Audit Committee Establishment in Malaysia: Some Insights Prior to the Asian 1997 Financial Crisis

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Kajian ini melihat motif utama penubuhan jawatankuasa audit di kalangan syarikat tersenarai di Malaysia. Tujuan utama kajian ini ialah untuk membantu memberi penjelasan kepada penemuan yang tidak tekal bagi kajian yang melibatkan keberkesanan jawatankuasa audit di Malaysia sebelum ini. Sebuah soal selidik yang terdiri dari dua belas perkara yang bertujuan untuk melihat motif utama penubuhan jawatankuasa audit telah diedar kepada juruaudit dalaman syaraikat yang dikenalpasti secara rawak dari kalangan syarikat yang tersenarai di Bursa Saham Kuala Lumpur. Analisis menunjukkan motif utama penubuhan jawatankuasa audit ialah untuk mematuhi keperluan penyenaraian di BSKL. Dengan motif yang sedemikian, keberkesanan jawatankuasa audit adalah diragui dan ini mungkin menjelaskan kepada penemuan yang tidak tekal untuk kajian melibatkan keberkesanan jawatankuasa audit di Malaysia sebelum ini. Bukti ini juga menyokong penemuan kajian oleh Al-Murisi et al. (1997) yang mendapati bahawa majoriti syarikat yang tersenarai menubuhkan jawatankuasa audit ketika tarikh akhir yang ditetapkan oleh BSKL sudah hampir.

Introduction

The formation of audit committees by listed companies has been mandated since August 1, 1993 (Section 15A of the KLSE Listing Requirements). The Malaysian Securities Commission (the SC) issued the Report on Corporate Governance in 1999 attempting to improve the corporate governance in Malaysian public companies. The Malaysian Code on Corporate Governance was subsequently published in 2001 which was imposed by KLSE on listed companies through its revamped Listing Requirements (2001). With regard to rules and regulations about audit committees, Malaysian regulatory bodies have been seen as proactive and forward looking. The question is whether listed companies move in tandem with the market expectation.

Research evidence has shown that audit committee effectiveness in Malaysia is inconclusive (Shamsul Nahar and Al-Murisi, 1997; Shamsul Nahar and Nor-Izah, 1997; Shamsul Nahar, 1998 and Shamsul Nahar and Nor-Izah, 1999). Evidence also showed that the majority of KLSE listed companies formed audit committees towards the deadline set by the KLSE, i.e. 1 August 1994 (Al-Murisi, Adika, Iskandar and Valida, 1997). This evidence may suggest that audit committees had been established for the purpose of satisfying the KLSE listing requirements rather than to improve the corporate governance structure in the firms. Consequently, this might have contributed to the inconclusive findings on audit committee effectiveness.

The inconclusive findings may also be attributed to the fact that audit committees in Malaysia are a relatively new phenomenon. It could therefore be argued that audit committees are not yet fully operational as members are perceived to need about 3-5 years to obtain the needed experience (Abdolmohammadi and Levy, 1992). Thus, it is premature to conclude that audit committees in Malaysia are not effective. However, the firms' primary motive of forming audit committees could help explain the inconclusive findings. The reason why this question is of interest is that the primary motive for establishing audit committees is predicted to have a significant influence on the effectiveness of the firm's board of directors in the financial reporting aspects. Had the primary motive for establishing an audit committee was to improve the financial reporting process, we would expect the audit committee to be effective. Furthermore, if audit committees were shown to have been formed to improve the corporate governance system with respect to the financial reporting aspects, the argument whereby audit committees are still at their infancy stage may be valid. Hence, audit committees are expected to be effective in the future when they become matured. On the other hand, if the audit committee was established for the purpose of satisfying the Listing Requirements, it is envisaged that it will be less effective as it may not get the necessary support from the top.

The paper is structured as follow. First, a literature review will be presented, which is followed by a section on methodology. Subsequently, a section covering results and discussion will follow. Finally, the conclusion and the limitations of the study are offered.

