.841	1.190
AC financial expertise	0.872	1.146
AC independence (%)	0.808	1.238
Natural log of total assets	0.878	1.139
Leverage	0.888	1.126
Loss	0.958	1.043
Big 4	0.873	1.145

4.3 Pearson's correlation matrix

	DV	IV1	IV2	IV3	IV4	CV1	CV2	CV3	CV4
DV	1								
IV1	0.041	1							
IV2	0.316**	0.206**	1						
IV3	0.119**	0.341**	0.059	1					
IV4	0.132**	-0.338**	0.066	0.160**	1				
CV1	0.232**	0.052	-0.134**	0.020	0.113*	1			
CV2	0.271**	0.174**	0.253**	0.140**	0.051	-0.020	1		
CV3	-0.022	0.016	0.116**	-0.017	-0.021	0.152**	0.082	1	
CV4	0.297**	0.154**	0.151**	0.071	-0.146*	0.145**	0.205**	-0.146**	1

*. CORRELATION IS SIGNIFICANT AT THE 0.05 LEVEL (2-TAILED)

**. CORRELATION IS SIGNIFICANT AT THE 0.01 LEVEL (2-TAILED)

Multiple Linear Regression

Table 3: Multiple Linear Regression Result

		Total companies (N=511)	
DV	**IV**	**Coefficient**	**Sig.**
Audit Fees	Constant	3.353	0.000
	$x1$ (Size)	-0.054	0.035**
	$x2$ (Meetings)	0.062	0.000**
	$x3$ (Fin. Expertise)	0.056	0.009**
	$x4$ (Independence)	0.282	0.027**
	$x5$ (Natural log total assets)	1.112	0.000**
	$x6$ (Leverage)	0.476	0.000**
	$x7$ (Loss)	-0.024	0.684
	$x8$ (Big 4)	0.244	0.000**

Variables are as defined in Table 3 significant at 5% level

Basedon Table 3 above, all of the independent and control variables aresignificant to the dependent variable since the p-values < α (0.05) except for financialloss.Table 3 above presents multiple regression results of dependent variables, independent variables and control variables. The independent variable size of the audit committee is significantly and negatively related to audit fees at 5 percent level in the post 2012 Code period. The audit committee's increased size is projected to improve financial reporting quality, resulting in decreased audit fees [6]. Then, it is supported by Wan-Hussin and Abdullah [42] who agreed that companies which have good financial reporting usually have a larger size of audit committee members, thus resulting in lower audit fees. Hence H1 which stated that there is a relationship between the size of the audit committee and the quality of the external audit report is accepted. In other words, for every 1 unit increase in size, the audit fees (dependent variable) will decrease by 0.054 (RM'000 000).

In addition, the number of meetings held by the audit committee is significantly and positively related to audit fees at 5 percent level in the post 2012 Code period. This result is in line with the prediction that audit committees who meet regularly have a better understanding of current auditing issues and may have a positive influence on the scope of audit at different stages. Hence H2 which stated that there is a relationship between the number of meetings held by the audit committee and the quality of the external audit report is accepted. In other words, for every 1 unit increase in the number of meetings, the audit fees (dependent variable) will increase by 0.062 (RM'000 000). Meanwhile, the result shows that in post 2012 Code, financial expertise of the audit committee is also significantly related to audit fees. These results are in line with the researchers' prediction that an effective audit committee with financial expertise would have a better understanding of the auditing risks, issues and the audit procedures proposed by auditors to mitigate risks and issues, resulting in higher fees paid by the company. Thus, hypothesis H3 which stated that there is a relationship between financial expertise of the audit committee and the quality of the external audit report is accepted. In other words, for every 1 unit increase in financial expertise, the audit fees (dependent variable) will increase by 0.056 (RM'000 000).

Finally, the independence of the audit committee is significantly and positively related to audit fees at 5 percent level in the post 2012 Code period. This result is in line with our prediction that an independent audit committee demands a broader scope of audit from external auditors and will be prepared to assist external auditors during the scope intervention with the management. Hence H4 which stated that there is a relationship between the independence of the audit committee and the quality of the external audit report is accepted. In other words, for every 1 unit increase in independence, the audit fees (dependent variable) will increase by 0.282 (RM'000 000).
For control variables, it was found that total assets, leverage and Big 4 have significant influence on the audit fees in post 2012 Code period [6,7,15]. These studies found that companies with significant total assets, companies with high leverage and companies that hire Big 4 auditor require greater quality to protect themselves from operational and financial risk, and thus increase the audit fees paid to the external auditor. In other words, for every 1 unit increase in total assets, the audit fees (dependent variable) will increase by 0.112 (RM'000 000) and for every 1 unit increase in total leverage, the audit fees (dependent variable) will increase by 0.476 (RM'000 000). Meanwhile, the audit fees (dependent variable) will increase by 0.244 (RM'000 000) if the company uses a Big 4 audit firm.

V. CONCLUSION

This study examined the relationship between corporate governance quality and audit quality of 100 top companies in Malaysia ranked by the MSWG in 2019. It used the characteristics of the audit committee, namely size, number of meetings held, financial expertise and finally the independence of the audit committee and as a proxy of corporate governance quality. Meanwhile, audit fees paid to the external auditor were used as the proxy of audit quality. The data were collected from secondary data resources, extracted from the financial statements and online databases companies, for the period between 2013 to 2019. Based on the analysis, results indicate a significant negative relationship between the size of the audit committee and the audit fees. This indicates the bigger size of the audit committee, the more effective the audit committee in fulfilling the monitor role, resulting in lower audit fees. Other than that, the results indicate a significant positive relationship between the number of meetings held annually by the audit committee and the audit fees. This indicates the more frequent meetings held by the audit committee, the more understanding of current auditing issues. As a result, the audit committee will demand more audit coverage, which will be reflected in higher fees.The results also indicate a significant positive relationship between the financial expertise of the audit committee and the audit fees. This indicates the more knowledgeable of the audit committee, the higher understanding of the audit committee on the risks, issues and audit procedures that auditors propose to overcome the risks and issues, leading to higher audit fees. Finally, the results indicate a significant positive relationship between the independence of the audit committee and the audit fees. This indicates the more independence of the audit committee, the wider the scope of audit from external auditors demanded by the audit committee. It's also reasonable to believe that independent audit committees prefer higher audit quality, which leads to higher audit fees. Based on the overall findings, this study has provided an overview of the impact of the board quality on audit quality in Malaysia during the period from 2013 to 2019 (post 2012 Code period), using the characteristics of the audit committee and audit fees to proxy for audit quality. The sample consisted of 511 non-financial companies that were listed on Bursa Malaysia and the timeframe was quite interesting and appropriate as the Code was revised in 2012.

ACKNOWLEDGEMENTS

The researchers would like to express their immense gratitude to UniversityTechnology MARA for the support in conducting this research.

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