

RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS, EXTERNAL AUDITORS AND ECONOMIC VALUE ADDED (EVA) OF PUBLIC LISTED FIRMS IN MALAYSIA

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Abstract

Malaysia is a developing economy which is one of the corporate leaders in South East Asian countries. Practicing audit committee is mandatory for public listed firms in Malaysia according to Bursa Malaysia Listing Requirements as well Malaysian Code of Corporate Governance. The purpose of this paper is to examine the association between audit committee characteristics and firm performance among public listed firms in Malaysia. This study employed EVA as performance measurement tool. The sample is 75 firm year observations and covers fiscal years 2008-2010. The study found that audit committee independence is positively associated with firm performance while audit quality is negatively associated in Malaysia. Overall, audit committee characteristics have a positive effect on firm performance. This study contributes to the literature as well as in empirical evidence on audit committee characteristics and firm audit quality. The results suggest that Big 4 firms have a negative impact on value based measure in Malaysia.

Keywords: Audit Committee Characteristics, Audit Quality, EVA

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1. Introduction

The purpose of financial reports is to deliver information on the financial ground, performance corporate governance practices of a firm that is handy for investors and creditors to make investment decisions. The primary roles of the audit committee include overseeing the financial reporting process and to monitor the management, because management intends to manipulate figures for their own interest. Accordingly, external auditors play the role of giving independent opinions on financial statements of firms; if the financial statements are prepared with due care in order to avoid any material bias or misstatements. Hence, audit committee and external auditors play significant role in ascertaining the validity, acceptability and reliability of financial statements. However, due to collapse of corporate skyscrapers for instance, firms such as Enron, WorldCom and Satyam, effectiveness of audit committee and external auditors have been questioned by regulators in ensuring that financial statements are fairly stated to reduce ineffectiveness. Helen and Arnold (2011) asserted that the audit committee can play a

significant role in overseeing the audit process and helping to mediate disputes between board and the auditor.

The Bursa Malaysia Listing Requirements and the Malaysian Code of Corporate Governance (2000) recommendation for audit committee composition are aimed to lead effective committee. Consequently, this study investigates the effects of audit committee and external auditors on firms' performance based in terms of true economic profit of the firms. Number of studies reported the significance of audit committee characteristics as monitoring mechanism. Managers intend to manipulate earnings of firms for greater incentives (Wiwanya and Aim, 2008). As audit committee members and auditors are good monitors and expected to oversee the financial reporting, hence, this study contributes in investigating the effect of audit committee characteristics on firm performance based on PLCs in Malaysia.