

**THE MEDIATING EFFECT OF INTERNAL AUDIT SOURCING ON THE  
RELATIONSHIP BETWEEN AUDIT COMMITTEE EFFECTIVENESS AND  
EARNINGS MANAGEMENT: EVIDENCE FROM OMAN**

**MURAD ABDUSALAM QAID QAMHAN**

**Thesis Submitted in Fulfillment of the Requirement for the Degree of  
Doctor of Philosophy in the School of Maritime Business and Management  
University Malaysia Terengganu**

**November 2016**

## DEDICATION

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

❖ وَأَخْفِضْ لَهُمَا جَنَاحَ الذُّلِّ مِنَ الرَّحْمَةِ وَقُلْ رَبِّ ارْحَمْهُمَا كَمَا رَبَّيَانِي صَغِيرًا ❖

❖ 24 الإسراء ❖

This thesis is lovingly dedicated to the memory of my father who passed away in 1995, and to my beloved mother whose affection, love, encouragement and pray of day and night makes me able to get such success and honor.

Abstract of thesis presented to the Senate of Universiti Malaysia Terengganu in fulfilment of the requirement for the degree of Doctor of Philosophy.

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The results of the surveys conducted in the Gulf Cooperation Council (GCC) in 2007 and 2010 provide evidence on the existence of fraud and it is expected to increase over time. Therefore, it is vital to study the role of internal corporate governance to reduce this fraud. The objective of this study is to examine the mediating effect of internal audit sourcing on the relationship between audit committee effectiveness and earnings management. To achieve this objective, three main relationships are examined, namely, the relationship between audit committee effectiveness and earnings management, the relationship between audit committee effectiveness and internal audit sourcing and the relationship between internal audit sourcing and earnings management when controlling for audit committee effectiveness. The theoretical framework of these relationships depends on the agency theory and resource dependence theory. This study uses the panel data method and includes Omani non-financial listed companies. The sample of the study is 370 firm-year

observations for the period of 2008-2012. The discretionary accruals by Modified Jones Model 1995 and discretionary revenue by Stubben (2010) were used to measure earnings management. Further, six audit committee characteristics are used to create the audit committee effectiveness measure.

Using a fixed effects panel data model, the empirical results of this study show that audit committee characteristics (independence, expertise, size and attendance of meetings) have a significant negative impact on earnings management, whereas changes in the audit committee members during the year through demission and appointment has a significant positive impact on earnings management. Further, this study finds that the number of audit committee meetings is not significantly associated with constraining the earnings management. As for mediating effects, this study uses the Causal Steps Method and the Sobel Test to examine the mediating effect. The results indicate that first, there is a negative and significant association between audit committee effectiveness and earnings management; second, the effect of the audit committee effectiveness on the internal audit sourcing (in-house) is a significant positive; third, the relationship between internal audit in-house and earnings management is negative and statistically significant. Finally, the significance of internal audit sourcing in the third step decreases the effect of audit committee effectiveness on earnings management. Therefore, the results support the claim that internal audit sourcing partially mediates the relationship between audit committee effectiveness and earnings management. The results of this study have implications for theory, as well as practical implications for regulators, policy makers, shareholders, management and investors.

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

**KESAN PENGANTARA SUMBER AUDIT DALAM KE ATAS HUBUNGAN  
ANTARA KEBERKESANAN JAWATANKUASA AUDIT DAN  
PENGURUSAN PEROLEHAN: BUKTI DARI OMAN**

**MURAD ABDUSALAM QAID QAMHAN**

**November 2016**

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**Pusat Pengajian : Pusat Pengajian Perniagaan dan Pengurusan Maritim**

Hasil tinjauan yang dijalankan dalam Majlis Kerjasama Teluk (GCC) pada tahun 2007 dan 2010 menunjukkan bukti kewujudan penipuan dan ia dijangka akan meningkat dari masa ke masa. Oleh itu, adalah penting untuk mengkaji peranan tadbir urus korporat dalaman untuk mengurangkan penipuan ini. Objektif kajian ini adalah untuk mengkaji kesan pengantara sumber audit dalaman ke atas hubungan antara keberkesanan jawatankuasa audit dan pengurusan perolehan. Untuk mencapai objektif ini, tiga hubungan utama dikaji, iaitu hubungan antara keberkesanan jawatankuasa audit dan pengurusan perolehan, hubungan antara keberkesanan jawatankuasa audit dan sumber audit dalaman dan hubungan antara sumber audit dalaman dan pengurusan perolehan apabila keberkesanan jawatankuasa audit dikawal. Rangka kerja teori hubungan ini adalah berdasarkan kepada teori agensi dan teori pergantungan sumber. Kajian ini menggunakan kaedah data panel dan melibatkan syarikat-syarikat bukan sektor kewangan yang disenaraikan di Oman.

Sampel kajian ini terdiri daripada pemerhatian melibatkan 370 firma-tahun untuk tempoh 2008-2012. Pengurusan perolehan telah diukur menggunakan akruan diskretionari daripada Modified Jones Model 1995 manakala diskretionari perolehan adalah berdasarkan kepada Stubben (2010). Di samping itu, enam ciri jawatankuasa audit telah digunakan untuk menghasilkan ukuran keberkesanan jawatankuasa audit.

Dengan menggunakan model data panel kesan tetap, keputusan empirikal kajian ini menunjukkan bahawa ciri-ciri jawatankuasa audit (kebebasan, kepakaran, saiz dan kehadiran ke mesyuarat) memberi kesan negatif yang signifikan ke atas pengurusan perolehan, manakala perubahan ahli jawatankuasa audit dalam setahun melalui proses penggantian ahli dan pelantikan baharu mempunyai kesan positif yang signifikan ke atas pengurusan perolehan. Di samping itu, kajian ini juga mendapati bahawa peranan kekerapan mesyuarat jawatankuasa audit diadakan dalam mengekang pengurusan perolehan adalah tidak signifikan. Kajian ini juga telah menggunakan Kaedah Langkah-langkah Bersebab dan Ujian Sobel untuk mengkaji kewujudan kesan pengantara. Dapatan kajian menunjukkan bahawa, pertama, terdapat hubungan yang negatif dan signifikan di antara keberkesanan jawatankuasa audit dan pengurusan perolehan; kedua, kesan keberkesanan jawatankuasa audit ke atas sumber audit dalaman (*in-house*) adalah positif yang signifikan; ketiga, hubungan antara sumber audit dalaman dan pengurusan perolehan adalah negatif dan signifikan. Akhir sekali, kepentingan sumber audit dalaman di peringkat ketiga analisis telah mengurangkan kesan keberkesanan jawatankuasa audit terhadap pengurusan perolehan. Oleh sebab itu, dapatan kajian ini menyokong bahawa sumber audit dalaman adalah pengantara separa dalam hubungan antara keberkesanan jawatankuasa audit dan pengurusan perolehan. Hasil kajian ini mempunyai implikasi

terhadap teori, serta implikasi praktikal terhadap pengawal selia, pembuat dasar, pemegang saham, pihak pengurusan dan pelabur.