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# **The Moderating Effect Of Audit Quality On Audit Committee And Financial Reporting Quality In Malaysia**

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## **Abstract**

This study investigates the existance of audit quality on the relationship between audit committee and financial reporting quality (FRQ) in Malaysia companies. Specifically, this study has examined several the mechanism of Corporate Governance in Malaysia to the earnings management as proxied of FRQ. The study used 93 of listed trading companies on bursa Malaysia and the data analyzed with multiple regression analytical technique. The results show that corporate governance mechanism (audit committee independence, audit committee financial expertise, audit committee size) not supported and insignificant result with FRQ. While, audit committee meeting has a significant result on FRQ. However, this study also reveals that a decreased of FRQ would be a result of arisen discretionary accruals and poor of audit quality companies. Despite the absence of influenced the audit quality as moderating, but the finding show that Audit Quality increasing the relationship. These finding expected to help regulators better understand EM in Malaysian companies and this study may help them reconsider and review the accounting standards across different sectors and to develop more effective techniques for quality financial reporting for Malaysian listed companies to enhance the credibility of financial reports.

**Keywords:** Audit Committee, Audit Quality, Earnings Management, Quality of Financial Reporting Quality,

# **El Efecto Moderador De La Calidad De La Auditoría En El Comité De Auditoría Y La Calidad De La Información Financiera En Malasia**

## **Resumen**

Este estudio investiga la existencia de la calidad de la auditoría en la relación entre el comité de auditoría y la calidad de la información financiera (FRQ) en las empresas de Malasia. Específicamente, este estudio ha examinado varios mecanismos de gobierno corporativo en Malasia para la gestión de ganancias como representación de FRQ. El estudio utilizó 93 de las empresas comerciales que cotizan en bolsa en Malasia y los datos analizados con la técnica analítica de regresión múltiple. Los resultados muestran que el mecanismo de gobierno corporativo (independencia del comité de auditoría, experiencia financiera del comité de auditoría, tamaño del comité de auditoría) no es compatible y resulta insignificante con FRQ. Mientras, la reunión del comité de auditoría tiene un resultado significativo en FRQ. Sin embargo, este estudio también revela que una disminución de la FRQ sería el resultado de las acumulaciones discrecionales surgidas y de las compañías con mala calidad de auditoría. A pesar de la ausencia de influencia en la calidad de la auditoría como moderadora, pero el hallazgo muestra que la calidad de la auditoría aumenta la relación. Este hallazgo esperaba ayudar a los reguladores a comprender mejor la EM en las empresas de Malasia y este estudio puede ayudarlos a reconsiderar y revisar los estándares de contabilidad en diferentes sectores y desarrollar técnicas más efectivas para la presentación de informes financieros de calidad para las empresas que cotizan en Malasia para mejorar la credibilidad de los informes financieros.

Palabras clave: Comité de Auditoría, Calidad de Auditoría, Gestión de Erarnings, Calidad de la Calidad de la Información Financiera,

## **I. INTRODUCTION**

The financial report is the critical information which is a primary tool offering insight into the workings of a company and is crucial for investment decisions. It should serve as a guide to those interested in investing by detailing how a company performs and manages its resources. Behavior management is thus essentially earnings management. [1] claims that non-capital providers may also benefit from financial reporting. Definition

of audit committee contains a detailed approach to deal with literature concerning its effectiveness. The Malaysian Code of Corporate Governance (MCCG) (2001) and the 2007 revised code emphasized that the AC should ensure high-level internal monitoring and risk management systems. Also, the MCCG (2012) and MCCG (2016) highlighted that the AC should ensure that the relevant standards of reporting observed when producing financial reports. This stresses the importance of determining how the audit committee because oversees the quality of financial reporting as well as the auditor's independence. On the other hand, Financial accounting standards allow the choice of accounting policies when preparing financial statements. The chosen policy may provide flexibility to the management in manipulating the company's financial statement figures, including the company's profit. It occurs when managers given the discretion to select their approach to accounting for which they then alter financial reports to mislead stakeholders for some personal gain is given discretion [2]. Therefore, to manage a business effectively and smoothly, forming several committees may be helpful with a view to assisting the execution of the board's various responsibilities. This is aligned with the requirement of Malaysia Code on Corporate Governance 2012 (MCCG 2012) which states that all public listed companies should clarify the role of the board in providing leadership skills as well as to enhance board effectiveness (refer to MCCG 2012, principle 1). Based on the regulation, the board may delegate certain responsibilities to the committees to operate within the defined terms of references. Aside from the audit committee which has been mandated since 1993, MCCG 2012 also recommends the formation of remuneration and nomination committee where their roles are to assist the boards (refer to MCCG 2012, principle 2).

