



The Impact of Audit Quality, Audit Committee and Financial Reporting Quality: Evidence from Malaysia

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ABSTRACT

In recent decades, there has been a noticeable increase in the practice of earnings management (EM) as a proxy for financial reporting, especially real activities, with effect on the quality of financial statements. The role of the audit committee in mitigating EM remains ambiguous because of inconclusive findings. Therefore, this study examines the moderating effect of audit quality and audit committee on financial reporting quality, also known as real earnings management in Malaysian companies. The results show that corporate governance mechanism such as financial accounting expert, meeting and indicate significant results with real EM while, audit committee independence and size, shows an insignificant result on real EM. In addition, the results show that audit quality of the audit committee leads to less aggressive EM practice in real activities. The findings also show that audit quality and audit committee has a significant role in restricting the real EM. Audit quality is found to significantly moderate the relationship between audit committee with financial reporting quality proxy. Overall, this study provides a reference point for the relevant parties such as regulatory bodies, policymakers and standard setters towards improving the quality of earnings and corporate governance practices in ensuring credible accounting information.

Keywords: Audit Committee Effectiveness, Audit Quality, Real Earnings Management, Malaysia

JEL Classifications: G3, M42

1. INTRODUCTION

These financial statements should not be intentionally prepared to mislead the user, but must provide reliable, timely, and relevant information to assist users when it comes to making important decisions (Kibiya et al., 2016). This implies that information should be evidently recent, with additional facts supplied in the supporting foot note as a desire to assist in clarification. The information should not have any material error and bias, and should not be misleading (Kingsley et al., 2014). Hence, the information needs to faithfully present the business activity and other events, reproduce basic substance of events and cautiously represent estimates and uncertainties using proper disclosure (Okoye and Ofoegbu, 2011). The steadfastness of this information depends on the relevance and reliability of accounting earning. Malaysia has not been insulated

from firms' mischief and misconduct. Numerous eminent financial impropriety have taken place in Malaysia associated with large firms such as Transmile Group Bhd., Malaysian Airlines Systems, LFE corporation Berhad, Promto Bhd and MEMS Technology Bhd (Hasnan et al., 2013). Sadique et al. (2010) referred to a survey by Pricewaterhouse Coopers that 48% of the companies in Malaysia were victims of economic crime, and with regard to fraud, 62% of listed companies were affected. The series of corporate scandals has caused a lot of damage to investors' confidence in the capital market of Malaysia (Kallamu and Saat, 2015). Due to the financial fraud cases highlighted above, Hasnan et al. (2013) argued that usually fraudulent financial reporting begins as earnings management (EM) and exhausts the most aggressive Generally Accepted Accounting Principles and grows over time to become norm. However, EM might be beneficial to reach stockholders'

incentives and improves the information value of earnings (Rezaei and Roshani, 2012). There are two categories of EM procedures, namely real earnings management (REM) as well as accruals earnings management (Roychowdhury, 2006; Cupertino et al., 2015). Previous studies found that managers choose between the two EM strategies (Braswell and Daniels, 2017; Cohen et al., 2008), or jointly use both these methods when they have to deal with EM (Chen et al., 2012).

2. LITERATURE REVIEW

2.1. Audit Quality

The better audit is recognised for its independent assurance of the trustworthiness of financial statements, which enhances investors' protection and improves their confidence. AQ enhances FRQ by improving the investors' trust. AQ also upgrades FRQ by boosting the credibility of financial reports (DeFond and Zhang, 2016; Gaynor et al., 2016). DeFond and Zhang (2016) also contended that AQ is an ongoing construct and that FRQ is one role of the AQ. This indicates that AQ and FRQ are collaboratively measurable results. As a result, numerous proxies have been utilized by different researches to gauge AQ.

2.1.1. Audit quality Big 4

The appointment of Big 4 auditors enables firms to detect larger losses earlier and thus reduce the amount of tampering with earnings. When a firm is audited by a Big 4 auditor, it mirrors the firm's concerted effort to produce high FRQ and thus give stockholders proprietary and confidential information, and in turn lessen the range of accounting misrepresentations. (Palea, 2007) It would be expected that being audited by a big auditor would reduce this gap and improve company trust. The outcome of this research reveals that firms audited by a Big 4 auditor are able to detect huge losses earlier and to be less involved in financial reporting (George 2017). Companies can still survive with the existence of the Big 4. Therefore, the Big 4 may help to influence the FRQ. In light of the foregoing situation, the current study will use Big 4 auditors as proxies for AQ because audit firm size represented by big 4 auditors is a reliable proxy for AQ since larger auditors are believed to have stronger motivations and better competencies to deliver high-quality audit (Deangelo, 1981).

