Audit Committee and External Auditors in Government-Linked Companies: Do they Play their Roles to Mitigate Earning Management?

Memiyanty Abdul Rahim[1,2♣], Anis Syafiqah Khir Shuhaimi[3], and Azizan Zainuddin[1]
[1]Faculty of Administrative Science & Policy Studies, Universiti Teknologi MARA, Shah Alam, Selangor, Malaysia
[2]Socio Economic Policy Research Group, [2]The Institute of Big Data Analytics and Artificial Intelligence, Universiti Teknologi MARA, Shah Alam, Selangor, Malaysia
[3]Bank Islam Malaysia Berhad, Malaysia

ABSTRACT

The accounting scandals of 1Malaysia Development Berhad in Government-Linked Companies (GLCs) in Malaysia had brought in negative consequences not just to the company but also to the stakeholders of the company. Hence, this study was conducted to examine the possibility of corporate governance monitoring mechanisms from Audit Committee and External Auditors Perspective in mitigating earnings management in GLCs in Malaysia. The data on corporate governance monitoring mechanisms were taken from annual reports of 38 GLCs listed in Bursa Malaysia for three years. This study used discretionary accruals as the proxy of the earnings management, quantified by Modified Jones in 1995. The data analysis was done via SPSS software by using multiple regression. The results showed that four out of five corporate governance monitoring mechanism variables have an insignificant influence on earnings management of GLCs listed in Bursa Malaysia. The external audit fee was the only variable of the corporate governance monitoring mechanism that had an influence on earnings management. This study provides policymakers, board directors, and managers with a set of recommendations that are relevant to the context by enabling a better understanding the impact of audit committee and external auditors on earnings quality.

Keywords: Corporate Governance, Monitoring Mechanism, Earning Management, Government-Link Companies, Discretionary Accruals

ARTICLE INFO

Article History:
Received: 16 November 2022
Accepted: 17 July 2023
Available online: 01 August 2023

♣ Corresponding author: Memiyanty Abdul Rahim; Faculty of Administrative Science and Policy Studies, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia; Email: memiyanty@uitm.edu.my; Tel: 03-55435941

INTRODUCTION

Earnings management or creative accounting issues have always been debated around the world. Earnings management is the act of altering the financial statements to obtain a favourable reporting figure. The examples of accounting scandals are Enron, WorldCom, and Parmalat. The series of accounting scandals for the last decade in the United States, Europe, and East Asia have shown negative effects on the practising earnings management. In Malaysia, the issue of accounting manipulations in companies has brought various concerns as it will lead to the loss and bankruptcy of the companies. This can be seen in the cases of Malaysian companies such as Transmile Group Berhad, Megan Media Holdings Berhad, and Kenmark Industrial Co (M) Bhd. Additionally, State-Owned Enterprises (SOEs) or Government-Linked Companies (GLCs) are also not immune from earnings manipulation. The examples of GLC scandals in Malaysia are the Bumiputera Malaysia Finance (BMF) scandal in the early 1980s and the Sime Darby scandal in 2010. Recently, Malaysia has been shocked by the accounting scandal of 1Malaysia Development Berhad (1MDB) and Federal Land Development Authority (FELDA), with the prosecution of well-known political figures. This shows that accounting manipulation is still occurring in modern accounting and corporate governance practices.

Accounting scandals that had happened in the last decades have brought corporate governance and audit quality into a debatable topic and an utmost concern in most of the agendas. In fact, the main issue involved the manipulation of accounting data that has led to the loss of investors' trust and confidence in the financial reports. Furthermore, the past scandals lead most of the stakeholders to question the effectiveness of monitoring mechanisms on the management. According to Leng, Sulaiman, and Jalil (2022), inadequate corporate governance standards and insufficient transparency in the financial system can have adverse impacts on investors' trust and confidence. This was also supported by Rusmin (2010) suggesting that the adoption of earning management can lead to reduced financial reporting quality, which may ultimately undermine investors' confidence and decrease the effectiveness of financial markets. Therefore, an effective system of corporate governance control is considered crucial in aligning the interest of investors and shareholders. The companies suggested adopting an effective monitoring mechanism to lower the earnings management.

Xu et al. (2007) defined real earnings management as the practice of manipulating earnings through legitimate business activities. According to Roychowdhury (2006), real earnings management involves deviating from standard operational procedures in order to deceive certain stakeholders into believing that specific financial objectives have been achieved through regular business operations. Roychowdhury (2006) added engaging in these activities would enable a company to attain its financial reporting goals by boosting its current year's earnings. However, such actions would ultimately lead to decreased cash flows in the subsequent years.