Literature Review

The formation of an audit committee has been perceived to "... provide an oversight function and to act as a liason between the board of directors and the external and internal auditors." (Rezaee and Farmer, 1994, p. 10). In the Malaysian scene, audit committees are relatively a new phenomena and they "... are not, however, a widespread practice in Malaysia." (Vanasco, 1994, p. 23) compared to those in more developed markets. In the US for instance, audit committees have become part of the corporate governance system since the early 1940s, following the stock market crash in the US in 1939. In UK, the issue of audit committees had been a popular issue well before publication of the Cadbury report (1992). However, in spite of the popularity, mandatory audit committee requirements have mainly been achieved through the respective country's stock exchanges and not through the respective country's Companies Act. For instance, both the New York Stock Exchange (in 1978) and the London Stock Exchange (in 1993) have mandated all companies listed on the exchanges to form audit committees. In Asia, Singapore has taken the lead on this issue where in 1989 it required all companies listed on the Singapore Stock Exchange to establish audit committees as stipulated in the Singapore Companies Act.

The popularity of audit committees has been mainly been due to their perceived ability to oversee and thus improve the corporate financial reporting process (Treadway Commission, 1987; Cadbury, 1992; and Buckley, 1979). In fact audit committees have been argued to be able to reduce the likelihood of the incidence of frauds in the financial reporting process. This perception mainly lies on the premise that audit committees are argued to be independent of the management and therefore they are expected to be able to oversee the financial reporting process more objectively. This is achieved because audit committees are expected to ensure that the financial statements reflect the "true" and "fair" view about the firm (e.g., Azham, 1990). In their paper, Simnett, Green and Roebuck (1993) surveyed an accounting literature and concluded that among the major benefits of audit committees were: to improve the quality of the financial reporting process, to assist the external and internal auditors' independence and to improve the users' confidence in the financial statements. In fact, evidence also showed that audit committees improve the information content of earnings among the US companies (Wild, 1994).

Among Malaysian companies, audit committees have been argued to become part of the corporate governance system since the issuance of BNM/GPI in 1985, which was issued following the collapse of the Bumiputra Finance Berhad (Al-Murisi, Ayoib and Chek, 1995). The BNM/GP1 required all finance companies under BNM jurisdiction to form audit committees, the majority of which are non-executive directors. The requirement was later extended to insurance companies through JPI/GP1 (Bank Negara Malaysia, 1992). The KLSE, in response to the public concern about the quality of corporate financial reporting process, issued Section 15A (and Section 344A) which required all listed companies to form audit committees with 1 August 1994 being the latest date granted.

Studies investigating audit committees in Malaysia, nonetheless, found that audit committees were generally ineffective. Shamsul Nahar and Al-Murisi (1997), for instance, showed that having accountant(s) on an audit committee was found to influence audit committee effectiveness. Other variables in the studies, namely, the number of years an audit committee has been in place and the extent of outside directors making up the committee, did not influence audit committee effectiveness.

In a subsequent investigation, Shamsul Nahar and Nor-Izah (1999) extended the study by Shamsul Nahar and Al-Murisi (1997) by including other variables into the analysis, namely the status of the audit committee chairman, the size of the firm and the leadership structure. The study, however, failed to replicate the findings by Shamsul Nahar and Al-Murisi (1997). Rather, the study showed that firm's size adversely influenced the effectiveness of an audit committee. Both papers argued that the insignificant findings of audit committee effectiveness could have been due to their being at the infancy stage. Thus, it was argued that, given ample time, audit committees would eventually be effective in carrying out their duties.

Several studies have also investigated the motives for forming audit committees. Nonetheless, the evidence, which was primarily derived in more developed markets, is inconclusive. Two contrasting reasons for audit committee establishment are offered. On the one hand, audit committees are argued to have been formed as a result of the principal-agent issue. Evidence supporting this contention is, for instance, documented by Pincus, Rusbarsky and Wong (1993). The issue of principal-agent arises due to the separation between ownership and control, which gave rise to the agency costs (Jensen and Meckling, 1976). The agency problem exacerbates within larger firms as opposed to smaller firms (Keasey and Wright, 1993) which is contributed by the dispersion of ownership. The separation between ownership and control leads to information asymmetry as owners in today's world hold only partial interests and therefore their access to the day-to-day operation of the firm is limited. Therefore, financial statements are issued to provide the owners with information about the firm and thus to alleviate the information asymmetry (Whittington, 1993). On the other hand, evidence which argued that directors' incentives led to audit committee establishment was also available (Bradbury, 1990). According to the proponent of this argument, audit committees are formed to assist the outside director of the boards to gain more information about the firm's financial reporting practice. Outside directors, it is argued, being outside of the firm, are not able to get access to the inside information easily and thus, rely on the service of audit committee members.

