AN INVESTIGATION ON THE EFFECT OF AUDIT COMMITTEE ON FINANCIAL REPORTING QUALITY IN PRE AND POST IFRS ADOPTION: EVIDENCE FROM MALAYSIAN COMPANIES

Citrawati Jatiningrum1**, Fauzi2, Rita Irviani3, Mujiyati4, Shahanif Hasan5

1,2,3STMIK Pringsewu Lampung, Indonesia, 4University of Muhammadiyah Solo Surakarta, Indonesia, 5University of Selangor, Malaysia.

Email: citrawati1980@gmail.com

Article History: Received on 27th January 2020, Revised on 25th February 2020, Published on 11th March 2020

Abstract

Purpose of study: This study sought to investigate the effect of the audit committee on Financial Reporting Quality (FRQ), explicitly focuses on the period pre- and post-mandatory IFRS adoption in Malaysia. The Financial Reporting Quality in this study proxied by earnings management. Malaysian.

Methodology: The sample study has covered 81 listed companies on Bursa Malaysia, with 567 observations, which examined the time of 2009 to 2015. The relationship was analyzed by statistical multiple regression linear methods and also examined the significance of differences between pre and post IFRS adoption by paired sample t-test.

Result: The main finding reveals that the relationship between the audit committee and financial reporting quality after IFRS adoption in Malaysia has more significant. However, empirical evidence showed that the post period of mandatory IFRS evidently no significant difference level of earnings management practice. This result indicates that the IFRS adoption cannot reduce managerial discretion yet and the possibility for EM manipulation for Malaysian companies.

Implication/Application: This finding has critical implications for regulators and policymakers, that the consequences of IFRS adoption do not increase the quality of financial reporting when EM practices still continue in the different forms.

Novelty/Originality of this study: This study gives empirical evidence that there are differences in relationship level between audit quality and earnings management in the period before and after IFRS mandatory adoption in Malaysia companies.

Keywords: Audit Committee, Financial Reporting Quality, Earnings Management, IFRS, Pre and Post Adoption.

INTRODUCTION

According to Salleh and Haat (2014) stated that 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 been 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 research uses the audit committee as one of the mechanisms of corporate governance as a measure to examine earnings management. The objective of the current study is to provide additional evidence on the effectiveness of the audit committee in mitigating opportunistic earnings management in Malaysia.

The accounting standard in Malaysia has closely followed the former International Accounting Standards (IAS) which is currently known as the International Financial Reporting Standard (IFRS). Following the mandatory adoption of IFRS in Malaysia, all listed companies based in Malaysia obligated to prepare the financial statements under the IFRS since 2011. Thus, in November 2011, the Malaysian government, through the Malaysian Accounting Standard Board (MASB) has issued the implementation of the Malaysian Financial Reporting Standard (MFRS). MASB is implementing its policy of full convergence by adopting IFRS for the annual reporting period in beginning or after 1 January 2012 by the International Accounting Standards Board (IASB). Brochet et al. (2013) and Ferentinou and Anagnostopoulou (2014), for instance, stated that A strong argument for mandatory adoption of IFRS is an effort to maintain capital flows and improve comparability among financial statements. Previous studies have shown that improvement in accounting quality for companies reporting based on IFRS (Barth et al., 2008; Chen et al., 2010). This contradictory evidence can be observed for companies that belong to countries with strong enforcement (Ahmed, et al., 2013).

Regarding mandatory IFRS adoption in Malaysia, previous research has been done to examine the effects of IFRS adoption on the quality of financial reporting (proxies by the level of earnings management). Wan Abdullah, et al. (2017) gives evidence of the effect of IFRS adoption and earnings management from the construction industry in Malaysia. The results reveal that there is a significant difference between the level of earnings management during the years before the adoption of IFRS and after the adoption of IFRS in Malaysia. This suggests that Malaysian construction companies have higher accounting qualities after the adoption period as compared to the period before the adoption of IFRS.

In the Malaysian Code of Corporate Governance (MCCG) (2001) and the 2007 revised code emphasized that the Audit Committee 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 are 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.