2.1.2. Audit quality change

The occurrence of 'switching auditors' is seen to have a role in affecting the credibility of financial reporting and the monetary charges involved in supervising activities related to management (Huson et al., 2001). Academicians, experts in the field of accounting and industrial professionals have carried out indepth studies on the substantial amount of auditor switching in developed nations since the beginning of 1970 but in Malaysia, such studies related to auditor switching to fathom the reasons behind such change is scarce. Switching or changing auditors means one auditor steps down from the client firm and is replaced by another (Turner and Arun, 2005). In this country, switching of auditors or audit firms taking turns or rotations is not given open attention in any statute. This issue has not been touched upon in the Companies Act 1965 or in the Security Commissions Act 1985. The Malaysian Institute of Accountants (MIA) also has not

drawn up any guidelines as to when a change in auditors or audit firm rotation can be carried out. Even though the chairperson of the Malaysian Accounting Standards Board made a statement about its plan to put rotation of audit firms compulsory 5 years once, this plan has not been expedited. Subsequently, the impact of auditor switching on the independence of auditors in Malaysia is still vague.

2.2. Audit Committee

One of the basic functions of the AC is to supervise the financial reporting process, by overseeing the internal controls of the company to ensure its compliance with the laws and regulations (Abdul Rahman and Ali, 2016). The tasks of the AC include meeting with the external auditors personally to discuss audit related matters and to also propose and handle the coordination of the audit work with the audit staff (Jakpar, 2019). The AC, has for a long time, been viewed as indispensable in the organization in helping with the oversight of executive management by administering the oversight responsibilities in respect of accounting, finance and internal audit functions. One of the primary reasons for the setting up of AC's is to further improve the earnings and FRQ (Calomiris and Carlson, 2016). According to Abbad et al. (2016); Calomiris and Carlson (2016), there is a negative relationship between misleading information and gaining the trust of executives. Whereas, Mohamad et al. (2012), found a strong relationship between the AC and accruals quality. However, there was no evidence found by Lin et al. (2015) about the relationship between mastery of money related matters and the individuals making up the review board of trustees.

2.3. Quality of Financial Reporting (FRQ)

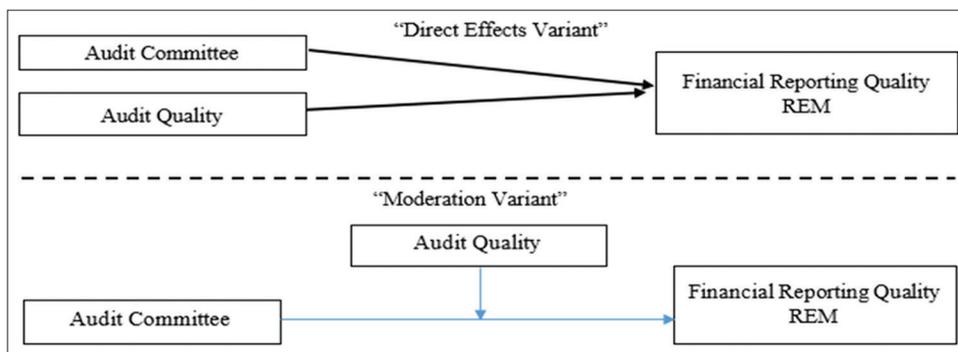
The financial reports are considered to be a useful method of communicating financial information to potential users. Owing to the imbalance in the information provided and agency disagreements between managers' interests and outside consumers, auditors are obligated to audit financial reporting. This is an option available for monitoring arrangements that can enhance the financial reporting which consequently increase investors' confidence about the firm's performance and traded securities that reflect the company image (Ismail et al., 2010; Johl et al., 2015).

3. METHODOLOGY/MATERIALS

3.1. Development of Theoretical Framework

Many studies have investigated the direct association between AC variables and EM. Referring to the framework, the model will investigate the moderating influence of audit quality on the association between AC with EM in REM. The theoretical framework of this study is grounded in similar work as explained in chapter two. The study will control for firm size and firm leverage, as they have been shown to have an impact on EM in previous studies (Guo et al., 2015; Roychowdhury, 2006; Wang, 2006). Figure 1 represents the theoretical research framework and hypothesis development of AQ on FRQ. This study is in agreement with the conditions set by Baron and Kenny (1986) for moderating path analysis. For instance, to establish moderation, certain conditions as noted in the study of Baron and Kenny (1986) must be met in order to claim that mediation occurs.

Figure 1: Theoretical research framework of the study



3.2. The Quality of Financial Reporting (FRQ)

The quality of financial reporting has two main aspects: The present study focuses on earnings quality as a component of FRQ. In addition to third-party assessments or through a survey of stakeholder perception. This research expands real earning management measure, as in prior studies that proposed and improved this measure.

