Audit Committee's Effectiveness and Financial Reporting Quality

The case of GLCs in Malaysia
Audit Committee's Effectiveness and Financial Reporting Quality

The case of GLCs in Malaysia
# TABLE OF CONTENTS

## CHAPTER 1: INTRODUCTION

1.0 Introduction .................................................................................................................. 3  
1.1 Background of the study ................................................................................................. 3  
1.2 Problem Statement .......................................................................................................... 6  
1.3 Objectives of the study ................................................................................................... 8  
1.4 Motivation of the study .................................................................................................. 9  
1.5 Significance of the study ............................................................................................... 11  
1.6 Organization of the study ............................................................................................. 11  
1.7 Conclusion ..................................................................................................................... 12  

## CHAPTER 2: GOVERNMENT-LINKED COMPANIES AND AUDIT COMMITTEE: LITERATURE REVIEW

2.0 Introduction .................................................................................................................... 13  
2.1 Government-linked Companies overview ....................................................................... 14  
2.2 Green Book Manual Implementation ............................................................................ 16  
2.3 Audit Committee Effectiveness and Financial Reporting Quality .............................. 17  
2.3.1 Audit Committee Independence ............................................................................... 18  
2.3.2 Audit Committee Size ............................................................................................. 18  
2.3.3 Audit Committee Meeting ....................................................................................... 20  
2.3.4 Audit Committee Expertise ..................................................................................... 21  
2.4 The Gap: Audit Committee Effectiveness and Financial Reporting Quality in GLCs 26  
2.5 Conclusion .................................................................................................................... 27  

## CHAPTER 3: THEORY AND HYPOTHESIS DEVELOPMENT

3.0 Introduction .................................................................................................................... 28  
3.1 Theories in Corporate Governance ............................................................................... 28  
3.1.1 Agency Theory ....................................................................................................... 28  
3.1.2 Resource Dependence Theory ............................................................................... 29  
3.1.3 Agency Theory, Resource Dependence Theory and Financial Reporting Quality 31  
3.2 The Research Framework and Hypotheses Development .......................................... 32  
3.3 Hypothesis Development ............................................................................................. 34  
3.3.1 Audit Committee’s Effectiveness ............................................................................ 34  
3.3.1.1 Audit Committee Independence ..................................................................... 36  
3.3.1.2 Audit Committee Size .................................................................................... 37  
3.3.1.3 Audit Committee Meeting ............................................................................. 37  
3.3.1.4 Audit Committee Expertise ............................................................................ 38  
3.4 Conclusion .................................................................................................................... 39
Financial reporting quality has been under scrutiny especially after the collapse of major companies. The main objective of this study is to investigate the audit committee’s effectiveness on the financial reporting quality among the Malaysian GLCs. In particular, the study examined the impact of audit committee characteristics (independence, size, frequency meeting and financial expertise) on earnings management in periods prior to and following the transformation program (2003-2009). The study is important as it provides additional knowledge about the impact of audit committee’s effectiveness on reducing the earnings management, and assist practitioners, policymakers and regulators such as Malaysian Institute of Accountants, Securities Commission and government to determine ways to enhance audit committee’s effectiveness and improve the financial reporting of GLCs, as well as improving the quality of the accounting profession.

Nurul Nazlia Jamil

Nurul Nazlia Jamil, Bachelor of Accounting (IIUM), M.Acc (IIUM). Her current research interest falls under the area of auditing, financial accounting and reporting and corporate governance.