Corporate governance monitoring mechanisms are divided into the internal corporate governance monitoring mechanism and the external corporate governance monitoring mechanism. Securities Commission Malaysia (2021) stated that internal corporate governance monitoring consists of parties within the corporation. They are responsible to ensure the effectiveness of internal control to reduce the opportunistic behaviours of the management and earnings management itself. On the other hand, external monitoring is a part of corporate governance monitoring mechanism which is from outside of the corporation. Those parties are responsible for ensuring that the company complies with rules and obligations.

The scandal that involves 1MDB and other GLCs such as Sime Darby made GLCs' credibility a hot topic to be debated. This is because the scandal is causing the public to lose billions of Ringgit (Khor, 2018). To address this issue, the framework of the GLCs should be revamped. Nazir Razak who is a prominent banker and the Chairman of CIMB had suggested the new government to review the current framework of GLCs and GLICs. The Government should review the framework of GLC by first reviewing Permodalan Nasional Bhd and the Employees Provident Fund – the GLICs trusted with public funds. Nazir Razak also suggested that the Government address the issue of GLCs crowding out the private sector (Augustin, 2018).

The issue that has always been highlighted in GLCs is the remunerations of key executives. The remuneration of the key executives and other senior personnel are considered as high and overpaid. The scenario is common in the GLCs. This scenario is also very likely to happen in GLCs that are famous in regard to allegations of mismanagement and under-performance (Kaur and Tan, 2018). Fortunately, the current Government stated clearly the need to review the role of GLCs and the remuneration paid out to their top executives. Tun Daim Zainuddin, the head of the Council of Eminent Persons who used to be a Minister of Finance in the 1980s had requested details of the salaries of some of the top executives at GLCs as part of the review.

An additional issue on GLCs is the Government using GLCs for political purposes rather than for financial and economic results (Fan et al., 2007). The Government should focus more on serving the community as a whole. Prime Minister Tun Mahathir Mohamad had commented on the GLC matters during Pakatan Harapan Economic and Business Forum Hi-Tea at the PJ Civic Centre in April 2018. He stated that the GLCs had become “monsters”, contrary to the original noble intention of helping the poor. The establishment of the GLCs under New Economic Policy (NEP) is to help the Bumiputras to improve their quality of life. However, they are always linked to political purposes as the Government is using GLCs to implement their policy objectives. So, the real objectives of the Government to help the poor people might not be fully achieved as the Government has another objective to achieve.

Another issue on GLCs is the top management and directors are often politicians or ex-politicians who act as such rather than as businessmen (Cheng et al., 2015). In addition, Ramirez and Tan (2004) mentioned that the top management and directors of GLCs consist of the civil servants, often considered as lacking the business sense needed to make good judgments. Due to that reason, their decisions might be driven by social and political motives rather than profit since they need to prioritise public concerns. Furthermore, GLCs are related to government policies such as wealth distribution and restructuring of society under the NEP. Therefore, GLCs are subject to the government interference such in the appointment of chairman and Chief Executive Officer (CEOs). Therefore, they might have to make political decisions rather than economic decisions as the nature of politics is to gain popularity to win.

Given corporate governance monitoring mechanisms play a huge role within a GLC, this study was conducted to determine how the internal and external corporate governance monitoring mechanisms can mitigate the earnings management of GLCs listed in Bursa Malaysia. This study used a modified conceptual framework by Saleem, Alifiah, and Tahir (2016) to determine whether corporate governance mechanisms can mitigate the earnings management of GLCs in Malaysia. Therefore, there were several research questions developed for the present study: 1) What is the effect of corporate governance monitoring mechanisms on earnings management of government-linked companies in Malaysia? and 2) What is the most significant predictor of corporate governance monitoring mechanisms in mitigating earnings management of government-linked companies in Malaysia?

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Earnings Management

There are several definitions of earnings management based on the previous research. The most common definition is from Healy and Wahlen (1999) who defined earnings management as something that "occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers."

Meanwhile, Schipper (1989) defined the earnings management as "a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain". Likewise, Levitt (1998) also defines earnings management as a tool for managers to obtain personal gain. He also states that the increase of earnings management will decrease the quality of financial reporting. From the famous definition, we can conclude that earnings management also known as creative accounting is the act to alter the financial statements to obtain a favourable figure of the financial statement.

The earnings can be considered conservative if there is an overly aggressive recognition of provisions or reserves and an overvaluation of acquired in-process research and development in purchase acquisitions. In addition, the earnings can be conservative when there is an overstatement of restructuring charges and asset write-offs. The earnings can be neutral if they result from a neutral operation of the process. Meanwhile, it can also be aggressive when there is an understatement of the provision for bad debts and drawing down provisions or reserves in an overly aggressive manner. Finally, the earnings are considered as fraudulent when the accounting practices violate GAAP which includes recording sales before they are realisable and recording fictitious sales. The summary of the accounting choice, as adapted from Dechow and Skinner (2000), is shown in Table 1.