Earnings management constitutes a very important aspect of financial reporting, which reflects its integrity and quality. It further minimizes asymmetry in information as well as agency conflicts among management, owners, and the majority and minority shareholders. The issue of earnings management has become an essential concern of corporate governance as audit committees' (AC) effectiveness primarily assessed by their role in ensuring the quality of financial reporting. Although there is a rich body of literature on audit committee and earnings management issues in Malaysia, discussions on the relationship between audit quality have not extensively explored but another country already discuss regarding this issues [3][4][5]. According to [6] the main aim of the audit committee is to achieve the legal responsibilities of the board of directors regarding

the credibility and objectivity of the financial reports. According to the previous research and numerous weaknesses in Malaysia's corporate governance practices. It included a fragile financial structure, over-leveraging, and lack of transparency, disclosure, and accountability [3][4][7] and in particular with [6]. One of the techniques to counter financial scandals is to improve the reporting of earnings management through the improvement in corporate governance quality. In this regard, corporate governance (CG) has identified as playing a crucial part in ensuring the uptake of ethical practices within an organization across all its operations. It also helps imbibe the staff with moral accountability. From here, this paper gives empirical evidence aims to investigate the audit quality in Malaysian listed companies. More specifically this study shall examine how audit quality moderates the relationship between Audit Committee (AC) and quality of financial reporting (FRQ).

Based on the issue above and some of the inclusive result from previous study, this study aims to investigate the impact of audit quality on the relationship between the audit committee and financial reporting quality. Specifically, investigated the impact of audit quality as moderating on the Audit Committee and Financial Reporting Quality (Earning Management). This study contributes to the existing literature is threefold. First, as noted above, we systematically examine the direct impact of AC and FRQ. Second, this study advances

## II. LITERATURE REVIEW

### A. The Relationship between the Audit Committee and Quality of Financial Reporting (Earnings Management)

#### a. Audit Committee Independence (ACIND)

[8] argue that audit committees must pursue a course of action independent from the management to function efficiently. [9] found that a significant factor in improving its role in inhibiting financial statement fraud. Some studies found that committee independence correlated negatively with audit committee independence and earnings management [10][11]. [12] and [13] found a positive association between earnings management and audit committee independence. Others found that the independence of audit committee was not significantly related to earnings management [5] [12][14] [15]. Hence, it is hypothesized that:

H1a: Audit Committee Independence is negative with earnings management among Malaysian listed companies.

**b. Audit Committee Financial Expertise (ACFEX)**

Independent directors with financial backgrounds might be monitors with good intentions. It is desirable for monitors to have sophistication in financial matters to detect financially. Audit committees in previous study stated the excellent characteristics of audit committees are associated with good company performance [16]. [17] gives evidence that company's performance is driven by specific audit committee characteristics. However, in some of previous research documented that [14] and [5] stated that no negative relationship between audit committee financial expertise and earnings management. Therefore, the following hypothesis formulated:

H1b: Audit Committee financial expertise is negatively associated with earnings management among Malaysian listed companies.

**c. Audit Committee Meetings (ACMEET)**

Audit committees are intended to ensure constant communication among the board, internal auditors, and external auditors so that there are frequent committee meetings with the auditors. [18] and [19] argued that the frequency of audit committee meetings is related to a decrease in discretionary current accrual levels. They anticipate that active controls supplement effective audit committees. Likewise, [20] reveal that the frequency of committee meetings affected the effectiveness of the audit committee. An increase in frequency is an indication that the committee is more efficient and committed to producing quality performance[21][22]. In line with [23] indicated that more frequently of audit committee meeting are better company informed and provide financial statement activities. However, [24] found that audit committee meeting no significant relationship with the level of earnings management proxied by discretionary accruals. The following hypothesis is examined:

H1c: Audit Committee Meeting is positively associated with earning management among Malaysian listed companies.

