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An Investigation IFRS Adoption in Malaysia on The
Relationship between The Audit Committee and Quality of
Financial Statement

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Research Highlights

Audit committees are one of Corporate Governance (CG) mechanisms which are the significant factor in improving its role in inhibiting financial statement fraud (Choi, Jeon & Park, 2004; Habbash, 2010; Soliman & Ragab, 2014). Quality of the Financial Statement emphasised as being in compliance with accounting standards accepted in general, the disclosure scale, and reported numbers although this is not merely a task for the IFRS (Cascino & Gassen, 2010). In recent years, the issue of IFRS adoption in developed and developing countries have been a great deal of attention from many researchers. However, regarding the relationship between the Audit Committee and Quality of Financial Statement with IFRS requirements is still questioning. In fact, the results obtained from some previous researches are inconsistent.

Research Objectives

The objectives in this study are aims to investigate whether post the mandatory IFRS adoption in Malaysia would limit earnings management practice in highlights of governance monitoring on the quality of financial reporting in this environment. This paper gives some evidence: 1) The effect of pre- and post IFRS adoption in Malaysia in the relationship between the Audit Committee and earnings management adoption. 2) examine the differences of the level earnings management on two periods of IFRS adoption in Malaysia.

Methodology

Quality of Financial statement in this study was measured by the level of earnings management with discretionary accrual (DA) proxy using modified Jones Model. The audit committee variable measured by Audit Committee Independence (ACIND), Audit Committee Financial Expertise (ACFEX), Audit Committee Meeting (ACMEET), Audit Committee Size (ACSIZE) and control variable in this study using Board Size (BRDSIZE) and Firm Leverage (FRMLEV). The sample of this study including the two main time periods, there are pre-





IFRS adoption and post-IFRS adoption. Using 81 listed companies in Malaysia as a sample, with 567 observations is analysed from 2009 to 2015 (7 years observations) with purposive judgement sampling selection. For seven years, a total of 567 observations is analysed. The pre-IFRS adoption period was tested from 2009 through 2011, and the post-IFRS adoption was tested from 2012 through the end of 2015. Multiple regression is used in this study to test the proposed hypotheses (H1 and H2) and using paired sample t test to examining the statistical significance of differences between pre- and post IFRS adoption (H3) and (4). This following formula for hypothesis testing:

Pre-IFRS Adoption Equation: (H1)

$$DACC_{i,t} = \alpha_0 + \alpha_1 ACIND + \alpha_2 ACFEX + \alpha_3 ACMEET + \alpha_4 ACSIZE + \alpha_5 BRDSIZE + \alpha_6 FRMLEV + \varepsilon$$

Post IFRS Adoption Equation: (H2)

$$DACC_{i,t} = \alpha_0 + \alpha_1 ACIND + \alpha_2 ACFEX + \alpha_3 ACMEET + \alpha_4 ACSIZE + \alpha_5 BRDSIZE + \alpha_6 FRMLEV + \varepsilon$$

This following research framework this study:

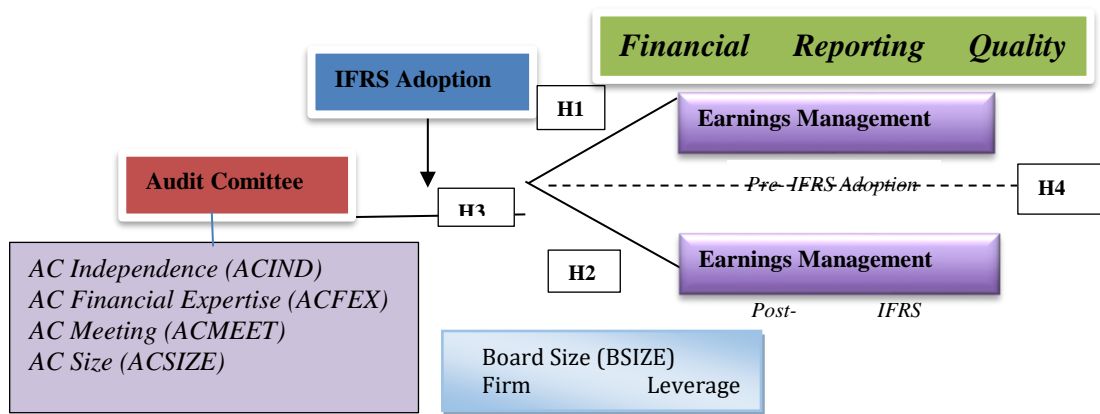


Figure Theoretical Research Framework

Results

The results with *multiplied regression* analysis revealed that the hypothesis test in a period of pre- and post IFRS adoption ACFEX and FIRMLEV statistically were significance at 5% level. It means that Audit Committee Financial Expertise (ACFEX) have a significant effect on earnings management practise. According to the result found in the post IFRS adoption period, Audit Committee Meeting (ACMEET) is significant. The evidence also unveils both





of Audit Committee Independence (ACIND) and Audit Committee Size (ACSIZE) at 5 % level p-value is not significant. The most important result finding on pre- and post period of IFRS adoption in Malaysia provide evidence that based on the statistically significant was upward or the relation more significantly. However, this study also reported with *paired sampled test* analysis there was no significant difference between the level of earnings management in pre- and post period the adoption of IFRS in Malaysia at 5% level significance. Based on summarizes the descriptive statistics of earnings on the post IFRS adoption period is lower than the level mean earnings mangement before IFRS adoption. This indicates that Malaysian companies have higher accounting qualities after the adoption period as compared to the period before the adoption of IFRS.

Findings

This study gives emprical evidence that before or pre- IFRS adoption Audit Committee Financial Expertise have a significant effect on earnings management practise, while Audit Committee Meeting, Audit Committee Independence and Audit Committee Size were no significant. The finding also show that the level means of earnings management after IFRS adoption was lower than before adoption of IFRS. An important contribution this study has the impact on practices and has implications useful for regulators. Finally, these findings suggest that CG practices in Malaysian that have its own peculiar characteristics compared to other emerging economies.

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