Although there is a rich body of literature on audit committee and earnings management issues in Malaysia, discussions on the relationship between the audit committee and FRQ (proxies by earnings management) have not been extensively explored. Salleh and Haat (2014) found that the main aim audit committee is to achieve the legal responsibilities of the board of directors regarding the credibility and objectivity of the financial reports. Several previous research in several contexts have investigated the influence of audit committee with earnings management and empirical evidence is rather inconsistent. Soliman and Ragah (2014) and Al Momani and Obeidat (2013) are documented that audit committees and audit quality have a significant negative association with discretionary accruals. Audit committee and audit quality effectiveness on reducing the extent of earnings management (Jnaam & Khamoussi, 2016). In contrast, Hasan (2017) examined the effect of audit quality on the relationship between the audit committee and financial reporting quality in Malaysia. The evidence has shown that the audit committee no significant relationship with financial reporting quality. Meanwhile, the audit committee meeting supported and significant results with the quality of financial reporting. Furthermore strong evidence from the study Fan and Wong (2002) found that the accounting earnings are lower for East Asian firms including Malaysia. This further highlights the need for examining the impact of governance monitoring on the quality of financial reporting in this environment.

Finally, regarding these issues, the final objective of this study is a purpose to investigate whether the period of mandatory IFRS adoption in Malaysia would mitigate the practice of earnings management conjunction with monitoring corporate governance-related with the financial reporting quality. This paper explicitly examines: First, the effect of mandatory IFRS adoption in Malaysia in the relationship between Audit Committee and earnings management. Therefore, investigated in the different periods (pre- and post IFRS adoption). Second, examines the level of earnings management practices before and after IFRS adoption in Malaysia.

LITERATURE REVIEW

The Quality of Financial Reporting (FRQ) and Earnings Management

The quality of financial reporting has two main aspects: audit quality, and the quality of reported earnings. The present study focuses on earnings quality as a component of FRQ: in addition, to third-party assessments or through a survey of stakeholder perception. This model uses the discretionary part of total accruals (discretionary as well as non-discretionary) as a proxy for earnings management. This research expands discretionary accruals as an EM measure, as in prior studies that proposed and improved this measure, Healy and Palepu (2001) highlighted that companies afford disclosure by structured financial reports, inclusive of the analysis and discussions of management, statements, and footnotes on financial performance as well as further regulatory filings. Furthermore, some of the firms take part voluntarily in communication activities; for instance, reports by corporate bodies, internet sites, press releases, forecasts by management, conference calls, and presentations by analysts. Disclosures of various companies are also available through information intermediaries like the financial press, industry experts, and financial analysts. Cascino and Gassen (2010) emphasized that FRQ as being in compliance with standards of accounting accepted in general, the scale of level disclosure, and the reported numbers although these not only referred to IFRS.

Relationship between the Audit Committee and Earnings Management

Audit Committee Independence (ACIND)

Vicknair, Hickman, and Carnes (1993) and Choi, Jeon and Park (2004) found that audit committees are 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 (Soliman and Ragab, 2014; Habbash, 2010). Alves (2013) found a positive association between earnings management and audit committee independence. Other studies found that the independence of the audit committee was not significantly related to earnings management (Rahman & Ali, 2006, Habbash et al., 2013, Hamdan et al., 2013). Hasan (2017) gives empirical evidence relationship audit committee independent with financial reporting quality in Malaysia. The results show that the audit committee independently no significant relationship with earnings management. Hence, it is hypothesized that:

H1a: The Independence of the Audit Committee is negatively affected with earnings management pre- IFRS adoption.

H2a: The Independence of the Audit Committee is negatively affected with earnings management post- IFRS adoption.

Audit Committee Financial Expertise (ACFEX)

Although 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. Previous research found that Audit Committee Financial Expertise is a significant effect on earnings management Audit Committee Financial Expertise (Hasan, 2017), it also contradicts the findings of Habbash, et al. (2013) and Rahman & Ali (2006) where no negative ACFEX and EM
was found. However, there is no response to the employment of a financial expert with a non-accounting background. Therefore, the following hypothesis is formulated:

**H1b:** The Audit Committee Financial Expertise is negatively affected with earnings management pre-IFRS adoption.

**H2b:** The Audit Committee Financial Expertise is negatively affected by earnings management post-IFRS adoption.

**Audit Committee Meeting (ACMEET)**

Corporate Governance literature might support the proposition that audit committee meeting numbers extensively reduce EM. 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. Chang and Sun (2009), Lin et al. (2006), and Xie et al. (2003) argue that the frequency of audit committee meetings is related to a decrease in discretionary current accrual levels. Previous research deemed the frequency meetings of the audit committee like a signal of the diligent extent practiced through the members of the audit committee (Klein 2002; Habbash 2010; Habbash et al. 2013). In contrast, Hasan (2017) documented that audit committee meetings not significantly related to earnings management, this is similar to findings by Rahman & Ali (2006), Baxter & Cotter (2009), and Habbash (2010). This study might support the proposition that audit committee meeting numbers do extensively reduce EM. The hypothesis is below:

**H1c:** The Audit Committee Meeting is negatively affected with earnings management pre-IFRS adoption.

**H2c:** The Audit Committee Meeting is negatively affected by earnings management post-IFRS adoption.

**Audit Committee Size (ACSIZE)**

Sharma & Kuang (2014) study and other studies found that the audit committee’s larger size does not considerably reduce EM. This is similar to a vast majority of studies (Habbash, 2010; Alkadi, et al., 2012; Habbash et al., 2013; Hasan, 2017) that did not discover a major impact on the size of the audit committee on EM. However, since any relationship with statistical significance is absent, the coefficient has taken a negative directional sign. This supposes that the audit committees’ larger size can reduce EM considerably. This led to formulating the hypothesis:

**H1d:** The Audit Committee size negatively affects earnings management pre-IFRS adoption.

**H2d:** The Audit Committee size negatively affects earnings management post-IFRS adoption.

**Audit Committee and Earnings Management Pre- and Post IFRS Adoption**

Barth et al. (2008) further explored the quality of accounting amounts for IFRS firms. Barth, et al. (2008) reveal that lower level of EM when firms adopting IFRS, more timely loss recognition and more value relevance of earnings, all of which this study gives evidence of higher accounting quality. In similar findings, Chua, Cheong, and Gould (2012) stated that the mandatory adoption of IFRS in Australia has resulted in better accounting quality than under the Australian Generally Accepted Accounting Principles (GAAP) previously. This empirical evidence was indicated that the pervasiveness of earnings management reduced by way of smoothing, while the timeliness of loss recognition has improved as well as the value relevance of financial statement information has also improved. Therefore, the following hypothesis is formulated:

**H3:** There is a different level on the relation between Audit Committee and Earnings Management, pre- and post IFRS adoption in Malaysia.

**H4:** There is a different level of earnings management, pre- and post IFRS adoption in Malaysia.

**METHODOLOGY**

**Data and Sample**

This study focus on analysis on the audit committee and earnings management across two main periods: the pre-IFRS mandatory adoption and the post-IFRS mandatory adoption period. The pre-IFRS adoption period extends from 2009 through 2011, and the post-IFRS adoption period extends from 2012 through the end of 2015. Within the pre-IFRS adoption period, this study classified the period from 2009 through 2011 as the “Pre-IFRS adoption” period and the period from 2012 through 2015 as the “Post IFRS adoption” period.

Data collection in this study following several steps: First collecting the list of all trading companies that were consistently and continuously quoted on the Bursa Malaysia published from 2009 to 2015. Second is identifying companies that published complete their financial statements during the observation period of 2009-2015. Financial statements for 2008 were used to calculate the excess or difference with the previous year when calculating the earnings management variable and third identifying companies that had incomplete data on variables of interest required in this study.

The sample chosen in this research relied on predetermined criteria. Summarises the process of sample selection based on selection procedures:
After compiling data for all necessary variables, 81 companies were found to have complete data for all the variables required. For seven years, a total of 567 observations is analyzed.