**d. Audit Committee Size (ACSIZE)**

[27] stated that companies with large audit committees attract additional interest regarding the reputation of auditors. [28] argued that audit committees with more members are better positioned to discover and resolve issues in financial reporting by possessing more skills due to its diverse members and a by producing a broader umbrella to monitor operations. Audit committees comprising one or two members are subject to greater pressure from management. This has led some studies to conclude that small audit committees are more prone to earnings management. [5] [11] [29] found no significant relationship between the size of the audit com-

mittee. [30] found the negative members in an auditing committee might be pertinent to FRQ. However, [31] gives evidence that audit committee size has a negative significant to the level of earnings management. This led to formulating the hypothesis:

H1d: Audit Committee Size is negatively associated with earning management among Malaysian listed companies.

#### e. Audit Quality as Moderating Variable

[32] argue that an audit firm acts as a good corporate governance mechanism to reduce agency costs and to provide oversight by mitigating the opportunistic behavior of managers. The literature argues that larger and more well-known international auditing firms act as sources of inspiration for companies to disclose more financial instrument risk information to maintain the audit firm's reputation and to avoid unnecessary reputation cost [33]. Other studies found that larger size did not considerably reduce EM. However, any statically significant relationship has a negative directional sign. Several studies suggest that audit quality is influenced by corporate governance to mitigate EM [34]. Therefore, more and better disclosure information is an effective factor for economic decisions (Soheilyfar et al., 2014). Therefore, auditing has impact on controlling managerial discretion. Its value is expected to vary with the quality of the audit firm. The higher quality of auditors will tend to reduce the practice of managerial discretion [35]. [36] also found that audit quality has a relationship between the manipulation of financial statement and the finding also show that the accruals reduce when the auditor is large of audit company. Asare, [37] presented the internal auditors' critical position and incentive to manage to misreport of financial statements. In different findings by [38] documented that audit quality has no significant as moderating on the relationship between Audit Committee and Discretionary in Malaysia companies. However, internal auditors were critical to variances in the quality of audit committee and would invested in their valuation of fraud risk and audit scheme. This discussion led to formulating the hypothesis:

H2a: Audit quality significantly negatively moderates the relationship between AC independence and FRQ.

H2b: Audit quality significantly negatively moderates the relationship between AC financial expertise and FRQ.

H2c: Audit quality significantly negatively moderates the relationship between AC meetings and FRQ.

H2d: Audit quality significantly negatively moderates the relationship be-

tween AC size and FRQ.

According to some of previous research, this research examines audit quality as a moderating variable on the relationship between audit committee and FRQ (measured by earnings management) in Malaysia. The conceptual framework developed as shown below:

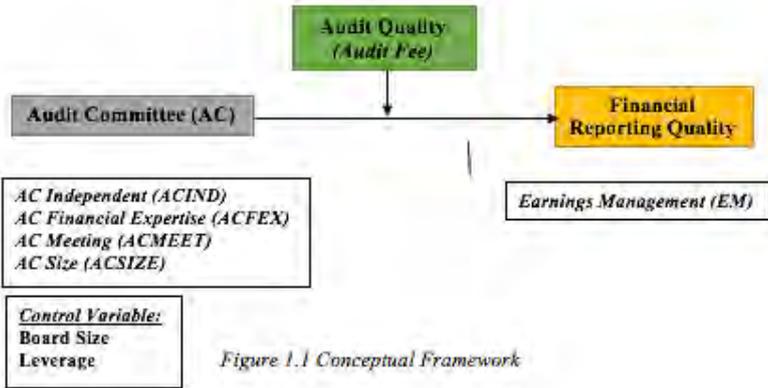


Figure 1.1 Conceptual Framework

### III. RESEARCH METHOD

#### 3.1 Data & Sample

Data were manually collected from the Bursa Malaysia issued guides of the shareholding companies in Malaysia and the companies' yearly reports. Bursa Malaysia has a strong mandate to ensure a culture of corporate governance. The Asian Corporate Governance Association in collaboration with CLSA Asia-Pacific (ACGA CG Watch) acknowledged Malaysia as having recorded consistent GC improvements with an increase of 52% in 2013 to 55% in 2014, and from 38% in 2013 to 43% in 2014. Data collected from the yearly financial reports that the listed companies in Bursa Malaysia published from 2013 to 2015. After compiling data for all necessary variables (dependent, independent, and moderating variables), 93 companies were found to have complete data for all the variables required. The final sample observation comprises of 279. This study also collected data from the audited financial statements of the purposively sampled firms. The financial statements of 2012 are used to calculate the delta or difference ( $t_1 - t_{t-1}$ ) with the previous year for calculating the earnings management variable.

