THE IMPACT OF AUDIT COMMITTEE ON AUDIT FEES IN MALAYSIAN PUBLIC-LISTED COMPANIES

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ABSTRACT

This study extends the literature on the quality of corporate governance and audit by examining the influence of audit committee on audit fees. The sampling frame consists of Malaysian non-financial public-listed companies from 2003 to 2012. The sample consists of 4,570 observations. The study applies pooled ordinary least square (OLS) to test the hypotheses and model. We use audit committee independence, audit committee expertise, number of audit committee meetings, and audit committee size as proxies for the quality of corporate governance and audit fees as proxy for audit quality. The findings show that the audit committee attributes are not significantly related to audit fees, which suggests that audit committee attributes have no influence on the audit fees. To extend this research, we recommend the inclusion of other attributes, such as communication between audit committee and the board, communication among the audit committee, and the extent of their understanding of the company's risk and control systems. These additional variables complement the quantitative approach of this study using a qualitative research method. These variables can provide insights into the functions of audit committee to verify its efficacy as an internal governance mechanism.

Keywords: *audit committees, audit fees, proxy for audit quality, internal governancemechanism, Malaysian public-listed companies*

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Introduction

Audit committees play an important role in ensuring the integrity and quality of corporate reporting and external audit process. The development of audit committees began in 1991 (Haron, Jantan, &Eow, 2005). The formation of audit committees in all Malaysian public-listed firms has become a listing requirement of the Kuala Lumpur Stock Exchange (KLSE); since August 1, 1993, this requirement is known as the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (KLSE, 1993, S15A). In response to the financial scandals in Malaysia in the past two decades, regulators and policy makers continuously enhanced the framework of corporate governance to strengthen the operations of the corporate governance systems of the country (Table 1).

The new regulatory framework has made the audit committee the key governance mechanism, given that it is an essential component in the structure of public-listed companies. As a result, the roles and responsibilities of the audit committee have increased tremendously (see Table 2). Despite this development, the majority of audit committee members in Malaysia encounter difficulty in discharging their responsibility with stringent regulations and complex environments (Izma, 2013). Table 3 shows that the new framework of regulatory governance failed to prevent recurrences of corporate governance scandals in the country.

Table 1: Malaysian Code on Corporate Governance and Listing Requirements

	Code on Corporate Governance and Listing Requirements	Date
1	Malaysian Code on Corporate Governance 2000 (The Code)	March 2000
2	2001 Listing Requirements of KLSE	June 2001
3	2005 Listing Requirements of Bursa Malaysia Securities Berhad	January 2005
4	2006 Listing Requirements of Bursa Malaysia Securities Berhad	May 2006
5	Malaysian Code on Corporate Governance Revised 2007 (2007 Code)	October 2007
6	2009 Listing Requirements of Bursa Malaysia Securities Berhad	2009

Source: Extract from Bursa Malaysia Resource Centre on August 24, 2015

Table 2: Functions of Audit Committee

S344A (5) of 1993 Listing Requirements of KLSE	S15.13 (1) of 2001 Listing Requirements of KLSE
(a) To review with auditor: (i) The audit plan. (ii) The audit committee's evaluation of the system of internal accounting controls. (iii) The audit committee's audit report (iv) The assistance given by the company's officers to the auditor. (v) The scope and results of the internal audit procedures. (vi) The financial statements of the company and the group. (vii) Any related party transactions that may arise within the company or group. (b) To nominate a person or persons as auditor.	(1) To review with auditor and report to board of directors: (a) The audit plan. (b) The audit committee's evaluation of the system of internal controls. (c) The audit committee's audit report. (d) The assistance given by the employees of the listed company to external auditor. (e) The adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work. (f) The internal audit programme, processes, the results of results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function. (g) The quarterly results and year-end financial statements, prior to the approval by the board of directors, focusing particularly on changes in or implementation of major accounting policy changes; significant and unusual events; and compliance with accounting standards and other legal requirements. (h) Any related party transaction and conflict of interest situation that may arise within the listed issuer or group including any transaction, procedure or course of conduct that raises questions of management integrity. (i) Any letter of resignation from the external auditors of the listed issuer. (j) Whether there is reason (supported by grounds) to believe that the listed issuer's external auditor is not suitable for re- appointment. (2) To nominate a person or persons as auditor.

