AUDIT COMMITTEE ACCOUNTING BACKGROUND AND AUDIT FEES: EVIDENCE FROM MALAYSIA

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Abstract

This study investigates the influence of audit committee accounting background on audit fees paid by companies to external auditors. To achieve this objective, the study utilizes archival method of data collection using market capitalization to select the Top 100 companies listed on BursaMalaysia utilizing their 2015's annual report. To investigate the influence of audit committee accounting background, the study utilizes ordinary least square regression analysis. The result indicates that audit committee accounting background has asignificant positive relationship with audit fees. Similarly, the result indicates that the relationship between audit committee accounting's experience and audit fees is positive and significant on the other hand, the study displays a negative and insignificant relationship between accounting background of audit committee chairman and audit fees. Further test was conducted to investigate the effect of professional qualification, auditing the background of audit committee chairman and audit committee on audit fees. The result discovers a significant negative relationshipbetween auditing background of audit committee chairman and audit fees. However, a significant positive relationship is found between the audit committee auditingbackground and as well as the audit committee professional qualification and the auditfees. Thus, the study proposes to the authority the roles of accounting and auditing expertise of audit committee members on the external auditors 'works.

Keywords: Audit Fees, Audit Committee Accounting Background, Audit Committee Chairman and Audit Committee Accounting Experience.

1. Introduction

An audit may be described as an independent appraisal of the financial statements of a company as shown in the annual report by an external auditor who is independent of that organization. This is done to form a view on whether the financial information presented in the financial report, taken mirrors the financial position of the company at a specified period (Krogstad, Ridley & Rittenberg, 1999). This view as presented by the external auditor is of utmost important to the users of the financial information. In fact, it influences the investors to invest in the company and determines the credibility of the company to have access to the fund necessary to finance company's activities.

Decades back the financial scandal of Enron amid the last quarter of 2001 has attracted worldwide attention regarding its auditor, Arthur Andersen, from the media, authorities, and the profession of accounting. financial disclosures of Anderson's audit of Enron has brought about decline in its reputation and lead to Anderson's client to suffer significant loss of their market value (Chen & Jian, 2007). Various measures relating to the governance and disclosure of company financial information have been implemented because of the corporate scandals, which include compulsory disclosure of fees paid by public listed firms for the external audit. It has also compels companies to differentiate initially between statutory audit fees and non-audit services fees and secondly between the actual fees paid to each of the two independent auditors

(Gonthier-Besacier & Schatt, 2007). The above-mentioned governance failures and scandals have emphasized the critical role of external auditing in promoting good corporate governance. It has also been suggested by agency theory that ownership and control separation create a conflict of interest between managers who may engage in activities for their personal interests and stakeholders who do not closely monitor the decisions of managers. Furthermore, differences in audit fees may be attributed with audit effort and risksassociated with the client's firm. Factors such as audit committee expertise which tend to demand high quality audit, size of the company under audit, complexity of the audit, audit firm size are found to be explanatory power for differences in audit fees (Abbott, Parker, & Peters, 2003; Abdul-Wahab & Mat-Zain, 2013; Gonthier-Besacier & Schatt, 2007; and Habib, Gong, & Hossain, 2013; MIR, N., et al 2020). Audit committee are to monitor the auditing processes and all activities of external auditor. This external auditor plays an important function in decreasing information risk, that is the core financial importance influencing the mandate for audit and auditing services. In the performance of their duty, auditors face a considerable conflict of roles because they endeavor on one hand to uphold the professional standards and on the otherhand to consider the wishes of managers (Chi & Weng, 2014).

2. Problem Statement

The need for audit committee with accounting expertise tend to improve financial reporting quality and overall internal control system bringing about a reduction by the external auditor the assessed degree of risks, leading to less practical examination and, consequently, a reduction in audit fees (Cadbury Committee, 1992; Collier and Gregory, 1996; Carcello et al., 2000; Abott et al., 2003; Alnasser, 2012; Goddard & Masters, 2000; Mohammad, A. J. 2015). This could be discredited, in any case, by a corresponding rise in audit efforts because of the requirement for the audit committee. oodwin and Munro (2004) document that firm auditors have certainty that the existenceof an audit committee has negligible effect on audit examination but that audit fees are higher because of more time put in by increased partner and manager. A principal role of an audit committee is to guarantee the dependability and quality of financial reporting and regulate the performance of the firm. For audit committee to execute their assignment, their duties and responsibilities are stipulated in the Bursa Malaysia specifically the main Market Listing Requirements paragraph 15.12. Amongst the capacities which are associated with reporting financiallyis that audit committee are required to assess the quarterly and yearly financial results of the company. The appraisal concentrates on the adjustments in application of chief accounting rules,any critical and abnormal procedures, consistence with standards of accounting and order regulatory requirement (Hamid, Othman, & Rahim, 2015). Since the reviewing of the audit processes and the outcomes thereof is the responsibility of an audit committee (DeZoort 1997; BRC 1999), this implies that the level of audit coverage may be influenced by the audit committees.