An earlier study by Eichenseher and Shields (1985) showed that there was a positive and strong relation between the presence of audit committees and the engagement of big-eight auditors. Thus, the findings could therefore be interpreted that big-eight auditors contributed to the formation of audit committees which was argued further to increase auditors' independence and the reliability of the audited financial statements. Subsequent evidence in the UK also suggests that audit committees were formed as a result of the presence of high agency costs (Collier, 1993b). However, an earlier study by Bradbury among US companies showed that directors' incentives played major roles in determining audit committee formation rather than the agency cost incentives.

In another study, Pincus et al. (1989) argued and showed evidence supporting the existence of audit committees which were consistent with the agency-theoretic framework. Nonetheless, their evidence failed to show that

big-eight auditors led to the establishment of audit committees, as found in Eichenseher and Shield's (1985) study. Therefore, it seems that the incentives to form audit committees are not universal, rather it can therefore be argued that audit committees are formed to serve the need peculiar to the respective firms. Nonetheless, the majority of the top 250 companies in the UK have audit committees in their companies (Collier, 1993a) and so do the US companies (Mautz and Nuemann, 1972 and 1977). Thus, having an audit committee is more associated with following the "norm' rather than to really utilize it for the benefit of the firm.

Perhaps, the inconsistency in the motives to form audit committees had also led to the inconsistency in the findings on audit committee effectiveness among the developed markets. Crawford (1987), for instance, found that the presence of audit committees was not found to be associated with better financial reporting. The study by Kalbers (1992) also did not show evidence that audit committees were effective. Rather, Kalbers showed that external auditors perceived that audit committees were not effective in that they were deficient, among others, in the aspects of responsibilities and knowledge. In another related study among the UK companies, Al-Murisi also failed to document evidence supporting audit committee effectiveness (1995).

Nonetheless, studies which investigated the roles of certain attributes of audit committee members showed that, among others, audit committee independence, knowledge in accounting and law and the average tenure of members found that they were related favourably with a firm's financial reporting process (e.g., Kollin et al., 1991; McMullen, 1993 and Cobb, 1993). In fact in an earlier paper, Jemison and Oakley (1983) argued that the key element in a corporate governance system is to have an active audit committee which consisted solely of outside directors.

Audit committees are also argued to have been formed for the purpose of window-dressing (Menon and William, 1994). Companies with audit committees are perceived by the markets to be committed to improving the corporate governance system and to protecting the interests of the shareholders. However, in reality, audit committees of these companies are not fully operational up to the expectation and, in fact, the findings by Menon and Williams on the determinants of audit committee reliance were mixed. Nevertheless, the prevailing effects of window-dressing motive might have driven the inconclusive findings on the studies with regard to audit committees. This will result in audit committee ineptness, which is predicted to be more serious in the environment where its formation is mandatory.

Methodology

In order to solicit the motives to establish audit committees among Malaysian listed companies, twelve variables were identified. The twelve variables are listed in the Appendix for reference and the symbols used to represent each of the variables in the subsequent analysis and discussion. Each of the respondents was asked to respond to the question "To what extent do you agree that the following are reasons for your organisation to have an audit committee". The respondents would then select the most appropriate number on the scale of "1" (strongly disagree) to "5" (strongly agree) to represent their answers to the above question.

The twelve variables were designed on the basis that audit committees were formed to assist the board of directors to discharge its duties, improve external auditor's independence, increase public confidence in the financial statements and to satisfy the KLSE requirements.

The population for the present study comprised companies listed on the KLSE as at 31 December 1995, which totalled 529 companies. The 529 companies were then classified according to the KLSE Sector Classification. Subsequently, the companies in each sector were arranged alphabetically and a sample was drawn by selecting the first company in every three. This process resulted in a total of 181 companies, representing about thirty-five percent of the population.

A cover letter together with a set of questionnaire and a reply-paid envelope was sent to each group internal auditor of the respective sample companies. The internal auditors were selected as respondents because they are expected to work very closely with the firm's audit committee. Moreover, internal auditors are predicted to be involved heavily during the formation stage of audit committees. As a result, they are expected to be able to evaluate the primary motive of audit committees' formation in their firms.