Table 1: **Different Types of Managerial Choice**

Reporting Type	Accounting Choices	"Real" Cash Flow Choices
Within GAAP		
Conservative Accounting	• Overly aggressive recognition of provisions or reserves • Overvaluation of acquired in-process R&D in purchase acquisitions • Overstatement of restructuring charges and asset write-offs	• Delaying sales • Accelerating R&D or advertising expenditures
Neutral Accounting	• Earnings that result from a neutral operation of the process	
Aggressive Accounting	• Understatement of the provision for bad debts • Drawing down provisions or reserves in an overly aggressive manner	• Postponing R&D or advertising expenditures • Accelerating sales
Violates GAAP		
Fraudulent Accounting	• Recording sales before they are "realizable • Recording fictitious sales • Backdating sales invoices • Overstating inventory by recording fictitious inventory	

Source: Adapted from Dechow and Skinner (2000)

The Development of Corporate Governance in Malaysia

The financial crisis in 1997 had stipulated a stimulus for corporate governance reforms in Malaysia where it recognises the importance of a good corporate governance in enhancing the investors' confidence after the financial scandal. In the previous years, the Securities Commission Malaysia (SC) had taken consistent and structured measures to strengthen the corporate governance regulatory framework. The SC started its journey by establishing the High-Level Finance Committee in 1998 which indicated the commitment of the government to enhance the corporate governance in the private sector.

In 2000, the SC also introduced the first Malaysian Code of Corporate Governance (MCCG) to enhance the corporate governance in Malaysia to guide the private sector in establishing reforms of standard corporate governance at a micro level. The MCCG 2000 was revised and reviewed a few times in 2007, 2012, 2017 and 2021. In its latest version, MCCG aims to implement a new approach in order to foster corporate governance culture in the Malaysian corporate sector. From the development of the enhancement of the CG guidelines in Malaysia, it is proven pivotal for the present study to highlight the roles of CG in lowering earnings management.

Government-Linked Companies

In Malaysia, the state-owned enterprises (SOE) are known as the government-linked companies (GLC). Putrajaya Committee on GLC High Performance (PCG, 2018) defined GLC as the companies that have a primary commercial objective. Then, the companies can also be called as GLC if the Malaysian Government has a direct controlling stake in them. The controlling stake does not only refer to the percentage ownership, but it also includes the ability of the government to appoint Board members, senior management and make major decisions. The decisions include contract awards, strategy, restructuring and financing, acquisitions and divestments and are made directly for GLC or through GLICs.

There are three major categories of ownership in GLCs in Malaysia. The first is GLCs owned by the federal government sponsored pension and investment funds (PIF GLICs). The PIF GLICs include *Permodalan Nasional Berhad, Lembaga Tabung Angkatan Tentera, the Employees Provident Fund* and *the Lembaga Tabung Haji.*

The second category of GLCs are the federal government owned GLICs (FGLICs). The FGLICs include *Khazanah Nasional Berhad* and Minister of Finance Incorporated, which are 100% owned-by Ministry of Finance Malaysia and are responsible for promoting the government's economic and social policies. The boards of FGLICs tend to be controlled by government representatives and led by senior federal politicians, such as the Prime Minister and the Minister of Finance.

The third category of GLCs are those that are owned by the State Economic Development Corporations (SEDCs) that are established under the state legislation and are responsible for promoting regional economic and social development programmes. The examples of SEDCs are State Economic Development Corporations of Johor, Perak, Kedah, Pahang, and Selangor.

Audit Committee Size

The findings from Mardjono and Chen (2020) and Yasser and Al Mamun (2016) showed that the audit committee has a negative relationship with the earnings management. Their findings also indicated that the larger size of an audit committee would enhance the quality of financial reporting. As a corporate instrument, the audit committee may tend to be sensitive. Conservative accounting has a critical role in limiting opportunistic managerial behaviours. Audit committees with accounting and financial competence can help eliminate opportunistic earnings management from the standpoint of efficient management. Interestingly, Al-Rassas and Kamardin (2015) and Nazlia (2010) rejected the findings from Yasser and Al Mamun (2016) and Mansor et al. (2013).

In their argument, Al-Rassas and Kamardin (2015) mentioned that the audit committee size is positively significant to the earnings management. It means that the larger audit committee is related to lower earnings quality. The selection of more audit committee members is expected to help to more efficient internal monitoring and higher profits quality. Their research was supported by Nazlia (2010). Thus, the following hypothesis is developed:

H1: Audit committee size has a significant influence on the earnings management of GLCs

Audit Committee Independence

The findings from Saeed et al. (2022) showed that the stockholding of audit committee members will reduce the earnings management. This contradicts with other research that stockholding of audit committee members may impair their independence and objectivity. In addition, Yasser and Al Mamun (2016) found that audit committee independence is negatively associated with reporting quality in Malaysia. This shows that audit independence is not effective in mitigating the earnings management in Malaysia. In addition, Al-Rassas and Kamardin (2015) also found that the independence of the audit committee may not contribute to enhancing the earnings quality. However, Nazlia (2010) revealed in his study that audit independence is able to enhance the financial reporting quality.

