

**INTERNAL GOVERNANCE STRUCTURES, EXTERNAL AUDITOR AND
EARNINGS MANAGEMENT: PRE POST REVISED MCCG 2007**

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This study investigated the effects of audit committees, internal audit function and external audit on earnings management after the revision of MCCG. This study is among the pioneer empirical evidences to compare the results between the pre and post revised MCCG periods. The sample for this study was drawn from 280 companies listed on Bursa Malaysia in 2005, 2006, 2008 and 2009. Financial data from this period was collected from the Emerging Markets Information Service (EMIS) database. Audit committee, internal audit and audit fees data was collected from the disclosures published in annual reports. The discretionary accrual was estimated using the Modified Jones Model (1995) which was used to proxy for earnings management.

The study found that the result of the parametric t-test on the difference between the mean of the earnings management variables derived from the modified Jones (1991) was significant at the 0.01 level. The mean for earnings management after the revised MCCG was lesser than before the revised MCCG. From the multivariate analysis, the study found that the results on eight out of fourteen characteristics for audit committee

effectiveness were consistent with the hypotheses predicted earlier. The eight characteristics were audit committee independence, audit committee with accounting and financial expertise, audit committee with audit expertise, audit committee with accounting and audit expertise, frequency of meetings, disclosure of audit committee's activities, average tenure and the presence of other ethnics than Chinese directors in the audit committee.

From a practical perspective, the study provides feedback to the policymakers such as Securities Commission and Bursa Malaysia on the amendments that they recommended in the MCCG 2007 and Bursa Malaysia Listing Requirements respectively. It also presents useful findings to academic researchers to obtain most recent empirical results of the relationship among audit committee effectiveness, internal audit function, external auditors independent and earnings management. It is concluded that Malaysian government through its relevant agencies has successfully improved the corporate governance practice by enhancing the effectiveness of the audit committee as well as internal audit function.

Abstrak tesis yang dikemukakan kepada Senat Universiti Malaysia Terengganu sebagai memenuhi keperluan untuk ijazah Kedoktoran Falsafah.

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Kajian ini menyiasat kesan jawatankuasa audit, fungsi audit dalaman dan audit luaran mengenai pengurusan perolehan selepas semakan Kod Tadbir Urus Korporat Malaysia atau Malaysian Code on Corporate Governance (MCCG). Kajian ini adalah antara bukti-bukti empirikal perintis untuk membandingkan keputusan antara tempoh sebelum dan selepas MCCG disemak. Sampel untuk kajian ini telah diambil daripada 280 syarikat yang tersenarai di Bursa Malaysia pada tahun 2005, 2006, 2008 dan 2009. Data kewangan daripada tempoh ini telah dikumpulkan daripada pangkalan data *Emerging Markets Information Service (EMIS)*. Data mengenai jawatankuasa audit, audit dalaman dan data yuran audit telah dikumpulkan daripada maklumat dalam laporan tahunan. Akruan budi bicara dianggarkan dari *Modified Jones Model* (1995) yang telah digunakan sebagai proksi untuk pengurusan perolehan.

Kajian mendapati bahawa keputusan parametrik ujian-t pada perbezaan di antara purata pendapatan pembolehubah pengurusan dari *Modified Jones* (1991) adalah signifikan pada peringkat 0.01. Purata bagi pengurusan perolehan selepas MCCG yang disemak semula adalah lebih rendah berbanding sebelum MCCG disemak. Daripada analisis

multivariat, kajian mendapati bahawa keputusan pada lapan daripada 14 ciri-ciri untuk keberkesanan jawatankuasa audit adalah selaras dengan hipotesis. Ciri-ciri tersebut ialah jawatankuasa audit bebas, jawatankuasa audit dengan kepakaran perakaunan dan kewangan, jawatankuasa audit dengan kepakaran audit, jawatankuasa audit dengan kepakaran perakaunan dan audit, kekerapan mesyuarat, pendedahan aktiviti jawatankuasa audit, purata tempoh perkhidmatan dan kehadiran etnik lain daripada pengarah Cina dalam jawatankuasa audit.

Dari perspektif praktikal, kajian ini memberi maklum balas kepada pembuat dasar seperti Pesuruhjaya Sekuriti dan Bursa Malaysia mengenai pindaan yang disyorkan oleh mereka dalam MCCG 2007 dan Keperluan Penyenaraian Bursa Malaysia. Ia juga akan membentangkan hasil kajian yang berguna kepada penyelidik akademik untuk mendapatkan keputusan empirik yang paling terkini mengenai hubungan antara keberkesanan jawatankuasa audit, fungsi audit dalaman, juruaudit luar bebas dan pengurusan perolehan. Kesimpulannya kerajaan Malaysia melalui agen-agen yang berkenaan telah berjaya menambahbaik amalan tadbir urus korporat dengan meningkatkan keberkesanan jawatankuasa audit serta fungsi audit dalaman.