To determine the primary motive to establish an audit committee, the mean for each of the twelve items was computed and ranked in a descending order. From the ranking, the study would be able to determine whether audit committees were formed primarily to promote a good corporate governance system or to merely satisfy the KLSE requirements. Subsequently, a factor analysis was carried out to reduce the twelve items into more meaningful factors.

Results And Discussion

Out of a total of 181 questionnaires sent to the sample firms' internal auditors, forty five were returned which represented a twenty-five percent response rate. However, only forty three responses were finally used in the analysis as the other two were considered incomplete. The majority of the respondents (i.e., 82.5 percent) were KLSE Main Board listed companies. Sixty percent of the respondents indicated that audit committees had been existent in their firms for 1-3 years. Another 32.5 percent indicated that audit committees had been existent in their firms for more than 3 years. This evidence suggested that

majority of the companies formed audit committees in 1994. Table 1 presents the descriptive statistics of the twelve variables which attempted to gauge the reasons for establishing audit committees.

Table 1
Descriptive statistics (N=43)

Variables	Min	Max	Mean	Rank	Std. dev
V1	1	5	4.30	2	0.91
V2	1	5	4.14	3	1.10
V3	1	5	3.81	8	1.01
V4	1	5	3.70	9	0.99
V5	1	5	3.44	12	1.16
V6	1	5	3.47	11	1.08
V7	1	5	3.83	6	1.09
V8	1	5	3.74	7	1.18
V9	1	5	3.67	10	0.99
V10	1	5	3.84	5	1.02
V11	1	5	4.00	4	1.02
V12	1	5	4.34	1	0.89

Results in Table 1 suggest that the primary objective to form an audit committee was to satisfy the KLSE requirements (V12) (i.e., with the highest mean of 4.34). On the other hand, the lowest mean score (i.e., 3.44) was item V5 (i.e., to preserve and enhance the external auditor independence). V6 received the second lowest score, which downplayed the important roles of audit committee in establishing an avenue for an effective communication between the board and external auditors. This evidence seems to contradict the contention whereby among the purposes of forming audit committees were to promote better a financial reporting environment as auditor's independence (as measured by V5) is a very important indicator of audit quality. It has been argued and shown that audit quality has significant bearing on quality of accounting data published in a firm's financial statements (Teoh and Wong, 1993). It has also been argued that the evolution of audit committees was attributed to the desire to provide an effective communication between the boards of directors and the external auditors which led to the voluntary formation of audit committees by some companies (Birkett, 1986). Evidence by Pincus *et. al* (1989) showed that big-eight audit firms lead to voluntary audit committee formation which was argued as auditor's incentives to preserve independence. Thus, the findings in the present study did not reflect the existence of such a tendency in Malaysia. Item V1, which asked on good corporate practice, received the second highest score. This suggests that the formation of an audit committee was perceived as a good corporate practice.

However, this variable does not indicate anything about the specific objective of an audit committee as V12 does. Thus, even though V1 comes second in the ranking, it is not a indication of a voluntary motive for establishing an audit committee.

V2 received the third highest score. This finding is consistent with the role of an audit committee which is to help ensure internal auditor's independence. Internal auditor is an important element in internal financial reporting process who would identify any weaknesses and irregularities in the internal control system. This was supported by the ranking of V11 was next to V2.

Table 2:

Correlation Matrix (N=43)

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12
V1	1.00	.715	.348	.314	.410	.483	.598	.516	.373	.564	.509	-.101
		(.00)	(.01)	(.02)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.26)
V2		1.00	.625	.542	.621	.587	.792	.526	.500	.633	.783	-.196
			(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.106)
V3			1.00	.684	.480	.543	.666	.522	.605	.526	.509	.117
				(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.228)
V4				1.00	.513	.426	.571	.525	.431	.304	.447	.030
					(.00)	(.00)	(.00)	(.00)	(.00)	(.02)	(.00)	(.425)
V5					1.00	.784	.659	.520	.603	.624	.561	-.096
						(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.27)
V6						1.00	.694	.528	.724	.633	.497	-.004
							(.00)	(.00)	(.00)	(.00)	(.00)	(.49)
V7							1.00	.669	.499	.531	.658	-.145
								(.00)	(.00)	(.00)	(.00)	(.18)
V8								1.00	.518	.479	.573	-.036
									(.00)	(.00)	(.00)	(.40)
V9									1.00	.838	.562	-.015
										(.00)	(.00)	(.46)
V10										1.00	.637	-.112
											(.00)	(.23)
V11											1.00	-.140
												(.186)
V12												1.00

* significance level in parenthesis

The twelve variables could be partitioned into several meaningful factors (or components). The grouping would make interpretation of the variables become easier. Thus, factor analysis was carried out. Perhaps, the findings this analysis could help future researcher to carry out further research on this issue. To this end, a factor analysis was conducted. As a preliminary analysis, the Pearson correlation analysis was performed and the results are shown in Table 2.