Table 1 Sample Selection Based on Selection Procedures

No	Items	Companies	Percent (%)
1.	Total number of companies consistently listed on Bursa Malaysia from 2013-2015	158*	100.00
2.	Companies with incomplete Financial Statement published during 2013-2015	5	3.16
3.	Companies that do not report on variables used in this study (AC Independence, AC Financial Expertise, AC Meeting, AC Size, Control Variables (CV), Board Size, Firm Leverage)	60	37.97
	Total Sample (Retain /Used data for further analysis)	93	58.86
	<b>Total Observations (3 years x 93 companies)</b>	<b>279</b>	

\* Companies consistently listed on Bursa Malaysia from 2013-2015

For three years, a total of 279 observations is analyzed. This resulted in a response rate of 58.86% which is regarded as adequate for surveys [39].

### 3.2 Variable and Measurement

Table 2 Summary Variables, Measures, Data Sources and Prior Literature

No.	Variables	Measures	Data Sources	Prior Literature
1.	Earnings Management (EM)	DTAC Discretionary Accruals with Modified Jones' Model (MJM)	Annual Report of sample firm downloadable from the website of Bursa Malaysia.	[40][41][42][31]
2.	Audit Committee Independence (ACIND)	The proportion of independence non-executive directors in the Audit Committee to total committee members.  (Total number of independence board in AC members)	Annual Report of sample firm, in the section: Biography and background of board members.	[43] [11] [31] [38]
3.	Audit Committee Financial Expertise (ACFEX)	(Total number of AC members who has financial and accounting background)	Annual Report of sample firm, in the section: Biography and background of board members.	[28] [42] [11] [38]
4.	Audit Committee Meeting (ACMEET)	The yearly number of Audit Committee Meetings.	Annual Report of sample firm downloadable from the website of Bursa Malaysia. Audit Committee Report.	[11][38][44]

5.	Audit Committee Size  (ACSIZE)	AC Member	Annual Report of sample firm downloadable from the website of Bursa Malaysia.  Audit Committee Report.	[11][17][30] [44]
6.	Board Size  (BRDSIZE)	Board of directors.	Annual Report company. In the section: Biography and background of board members.	[5] [11] [7] [13]
7.	Firm Leverage  (FRMLEV)	Total long term debt divided by total assets.	Annual Report of sample firm downloadable from the website of Bursa Malaysia.  (Balance Sheet)	[7][11][45]
8.	Audit Quality (AQ) (Audit Fees)	Logarithmic transformation of Ringgit value paid to Auditor for audit service.	Annual Report of sample firm downloadable from the website of Bursa Malaysia.  (Corporate Information)  Income statement, Notes to the	[28][38][46]

Following with previous studies, earnings management measured by discretionary accrual. Discretionary accruals in this study proxied by the Modified Jones' model [41]. This model uses total accruals (TAC) as the total of type discretionary component, which is discretionary accrual (DTAC) and non-discretionary (NDTAC). The formula to detection of earnings management as follows:

$$TAC = NDTAC + DTAC \quad (1)$$

$$TACCit = EBXTit - OCFit \quad (2)$$

$$TAC_t / TA_{t-1} = a_1 [1/TA_{t-1}] + a_2 [\Delta REV_t / TA_{t-1}] + a_3 [PPE_t / TA_{t-1}] + \varphi \quad (3)$$

$$NDTAC = \alpha_1 [1/TA_{t-1}] + \alpha_2 [(\Delta RE_t - \Delta REC_t) / TA_{t-1}] + \alpha_3 [PPE_t / TA_{t-1}]$$

t-1 ](4)

DTAC=ACt/TAt-1 – NDTAC (5)

#### IV. FINDING AND RESULT

##### 4.1 Descriptive Analysis

Descriptive statistics for the dependent, independent, moderating, and control variables presented in the table. Based on descriptive statistics, minimum amount -1.011 is DTAC, maximum amount is LOGFEE (2386000.00) and the mean for ACFEX 2.21505 with a minimum of 1 and maximum of 4 with the overall standard deviation is 0.867264.