Source: Extract from Bursa Malaysia Resource Centre on August 24, 2015

Table 3: Prominent Past Scandals in Bursa Malaysia

No.	Name of Company	Year	Offences
1	[a]Perwaja Steel Bhd	1988-1995	Misappropriation of funds, dubious contracts and dishonest accounting
2	[b]AokamPerdanaBhd	1996-1997	Misappropriation of assets
3	[c]Repco Holdings Bhd	1997	Manipulation of share price
4	[d]Idris Hydraulic (M) Bhd	2001	Provide false statements
5	[b]Idris Hydraulic (M) Bhd	2003	Misappropriation of assets
6	[c]Hwa Tai Industries Bhd	2004	Unfair allocation of excess right shares
7	[c]Fountain View Development Bhd	2005	Share manipulation
	[c]Transmile Group Berhad	2005-2006	Provide misleading statements
9	[c]Axis Incorporation Bhd	2006-2008	Provide false statements
10	[c]Megan Media Holdings Berhad	2006-2007	Provide false statements
11	[c]Linear Corp Bhd	2007	Misappropriation of assets
12	[e]EkranBhd	2009	Failure to disclose related party transactions
13	[c]Linear Corp Bhd	2009	Provide false statements
14	[f]Kenmark Industrial Co (M) Bhd	2010	Insider trading and market manipulation
15	[c]Silver Bird Group Bhd	2010-2011	Provide false statements

Source:[a]: Kinibiz (2015);[b]: Forest Monitor (2015); [c]: Securities Commission Malaysia (2015); [d]: Where is ZeMoola (July 28, 2011);[e]: The Edge Markets (November 25, 2009); [f]: The Edge Markets (June 4, 2010)

Studies were conducted on the relationship of the characteristics of audit committee and audit fees (AF) in Malaysia; this relationship is demonstrated in the works of Husnin, Nawawi, and Salin (2013); Mat Yasin and Puat Nelson (2012); Johl, Subramanian, and Mat Zain (2012); and Yatim, Kent, and Clarkson (2006). These studies focused on the impact of implementation of The Code (Johl, Subramanian & Mat Zain, 2012; Yatim, Kent & Clarkson, 2006). Yatim, Kent and Clarkson (2006) was the only study that examined the relationship between AF and the four characteristics of audit committee, namely, independence, financial expertise, audit committee size (ACS-S), and frequency audit committee meeting; these characteristics are recommended in the best practices of The Code (Financial Committee on Corporate Governance, 2000) and the listing requirements (KLSE, 2001). These studies applied short time frame-data that ranged from one to three years. Their findings may not reflect the true impact of implementation of the regulatory framework on the AF because of the short time frame.

The present study examines the impact of audit committee on AF in Malaysian non-financial public-listed companies from 2003 to 2012. The sample comprises 4,570 observations. This study used the characteristics of audit committee as proxy for the quality of corporate governance and AF as proxy for audit quality. Our findings show that these four characteristics have no significant relationship with AF. This finding suggests that the characteristics of the audit committee in the recommended framework and listing requirements in corporate governance have no impact on external audit process. However, the findings provide useful information for policy makers and regulators in reviewing the best practices and listing requirements for the audit committee to enhance its quality and function as key internal governance mechanism.

This study has contributed to the paucity of local governance literature in two ways. First, this study is based on the four characteristics of audit committee as shown in the execution of best practices of the 2007 Code (Securities Commission, 2007) and in the listing requirements (KLSE, 2001; Bursa Malaysia Securities Berhad, 2005; 2006; 2009). Second, our data are premised on 457 companies over a span of 10 years (2003–2012), which account for a final sample of 4,570 firm-year observations. This exercise enabled us to capture a long period of pre-introduction and post-execution of the 2007 Code. This approach facilitates the comprehensive assessment of the impact of audit committee on the audit process.