Nazlia's (2010) study was supported by Mansor et al. (2013) and Mohamad et al. (2012). Mansor et al. (2013) stated in their research that the audit committee independence has a significant negative relationship with the earnings management. It means that the independence of the audit committee is able to minimise the earnings management. Thus, the following hypothesis is developed:

H2: Audit committee independence has a significant influence on the earnings management of GLCs

Audit Committee Meetings

Al-Rassas and Kamardin (2015), Mansor et al. (2013), Mohamad et al. (2012), and Nazlia (2010) found that the audit committee meetings do not have any influence in mitigating the earnings management. Al-Rassas and Kamardin (2015) proposed that the more frequent audit committee will lead to the lower earnings quality. Then, Mansor et al. (2013) show that the audit committee is not effective in reducing the earnings management either in family-owned companies or the non-family-owned companies.

There are mixed results in regards to audit committee meetings and firm performance. Yasser and Al Mamun (2016) found that there is no impact of audit committee meetings on a firm's performance. However, a study conducted by Rasidah et al. (2013) revealed that the audit committee meetings are able to influence and improve the performance of the firm among the GLCs. Thus, the following hypothesis was developed:

H3: Audit committee meetings have a significant influence on the earnings management of GLCs

External Audit Size

Mohd Radzi et al. (2011) also investigated whether the size of an audit firm has any significant effect on earnings management. The results showed that the size of an audit firm has no significant effect on earnings management. They also suggested if a company is being audited by the Big Four audit firms, the incremental effect of audit effort may be larger for Big Four firms due to their higher quality. They also proved that there are no relationships between the sizes of audit firms since the management can choose which audit firm that they want to hire to audit their company.

A research on external auditor and firm's performance was also conducted by Ab Razak (2014). In his study, it was revealed that there is a negative relationship between the auditors and firm performance. Thus, the following hypothesis was developed:

H4: External audit size has a significant influence on the earnings management of GLCs

Audit Fees

The findings of Nawaiseh (2016) and Al-Rassas and Kamardin (2015) showed that audit fees can mitigate the earnings management. According to Nawaiseh (2016), there is a significant weak relationship between audit fees and earnings management in banking firms listed in Amman Stock Exchange (ASE). It indicated that larger external audit fees are able to reduce the earnings management. Similarly, Al-Rassas and Kamardin (2015) also found that there are negative relationships between audit fees and discretionary accruals. It indicated that high audit fees can reduce the earnings management making the audit fees a proxy of audit quality and subsequently, enhanced earnings quality. Thus, the following hypothesis was developed:

H5: External audit fees have a significant influence on the earnings management of GLCs

Most Significant Predictor of Corporate Governance Monitoring Mechanisms in Mitigating Earnings Management

Nawaiseh (2016) and Al-Rassas and Kamardin (2015) revealed in their studies that audit fees have a significant influence on earnings management. Nawaiseh (2016) found that there is a significant weak relationship between audit fees and earnings management in banking firms listed in Amman Stock Exchange (ASE) by specifying that the larger the external audit fees, the lesser the occurrence of earnings management. In addition, Al-Rassas and Kamardin (2015) found that there is a negative relationship between audit fees and discretionary accruals by specifying that high audit fees can reduce the earnings management. Thus, the following hypothesis is developed:

H6: External audit fees have the most significant influence on the earnings management of GLCs

METHODOLOGY

Research Design

In this study, a time series design by the quantitative method was employed. Time series involves organising some evaluation of the same sample over a period of time. This study employed time series as the research design since it aimed to look at the effects of corporate governance mechanisms in mitigating the earnings management of GLCs in Malaysia. This study used multiple regression to measure multiple variables on a single observation unit within a specific time frame. While data cross-section is the observation of multiple units of observation at the same time. Field (2018) stated that regression analysis used to predict values of an outcome. The outcome is the dependent variable from one or more predictor variables which are the independent variables. It is called a simple regression if only one predictor is used to predict the values of an outcome. Meanwhile, if there are more than one predictor used then it will be called multiple regression. Multiple regression can also be used to determine the relationship between independent variables and dependent variables.

The period of the study was 3-years involving the GLCs listed in the Bursa Malaysia (Refer Appendix 1). The choice of the study's final sample of 3 years was guided by the availability and adequacy of GLCs' annual reports and corresponding financial data.