The table indicates that most of the items had a strong correlation with one another, except for item V12, which had negative correlation coefficients with almost all of the other items. Hence, the correlation coefficients suggest that at least one factor could be extracted from the data with item V12 not belonging to a common factor with the other items. The Barlett's test was found to be large (344.162) and it was significant at one percent level. This statistics therefore justifies the use of the factor model in the analysis. The justification for using factor analysis is further supported by the Kaiser-Meyer-Olkin (KMO) test value, which is 0.799 which suggests that the variables have high multicollinearity level.

Results in Table 2 suggest that eleven variables (V1-V11) were correlated to each other at very significant level (i.e. at 3 percent level). V12, on the other hand, was negatively correlated with majority of the other variables (V1-V11). Nonetheless, the negative correlation coefficients are not statistically significant. One explanation for the negative correlation between V12 and the other variables is attributed to the fact that it asks the mandatory part of an audit committee establishment while the other variables ask on the perceived voluntary motives of establishing an audit committee. Thus, the nature of being a mandatory motive and a voluntary motive results in the negative associations.

Table 3

Principal Component Analysis (N=43)

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of var.	Cum. %	Total	% of var.	Cum. %	Total	% of var.	Cum. %
1	6.68	55.663	55.663	6.68	55.663	55.663	6.68	55.273	55..273
2	1.200	9.998	65.661	1.200	9.998	65.661	1.247	10.388	65.661
3	.976	8.135	73.796						
4	.764	6.368	80.164						
5	.604	5.035	85.201						
6	.509	4.238	89.439						
7	.438	3.653	93.092						
8	.347	2.889	95.981						
9	.197	1.638	97.620						
10	.131	1.090	98.710						
11	.0883	.736	99.446						
12	.0665	.554	100.00						

Subsequently, factor extraction procedure was conducted using the Principal Component Analysis. The results are shown in Table 3. Two factor with eigenvalues greater than 1 were extracted which accounted for 66 percent of the total variance.

Table 4 presents the factor matrix which shows the (unrotated) factor loadings relating the variables to the two factors. Each of the coefficients indicates the weight assigned to the respective factors, i.e. factor loadings. High factor loadings suggest a high association of the items with the respective factors.

Table 4 also presents the communalities for the two factors. The communalities in Table 4 range from 0.547 (V1) to 0.792 (V2) indicating that the common factors explain a significant portion of the total variance.

Table 4
Factor Matrix (N=43)

Items	Factor 1	Factor 2	Communalities
V1	.679	-.293	.547
V2	.862	-.222	.792
V3	.756	.384	.719
V4	.663	.340	.554
V5	.797	.012	.635
V6	.810	.099	.667
V7	.863	-.006	.749
V8	.741	.063	.553
V9	.779	.144	.627
V10	.796	-.115	.647
V11	.793	-.180	.661
V12	-.101	.847	728

The factors were rotated (using varimax rotation) in order to maximise the loadings of some of the variables so that the interpretability of the factor is enhanced. The results from the rotation will make large loadings to become larger and small loadings to become smaller. Thus, the partition of variables into appropriate factors will become obvious. Results of the analysis are shown in (Panel A) Table 5. Panel B of Table 5 presents the factor transformation matrix.

Table 5
Rotated Factor Matrix (N=43)

Panel A: Rotated Factor Matrix

	Factor 1	**Factor 2**
V1	.649	-.355
V2	.838	-.301
V3	.788	.312
V4	.691	.277
V5	.795	-.061
V6	.816	-.143
V7	.854	.0677
V8	.744	-.005
V9	.788	.070
V10	.782	-.188
V11	.773	-.252
V12	-.022	.853

Panel B: Factor Transformation Matrix

	Factor 1	Factor 2
Factor 1	.996	-.092
Factor 2	.092	.996

The factor loadings will help determine which variables belong to which factor. There is no absolute rule in arriving at the variables to be included in which factor (Norusis, 1993). The author adopted the rule of mid-point of the rotated factor loadings as the cut-off point. In this case, the mid-point was 0.414 (the lowest loading being |0.005|, and the highest loading being |0.854|). Thus, rotated factor loadings that are above the mid-point will belong to that factor. The outcome of applying 0.414 as the criteria for the factor determination is as presented in Table 6.