Background and Development of Hypotheses

Audit Quality in Malaysia

Audit quality is defined as the probability that the auditor will discover and report a breach in a client's accounting system (DeAngelo, 1981). Hay, Knechel, and Wong (2006) found that AFs are the most utilized common proxy variable that represents audit quality. Auditors who provide superior audit quality are expected to charge high fees. This assumption is attested to by the Big Four, which are closely associated with high AF. A number of studies showed that auditors have been charged for failure to discharge their duties professionally (Securities Commission Malaysia, 2013; Oh, 2012). In 2000, Malaysia introduced a framework of corporate governance that recommends audit committee to serve as internal governance mechanism in monitoring the audit function and audit process. This recommendation was subsequently incorporated into the listing requirement of KLSE.

Corporate Governance in Malaysia

Malaysia recognizes the value of good governance as evidenced in the first Malaysian Code on Corporate Governance (The Code), which was introduced in March 2000 to fortify the country's corporate governance framework. The Code sets out the best practices in corporate governance of listed companies; these best practices include the composition and duties of the audit committee (Financial Committee on Corporate Governance, 2000). The Code was revised in 2007 (2007 Code) to strengthen the roles and responsibilities of board of directors, audit committee, and internal audit functions. The amendments related to the audit committee include the eligibility criteria for appointment as an audit committee member, composition of audit committees, frequency of meetings, and the need for continuous training (Securities Commission, 2007).

Audit Committee Framework in Malaysia

All listed companies in Malaysia are mandated to establish an audit committee with a majority of independent directors (Bursa Malaysia Securities Berhad, 2009, paragraph 3.15; Securities Commission, 2007). Paragraph 15.10 of the Listing Requirements of Bursa Malaysia requires that the number of audit committee members shall not be less than three;

these members must be non-executive directors and at least one of them must be a member of an accounting association or body (Bursa Malaysia Bursa Malaysia Securities Berhad, 2009; Securities Commission, 2007). All audit committees are required to meet at least four times a year to discharge their duties and responsibilities (Bursa Malaysia Berhad, 2013).

Development of Hypotheses

Audit Committee Meetings (ACM-S) and Audit Fees (AF)

Governance best practices require audit committees to meet regularly to discharge their oversight functions effectively (Securities Commission, 2007). Prior studies suggested that audit committees should meet regularly with the external auditor to overcome financial reporting problems (Raghunandan, Rama&Scarbrough, 1998); such an approach of an external auditor who will conduct substantive testing tends to minimize or obliterate any problem (Yatim, Kent& Clarkson, 2006) thereby resulting in low audit fees. We then propose out first hypothesis:

> **H_1:** A negative relationship exists between ACM-S and AF

Audit Committee Size (ACS-S) and Audit Fees (AF)

Malaysian listed companies are mandated to form an audit committee with a minimum of three directors (Bursa Malaysia Securities Berhad, 2009, Securities Commission, 2007). Prior studies indicated that a large audit committee tends to handle strong internal audit function (Prawitt, Sharp& Wood, 2011), which enhances the quality of financial reporting (Yatim, Kent & Clarkson, 2006) and legitimizes meaningful organizational support from the board of directors, including the acknowledgement of external auditors as an authoritative body (Kalbers& Fogarty, 1993). These findings contributed to low external AF. Our second hypothesis is:

> **H_2:** A negative relationship exists between ACS-S and AF.

Audit Committee Expertise (ACX-S) and Audit Fees (AF)

The listing requirements of Bursa Malaysia require that at least one audit committee member is a member of an accounting association or body (Bursa Malaysia Securities Berhad, 2009; Securities Commission, 2007). Empirical findings supported the assertion that an audit committee with at least one accounting and finance knowledgeable member tends to have a good understanding of auditing issues and risks (DeZoort&Salterio, 2001). Consistent with previous studies (Yatim, Kent & Clarkson, 2006), listing requirements, and governance best practices, we concur that audit committees with financial expertise help reduce audit risk thereby resulting in low AFs. We then propose the following hypothesis:

H_3: A negative relationship exists between ACX-S and AF.