Variables and Measurement

Table 2 Shows measurement of variables including independent variables, dependent variables and control variables

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dependent Variable:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Earning Management (EM)</td>
<td>Discretionary Accruals (DACC) with modified Jones Model (Dechow, et al., 1995)</td>
</tr>
<tr>
<td>2</td>
<td>Independent Variables:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit Committee Independence (ACIND)</td>
<td>The proportion of independence non-executive directors in the Audit Committee to total committee members (Total number of independence board in AC members) Beasley (1996), DeFond &amp; Jiambalvo (1991), Habbash (2010), Andres, et al. (2012)</td>
</tr>
<tr>
<td>4</td>
<td>Audit Committee Meeting (ACMEET)</td>
<td>The yearly number of Audit Committee Meetings. Raghunandan &amp; Rama (2007), Habbash (2010)</td>
</tr>
<tr>
<td>5</td>
<td>Audit Committee Size (ACSIZE)</td>
<td>Total number of members on the Audit Committee Lin, et al. (2006), Adams &amp; Mehran (2011)</td>
</tr>
<tr>
<td>6</td>
<td>Control Variables:</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Firm Leverage (FRMLEV)</td>
<td>Total long term debt divided by total assets. Hodgdon, et al. (2009), Dimitropoles &amp; Asteriou (2010)</td>
</tr>
</tbody>
</table>

Most of Earnings Management literature use discretionary accruals to proxy EM. The current research, FRQ employs discretionary accruals as a proxy of EM which defines as the value of discretionary accrual or a change in accounting methods. To measure earnings management, proxied by the value of discretionary accruals, the Modified Jone's model (Dechow, et al. 1995) was used to measure the level of earnings management or discretionary accruals (DTAC). This model uses total accruals (TAC) classified as discretionary component (DTAC) and non-discretionary (NDTAC). Defined as follows:

\[
TAC = NDTAC + DTAC
\]

**Description:**

- \( TAC \) = Total accrual period \( t \)
- \( NDTAC \) = Value of non-discretionary accruals
- \( DTAC \) = Discretionary Accrual

First measured total accruals before discretionary accruals are Under the cash flow approach, total accruals are measured as follows:

\[
TACC_it = EBXTit – OCFit
\]

Where:

- \( EBXTit \) = earnings before extraordinary items and discontinued operations period \( t \)
OCFit = operating cash flow for period t

\[ TAC_t / TA_{t-1} = a_1 / TA_{t-1} + a_2 / (\Delta REV_t / TA_{t-1}) + a_3 / (\Delta PPE_t / TA_{t-1}) + \varphi \] (2)

\[ NDTAC = a_1 / TA_{t-1} + a_2 (\Delta REV_t - \Delta REC_t) / TA_{t-1} + a_3 / (\Delta PPE_t / TA_{t-1}) \] (3)

\[ DTAC = AC_t / TA_{t-1} - NDTAC \] (4)

Where:

- **TAC** = Total accruals in period t
- **NDTAC** = value of non-discretionary accrual
- **DTAC** = Discretionary accrual
- **REV Δ t** = change in net sales in period t
- **REC Δ t** = change in period t net receivables
- **PPE** = Property, Plan, and Equipment
- \( a_1, a_2, a_3 \) = coefficient of regression equation (2)
- \( \alpha_1, \alpha_2, \alpha_3 \) = Fitted coefficients obtained from the regression equation (2)

**Analysis Method**

Multiple regressions are used in this study to explore how the dependent and independent variables are related. There are three models of OLS regression used 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 1:** Theoretical Research Framework

**RESULT AND FINDINGS**

The results of descriptive statistics Pre-and Post IFRS Adoption and descriptive statistics each period can be seen in the following table 1, table 2 and table 3:

**Table 3: Descriptive Statistics Pre-and Post IFRS Adoption**

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACIND</td>
<td>567</td>
<td>2</td>
<td>5</td>
<td>2.91</td>
<td>.803</td>
</tr>
<tr>
<td>ACFEX</td>
<td>567</td>
<td>1</td>
<td>5</td>
<td>2.47</td>
<td>.871</td>
</tr>
</tbody>
</table>
Descriptive statistics for the dependent, independent, and control variables are presented in Table 3. Based on descriptive statistics, the minimum amount is DACC, the maximum amount is FIRMLEV. Total of observation (N) is 567 companies, for pre-IFRS adoption is 243 companies with DACC mean of 0.6974 (Table 4) and post IFRS adoption is 324 companies with DACC mean of 0.6239 (Table 5). For all Audit committees, the variable maximum is 16 and the minimum is 1.