Thus, it implies that an audit committee looking for a more elevated audit assurance could request a more prominent level of audit scope bringing about increased fees for the audit, considering the wealth-maximization role of the auditor. Second, earlier research proposes that specific characteristics of the audit committee, for example, accounting expertise basically influence audit committee's performances (Carcello and Neal 2000; and Raghunandan, Rama, & Read 2001). This view generates the reason for a study to be conducted on the how audit committee accounting background impacts on audit fees. Also, since the inception of 2009, the Bursa Malaysia obligated that all audit committee members be financially knowledgeable and must consist of one member having a professional accounting qualification (Yatim, 2010; Ali, H. R et al, 2022). This is to enable the audit committee to deliver the task assigned to them.

Recently, 2016 draft of code on corporate governance emphasized the need for accounting expert amongst audit committee, the reasons is for them to be able to peruse, analyse and interpret financial statement guarantee financial reporting system quality by liaising with the external auditor of the company by providing the necessary guide and requirement needed for a successful audit. Based on the above, audit committee play major part in ensuring the quality of audit report of the company. This may tend to influence the audit fees remunerated to the firm's external auditor. In this view, research is needed to examine the influence of audit committee accounting background on audit fees paid to the firm's external auditors. In addition, the important yardstick with which to gauge the quality of the audit committee and effectiveness is accounting since the apparent absence of accountingknowhow by audit committees and boards leads to extensive mass media and legalattention (Hilzenrath, 2002; Mohammad, A. J., & Ahmed, D. M. 2017).

3. Research Question

The study seeks to provide answers to the following questions as follows:

A. Does audit committee accounting background have an influence on audit fees?
B. Does audit committee chairman accounting background have an influence onaudit fees?
C. Does audit committee accounting experience have an influence on audit fees?

1. Research Objective

The current study examines the influence of chairman accounting background, audit committee experience, and audit committee accounting background on audit fees. The specific aim of this research is stated below:

Specific objective

A. To examine the association between audit committee accounting background andaudit fees.
B. To examine the association between audit committee chairman accountingbackground and audit fees.
C. To examine the influence of audit committee accounting experience on audit fees.

2. Literature Review

Studies on audit fees has been done in different part of the world, for example Simunic (1980), Palmrose (1986); Chan, Ezzamel, Gwilliam (1993); and Anderson and Zeghal (1994). This early prior research on audit fees have been conducted using firm size, audit work complexity, and audit work risk. Simunic (1980) stated that the amount collected as audit fees depend on whether audit firm is big4 or small accounting firm. Another study by Simunic (1984) examined the influence of total management advisory services (MAS) fees on fees of the audit and found that audit fees of organization who as well engage auditors on MAS are meaningfully more compared to audit fees of organizations who do not engage auditors for the services. (1984, p. 681). Simunic (1984) in their study document that an adverse association concerning both audit and NAS fees would occur because of the differences between audit and NAS fees respectively as clarified by the "knowledge spillover theory", through which external auditor use the information acquired from the NAS to carry out into their audit work.

Advantages emanating from the skills transfer effects might be transferred into the organizations by decreasing the fees for the audit. An additional clarification is that the audit is utilized as a "loss leader" to get the advisory jobs that are more profitable. The impact diminishes the audit fees and the "loss" is taken by an increase in NAS fees (Hillison & Kennelley, 1988; Yas, H.,et al, 2022). This may likewise happen if a discharge from their dutiesis avoided by auditors, which they achieve by lessening the fees related to the statutory audit and thereafter attempt to

recover the said loss by a corresponding increase in the NAS fees. In addition, Palmrose (1986) examined the effect of the size of auditors on audit fees and found that higher audit fees for Big Eight firms, is in line with either higher service quality or monopoly pricing by the major service providers. Their study documents a statistically significant relationship concerning the size of auditors and audit fees depending on dichotomy of Big Eight or non-Big Eight, nevertheless not founded on industry specialist classifications.