Audit Committee Independence (ACI-S) and Audit Fees (AF)

Consistent with the Listing Requirements of Bursa Malaysia, the best practices of the Malaysian governance recommend that the audit committee should consist of the majority of independent directors and all members must be non-executive directors (Bursa Malaysia Securities Berhad, 2009; Securities Commission, 2007). Previous studies suggested that an independent audit committee can enhance oversight functions on the financing reporting process (Abbott, Parker, & Peters, 2004), protect the reliability of the accounting process (Yatim, Kent & Clarkson, 2006), and improve the effectiveness of monitoring of management activities (Husnin, Nawawi&Salin, 2013). These improvements helped reduce inherent and control risks thereby lowering the AF. We then propose our final hypothesis:

H_4: A negative relationship exists between ACI-S and AF.

Research Method

Sample Selection

Our search for sample firms started with listed non-financial companies that traded their shares in the Bursa Malaysia Main Market from 2003–2012. Our objective was to include at least a five-year period from pre-introduction to the post-execution of the 2007 Code. We adopted this approach because of the changes in corporate governance requirements in audit committees after the 2007 Code was introduced. Thus, the relationships in our study could have been structurally affected by the new best practices in said 2007 Code. An initial sample of 516 companies was considered. Data were obtained from the Bursa Malaysia Knowledge Center. We deleted 59 companies that lacked necessary data for estimating our model. A total of 457 companies remained in the final sample, which consisted of 4,570 firm-year observations.

Model Specification

This study modified the AF model in previous research (Zaman, Hudaib, &Haniffa, 2011) and adopted the following model to test the hypotheses. Table 4 shows the description and measurement of variables.

$$\begin{aligned} LNAFit = {} & \beta 0 + \beta 1\ ACM\text{-}Sit + \beta 2\ ACS\text{-}Sit + \beta 3\ ACX\text{-}Sit + \beta 4\ ACI\text{-}Sit + \\ & \beta 5INEDit + \beta 6\ BM\text{-}Sit + \beta 7 \\ & DUALit + \beta 8\ BS\text{-}Sit + \beta 9LNDRit + \beta 10\ BIG\text{-}4it + \beta 11LNTAit + \\ & \beta 12LNSUBSit + \beta 13 \\ & LEVit + \beta 14LOSSit + \beta 15\ NSH5\text{-}Sit + \mathbf{INDUSTRY} + \mathbf{YEAR} + \\ & \varepsilon i \end{aligned}$$

Table 4: Description and Measurement of Variables

Variables		Description and Definitions
Panel A: Dependent Variables		
LNAF	=	AFs are measured as the natural logarithm of AF paid/payable to theexternal auditor during the financial year.
Panel B: Independent Variables		
ACM-S	=	Frequency of audit committee meeting is measured as number of ACM-Sduring the year.
ACS-S	=	Audit committee size is measured as the number of members in an auditcommittee.
ACX-S	=	Audit committee expertise is measured as the number of audit committeemembers with financial expertise.
ACI-S	=	Audit committee independence is measured as the number of independentnon-executive directors in the audit committee.
Panel C: Control Variables		
INED	=	Independent non-executive directors are measured as the number ofindependent non-executive directors sitting on the board of the company.
BM-S	=	Number of board meetings are measured as the number of board meetingsheld during the financial year.
DUAL	=	Duality is measured using a dichotomous variable; 1 is used if the ChiefExecutive Officer or Managing Director concurrently holds the position ofchairman of the board, and 0 otherwise.
BS-S	=	Board size is measured as the total number of directors sitting on the boardof the company.
LNDR	=	Director remuneration is measured as the natural logarithm of total amountof directors' remuneration paid to or received by the executive directorsand non-executive directors every year.
BIG-4	=	Type of auditor is a dichotomous variable measured as 1 if the firm isaudited by a Big Four auditor or accounting firm, and 0 otherwise.
LNTA	=	Company size is measured as the natural logarithm of company's totalassets at the year-end.