Models Specification

Total discretionary accruals (TDA) were calculated using the cross-sectional discretionary accruals model suggested by Jones (1991) and modified later by Dechow et al. (1995). The computation of discretionary accruals using Modified Jones model (1995) is shown in Table 2:

Table 2: Modified Jones (1995) Equation

Step	Formula
1	$TA_{it} = NI_{it} - OCF_{it}$
2	$NDA_{it} = \alpha_1 (1/ TA_{it-1}) + \alpha_2 [(\Delta REV_{it} - \Delta REC_{it}) / TA_{it-1}] + \alpha_3 (PPEit / TA_{it-1}) + \varepsilon_{it}$
3	$TDA_{it} = TA_{it} – NDA_{it}$

Note: Computation of Discretionary Accruals (Proxy of Earnings Management)

Step 1: Calculate Total Accrual (TA)

TA_{it} = Total accruals for firm i in year t
NI_{it} = Net income for firm i in year t
OCF_{it} = Operating cash flow for firm i in year $_t$

Step 2: Calculate Non-Discretionary Accrual (NDA)

TAit-1 = Total assets for firm i at the end of year t-1,
ΔREV_{it} = Change in net revenue for firm i in year t,
ΔREC_{it} = Change in net receivables for firm i in year t,
PPE_{it} = Gross property plant and equipment at the end of year t,
α1, α2, α3 = Firm specific coefficient parameters,
ε_{it} = Residual which represent the firm specific discretionary portion of total accruals / error term for firm i in year t.

Step 3: Calculate Discretionary Accrual (DA)

TDAit = Total discretionary accruals,
Tait = Total accruals,
NDAit = Non-discretionary accruals

RESULTS AND DISCUSSION

The study was carried out with the aim to evaluate the effects of corporate governance monitoring mechanism on earnings management of GLCs in Malaysia. The corporate governance mechanisms in this study included audit committee size, audit committee independence, audit committee meetings, external audit size, and external audit fees.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.447[a]	.200	.130	1344064.813	1.664

The model summary shown in Table 3 provides the derived values of R and R Square. R had a value of 0.447 while the R Square value of 0.20 showed that the overall model was fit for 20% the whole model used in this research. Another 80% of the variability was accounted for by other variables. As stated by Peasnell et al. (2000), these figures are normal for any earnings management studies which use discretionary accrual as a proxy.

Table 4: Coefficients

Model B		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Std. Error	Beta			
1	(Constant)	4966895.426	1706402.804		2.911	.004
	ACSIZE	99806.499	198747.667	.061	.502	.617
	ACINED	515718.946	322861.479	.169	1.597	.113
	ACNM	57643.058	82461.345	.087	.699	.486
	EXASIZE	9814.313	462921.360	.002	.021	.983
	EXAF	-341947.114	156991.928	-.311	-2.178	.032

Table 4 illustrates the effects of corporate governance monitoring mechanisms in mitigating the earnings management of GLCs in Malaysia.

Based on the results, the effect of audit committee size and earnings management had no significant relationship at the 5% significance level.. Due to that fact, the first hypothesis was rejected. Moreover, these findings also contradicted the previous research by Mardjono and Chen (2020), Yasser and Al Mamun (2016), Mansor et al. (2013), Al-Rassas and Kamardin (2015) and Nazlia (2010) who all found that audit committee size had a significant influence on the earnings management. Mardjono and Chen (2020), Yasser and Al Mamun (2016) and Mansor et al. (2013) discovered that the audit committee size had a negative relationship with earnings management. So, audit committee size is able to mitigate the earnings management thus enhancing the financial reporting.

The analysis also found that there was no significant relationship between audit committee independence and earnings management at the

5% significance level.. Hence, the second hypothesis was rejected for that reason. This variable had similar findings with a study by Mohamad et al. (2012) who revealed that committee independence had no significant relationship with discretionary accruals. On the other hand, Yasser and Al Mamun (2016), Al-Rassas and Kamardin (2015), Mansor et al. (2013), and Nazlia (2010) discovered that audit committee independence had a significant influence on earnings management. Yasser and Al Mamun (2016) found that audit committee independence was negatively associated with reporting quality in Malaysia. This showed that audit independence was not effective in mitigating the earnings management in Malaysia.

Additionally, the result showed that there was an insignificant relationship between audit committee meetings and earnings management at the 5% significance level. The analysis thus rejected the third hypothesis. The findings of the study are similar to the findings from Mohamad et al. (2012) who found that the audit committee meetings have no significant relationship with the discretionary accruals. However, the findings also contradicted with some previous research which are the studies by Al-Rassas and Kamardin (2015), Mansor et al. (2013), and Nazlia (2010) who found that the audit committee meetings did not have an influence in mitigating the earnings management. Al-Rassas and Kamardin (2015) proposed that the more frequent audit committee will lead to lower earnings quality. Moreover, Nazlia (2010) discovered that the audit committee meetings were unable to enhance financial reporting quality indicating that the audit committee meetings are unable to reduce the earnings management. Furthermore, it was also found that the effects of external audit size on earnings management in GLCs to be insignificant at the 5% significance level. The finding, likewise, rejected the fourth hypothesis. This study supported the findings from Bamahros and Wan-Hussin (2015), Al-Rassas and Kamardin (2015), and Mohd Radzi et al. (2011).