Chan, et al., (1993) in their study examined the factors determining audit fees for quoted companies in the United Kingdom (UK) with semi-structured interview and based on the extant literature on audit fees found that the independent variables are company magnitude, shareholders equity return, subsidiaries total sum number owned by the company which are to be audited, the interval between the end of the year and the audit report date, the auditors' size, a measure of auditee diversification, the ownership structure of the audit client, and whether the auditor was based in London. Also, Anderson and Zeghal (1994) investigated the pricing of auditing services in Canadafollowing the empirical study done by Simunic (1980), They found that differentiation of goods and services and the effects of economies of scale agrees with the presence of firm rivalry and differentiation quality all over the audit market and economies of scale effectsin the huge market of audit clients. A significant difference in pricing is found in the small audit client sector when a continuous size metric is applied in the measurement of audit quality, and a smaller size and less substantial variation occurs with the representation of Big Eight auditors with a dummy variable is utilized.

Research Framework

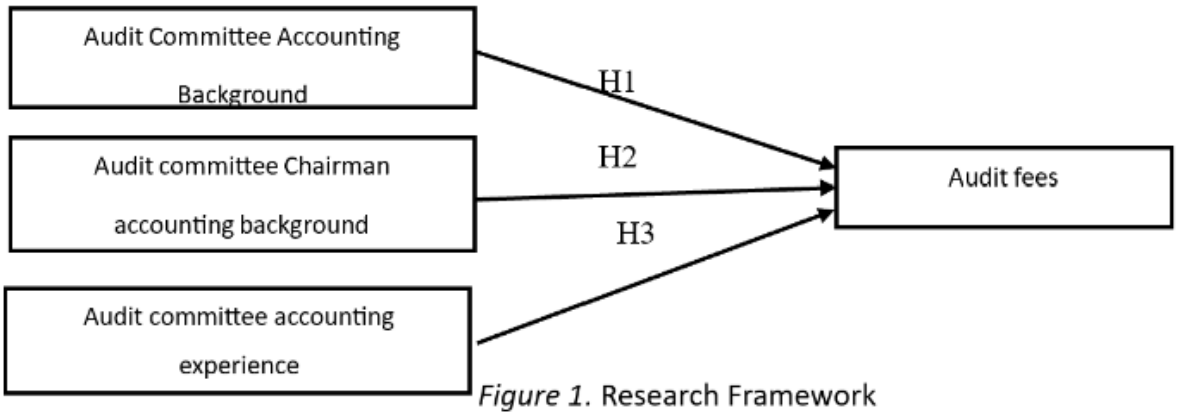

Figure 1. Research Framework

3. Results and Discussions

Multicollinearity alludes to a circumstance in which two or more descriptive variables ina multiple regression model are to a great degree linearly associated. Along these lines, multicollinearity is utilized to check if there exists any relationship among the independent variables. This can be clarified by the level of which any variable effect can be anticipated with the other variable (Hair et al., 2010). Multicollinearity will lead to a major issue in multiple regression due to the troubles of distinguishing the influence of every independent variable on the dependent variable. Besides, Pallant (2011); Mohammad, A. J. (2015) states that the correlation analysis is important in depicting the direction and strength of the linear relationship amongst two variables. More precisely, the Pearson correlation analysis was undertaken to clarify and assess the strengths of the relationship amongst the study variables as presented in Table1 The correlation coefficient (r) values presented in the Table1 displays the strength of the relationship among variables. Table1 depicts the relationships which exist between the variables used in this study. Itis noted from the table1 that the highest correlation is 0.382 significant at

0.01 level between DEBT and SIZE based on Pearson's correlation. Thus, there is no serious multicollinearity problem. Other than Pearson's Correlation, a typical approach utilized for appraising whether thereis multicollinearity is called the Variance Inflation Factor (VIF), checked for everyindependent variable. Independent variable is thought to be profoundly related if the estimation of VIF is above 10, bringing about an issue of multicollinearity. There is no multicollinearity problem if the value of VIF are less than 10 (Pallant, 2011; Hair, Sarstedt, Ringle, & Mena, 2012; Sekaran & Bougie, 2013). Table2 show the Variance inflation factor for the variables are not greater than 10. Since the VIF value for eachlevel of variable is not greater than 10 which corresponds to tolerance value of 0.10 there is no serious multicollinearity problem. This indicates that the assumption of multicollinearity has not been violated.