3.3. Data Collection Procedures

Following are the steps employed in data collection in this research. First Collecting the list of all trading companies that were consistently and continuously quoted on the Bursa Malaysia published from 2013 to 2018. Second is identifying companies that published complete their financial statements during the observation period of 2013-2018. Financial statements for 2012 were used to calculate the excess or difference with the previous year when calculating the EM variable and third identifying companies which had incomplete data on variables of interest required in this study. After compiling data for all necessary variables (dependent, independent, and moderating variables), 814 companies were found to have complete data for all the variables required. For 6 years, a total of 2226 observations is analysed.

3.4. The Relationship between Audit Committee and Financial Reporting Quality (EM)

3.4.1. Audit committee independence (ACIND)

The resource dependence theory posits that independent directors play a significant role in providing particular resources that are unavailable to the management. Some studies found that committee independence correlated negatively with audit committee independence and EM Kamarudin et al. (2017). This validate some studies revealed that AC Independence has positive influence on discretionary accruals (DA) and restatement (Al-Rassas and Kamardin, 2015; Guo and Huang, 2016). This indicates that higher ratio of AC independence on the board is correlated with higher level of abnormal accruals and the likelihood that firms restates earnings. This affirmed by the recent study of Poretti et al. (2018) contend that more the percentage of independence directors in the companies AC the higher the market reactions to earnings pronouncements. They advocate that more autonomous audit committee pronouncements.. Moreover, Amin et al. (2018) reveal that AC independence has a negative relationship with DA and get a similar result with Hasan et al. (2019). Hence, it is hypothesized that:

Hypothesis 1 (H₁): ACIND is negatively with REM among Malaysian listed companies.

3.4.2. Audit committee financial accounting expert (ACFEX)

The resource dependence theory explains that the AC’s role is to provide resources in the form of expertise and experience in order for firms to gain competitive advantage, especially in financial reporting quality. These experts are expected to mitigate the agency problem that arises from the managers’ ability to manipulate earnings reports Because they indicate support for the financial statement credibility, ACs having financial expertise have been considered as a strength (Burrowes and Hendricks, 2005), as lower EM (Badolato et al., 2014) and as high quality earnings reporting (He and Yang, 2014). However, some studies (Katmon and Al Farooque, 2015) found insignificant relationship between AC financial expertise and DA. On the other hand, Carrera et al. (2017) examines AC and FRQ in US. This indicates increasing proportion of AC members with financial accounting expertise decreases FRQ. Having financial expertise in the AC shows that the internal audit programme will although independent directors with financial backgrounds might be monitors with good intentions, it is desirable for monitors to have sophistication in financial matters to detect financial. However, there is no response to the employment of a financial expert with a non-accounting background. Therefore, the following hypothesis is formulated:

Hypothesis 2 (H₂): The financial expertise of the audit committee is positively associated with REM among Malaysian listed companies.

3.4.3. Audit committee meetings (ACMEET)

Consistent with agency theory Beasley et al. (2009) argued that members of the Audit committee are committed to meaningful and substantive meetings which sill in turn lead to better monitoring and improve financial reporting process. Previous literature contended that frequency of AC meeting reduces the degree of financial restatement. Habbash and Alagla (2015) argued that more frequent meetings reduces DA and enhances FRQ. In contrast, other studies report insignificant relations between Ac meeting DA (Bamahros and Bhasin, 2016; Habbash and Alagla, 2015). An increase in frequency is an indication that the committee is more efficient and committed to producing quality performance Abbott (2016). More recently, Shahkaraiah and Amiri (2017) examine AC quality and FRQ in India. The study reveals that AC meeting have negative significant impact on FRQ proxy DA. The hypothesis is below:

Hypothesis 3 (H₃): ACMEET is positively associated with real earning management (REM) among Malaysian listed companies.

3.4.4. Audit committee size (ACSIZE)

With respect to resource dependence theory AC size has been considered to highly resourceful, thereby improving the FRQ as a result of diverse skill expertise and experience they share amongst themselves Dhaliwal et al. (2010). In addition, Setiany et al. (2017) examine AC attributes and voluntary financial disclosure in Indonesia. The study reveals that AC size has positive significant influence on voluntary financial disclosure of firms. Mohammed et al. (2017) reveal a positive significant association between AC size and accounting conservatism. However, other studies found insignificant relationship between AC size and FRQ (Hasan et al., 2019; Jatiningrum et al., 2016; Bamahros and Bhassin, 2016). This led to formulating the hypothesis:

Hypothesis 4 (H_4): ACSIZE is negatively associated with real earning management (REM) among Malaysian listed companies.