Based on the analysis as shown in Table 4, external audit fees was found to be significant at the 5%significance level. The hypothesis on external audit fees was thus accepted and supported in this study. The findings showed that the external audit fees hada significant influence on the earnings management of GLCs. These findings were similar to those of Nawaiseh (2016) and Al-Rassas and Kamardin (2015) who found that the external audit fees have a significant influence on the earnings management.

This study also supported the findings from Nawaiseh (2016) and Al-Rassas and Kamardin (2015) which revealed the negative relationship between audit fees and discretionary accruals. Nawaiseh (2016) recommended that the larger the external audit fees, the lower the earnings management. Similarly, Al-Rassas and Kamardin (2015) also suggested that high audit fees can be a proxy of audit quality and subsequently, enhance earnings quality. Thus, the finding of this study is supported by these previous studies.

The second objective of this study was to determine the most significant predictor of a corporate governance monitoring mechanism in mitigating earnings management of government-linked companies in Malaysia.

Table 5: Panel Regression

	Beta	t	Sig.
(Constant)		2.911	.004
Audit Committee Size	.061	.502	.617
Audit Committee Independence	.169	1.597	.113
Audit Committee Meetings	.087	.699	.486
External Audit Size	.002	.021	.983
External Audit Fees	-.311	-2.178	.032

As illustrated in Table 5 only external audit fees had a significant influence in mitigating the discretionary accruals since the significance value 0.032, which is less than 0.05 ($p<0.05$). The Beta-value of external audit fees was -0.311 at the 5% significance level. The finding showed that the increase of external audit fees will decrease the discretionary accruals. Hence, the hypothesis that stated the external audit fees have the most significant influence on the earnings management of GLCs was accepted and supported. The finding of this study is similar to the findings of Nawaiseh (2016) and Al-Rassas and Kamardin (2015) who found that external audit fees have a significant influence on earnings management. Nawaiseh (2016) suggested that the increase in external audit fees will decrease the earnings management. Furthermore, Al-Rassas and Kamardin (2015) recommended that high audit fees can reduce earnings management. They also discovered that there was a negative relationship between audit fees and discretionary accruals.

CONCLUSION

This study was conducted in order to determine the effects of corporate governance monitoring mechanisms on earnings management of GLCs in Malaysia and to predict the earnings management in 38 GLCs listed in Bursa Malaysia for a three-year period. The findings of the present study showed only audit fees had a negative significant influence on earnings management. Besides, the findings also discovered that high audit fees could mitigate earnings management and thus enhance earnings quality. In conclusion, this study is important as it contributes to the knowledge of effective corporate governance monitoring mechanisms on earnings management. Although the findings showed that only audit fees had a significant influence, it can be said that there is various information regarding other corporate governance monitoring mechanisms that was discovered in the present study including the audit committee and the external audit. In addition, it is interesting and crucial to examine the effects of corporate governance monitoring mechanisms since there have been various related issues currently happening in the GLCs.

The findings of this study will assist the management of GLICs to include the Government in understanding the importance of corporate governance monitoring mechanisms on earnings management. This is because of the issue of the earnings manipulation that was happening in 1MDB. 1MDB is one of the GLCs held by the Ministry of Finance Incorporated. This scandal shows that the GLCs might lack a proper corporate governance system. Due to that reason, the management of GLICs can use this study to enhance and promote the corporate governance of their company portfolio. This study will also assist portfolio investors to understand how the corporate governance monitoring mechanisms are able to influence the earnings management. Although the study found that only the audit fee had a significant influence on the earnings management, the portfolio investor will have the information in regard to other corporate governance monitoring mechanisms. So, it will enhance knowledge of the portfolio investor on the importance of effective corporate governance in a company. Hence, the findings will contribute the knowledge to the investors including minority investors on the effects of corporate governance monitoring mechanisms in mitigating the earnings management and to improve the performance of financial reporting. This study will also assist the regulators like auditors, bankers, lawyer, company secretary, Securities Commission Malaysia and Companies Commission of Malaysia in understanding more on their duties and roles. For example, auditors are an external corporate governance monitoring mechanism. Based on the findings, only external audit fees had a significant influence on earnings management. Thus, this study contributes to the knowledge of the external auditor to mitigate the earnings management and enhance the financial reporting of the company and shows the important role of the external auditor.