### Table 4: Descriptive Statistics Pre-IFRS Adoption (Years of 2009-2011)

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACIND</td>
<td>243</td>
<td>2</td>
<td>5</td>
<td>2.95</td>
<td>.824</td>
</tr>
<tr>
<td>ACFEX</td>
<td>243</td>
<td>1</td>
<td>4</td>
<td>2.19</td>
<td>.845</td>
</tr>
<tr>
<td>ACMEET</td>
<td>243</td>
<td>3</td>
<td>10</td>
<td>4.72</td>
<td>1.397</td>
</tr>
<tr>
<td>ACSIZE</td>
<td>243</td>
<td>3</td>
<td>6</td>
<td>3.50</td>
<td>.700</td>
</tr>
<tr>
<td>BSIZE</td>
<td>243</td>
<td>4</td>
<td>14</td>
<td>8.14</td>
<td>2.375</td>
</tr>
<tr>
<td>FIRMLEV</td>
<td>243</td>
<td>2</td>
<td>6156</td>
<td>2137.60</td>
<td>1660.46</td>
</tr>
<tr>
<td>DACC</td>
<td>243</td>
<td>-1.2562</td>
<td>0.6974</td>
<td>-0.22375</td>
<td>0.23861</td>
</tr>
</tbody>
</table>

Valid N (listwise) 243

Notes: The table reports summary statistics (minimum, maximum, mean, standard deviations and numbers of observations) for a number of variables for our sample firm-year observations using data for a period immediately preceding IFRS Adoption (2009-2011).

### Table 5: Descriptive Statistics Post IFRS Adoption (Years of 2012-2015)

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACIND</td>
<td>324</td>
<td>2</td>
<td>5</td>
<td>2.88</td>
<td>.787</td>
</tr>
<tr>
<td>ACFEX</td>
<td>324</td>
<td>1</td>
<td>5</td>
<td>2.69</td>
<td>.827</td>
</tr>
<tr>
<td>ACMEET</td>
<td>324</td>
<td>4</td>
<td>16</td>
<td>5.52</td>
<td>1.708</td>
</tr>
<tr>
<td>ACSIZE</td>
<td>324</td>
<td>3</td>
<td>8</td>
<td>3.49</td>
<td>.732</td>
</tr>
<tr>
<td>BSIZE</td>
<td>324</td>
<td>2</td>
<td>6302</td>
<td>2091.00</td>
<td>1647.13</td>
</tr>
<tr>
<td>FIRMLEV</td>
<td>324</td>
<td>4</td>
<td>16</td>
<td>8.28</td>
<td>2.400</td>
</tr>
<tr>
<td>DACC</td>
<td>324</td>
<td>-1.0110</td>
<td>0.6239</td>
<td>-0.2037</td>
<td>0.2459</td>
</tr>
</tbody>
</table>

Valid N (listwise) 324

Notes: The table reports summary statistics (minimum, maximum, mean, standard deviations and numbers of observations) for a number of variables for our sample firm-year observations using data for a period following or post IFRS adoption (2012-2015).

Pre IFRS Adoption Equation: $DACC_{it} = \alpha_0 + \alpha_1 ACIND + \alpha_2 ACFEX + \alpha_3 ACMEET + \alpha_4 ACSIZE + \alpha_5 BRDSIZE + \alpha_6 FIRMLEV + \epsilon$

Post IFRS Adoption Equation: $DACC_{it} = \alpha_0 + \alpha_1 ACIND + \alpha_2 ACFEX + \alpha_3 ACMEET + \alpha_4 ACSIZE + \alpha_5 BRDSIZE + \alpha_6 FIRMLEV + \epsilon$