3.5. The Relationship between Audit Quality on Audit Committee and Financial Reporting Quality

3.5.1. Audit quality Big 4

3.5.1.1. Audit quality Big 4 on audit committee independence (ACIND) and financial reporting quality (FRQ)

The foregoing argument have been confirmed by a recent study of Jiraporn et al. (2018) who examined whether board independence can be substituted with external audit quality. They demonstrated that firms that have larger percentage of independent directors on the board have lesser chance of employing Big 4 auditors. This suggested that a robust board with greater proportion of independence directors gains more active governance and thus does not require as much from external auditors. More so, Ejeagbasi et al. (2015) found that audit committee independence is positively and significantly linked to Big 4 auditors. This has been confirmed by Akhalumeh et al. (2017) who revealed that board independence is positively and significantly associated to Big 4 auditors. This indicates that larger percentage of independent directors in the audit committee demand for higher audit assurance by employing Big 4 auditors. In line with the foregoing arguments it is hypothesized that: Hypothesis 5 (H_5): The Audit Quality Big 4 has a positive effect on audit committee independence and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.1.2. Audit quality Big 4 on audit committee financial accounting expert (ACFEX) and financial reporting quality (FRQ)

The proponents of institutional theory have argued that a company's audit committee whose members have specific industry skill is linked to higher financial reporting quality. Accordingly, if managers and audit committee of such companies work on the same board within the similar industry, this association may expand the committee's expertise and subsequently improve its general skill to act as effective monitors (Cohen et al., 2014). This has been confirmed by Kim et al. (2017) who demonstrated that audit committee financial accounting experts enhance audit quality. This suggests that increasing the proportion of financial accounting experts in audit committees brings about an additional increase in effort in order to enhance external monitoring. Based on the preceding arguments, the study hypothesises that: Hypothesis 6 (H_6): The Audit Quality Big 4 positive effect on Audit Committee Financial Accounting Expert and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.1.3. Audit quality Big 4 on audit committee meeting (ACMEET) and financial reporting quality (FRQ)

It has been argued that an audit committee that meets at least twice biannually has more likelihood of engaging an industry specialist auditor (Abbott et al., 2003). Prior literature has shown that audit committee's frequent meeting is positively associated with audit quality (Lee and Mande, 2005). The above arguments have been empirically confirmed by Chen and Zhou (2007) who showed that audit committee that meets frequently has a high likelihood of engaging Big 4 auditors in the selection of successor auditors. In line with the above argument the study hypothesized that: Hypothesis 7 (H_7): The Audit Quality Big 4 has a positive effect on Audit Committee Meeting and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.1.4. Audit quality Big 4 on audit committee size (ACSIZE) and financial reporting quality (FRQ)

According to Ayu (2017), a manager who acts as a shareholder at the same time can increase the value of the company, so as a shareholder, its value of wealth will also increase. Christiani and Ilaboya, (2014) stated that the size of a company can determine how much profit management practices are performed by a company manager and large companies are said to be careful in managing companies and tend to manage earnings efficiently. Based on the preceding arguments, the study hypothesizes that: Hypothesis 8 (H_8): The Audit Quality Big 4 has a positive effect on Audit Committee Size and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.2. Audit quality change

3.5.2.1. Audit quality change on audit committee independence (ACIND) and financial reporting quality (FRQ)

According to Hamilton et al. (2005), one crucial indicator of high AQ lies in the credibility of financial statements because this credibility paves the way to audit independence. In this context, audit rotation is believed to be an effort to upgrade AQ and thereby enhance the audit independence. If auditors and their clients have long standing relationship, this might obstruct the capability of the auditors to carry out high quality auditing. Elsewhere, research has been conducted by Onwuchekwa et al., (2012) on the impact of compulsory audit change upon auditor independence in the face of global audit downfall cases such as WorldCom, Enron and Global Crossing in the US; Metageshaft in Germany and Pramalat in Italy. In the same breath, Malaysia is no exception as it has also faced the downfall of audit independence which led to corporate crashes like NasionCom, Transmile Group, and Megan Media. In the existing literature, very limited studies have investigated the Audit Change on Audit Committee characteristics and financial reporting quality proxy REM. In line is above argument the study hypothesized that: Hypothesis 9 (H_9): The Audit Quality Change has a positive insignificant effect on audit committee independence and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.2.2. Audit quality change on audit committee financial accounting expert (ACFEX) and financial reporting quality (FRQ)