Variables		Description and Definitions
LNSUBS	=	Complexity of company structure is measured by the natural logarithm ofthe number of subsidiaries.
LEV	=	Leverage level of company is measured by the ratio of total long-term debtto total assets.
LOSS	=	Loss during the year is measured as the net income after tax of thecompany for the year. It is a dummy variable equal to 1 if the companyexperienced loss during the year, and 0 otherwise.
NSH5-S	=	The number of shareholder with more than 5% shares is measured as thetotal number of shareholder that holds 5% or more shares in the company.
INDUSTRY	=	The following types of industries have dummy variables: construction,consumer, industrial, property, plantation, technology, and trading/services.
YEAR	=	Time of the dummy variables from 2003 to 2012.
ε	=	Residual errors

Dependent Variable

Consistent with previous studies (Husnin, Nawawi, &Salin, 2013; Zaman, Hudaib, &Haniffa, 2011; Mat Yasin&Puat Nelson, 2012; Johl, Subramanian, & Mat Zain, 2012; Yatim, Kent, & Clarkson, 2006), we use the natural logarithm of AF (LNAF) as dependent variable. AFs represent the amount paid or payable by the company to the external auditor during the year.

Independent Variables

The characteristics of four audit committee, namely, ACM-S, ACX-S, ACI-S, and ACS -S, are considered independent variables. These four characteristics are the best practices and listing requirements identified in the 2007 Code and Listing Requirements of Bursa Malaysia Securities Berhad (Securities Commission, 2007, Part 2(BB); Bursa Malaysia Securities Berhad, 2009, S15.10; S15.14).

Control Variables

Based on previous studies on AF, we include the following control variables in our research model: INED, BM-S, DUAL, BIG-4, LNTA, LNSUBS, LEV, LOSS, NSH5-S, INDUSTRY, and YEAR (Firth, 1997a; Firth 1997b; Carcello, Hermanson Neal & Riley, 2002; Abbott, Parker, Peters &Raghunandan, 2003; McMeeking, Peasnell& Pope, 2006; Ghosh, Marra& Moon, 2010; Dhaliwal, Naiker&Navissi, 2010; Lo, Wong & Firth, 2010). We use control variables similar to those in Zaman, Hudaib and Haniffa (2011) with two exceptions. First, we excluded the variable in the last two years the company had made an acquisition because of the unavailability of data. Second, we added two control variables, namely, board size (BS-S) and director remuneration (DR), into the model because DR is a principle of good corporate governance and BS-S is a best practice of corporate governance (Securities Commission, 2007).

Results

Descriptive Statistics

Table 5 presents the descriptive statistics for the test variables in the current research model. The average AF of RM 255,000.00 for the sample firms is within a range of RM 4,000.00 to RM 9.1 million. The four characteristics of audit committee, namely, ACM-S, ACS-S, ACX-S, and ACI-S, record a mean of 4.824, 3.431, 1.385, and 2.659, respectively. This finding suggests that the sample firm-year observations have an average of 4.824 ACM -S during the year; 3.431 members are in the audit committee, 1.385 members are with financial expertise, and 2.659 members are independent non-executive directors. This result shows that the sample firm-year observations achieved the corporate governance best practices recommended by The Code and the listing requirements of the 2007 Code.

Control variables BS-S, BM -S, INED, LEV, SUBS, and NSH5-S recorded a mean of 7.596, 5.271, 3.164, 0.070, 20.433, and 2.974, respectively. This finding suggests that the firm-year observations of the sample have an average of 7.596 directors, 5.271 times board of director meetings, 3.164 independent non-executive directors, 7% leverage ratio, 20.433 subsidiaries in the group, and 2.974 shareholders who hold 5% or more shares in the company. The mean of DR paid to the directors and total assets of the company are RM 2.886 million and RM 1,346 million, respectively. About 8.50%, 22.80%, and 62.40% of the sample firm-year observations chief executive officer or managing director who concurrently holds the position of chairman of the board, experienced loss during the year, and was audited by Big Four auditors or accounting firms, respectively.

Table 6 presents the correlation matrix for the test variables. The result shows that ACM-S, ACS-S, and ACI-S are significantly correlated with AF. No evidence was found on multicollinearity problem among independent and control variables because the correlations of these variables are below 0.700 (Hair, Black, Babin, & Anderson, 2010). Variance inflation factor was calculated and the results show that all variables are within the acceptable limit of 10 (Hair, Black, Babin, & Anderson 2010; Wooldridge, 2013).