### Table 6: Pre and Post IFRS Adoption in Relationship between Audit Committee and Earnings Management

<table>
<thead>
<tr>
<th>Variables</th>
<th>Exp. Sign</th>
<th>Pre-IFRS Adoption</th>
<th>Post-IFRS Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>Sig (P-Value)</td>
<td>t</td>
</tr>
<tr>
<td>Constanta</td>
<td>-1.286</td>
<td>(0.165)</td>
<td>-1.426</td>
</tr>
<tr>
<td>ACIND</td>
<td>-0.419</td>
<td>(0.676)</td>
<td>-0.268</td>
</tr>
<tr>
<td>ACFEX</td>
<td>-2.265**</td>
<td>(0.032)**</td>
<td>-2.635</td>
</tr>
<tr>
<td>ACMEET</td>
<td>-1.532</td>
<td>(0.121)</td>
<td>-2.316</td>
</tr>
</tbody>
</table>
H1rnings Management which proxied by discretionary accruals (DACC) and hnrnings management in pre hnrings). Meanwhile, both of hns (s statistically significant (upward) or the relation more

doption is 0.000 at 5% level Dechow overall number of independent board members on the Audit Klein 2
p FRS, the 31 (2017) (2008) suggest a reduction but do after the adoption period as compared to the period before the adoption of IFRS. After the adoption of IFRS adoption in Malaysia.

Table 7 summarizes the descriptive statistics of earnings management for the year Pre period of IFRS adoption (2

Notes: Estimation results using multiple regression Ordinary Least Squares (OLS) for a period immediately preceding or pre-IFRS Adoption (2009-2011) and following or post IFRS Adoption (2012-2015) the adoption of IFRS pooled together: The dependent variable is Earnings Management which proxied by discretionary accruals (DACC) and estimated under the Modified Jones model (Dechow, et al., 1995). The Independent variables in this study including Audit Committee Independent (ACIND) measured by Total number of independent board members on the Audit Committee, Audit Committee Financial Expertise (ACFEX) measured by Total number of AC members with financial and accounting background, Audit Committee Meetings (ACMEET) measured by The yearly number of audit committee meetings, and Audit Committee Size (ACSIZ) measured by Total number of directors on the audit Committee, Control Variables in this study are Board Directors Size (BRDSIZ) measured by the number of directors on the board and Firm Leverage (FIRMLEV) measured by Total long-term debt by total assets at the firm i in year t.

The empirical findings show in Table 6, both pre- and post IFRS adoption in Malaysia in the relationship between Audit Committee (ACIND, ACMEET, ACFEX, ACSIZE) and earnings management (DACC). The findings from Table 6 show a significant increase in sig p-value, which Pre- IFRS adoption is 0.001 and after IFRS adoption is 0.000 at 5% level significance. Thus, the result also indicates increasing in R² after IFRS adoption, compared to before. The result of the hypothesis test (H1 & H2) gives evidence that in period post-IFRS adoption ACFEX and FIRMLEV statistical significance (upward) and ACMEET are significantly at 5% level. It means that Audit Committee Financial Expertise (ACFEX) is a significant effect on earnings management, its consistency with Hasan (2017) study. According to table 6 in post-IFRS adoption period, Audit committee Meeting (ACMEET) is significant, this finding consistent with Chang and Sun (2009), Lin, et al., (2006), and Xie, et al., (2003) argue that the frequency of audit committee meetings is related to decrease in discretionary current accrual levels. Previous research deemed the frequency meetings of the audit committee like a signal of the diligent extent practiced through the members of the audit committee (Klein, 2002; Habbash, 2010; Habbash, et al., 2013). Meanwhile, both of ACIND and ACSIZE is not significantly (p-value> 0.05), finding shows that lower level of EM when companies adopting IFRS.

Most importantly, the difference in the relationship between Audit Committee and Earnings Management pre- and post IFRS adoption in Malaysia (H3), this study provides evidence on statistically significant (upward) or the relation more significantly. Based on the descriptive statistics, which shows that the difference (decreasing) in mean DACC pre and post IFRS adoption (see table 4 & 5). This result consistent with Chua, Cheong and Gould (2012) stated that the mandatory adoption of IFRS has resulted in better accounting quality.

Table 7: Descriptive statistics Paired Sample IFRS Adoption

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>N</th>
<th>Std. Dev</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair Pre IFRS</td>
<td>-0.223758</td>
<td>81</td>
<td>0.188261</td>
<td>0.020917</td>
</tr>
<tr>
<td>Post IFRS</td>
<td>-0.203794</td>
<td>81</td>
<td>0.197060</td>
<td>0.021895</td>
</tr>
</tbody>
</table>

Notes: The table reports summary descriptive statistics (mean, standard deviations, standard error mean and numbers of observations) for a number of earnings management variables for our sample firm-year observations using data for pre-period of IFRS adoption (2009-2011) and post period of IFRS adoption (2012-2015).