Aronmwan et al. (2013) in their study on audit firm reputation and audit quality, controlled for audit quality using audit committee financial expertise as captured using the number of members with

accounting expertise. They found an insignificant but positive relationship with audit quality. The existing literature shows very limited studies have investigated the Audit Quality Change on Audit Committee characteristics and financial reporting quality proxy REM. In line is above argument the study hypothesized that: Hypothesis 10 (H₁₀): The Audit Quality Change has a positive effect on Audit Committee Financial Accounting Expert and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.2.3. Audit quality change on audit committee meeting (ACMEET) and financial reporting quality (FRQ)

Stewart and Munro (2007) using an experimental design, observed that respondents align to the perception that audit committee meeting; a proxy for the diligence and activity of the AC should be within 2-6 times in a year. Specifically, they believe that meeting just twice in a year is too infrequent to allow for effectiveness and meeting about 6 times in a year is too frequent and would be cost ineffective. Thus, they advocated for a midpoint of 4 times in a year. According to Xie et al. (2003), an indirect relationship exists between the number of committee meetings and the levels of EM. In the existing literature, very limited studies have investigated the Audit Quality Change on Audit Committee characteristics and financial reporting quality proxy REM. In line is above argument the study hypothesized that: Hypothesis 11 (H₁₁): The Audit Quality Change has a positive effect on Audit Committee Meeting and financial reporting quality (FRQ) proxy real earning management (REM).

3.5.2.4. Audit quality change on audit committee size (ACSIZE) and financial reporting quality (FRQ)

Large clients are less likely to dismiss their auditors (Francis and Wilson, 1988; Haskins and Williams, 1990; Krishnan, 1994). This is because financial analysts and the financial press scrutinise large companies’ auditor dismissals closely and this factor might prevent larger companies from changing auditor as frequently as smaller companies (Carcello et al., 2002). The existing literature, very limited studies have investigated the Audit Change on Audit Committee characteristics and financial reporting quality proxy REM. In line is above argument the study hypothesized that: Hypothesis 12 (H₁₂): The Audit Quality Change has a negative significant on Audit Committee Size and financial reporting quality (FRQ) proxy real earning management (REM).

4. RESULTS AND FINDINGS

This study adopts multiple regression models to examine the relationships between the dependent, independent, and moderating variables. For the four regression models of fixed effect, method is run on SPSS to answer the hypotheses.

4.1. Testing of t Statistic and (P-value)

The result of regression on the relationship between audit committee and financial reporting quality using panel data fixed effect method with SPSS is shown in Table 1 to answer Hypothesis (H₁, H₂, H₃ and H₄).

Equation:

$$REM = \beta_0 + \beta_1 ACIND + \beta_2 ACFEX + \beta_3 ACMEET + \beta_4 ACSIZE + \beta_5 LEV + \beta_6 FSIZE + e$$

This study relies on previous studies that have developed proxies for REM. Following Roychowdhury (2006), Cohen et al. (2008), and Cohen and Zarowin (2010), the proxies for the intensity of REM is carried out by focusing on three methods of manipulating real activities: abnormal levels of operating cash flows, abnormal discretionary expenses and abnormal production costs. The abnormal levels of the above real activities are obtained by employing a separate cross-sectional regression by industry and year as:

$$CFO_t/TA_{t-1} = \alpha_0 + \alpha_1 (1/TA_{t-1}) + \alpha_2 (Sales_t/TA_{t-1}) + \alpha_3 (\Delta Sales_t/TA_{t-1}) + \epsilon_t \tag{1}$$

$$DISEXP_t/TA_{t-1} = \alpha_0 + \alpha_1 (1/TA_{t-1}) + \alpha_2 (Sales_{t-1}/TA_{t-1}) + \epsilon_t \tag{2}$$

$$PROD_t/TA_{t-1} = \alpha_0 + \alpha_1 (1/TA_{t-1}) + \alpha_2 (Sales_t/TA_{t-1}) + \alpha_3 (\Delta Sales_t/TA_{t-1}) + \alpha_4 (\Delta Sales_{t-1}/TA_{t-1}) + \epsilon_t \tag{3}$$

Where,

CFO_t = Current cash flow from operation

DISEXP_t = Discretionary expenses (Selling General and Administrating + R and D)

PROD_t = Production costs (Cost of Goods Sold + Change in Inventory)

S_t = Current sales

ΔS_t = Change in current sales

S_{t-1} = Lagged sales

ΔS_{t-1} = Change in lagged sales

TA_{t-1} = Lagged total assets

$$REM = ACFO (-1) + ADISEXP (-1) + APROD \tag{4}$$

Table 1 shows that the significant of ACIND (0.481) is negative in its direction, which indicates that audit committee independent has an adverse effect on real earning management. The significant value of ACFEX (0.001) is also positive, indicating that the audit committee’s financial expertise has a positive effect on real earning management. The significant value for ACMEET (0.000) is also positive, suggesting that the number of audit committee meetings has an adverse effect on real earning management. In line with *a priori* expectation, the significant value of ACSIZE is negative (0.657), which confirms that audit committee size has a negative effect on real earning management. The results of the research hypothesis testing decision were presented briefly in Table 2.