Table 3 Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
DTAC	279	-1.01	.69	-.22906	.253655
ACIND	279	2.00	5.00	2.87455	.769493
ACFEX	279	1.00	4.00	2.21505	.867264
ACMEET	279	4.00	9.00	5.36201	1.252964
ACSIZE	279	3.00	6.00	3.42294	.575561
BRDSIZE	279	4.00	16.00	8.40502	2.360674
FRMLEV	279	.020	63.02	23.53953	15.968343
LOGFEE	279	12000.00	2386000.00	163234.73	310982.36
Valid N (list-wise)	279				

##### a. Testing of The Relationship between AC and EM

The Classic assumption testing is necessary done before hypothesis testing, and there is normality test, multicollinearity test, heteroscedasticity test, autocorrelation test. The result for all the test stated that the regression model is fit for the subsequent test. Furthermore, The Table 4 showed the result of regression on the directly relationship between Audit Committee (AC) and earnings management (EM), and shown in Table 6 to answer hypothesis (H1a, H1b, H1c, H1d).

Table 4 F Significance

	Sum of Squares	df	Mean	F	Sig.
Regression	1.829	6	.305	4.165	.001 <sup>b</sup>
Residual	16.057	272	.059		
Total	17.887	278			

a. Dependent Variable: DTAC

b. Predictors: (Constant), FRMLEV, ACFEX, ACMEET, ACIND, BRDSIZE, ACSIZE

Based on Table 4 presents the results for testing of F Significance. Based on the table, it can be seen that the calculated value of F is 4.165. Meanwhile, the F table value at  $df_1 = 6$  and  $df_2 = 272$  is 2.405 at a probability level of 0.05. The result of F calculated (4.165) > F table (2.405) is high and p-value significant .001 at the level 0.05. The testing of the coefficient of determination ( $R^2$ ) is below:

Table 5. Test of Coefficient of Determination ( $R^2$ ) The Relationship AC and EM

R	R-Square	Adjusted R-Square	Std. Error of the Estimate
.228 <sup>a</sup>	.134	.105	.244023

Table 6 Testing of t Statistic Relationship AC and EM

	Coefficients				t	Sig.
	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta			
(Constant)	.113	.102		1.112	.267	
ACIND	-.006	.028	-.020	-.230	.519	
ACFEX	.017	.018	.057	.935	.351	
ACMEET	-.029	.013	-.146	-2.345	.020**	
ACSIZE	-.007	.037	-.016	-.189	.450	
BRDSIZE	-.014	.008	-.135	-1.805	.072	
FRMLEV	-.002	.001	-.153	-2.518	.012**	
R-Square			13.4			

a. Dependent Variable: DTAC

\* Significant at 0.10 (one-tailed)

\*\* Significant at 0.05 (one-tailed)

\*\*\* Significant 0.01 (one-tailed)

The results of the unstandardized coefficient positive value are 0.113 and Discretionary Accruals (EM) being worth 11.3% if audit committee independence, audit committee size, audit committee financial expertise, and the number of audit committee meetings is equal to zero. Based on the table shows that the beta coefficient of ACIND, ACFEX, ACMEET are negative in its direction, which indicates that audit committee independence, audit committee meetings, audit committee size have an adverse effect on discretionary accruals. The beta value of ACFEX is positive, indicating that the audit committee's financial expertise has a positive effect on discretionary accruals.