Table 1

Summary of Pearson correlation (N=100)

	ACACQ	ACCHAIRAC	ACEXPAC	SIZE	ROA	CURRENT	DEBT	INVREC	LOGNAS	CHINESE
ACACQ	1	.133	**.380****	**.253***	-.047	.100	.142	.031	.182	.070
ACCHAIRAC		1	.167	.050	-.145	.043	-.078	-.110	-.027	.030
ACEXPAC			1	**.339****	.118	.087	.147	.099	**.222***	.030
SIZE				1	-.088	**-.263****	**.382****	**-.326****	.215*	.034
ROA					1	.135	.053	.437**	**.268****	-.227*
CURRENT						1	-.101	**.324****	-.058	**.231***
DEBT							1	-.118	.172	-.029
INVREC								1	**.265****	.057
LOGNAS									1	-.013
CHINESE										1

****. Correlation is significant at the 0.01 level (2-tailed).**

***. Correlation is significant at the 0.05 level (2-tailed).**

Note: LOGFEE = Log of audit fees, ACACQ = proportion of audit committee member with accounting qualification to total Audit committee, ACCHAIRAC = Dummy variable 1 if Audit committee chairman has accounting qualification, 0 otherwise, ACEXP = proportion of audit committee member with accounting experience to total Audit committee, INVREC = Total inventory plus account receivable divided by total assets, LOGNAS = log of Non-audit fee, SIZE = log of total assets, ROA = Net income divided by total assets, DEBT = Total debt to total equity, CURRENT = Current assets to total assets, CHINESE = Proportion of Chinese director to total number of directors.

Table 2

Multicollinearity Test Summary.

Variable	VIF	1/VIF
SIZE	1.67	0.597325
INVREC	1.67	0.600145
ROA	1.45	0.690093
ACEXPAC	1.38	0.722206
CURRENT	1.30	0.769384
LOGNAS	1.29	0.773735
ACACQ	1.25	0.798016
DEBT	1.21	0.827059
CHINESE	1.17	0.853919
ACCHAIRAC	1.09	0.919322
Mean VIF	**1.35**	

Note: LOGFEE = Log of audit fees, ACACQ = proportion of audit committee member with accounting qualification to total Audit committee, ACCHAIRAC = Dummy variable 1 if Audit committee chairman has accounting qualification,

0 otherwise, ACEXP = proportion of audit committee member with accounting experience to total Audit committee, INVREC = Total inventory plus account receivable divided by total assets, LOGNAS = log of Non-audit fee, SIZE = log of total assets, ROA = Net income divided by total assets, DEBT = Total debt to total equity, CURRENT = Current assets to total assets, CHINESE = Proportion of Chinese director to total number of directors.