4.2. Results of Hypothesis Testing

4.2.1. Audit committee and financial reporting quality

Table 1 shows the result for t-value is 0.705 and value of significance is 0.481 > 0.05. This finding is corroborated by previous studies (Habbash, 2010; Soliman and Raga, 2014)” can be useful to constrain EM practices. Nevertheless, these results are not in line with other prior studies which found indications that EM may be negatively related. Abdul-Manaf et al. (2018) reveals that audit committee independence is negatively related to real EM. This finding might be affected through various EM types. Table 1 “shows t value is -3.317 and value of significance is 0.001 < 0.05.” This finding is in line with previous studies (Nelson and Devi, 2013) which document that the financial expertise of the

Table 1: Testing of t statistic

Hypothesis	Model	Unstandardized coefficients		Standardized coefficients	t	Sig.	Decision
		B	Std. Error	Beta			
	(Constant)	0.056	0.054		1.044	0.296	
H ₁	ACIN	0.014	0.020	0.020	0.705	0.481	Rejected
H ₂	ACFX	-0.037	0.011	-0.070	-3.317	0.001	Accepted
H ₃	ACMEETG	-0.046	0.013	-0.077	-3.592	0.000	Accepted
H ₄	ACSIZE	-0.007	0.016	-0.013	-0.445	0.657	Rejected
	LEV	0.256	0.031	0.177	8.386	0.000	
	FSIZE	1.268 E-10	0.000	0.006	0.276	0.782	

ACIND1, t: The ratio of “independent AC members at the firm i in year t”. ACFEX 1, t: Total number of AC members with financial and accounting Background. ACMEET 1, t: The yearly number of AC meetings at the firm i in year t. ACSIZE 1, t: The total number of members on the AC at company i in year t. FSIZE 1, t: Natural log of total assets i in year t. FRMLEV 1, t: Total long-term debt divided by total assets at the firm in year t. ε: Error

Table 2: Summary of testing decisions

Hypothesis	Predicted Sign	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Decision	
		B	Std. Error	Beta				
		±	0.107	0.062		1.729	0.084	
		+	0.268	0.038	0.186	7.075	0.000	
		+	2.052 E-10	0.000	0.009	0.447	0.655	
		-	-0.175	0.128	-0.381	-1.369	0.171	
		-	-0.105	0.288	-0.068	-0.365	0.715	
		-	-0.080	0.036	-0.109	-2.218	0.027	
		-	-0.064	0.016	-0.122	-4.072	0.000	
		-	-0.129	0.019	-0.215	-6.880	0.000	
		+	0.088	0.030	0.152	2.968	0.003	
		+	0.023	0.024	0.034	0.936	0.349	
		-	-0.112	0.062	-0.044	-1.809	0.071	
		-	-0.006	0.017	-0.012	-0.363	0.716	
		-	-0.007	0.014	-0.013	-0.491	0.623	
		-	-0.005	0.068	-0.002	-0.072	0.943	
		+	0.013	0.067	0.006	0.191	0.849	
H ₅	AQBIG4*ACIND	+	0.127	0.044	0.142	2.917	0.004	Accepted
H ₆	AQBIG4*ACFEX	+	0.049	0.022	0.073	2.231	0.026	Accepted
H ₇	AQBIG4*ACMEET	+	0.153	0.025	0.200	6.009	0.000	Accepted
H ₈	AQBIG4*ACSIZE	-	-0.133	0.036	-0.198	-3.743	0.000	Accepted
H ₉	AQBIG4*ACGEN	-	-0.060	0.030	-0.076	-2.000	0.046	Accepted
H ₁₀	AQBIG4*ACCHR	+	0.130	0.128	0.283	1.015	0.310	Rejected
H ₁₁	AQCHANGE*ACIND	-	0.020	0.168	0.003	0.117	0.907	Rejected
H ₁₂	AQCHANGE*ACFEX	+	0.199	0.074	0.071	2.673	0.008	Accepted
H ₁₃	AQCHANGE*ACMEET	-	0.159	0.090	0.048	1.767	0.077	Accepted
H ₁₄	AQCHANGE*ACSIZE	+	-0.204	0.112	-0.056	-1.818	0.069	Accepted
H ₁₅	AQCHANGE*ACGEN	+	-0.177	0.097	-0.049	-1.821	0.069	Accepted
H ₁₆	AQCHANGE*ACCHR	-	0.044	0.276	0.028	0.158	0.874	Rejected
	F value				7.711			
	Sig				0.000			
	R Square				0.084			
	N				2226			

audit committee is effective in curbing EM activity. However, it also contradicts the findings of Habbash et al. (2013) and Abdul Rahman and Ali (2006) where no negative ACFEX and EM was found. Table 1 shows “t-value = -3.592 and value of significance is 0.000 < 0.05.” That means is positive. This finding might support the proposition that audit committee meeting numbers extensively reduce EM.