Results of the hypothesis testing show the result of the audit committee in-

dependence for t-value is  $-0.230$  and value of significance is  $0.519 > 0.05$ . The result documented that ACIND no significant related to EM practices. This finding is corroborated by previous studies (Bedard et al., 2004; Bradbury et al., 2006; Habbash, 2010; Klein, 2002; Soliman & Raga., 2014) can be useful to constrain EM practices. ACFEX shows t value is  $0.935$  and value of significance is  $0.351 > 0.05$ . This finding mean that ACFEX is not significant and negatively related with EM, this result study line with previous studies (Habbash, 2010; Lo et al., 2010, Hasan, 2017) which document that the Audit Committee of financial expertise is effective in curbing EM activity. Meanwhile, Audit Committee meeting (ACMEET) shows t-value =  $-2.345$  and value of significance is  $0.020 < 0.05$ . That means is positive and significant relationship. This finding might support the proposition that audit committee meeting numbers extensively reduce EM. Furthermore, the test of Audit Committee Size (ACSIZE) shows t-value =  $-0.189$  and value of significance is  $0.850 > 0.05$ . This finding states that ACSIZE is not significant. This result is similar to Hasan (2017) study. Other studies found that the audit committee's larger size does not considerably reduce EM. However, since any relationship with statistical significance is absent, the coefficient has taken negative directional sign. The result is similar to a vast majority of studies (Alkadi et al., 2012; Habbash et al., 2013) that did not discover a major impact on the size of the audit committee on EM. This Finding found the proposition that the audit committees' larger size does not reduce EM considerably.

#### 4.3 The Moderating of Audit Quality on the Relationship between AC and EM

Increased audit quality shows an increase in the quality and transparency of financial information issued by companies. This study uses interaction as a moderating variable and uses Moderated Regression Analysis (MRA). MRA is a special application of multiple linear regression where the regression equation contains elements of interaction (multiplication of two or more independent variables). Testing of the Coefficient of Determination ( $R^2$ ) is below:

**Table 7. Test of Coefficient of Determination ( $R^2$ ) Moderating of Audit Quality**

R	R-Square	Adjusted R-Square	Std. Error of the Estimate
.321 <sup>a</sup>	.208	.175	.244023

a. Predictors: (Constant), *acsize logfee*, *acfex*, *frmlev*, *acind*, *acmeet*, *brdsize*, *acsize*, *acmeet logfee*, *acfex logfee*, *acind logfee*

This result shows an R-square of 0.208 or 20.8%. This result indicates that the moderating audit quality mechanisms on the relationship between AC with discretionary accrual is upward (13.4% to 20.8%) while moderated with audit quality. This can be interpreted that audit quality strengthen audit committee functions to reduce earnings management activities.

**Table 8 F Significance**

	Sum of Squares	df	Mean	F	Sig.
Regression	1.928	10	.412	6.165	.000 <sup>b</sup>
Residual	15.959	268	.083		
Total	17.887	278			

a. Dependent Variable: DTAC

b. Predictors: (Constant), acsize\_logfee, ACFEX, FRMLEV, ACIND, ACMEET, BRDSIZE, ACSIZE, acmeet\_logfee, acfx\_logfee, acind\_logfee

Table 8 presents the results for testing of F Significance while audit quality as moderating between AC and EM. The calculated value of F is 6.165. Meanwhile, the F table value at on the level df 1=10 and df 2=268 is 1.825. At a probability level of 0.05. The result of F calculated (6.165) > F table (1.825) is high and sig .000 mean that the AC and EM with audit quality as moderating is significant.

**Table 9 Testing of t statistics and P-Value**

$$DTAC_{it} = \alpha_0 + \alpha_1 ACIND + \alpha_2 ACFEX + \alpha_3 ACMEET + \alpha_4 ACSIZE + \alpha_5 BRDSIZE + \alpha_6 FRMSIZE + \alpha_7 LOGFEE + \alpha_8 (ACIND * LOGFEE) + \alpha_9 (ACFEX * LOGFEE) + \alpha_{10} (ACMEET * LOGFEE) + \alpha_{11} (ACSIZE * LOGFEE) + \epsilon$$

**Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)		.102	.111	1.616	.161
ACIND	-.012	.033	-.038	-.630	.319
ACFEX	.008	.021	.026	1.135	.162
ACMEET	-.023	.015	-.112	-3.345	.004**
ACSIZE	-.006	.042	-.013	-.069	.230
BRDSIZE	-.013	.008	-.124	-2.805	.032**
FRMLEV	-.003	.001	-.158	-3.532	.002**
acind_logfee	3.285E-8	.000	.138	.323	.447
acfx_logfee	6.283E-8	.000	.208	.707	.480
acmeet_logfee	-2.076E-8	.000	-.177	-.689	.292
acsize_logfee	-3.231E-8	.000	-.167	-.245	.406
Adjusted R-Square				20.8	