The results of the regression analysis as measured by R^2 which indicate the influence of the independent variables over the dependent variable clarifies that the model contributed an impact to the study. To investigate the hypothesis model there is need for the R^2 (R Square) coefficient which verified the robustness of the equation of regression. This can as well be referred to as the coefficient of determination. The R^2 in this study assess the differences of the audit fees which is measured by log of audit fees and its influenceby the independent variables such as audit committee accounting background, audit committee chairman accounting background as well audit committee experience.Besides, when the R^2 is proportionate to 1 that infers that there is a magnificent direct association among the dependent and independent variable in the study. Also, whenR^2 is close or equivalent to 0, this suggests no direct association existing among the dependent and the independent variable. Subsequently, the unit under R^2 shows the level of distinction in the dependentvariable (Audit fees which is measured by log of audit fees) is being depicted in the model which includes Audit committee accounting background, audit committee chairman accounting background and audit committee experience. Table2 above shows that adjusted R^2 rate is in model is 0.7490. This indicates that the model contributes 75% of changes in audit fees which is measured by log of audit fees. In behavioral science this result is considered an acceptable result of an empirical study. This result is achieved with the aid of STATA 14 software. Tabachnick & Fidell (2007), states that in any cases where the population sample is small result of the study especially R^2 value can be rather optimistic of the value ofthe population. The value of the adjusted R^2 shows that the audit fees which is the dependent variable is explained by 75% changes in the independent variables of this study. The implication is that the deviation in audit fees is explained statistically by the equation of regression in this study. Model of this study is significant at *p*-value less than 0.01, this indicates the significance of the model to the study. In analyzing the result and to test the hypothesis, coefficient or the weight of regression is needed. The negative or positive indicate the direction of the relationshipbetween the dependent variable and the independent variables. Taking intoconsideration only the weight of the coefficient, this shows that any variables having the highest standardized beta or weight is considered the most significant and the most predictor of the dependent variable. Also, to identify the significance of the variable probability value can as well be examined. Independent variables are said to be significant predictors of the dependent variable at p-value less than 0.01, 0.05 and 0.10 respectively. Table2 shows that the six variables are significant to audit fees as measured by log of audit fees. The significant variables as indicated by their beta or weight of the regression as well as the probability value are audit committee accounting background(ACAQ) with beta of 1.608795 and p – value of 0.000 and significant at 0.01 level. Audit committee experience (ACEXPAC) have beta of 1.576074 and p – value of 0.000, this shows that audit committee experience is significant at 0.01 level. Looking at the company size (SIZE), the result shows a beta coefficient of 0.7047093 and p – value of 0.000 which is also significant at 0.01 level, current (CURRENT) with beta of 0.1759014 and p– value of 0.084 is significant at 0.1 level. INVREC have a betaof 0.2385151 and p - value of 0.072, this indicates that the coefficient is significant at 0.1 level. Lastly the log of non-audit fees (LOGNAS) has a beta of 0.14376 and p – value of 0.017, this tend to be significant at 0.01 level. However, variable such as audit committee chairman accounting background (ACCHAIRAC), return on assets (ROA), debt (DEBT) and proportion of Chinese director to total (CHINESE) were not significant to the model.

4. Conclusion

The current examines top 100 listed companies in Malaysia for the year 2015. The main objective is to examine the effect of audit committee accounting expertise on audit fees paid to external auditors of the company in Malaysia. The dependentvariable of this study is audit fees (log of audit fees) while the independent variables are audit committee accounting background, audit committee chairman accounting background and audit committee experience. The study indicates that audit committee accounting background (ACACQ) is positively and significantly associated with audit fees of companies in Malaysia, means that the higher the audit committee member with accounting background, the higher or lower the audit fees. The reason is since audit committees with accounting background will demand audit effort which is a function of price or audit fees paid. Result of the study also shows that audit committee chairman accounting background is negatively associated but insignificant with audit fees whilst audit committee experience is positively and significantly associated with audit fees. Other variable investigated in this study are company size (SIZE), ROA, CURRENT, DEBT, INVREC, LOGNAS, and CHINESE. This study found that SIZE is positively and significantly associated with audit fees, ROA was found to maintain a negative association with audit fees. Result of the study shows that a positive significant association exists between CURRENT and audit fees. the study also documents a positive insignificant association between DEBT and audit fees, a significant positive association also exist between INVREC and audit fees in this study. In the investigation of the influence of log of non-audit fees, the result showed that a positive and significant association exist between them. Finally, the study went further to include the proportion of Chinese director to total number of directors knownin this study as the CHINESE. Result of the study deduced that there is an insignificant association between CHINESE and audit fees. Lastly, further test was also conducted to examine the independent variables whichare close to the main variable of this study. These variables are audit committee chairman auditing background, audit committee auditing background and audit committee professional qualification. The study document that audit committee auditing background was found to have positive significant association with audit feesand that a negative significant association exists between audit committee chairman auditing background and audit fees. Moreover, audit committee professional qualification was also found to be positive and significantly associated with auditfees.

Table 3

Summary of Hypothesis Testing Result

Hypothesis	Statement	Findings
H1	Audit committee accounting expertise have positive association with audit fees.	Positive and Significant
H2	Audit committee chairman accounting background have positive association with audit fees.	Negative and Insignificant
H3	Audit committee accounting experience have positive association with audit fees	Positive and Significant

To conclude, the study statistically verified that two hypotheses were positive while the remaining one is negative. Specifically, Table3 above shows that H1 is positive and significant and H2 is negative but insignificant. On the other hand, H3 is positive and significant. Based on

this, it can be deduced that the objectives of the study have been achieved.

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