Table 5: Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
Panel A: Continuous Variables					
AF (RM'mil)	0.255	0.120	9.100	0.004	0.495
ACM-S	4.824	5.000	21.000	0.000	1.208
ACS-S	3.431	3.000	9.000	2.000	0.703
ACX-S	1.385	1.000	5.000	0.000	0.737
ACI-S	2.659	3.000	7.000	0.000	0.640
BS-S	7.596	7.000	19.000	1.000	1.942
BM-S	5.271	5.000	27.000	0.000	1.981
INED	3.164	3.000	8.000	1.000	0.945
DR (RM'mil)	2.886	1.589	118.000	0.000	6.052
TA (RM'mil)	1,340.000	322.000	88,500.000	0.526	4,930.000
LEV (%)	0.070	0.024	5.257	0.000	0.126
SUBS	20.433	12.000	443.000	0.000	28.621
NSH5-S	2.974	3.000	40.000	0.000	1.818

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
Panel B: Dichotomous Variables					
DUAL	0.085	0.000	1.000	0.000	0.279
LOSS	0.228	0.000	1.000	0.000	0.419
BIG-4	0.624	1.000	1.000	0.000	0.484

Regression Results

The R-square of 0.771 in Column 1 of Table 7 shows that the independent variables and the control variables explain about 77.10% of the variation in LNAF. All variables are important to explain LNAF. Column 1 of Table 7 shows that ACM-S, ACS-S, and ACI-S have negative relationships with LNAF; thus, the hypotheses H1, H2, and H4 are supported. Therefore, companies with audit committees who meet regularly have a large number of members, and more independent non-executive directors tend to pay low AF. These are probably because they have a strong internal audit function and a quality accounting-reporting process that contribute to low audit risk. ACX-S is positively related to LNAF; thus, hypothesis H3 is rejected. However, the results of the four audit committee characteristics are not statistically significant in relation to AF, which suggests that the audit committee characteristics have no influence over LNAF.

BM-S, DUAL, INED, and LNDR have a positive relationship with LNAF, whereas BS-S has a negative relationship with LNAF (Column 1 of Table 7). LNDR is significantly related to LNAF at the 1% level of significance. BM-S and DUAL are significantly related to LNAF at the 10% level of significance. BS-S and INED are statistically insignificant at the 10% level. In company-specific factor -control variables, BIG-4, LNTA, LNSUBS, LEV, and LOSS-YR are significantly and positively related to LNAF at the 1% level. NSH5-S has a negative relationship with LNAF and is statistically insignificant at the 10% level (Column 1 of Table 7). In the case of industrydummies and year dummies, the AF of companies are significantly different among industries in different years.

Table 6: Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) LNAF	1.000															
(2) ACM-S	**0.223**	1.000														
(3) ACS-S	**0.062**	**0.075**	1.000													
(4) ACX-S	0.008	0.033	**0.267**	1.000												
(5) ACI-S	**0.167**	**0.101**	**0.584**	**0.174**	1.000											
(6) BM-S	**0.186**	**0.514**	**0.096**	**0.039**	**0.093**	1.000										
(7) BS-S	**0.235**	**0.075**	**0.363**	**0.076**	**0.286**	**0.055**	1.000									
(8) DUAL	0.028	0.004	−0.016	**0.042**	−0.004	−0.030	**−0.067**	1.000								
(9) INED	**0.262**	**0.147**	**0.338**	**0.057**	**0.490**	**0.112**	**0.540**	−0.019	1.000							
(10) LNDR	**0.513**	**0.070**	**0.114**	**0.059**	**0.172**	0.001	**0.358**	0.032	**0.210**	1.000						
(11) LOSS	**−0.074**	**0.041**	**−0.076**	**−0.073**	**−0.040**	**0.100**	**−0.171**	0.008	**−0.063**	**−0.203**	1.000					
(12) LNTA	**0.778**	**0.234**	**0.156**	−0.011	**0.206**	**0.190**	**0.331**	−0.036	**0.304**	**0.503**	**−0.171**	1.000				
(13) LEV	**0.214**	**0.120**	0.015	−0.033	0.037	**0.117**	**0.098**	**−0.038**	**0.094**	**0.109**	0.034	**0.205**	1.000			
(14) BIG-4	**0.154**	−0.010	**0.052**	**−0.076**	−0.004	**0.013**	**0.090**	**0.003**	**0.034**	**0.122**	**−0.098**	**0.209**	0.022	1.000		
(15) LNSUBS	**0.717**	**0.222**	−0.003	**−0.055**	**0.095**	**0.129**	**0.114**	0.022	**0.184**	**0.398**	0.001	**0.574**	**0.213**	0.001	1.000	
(16) NSH5-S	−0.014	0.023	−0.023	−0.021	−0.035	−0.037	0.033	−0.034	−0.016	0.007	**−0.046**	−0.011	0.030	**−0.048**	**0.046**	1.000