\* Significant at 0.10 (one-tailed)

\*\* Significant at 0.05 (one-tailed)

\*\*\* Significant at 0.01 (one-tailed)

a. Dependent Variable: DTAC

\* Significant at 0.10 (one-tailed)

\*\* Significant at 0.05 (one-tailed)

\*\*\* Significant 0.01 (one-tailed)

a. Dependent Variable: DTAC

According to the findings, ACIND shows t-value is -0.630 is less than  $t = 1.972$  and value of significance is  $0.319 > 0.05$  or hypothesis is rejected. It may be concluded that the audit committee independence has no effect on earnings management. The finding is consistent with previous studies done by [6][37][38]. Since the t-value ACFEX of 1.135 is less than the t-value in the table (1.972), and the significance value of 0.162 ( $>0.05$ ). It may be concluded that the audit committee's financial expertise has no effect on earnings management. The result shows a negative and significant relationship between the financial expertise of the audit committee and lower discretionary accruals. This finding is in line with previous studies which found that the financial expertise of audit committee is effective in curbing EM activity [11][38] [47]. This finding might be affected through various EM types or the small samples size. However, ACMEET shows t-value is -3.345 is higher than  $t = 1.972$  and value of significance is  $0.020 < 0.05$ . There is relationship which is statistically significant, the directional sign is detected as negative. This finding might support the proposition that audit committee numbers would extensively reduce EM. Furthermore, ACSIZE with t-value is -0.069, which is less than  $t = 1.972$  at a significance value of 0.437 ( $> 0.05$ ). This finding states that a negative correlation and no significantly between audit committee size and EM. This finding is similar to [48][38]. Other studies found that audit committee size did not considerably reduce EM. However, even if any relationship with statistical significance is absent, the coefficient has taken a negative directional sign. The finding is similar to the vast of majority of studies which could not discover a major ACSIZE [11][14][38][49].

According to the audit quality is treated as a moderating, there is no significant effect on the relationship between Audit Committee and Earnings Management, this result consistent with [38]. This findings gives evidence that financial reporting in Malaysia was prepared according to generally accepted accounting standards. Therefore, improving the audit quality in Malaysia is a dire need, and the findings also indicated that audit quality could not mitigate the level of the discretionary accrual. In response to this study, the low quality of audits shows behavior and motivation that lead to

accounting fraud and the level of discretionary accruals that will have consequences not only for the company itself, but also for potential investors [50]. However, the result indicates that increasing in relationship based on the level of R-square. The result documented before moderate impact to the relationship between the audit committee and quality of financial reporting (EM: Discretionary Accruals) R-Square is 13.4% and after audit quality moderate the relationship up to 20.8%. Meanwhile, the result showed no support for the hypothesis, but the value for R-Square recorded a moderate increase 7.4%. This finding helps regulators better understand the earnings management (EM) of Malaysian companies. It contributes aid in the reconsideration and review of accounting standards across the various sectors and corporate governance regulations which help improved quality of financial reporting by Malaysian listed companies. This can lead to a reduced reliance on earnings management (EM) and thus increase the credibility of financial reports.

## V. CONCLUSION

The primary purpose of this study has been to investigate the moderating effect of audit quality (audit fee) on the relationship between the audit committee and quality of financial reporting (earnings management) among listed firms in Malaysia. The study was conducted on a sample of 279 listed trading companies in Malaysia. Having tested several of hypothesized, this research has helped create a more inclusive global picture of the relationship between the AC and FRQ. The findings reveal that audit committee independence, audit committee financial expertise, audit committee size is no significance, only audit committee meeting have a significant effect on FRQ. The mean findings concluded that the audit quality have insignificant effect to the relationship between audit committee and earnings management.

This study provides evidence for the view that the company audit committee size and audit committee expertise in Malaysia should be improved the company performance. Therefore, these findings also contribute to regulators to improve regulations relating to the role of audit committees in Malaysian companies

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