Table 7 summarizes the descriptive statistics of earnings management for the year Pre-and Post the full adoption of IFRS in Malaysia. However, after the adoption of IFRS, the mean is lower and it is earnings management in pre-IFRS adoption is higher using paired sample t-test. This indicates that Malaysian companies have higher accounting qualities after the adoption period as compared to the period before the adoption of IFRS. After the adoption of IFRS, the results suggest a reduction but do not eliminate earnings management. The result is consistent with the findings by Barth, et al. (2008), Zhou, et al. (2009), Chua et al. (2012), Sellami & Slimi (2016), Wan Ismail, et al. (2013) and Wanabdulah, et al. (2017).
Table 8: Paired Sample t-Test of Earnings Management Pre-and Post IFRS Adoption

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Std. Error Mean</th>
<th>95% Confidence Int. of the Difference</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 Pre IFRS - Post-IFRS</td>
<td>-0.22375</td>
<td>0.17305</td>
<td>0.01922</td>
<td>-0.0282 - 0.04830</td>
<td>0.522</td>
<td>80</td>
<td>0.603</td>
</tr>
<tr>
<td></td>
<td>-0.20379</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: Result of paired sample t-test earnings management variable using significant at 5% level. Pair mean earnings management variable Pre IFRS adoption and Post IFRS adoption. Sample firm-year observations using data for pre-period of IFRS adoption (2009-2011) and post period of IFRS adoption (2012-2015).

Regarding the test of H4, Table 7 presents the result of the Paired Sample t-Test of earnings management (DACC) for the period before and after the adoption of IFRS in Malaysia. The results showed that no significant difference (sig. 0.603 > 0.05) between the level of earnings management Pre- and Post the adoption of IFRS in Malaysia at 5% level significance. Under the expectation that IFRS adoption should lead to improvements in accounting quality, this result reveals that pre and post-IFRS adoption in Malaysian, companies still have a tendency to EM practices. This finding gives empirical evidence that EM practices continue under different forms.

The results for both years suggest that earnings using the income decreasing accruals. However, the mean for the year pre-IFRS adoption is -0.2237 and the mean for the year post-IFRS adoption is -0.20379. The results for both years suggest that the companies manage using the income decreasing accruals. This indicates that Malaysian companies have higher accounting qualities after the adoption period as compared to the period before the adoption of IFRS.

CONCLUSION

The hypotheses and main findings of the statistical analysis provide empirical evidence of the effect of mandatory IFRS adoption in Malaysia companies in the relationship between Audit Committee (AC) and Financial Reporting Quality (EM-discretionary accruals proxy). The result of the hypothesis test gives evidence that in the period post-IFRS adoption Audit Committee Financial Expertise statistically significant (upward) and Audit Committee Meeting (ACMEET) is significantly at 5% level. It's consistent with Chang and Sun (2009), Lin et al. (2006), and Xie et al. (2003). Both of Audit Committee independence (ACIND) and Audit Committee Size (ACSIZE) is not significantly at the same time, decreasing in mean DACC pre- and post IFRS adoption. This result is consistent with Chua, Cheong and Gould (2012). This indicates that Malaysian companies have higher accounting qualities after the adoption period as compared to the period before the adoption of IFRS. However, this study contributes to the knowledge of the effect of IFRS adoption in the relationship between the audit committee and earnings management. This finding also has a critical implication to the regulatory body and policymaker regarding financial reporting practices in Malaysia and to improve the quality of the financial report. Finally, future research could explore variables effect in the relationship of the Audit Committee and mitigating earnings management especially.

LIMITATION AND STUDY FORWARD

The limitation of this study is that it only uses the audit committee composition to examine the impact of IFRS adoption on earnings management, whereas corporate governance mechanism is very diverse to be explored. Further research can examine the relationship of other variables in the period before and after the mandatory implementation IFRS, by exploring some variables that might probably mitigate earnings management practices. Additionally, future studies address the context of countries in the emerging market, especially in the weak corporate governance mechanism and low investor protection.

REFERENCES