There are several limitations to this study. The first limitation is in terms of the period taken. This study was conducted from 2015 to 2017. In the period of study, the researcher only covered the latest year since the issue of 1MDB is an ongoing political scandal in Malaysia. For that reason, this study was conducted only within the period of the 1MDB scandal. This study only covered a period of three years when most of the previous studies conducted the study on the earnings management for a period of five years and more. Hence, this study is different compared to other previous studies in terms of the period taken. The second limitation of this study is in regards to the variables employed in this study. This study examined the corporate governance variables including board characteristics, audit committee and external audit. In actual fact, the conceptual framework by Saleem, Alifiah and Tahir (2016) also included ownership structure in the conceptual framework. However, this study withdrew the ownership structure since GLCs might be controlled by the Government. Due to the effect, this study might lack information in determining the ability of the Government or other investors including minority investors to influence the earnings management of GLCs. The third limitation of this study is related to the samples of the study. This study was conducted on the GLCs since the current issue on earnings manipulations happened in GLCs. However, the exact number of GLCs is not specified. The researcher needs to go through all the companies in Bursa Malaysia to determine the shareholdings held by the Government-Linked Investment Companies (GLIC). The researcher also referred to the websites of GLIC including Khazanah Nasional and Permodalan Nasional Berhad to identify the GLCs. The researcher had called the Putrajaya Committee on GLC High Performance (PCG) to get an absolute list of the GLCs but PCG only asked the researcher to refer to the website of the GLIC. The researcher also referred to the GLC Transformation

Programme report, but the report only covered the selected GLCs. Thus, it indicates the difficulty of the researcher to identify the GLCs.

Future research shall consider conducting a study on the effect of external audit fees and external non-audit services fees on the earnings management as it would be interesting to determine the effect of external audit fees and external non-audit services fees on earnings management. This is because this study has found that only audit fees had a significant influence on earnings management.

ACKNOWLEDGEMENTS

We are grateful to Universiti Teknologi MARA for sponsoring a grant to attend and present this research work at the 12th International Conference on Financial Criminology 2022 (25- 27 August 2022) organized by the Accounting Research Institute (ARI), Universiti Teknologi MARA at the University of Cambridge, United Kingdom. The research won as the best paper award at the conference. Many thanks to panels and those participants for giving constructive feedback for the presentation.

REFERENCES

Ab Razak, N.H. (2014). Director Remuneration, Corporate Governance and Performance: a Comparison between Government Linked Companies Vs Non-Government Linked Companies. *Corporate Board: Role, Duties & Composition*, *10*(2), 46–63. https://doi.org/10.22495/cbv10i2art4

Ab Razak, N. H., & Palahuddin, S. H. (2014). Corporate governance and earning management: Evidence from 200 Malaysian listed firms from the period of 2007 to 2011. *Corporate Board: Role, Duties and Composition*, *10*(1), 6–17. https://doi.org/10.22495/cbv10i1art1

Augustin, R. (2018). Nazir Razak says govt should review GLC, GLIC framework. *Free Malaysia Today*. Retrieved from https://www.msn.com/en-my/news/national/nazir-razak-says-govt-should-review-glc-glic-framework/ar-AAxWJ52?li=AAaD62f&%25253Bocid=mailsign

Al-Rassas, A. H., & Kamardin, H. (2015). Internal and External Audit Attributes, Audit Committee Characteristics, Ownership Concentration and Earnings Quality: Evidence from Malaysia. *Mediterranean Journal of Social Sciences*, *6*(3), 458–470. https://doi.org/10.5901/mjss.2015.v6n3p458

Bamahros, H. M., & Wan-Hussin, W. N. (2015). Non-audit services, audit firm tenure and earnings management in Malaysia. *Asian Academy of Management Journal of Accounting and Finance*, *11*(1), 145–168. Retrieved from https://www.scopus.com/inward/record.uri?eid=2-s2.0-84938867920&partnerID=40&md5=76ef8e1a0bb29a0fcd3b1852726987df

Cheng, C. A., Wang, J., & Wei, S. X. (2015). State ownership and earnings management around initial public offerings: Evidence from China. *Journal of International Accounting Research*, 14(2), 89-116. https://doi.org/10.2308/jiar-51193

Corporate Governance Strategic Priorities 2017–2020. (2018). Securities Commission Malaysia. Retrieved November 20, 2018, from https://www.sc.com.my/wp-content/uploads/eng/html/cg/cg_priorities_2017-2020.pdf

Dechow, P. M., & Skinner, D. J. (2000). Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators. *Accounting Horizons*, *14*(2), 235–250. https://doi.org/10.2308/acch.2000.14.2.235

Ebrahim Nawaiseh, M. (2016). Impact of External Audit Quality on Earnings Management by Banking Firms: Evidence from Jordan. *British Journal of Applied Science & Technology*, *12*(122), 114. https://doi.org/10.9734/BJAST/2016/19796

Fan, J. P., Wong, T. J., & Zhang, T. (2007). Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms. *Journal of Financial Economics*, 84(2), 330-57. https://doi.org/10.1016/j.jfineco.2006.03.008

Field, A. (2018). *Discovering Statistics using IBM SPSS Statistics*, 5th Edition. Sage Publication

Ghazali, A., Shafie, N., & Mohd-Sanusi, Z. (2015). Earning Management: An Analysis of Opportunistic Behaviour, Monitoring Mechanism and Financial Distress. *Procedia Economics and Finance*. 28. 190-201. 10.1016/S2212-5671(15)01100-4.