Interestingly, 11 variables (i.e. V1-V11) make Factor 1 while one variable (V12) makes Factor 2. Factor 1 could be signified as "Strengthening Financial Reporting Process" and Factor 2 could be defined as "Fulfillment of Mandatory Requirement". Finally, a correlation analysis found that the correlation coefficient between Factor 1 and Factor 2 was 0.000 (p=1.000), which suggests that there is no association between the two factors.

Table 6
Partitioning of Variables into Factors

Panel A: Factor 1

Variable	**Description**
V1	To promote good corporate practice
V2	To promote internal auditor's independence
V3	To assist directors in discharging statutory responsibilities with regard to financial reporting
V4	To assist management to prevent frauds, irregularities and errors
V5	To promote external auditor's independence
V6	To improve communication between board and the external auditor
V7	To improve communication between board and the internal auditor
V8	To serve as an arbitration between the management and auditors
V9	To increase investment analysts' confidence in credibility and objectivity of financial statements
V10	To increase public confidence in credibility and objectivity of financial statements
V11	To report deficiencies in the control environment or the management weaknesses

Panel B: Factor 2

Variable	**Description**
V12	To satisfy the KLSE Listing Requirements

Conclusions

The present study attempts to identify the dominant reason for audit committee establishment among Malaysian listed companies. The objective of the study is to determine whether the primary reason for audit committee establishment is attributed to fulfilling the mandatory requirements or to enhancing the corporate governance system, particularly with regard to a firm's corporate financial reporting process.

The evidence showed that the dominant reason for establishing audit committees among Malaysian listed companies is to fulfill the KLSE listing requirements. Given this motive, it is envisaged that audit committees in Malaysia are less likely to be effective in discharging their duties. This finding supports the earlier evidence by Al-Murisi *et. al* who found that audit

committees were formed by a majority of the firms on the KLSE towards 1 August 1994, the deadline set by the KLSE which is interpreted as forming audit committees for purpose of satisfying the requirements. Had the primary motive of establishing audit committees been to promote a better financial reporting process, the score on the motive to establish audit committee for purpose of KLSE Listing requirements would have been low and unimportant.

Perhaps, the motive to form audit committees being primarily to satisfy the KLSE listing requirements explains the inconclusive findings in the studies which investigated audit committee effectiveness in Malaysia. Therefore, any proposal to extend the mandatory requirement of audit committee formation through the Companies Acts may need to be considered carefully as merely having audit committees to satisfy the requirements will not only mislead the public but also involves costs to the respective companies considering the benefits received, particularly for small public companies (Rezaee and Farmer, 1994). Forming audit committees for the purpose complying the requirements will lead to users believing that the financial reporting process of the firm is good when the operations of the committee are not as expected. Thus, the audit committee is formed for window-dressing purpose (Menon and Williams, 1994).

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Appendix I

To what extent do you agree that the following are the reasons for your organisation to have an audit committee:

		Strongly Disagree			Strongly Agree	
V1	Good corporate practice	1	2	3	4	5
V2	Preserve and enhance the independence of internal auditors	1	2	3	4	5
V3	Assist the directors in discharging their statutory responsibilities with regard to financial reporting	1	2	3	4	5
V4	Assist the management to discharge its responsibilities to prevent fraud and other irregularities and errors	1	2	3	4	5
V5	Preserve and enhance the independence of the external auditor	1	2	3	4	5
V6	Improve communication between the board and the external auditor	1	2	3	4	5
V7	Improve communication between the board and the internal auditor	1	2	3	4	5
V8	Provide a forum for arbitration between management and auditors	1	2	3	4	5
V9	Increase the confidence of investment analysts in the credibility and objectivity of financial statements	1	2	3	4	5
V10	Increase the confidence of the public in the credibility and objectivity of financial statements	1	2	3	4	5
V11	Assist the auditor to report serious deficiencies in the control environment or management weaknesses	1	2	3	4	5
V12	KLSE requirements	1	2	3	4	5