According to the fourth hypothesis H₄ in Table 1 the result shows “t-value = -0.445 and value of significance is 0.657 > 0.05”. This finding is similar to Sharma and Kuang’s (2014) study. Other studies found that the audit committee’s larger size does not considerably reduce EM. However, since any relationship with statistical significance is absent, the coefficient has taken negative

directional sign. The result is similar to a vast majority of studies (e.g., Habbash, 2010; Alkadi et al., 2012; Habbash et al., 2013) did not discover a major impact on the size of the audit committee on EM. Abdul-Manaf et al. (2018) reveals that audit committee size is negatively related to real EM. This Finding found the proposition that the audit committees’ larger size does not reduce EM considerably.

4.2.2. Audit quality Big 4 on audit committee and financial reporting quality proxy REM

Based on first hypothesis (H₃), Audit Quality Big 4 as a Moderator on audit committee independence (ACIND) and financial reporting quality proxy REM has positive and significant effects on financial reporting quality proxy REM in the context of Malaysian listed

companies. Based on the result in Table 2, the study hypothesis is supported and therefore accepted at an alpha level of 0.05. It means that Audit Quality Big 4 moderated the effect on audit committee independence (ACIND) and financial reporting quality (FRQ).

Based on first hypothesis (H_6), Audit Quality Big 4 as a Moderator on Audit Committee Financial Accounting Expert (ACFEX) and financial reporting quality proxy REM has positive and significant effects on financial reporting quality proxy REM in the context of Malaysian listed companies. Based on the result in Table 2, the study hypothesis is supported and therefore accepted at an alpha level of 0.05. It means that Audit Quality Big 4 moderated the effect on Audit Committee Financial Accounting Expert (ACFEX) and financial reporting quality (FRQ). What this means is that by engaging more financial accounting professionals in audit committees, there will be greater effort to upgrade external monitoring. This is in line with the findings reported by Chen and Zhou (2007) who stated that the number of people financially qualified on the audit committee enhances the opportunity of choosing Big 4 auditors.

Based on first hypothesis (H_7), Audit Quality Big 4 as a Moderator between Audit Committee Meeting (ACMEET) and financial reporting quality proxy REM has positive and significant effects in the context of Malaysian listed companies. Based on the result in Table 2, the study hypothesis is supported and therefore accepted at an alpha level of 0.05. It means that the Audit Quality Big 4 moderated the effect on Audit Committee Meeting and financial reporting quality (FRQ). The presence of a financially qualified external auditor to oversee the company financial statement would bring a positive effect on AC meetings. Previous studies have shown that regular meetings conducted by audit committees was positively linked to audit quality. (Lee and Mande, 2005).

Based on first hypothesis (H_{11}), Audit Quality Big 4 as a Moderator between Audit Committee Size (ACSIZE) and financial reporting quality proxy REM has negative and significant effects in the context of Malaysian listed companies. Based on the result in Table 2, the study hypothesis is supported and therefore accepted at an alpha level of 0.05. It means that the Audit Quality Big 4 moderated the effect on Audit Committee Size and financial reporting quality (FRQ). One possible reason for this is that a good sized AC would continuously keep good track on the management, internal auditor and its business operation even if the external auditor is of lower quality. KPMG (2013:3) stated that the AC size will be different depending on the requirements and culture of the company and the level to which the board of commissioners delegate tasks to the AC.

4.2.3. Audit quality change on audit committee and financial reporting quality proxy REM

In this study hypothesis (H_9) therefore states that Audit Quality Change as a Moderator on Audit Committee Independence (ACIND) has positive and insignificant effects on financial reporting quality proxy REM in the context of Malaysian companies. Based on the result of Table 2, the Audit Committee Independence (ACIND) is insignificant at the alpha level of 0.05. It means that The Audit Quality Change is not proven as moderating the effect on Audit Committee Independence (ACIND) and

financial reporting quality (FRQ). Chen and Zhou (2007) revealed that companies which had more independent boards dismiss auditors earlier and appointed Big 4 auditors as replacement.

