

THE IMPACT OF BOARD COMPOSITION AND CULTURE
ON AUDIT QUALITY: EVIDENCE FROM MALAYSIAN
COMPANIES

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A DISSERTATION SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FINANCE AND MANAGEMENT, IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE
DEGREE OF MSc ACCOUNTING AND FINANCE

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2004

UNIVERSITY OF ESSEX
2004

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ABSTRACT

This paper examines the effect of board composition and culture on audit quality using a sample of 82 companies under Industrial Product sector listed on Bursa Malaysia Main Board in 2002. This study uses audit fees as a proxy for audit quality and seeks to examine whether the proportion of independent directors, CEO duality and culture factor influence the quality of audit and consequently the audit fee. This study finds evidence supporting the hypotheses that the proportion of independent directors has significant impact on audit fees. However, this study finds no evidence that CEO duality and culture factor has significant impact on audit fees. In addition, this study includes several control variables in the model such as auditee size, auditee complexity, auditor size, audit risk, non audit fees, auditor tenure and auditor location. The findings of this study for those control variables are consistent with previous study conducted in Malaysian setting. Overall, the findings suggest that independent directors encourage higher quality auditors to be appointed to serve as assurance to the investors that the companies' financial disclosures are reliable, accurate and truthful.