Notes:

(a) Description and measurement of variables refer to Table 4.

(b) Pearson correlations significant at the 1% level are shown in bold.

Further Analysis

Two additional tests were conducted in this study to ensure that the result is rigorous. These tests are based on the pooled data and show that companies are audited by BIG-4 and Non-BIG-4 audit firms. The R-square of these two tests (BIG -4: 0.789 and Non-BIG-4: 0.734) have strong explanatory power. This finding shows that all variables are important in explaining AFs. Columns 2 and 3 of Table 7 show the results. The results have remained unchanged. The four attributes of the audit committee are not significantly related to AF. The results suggest that neither companies audited by BIG-4 or Non-BIG-4 and ACI-S, ACX-S, ACM-S, and ACS-S influence AF.

Table 7: Regression of AF on Audit Committee and Control Variables

	Column 1		Column 2		Column 3	
	2003-2012		**BIG-4**		**Non-BIG-4**	
	Coef. Std. Err. t-value		Coef. Std. Err. t-value		Coef. Std. Err. t-value	
CONSTANT	2.340		2.295		2.660	
	0.357		0.466		0.544	
	6.560	***	4.930	***	4.890	***
ACM-S	-0.011		-0.005		-0.015	
	0.012		0.013		0.022	
	-0.970		-0.410		-0.670	
ACS-S	-0.030		-0.039		0.011	
	0.026		0.030		0.041	
	-1.150		-1.320		0.270	
ACX-S	0.026		0.020		0.029	
	0.028		0.035		0.047	
	0.930		0.580		0.620	

	Column 1		Column 2	Column 3	
	2003-2012		**BIG-4**	**Non-BIG-4**	
	Coef. Std. Err. t-value		Coef. Std. Err. t-value	Coef. Std. Err. t-value	
ACI-S	-0.007		-0.001	-0.035	
	0.030		0.036	0.049	
	-0.230		-0.040	-0.730	
INED	0.011		0.003	0.037	
	0.018		0.022	0.033	
	0.610		0.140	1.140	
BM-S	0.017		0.012	0.023	
	0.009		0.010	0.012	
	1.890	*	1.180	1.890	*
DUAL	0.099		0.079	0.113	
	0.058		0.056	0.117	
	1.700	*	1.400	0.970	
BS-S	-0.001		0.002	-0.010	
	0.009		0.011	0.016	
	-0.100		0.160	-0.660	
LNDR	0.073		0.080	0.056	
	0.019		0.024	0.025	
	3.900	***	3.370	2.240	**
BIG-4	0.101		-	-	
	0.034		-	-	
	2.940	***	-	-	

	Column 1		**Column 2**		**Column 3**	
	2003-2012		**BIG-4**		**Non-BIG-4**	
	Coef.		Coef.		Coef.	
	Std. Err.		Std. Err.		Std. Err.	
	t-value		t-value		t-value	
LNTA	0.354		0.356		0.344	
	0.020		0.023		0.036	
	17.430	***	15.220		9.510	***
LNSUBS	0.404		0.392		0.442	
	0.027		0.032		0.047	
	14.720	***	12.220		9.470	***
LEV	0.156		0.102		0.341	
	0.168		0.229		0.196	
	0.930		0.440		1.740	*
LOSS-YR	0.082		0.083		0.073	
	0.029		0.039		0.042	
	2.790	***	2.130		1.720	*
NSH5-S	-0.009		-0.014		-0.002	
	0.008		0.010		0.012	
	-1.110		-1.320		-0.150	
YEAR	Yes		Yes		Yes	
INDUSTRY	Yes		Yes		Yes	
R square	0.771		0.7897		0.7336	
F-value	110.630	***	86.34		41.460	***
Observation	4,570		2,853		1,717	

Notes: Description and measurement of variables refer to Table 4. ***, **, and * indicate significant relationship at 1%(p<.01), 5% (p < .05), and 10% (p < .10) levels, respectively.