In this study hypothesis (H_{10}) therefore states that Audit Quality Change as a Moderator on Audit Committee Financial Accounting Expert (ACFEX) has positive and significant effects on financial reporting quality proxy REM in the context of Malaysian companies. Based on the result of Table 2, the Audit Committee Financial Accounting Expert (ACFEX) is significant at the alpha level of 0.05. It means that The Audit Quality Change is proven to moderate the effect on Audit Committee Financial Accounting Expert (ACFEX) and financial reporting quality (FRQ). A study by Blouin, Grein and Rountree (2007) showed there is scant evidence about governance mechanisms and their influence on the appointment of company auditors.

In this study hypothesis (H_{11}) therefore states that Audit Quality Change as a Moderator on Audit Committee Meeting (ACMEET) has positive and significant effects on financial reporting quality proxy REM in the context of Malaysian companies. Based on the result of Table 2, the Audit Committee Meeting (ACMEET) is significant at the alpha level of 0.10. It means that The Audit Quality Change is proven to moderate the effect on Audit Committee Meeting (ACMEET) and financial reporting quality (FRQ). According to Jensen and Meckling (1976), when managerial ownership goes up, agency costs are reduced. Contrarily, Defond (1992) found a negative association between internal ownership changes and changes in the audit firm quality.

In this study hypothesis (H_{12}) therefore states that Audit Quality Change as a Moderator on Audit Committee Size (ACSIZE) has negative and significant effects on financial reporting quality proxy REM in the context of Malaysian companies. Based on the result of Table 2, the Audit Committee Size (ACSIZE) is significant at the alpha level of 0.10. It means that The Audit Quality Change is proven to moderate the effect on Audit Committee Size (ACSIZE) and financial reporting quality (FRQ). Bigger firms usually have a more complex structure than smaller ones and a majority of studies have found that there is a stable and consistent association between client size and changes in auditors (Sankaraguruswamy and Whisenant, 2004).

5. CONCLUSION

This chapter concludes the research. It begins by presenting a concise summary of the research results. This is followed by discussing the findings and implications. After this, the research draws to a close by detailing the research limitations before offering recommendations for future research. These findings are made available to regulators, it will help them identify and formulate effective mechanisms of corporate governance as well as to evaluate the requirements of disclosure. The primary purpose of this study has been to investigate the effect on the relationship between the audit committee and quality of financial reporting among listed firms in Malaysia. The study was conducted on a sample of 814 listed trading companies in Malaysia for the period from 2013 to 2018. Having tested the hypothesised relationships

like Malaysia, this research has helped create a more inclusive global picture of the relationship between the AC and FRQ. Based on analysed data from audit committee independence, audit committee financial accounting expert, audit committee meeting and audit committee size, the result shows the relationship between audit committee financial accounting expert and real earning management is influenced by the level of the audit big 4 and change. Based on the results and discussion about effect testing between variables, it can be concluded several things as follows:

- H₁: Audit Committee Independence had a positive effect on financial reporting quality (FRQ) Real Earning Management (REM)
- H₂: Audit Committee Financial Accounting Expert had a significant negative effect on financial reporting quality (FRQ) Real Earning Management (REM)
- H₃: Audit Committee Meeting had a significant negative effect on financial reporting quality (FRQ) Real Earning Management (REM)
- H₄: Audit Committee Size had a negative effect on financial reporting quality (FRQ) Real Earning Management (REM)
- H₅: The Audit Quality Big 4 proved to have a significant effect to moderate the effect on Audit Committee Independence and financial reporting quality (FRQ) proxy real earning management (REM)
- H₆: The Audit Quality Big 4 is proven to moderate the effect on Audit Committee Financial Accounting Expert and financial reporting quality (FRQ) proxy real earning management (REM)
- H₇: The Audit Quality Big 4 proved to have a significant effect to moderate the effect on Audit Committee Meeting and financial reporting quality (FRQ) proxy real earning management (REM)
- H₈: The Audit Quality Big 4 proved to have a significant effect to moderate the effect on Audit Committee Size and financial reporting quality (FRQ) proxy real earning management (REM)
- H₉: The Audit Quality Change is not proven to moderate the effect on Audit Committee Independence and financial reporting quality (FRQ) proxy real earning management (REM)
- H₁₀: The Audit Quality Change is proven to moderate the effect on Audit Committee Financial Accounting Expert and financial reporting quality (FRQ) proxy real earning management (REM)
- H₁₁: The Audit Quality Change is proven to moderate the effect on Audit Committee Meeting and financial reporting quality (FRQ) proxy real earning management (REM)
- H₁₂: The Audit Quality Change is proven to moderate the effect on Audit Committee Size and financial reporting quality (FRQ) proxy real earning management (REM)

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