Discussion and Conclusion

Discussion

Based on the review of literature, we established our hypotheses on the premise that ACM-S, ACS-S, ACX-S and ACI-S have significant negative relationships with audit fees. Frequent audit meetings, high number of audit committee members, increased number of independent non-executive directors in the board, and inclusion of an audit committee with a financial expertise strengthen internal audit function and improves the quality of financial reporting process thereby contributing to low audit risks and fees. Our study is conducted in the Malaysian setting andprovides evidence that ACM-S, ACS-S, ACX-S, and ACI-S have no significant relationship with LNAF.

The results of this study are consistent with the findings of previous studies conducted in Malaysia that ACM-S (Husnin, Nawawi, &Salin, 2013; Mat Yasin and Puat Nelson, 2012; Yatim, Kent, & Clarkson, 2006), ACS-S (Husnin, Nawawi, &Salin, 2013; Yatim, Kent, & Clarkson, 2006), ACX-S (Mat Yasin and Puat Nelson, 2012; Johl, Subramanian, & Mat Zain, 2012; Yatim, Kent, & Clarkson, 2006), and ACI-S (Husnin, Nawawi, &Salin, 2013; Bliss Muniandy and Majid, 2007; Yatim, Kent, & Clarkson, 2006) have no influence on LNAF. However, the results do not support the findings of Husnin, Nawawi, and Salin (2013); Johl, Subramanian and Mat Zain (2012); and Bliss, Gul, and Majid (2011) that ACI-S has a significant influence on LNAF. Our study is based on data from the period before and after the implementation of the 2007 Code (2003–2012), whereas Husnin, Nawawi, and Salin (2013) and Mat Yasin and Puat Nelson (2012) used data from the period after the implementation of the 2007 Code. Johl, Subramanian, and Mat Zain, (2012); Bliss, Gul, and Majid (2011); Bliss, Muniandy, and Majid (2007); and Yatim, Kent, and Clarkson (2006) used data from the period before implementation of the 2007 Code. Based on the findings of the present study and support from previous findings, we suggest that corporate governance best practices (The Code and the 2007 Code) and the listing requirements of Bursa Malaysia for the audit committee do not influence audit quality. The sample companies comply with the 2007 Code and listing requirements. However, the results of the present study do not provide evidence that the 2007 Code and the listing requirements successfully strengthened the roles and responsibilities of the audit committees to serve as an effective internal monitoring mechanism on the audit process.

Conclusion

This study employed the four attributes of audit committee, which were used as proxy for corporate governance quality. This study has limited merits. The four characteristics of audit committee have no significant relationships with AF. No evidence was found on the influence of audit committee on the audit process. However, the results can help regulators and policy makers who are reviewing the existing code and listing requirements on corporate governance to further enhance roles and responsibilities and improve the efficacy of the audit committee.

No conclusive evidence was found that suggest the extensiveness of the efficacy of audit committee's role in overseeing the external audit process. This result is attributed to the fact that our study is only based on the characteristics of audit committee in relation to the proxy for the quality of corporate governance. To extend this research, we recommend that the inclusion of other attributes, such as communication between audit committee and the board, communication among the members of the audit committee, and the extent of the latter's understanding of the company's risk and control systems. These additional variables complement the quantitative approach of this study using a qualitative research method. These variables can provide insights into the functions of audit committee to verify its efficacy as an internal governance mechanism.

The results can offer a comprehensive picture of the actual performance and value contributions of the audit committee as stipulated in legal and regulatory requirements and practice as proxy for the quality of corporate governance.

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