Healy, P. M., & Wahlen, J. M. (1999). A review on the earnings management literature and its implication for standard setting. *Accounting Horizons*, 13(4), 365-383.

Iriyadi, I. (2019). Prevention of Earnings Management through Audit Committee and Audit Quality in the Award-Winning and Non-Winning Companies. *Journal of Accounting Research, Organization and Economics*, *2*(2), 155–169. https://doi.org/10.24815/jaroe.v2i2.14631

Kaur, B. G., & Tan, Y. (2018). Overpaid CEOs and social duties of GLCs set for review. *The Star Online*. Retrieved from https://www.thestar.com.my/business/business- news/2018/06/23/shakeup-at-glcs/

Khor, B. M. (2018). Tackling GLCs – the good, bad and ugly. *The Star Online*. Retrieved fromhttps://www.thestar.com.my/opinion/columnists/global-trends/2018/06/18/tackling-glcs-the-good-bad-and-ugly-addressing-the-issues-of-these-compani.

Leng, M. W., Sulaiman, N. A., & Abdul Jalil, A. (2022). The Audit Committees, Internal Audit and External Audit Quality Effects on Earnings Management: An Analysis of Malaysian Government-Linked Companies. *Jurnal Pengurusan*, 66, 53–65. https://doi.org/10.17576/pengurusan-2022-66-05

Levitt, A. (1998). *The Numbers Game. Remarks by Chairman Arthur Levitt at the NYU Center for Law and Business*. *The CPA Journal;* (Vol. 68).

Mansor, N., Che-Ahmad, A., Ahmad-Zaluki, N. A., & Osman, A. H. (2013). Corporate Governance and Earnings Management: A Study on the Malaysian Family and Non-family Owned PLCs. *Procedia*

Economics and Finance, *7*, 221–229. https://doi.org/10.1016/S2212-5671(13)00238-4

Mardjono, E.S. and Chen, Y.S. (2020), "Earning management and the effect characteristics of audit committee, independent commissioners: evidence from Indonesia", International Journal of Business and Society, Vol. 21 No. 2, pp. 569-587.

Mohamad, M. H. S., Rashid, H. M. A., & Shawtari, F. A. M. (2012). Corporate governance and earnings management in Malaysian government linked companies: The impact of GLCs' transformation policy. *Asian Review of Accounting*, *20*(3), 241–258. https://doi.org/10.1108/13217341211263283

Mohd Radzi, S. N. J., Islam, M. A., & Ibrahim, S. (2011). Earning Quality in Public Listed Companies: A Study on Malaysia Exchange for Securities Dealing and Automated Quotation. *International Journal of Economics and Finance*, *3*(2). https://doi.org/10.5539/ijef.v3n2p233

Nawaiseh, M. (2016) Impact of External Audit Quality on Earnings Management by Banking FIrms: Evidence from Jordan. *British Journal of Applied Science & Technology*. 12. 1-14. 10.9734/BJAST/2016/19796.

Nazlia, J. N. (2010). GLCs Transformation Program, Audit Committee and Financial Reporting Quality: Evidence from Malaysia. *University of Manchester*.

Peasnell, K. V., Pope, P. F., & Young, S. (2000). Detecting earnings management using cross-sectional abnormal accruals models. *Accounting and Business Research*, *30*(4), 313–326. https://doi.org/10.1080/00014788.2000.9728949

Putrajaya Committee on GLC High Performance (PCG). (2018). Retrieved September 28, 2018, from http://www.pcg.gov.my/faqs

Putrajaya Committee on GLC High Performance (PCG). (2018). Retrieved September 28, 2018, from http://www.pcg.gov.my/faqs

Rasidah, M. R., Ruzita, A. R., Norliza, C. Y., & Rafidah, O. (2013). Characteristics and Performance of Audit Committee among Listed Government Linked Companies in Malaysia. *International Journal of Finance and Accounting*, *2*(2), 120–124. https://doi.org/10.5923/j.ijfa.20130202.12

Ramirez, C. D. and L.H. Tan. (2004). Singapore Inc. versus the Private Sector: Are Government-Linked Companies Different? *International Monetary Fund Staff Papers*, 51(3): 510-528.

Roychowdhury, S. (2006). Earnings Management through Real Activities Manipulation. *Journal of Accounting and Economics* 42: 335-370.

Rusmin, R. (2010), "Auditor quality and earnings management: Singaporean evidence", *Managerial Auditing Journal,* Vol. 25 No. 7, pp. 618-638. https://doi.org/10.1108/02686901011061324

Saeed, A., Ali, Q., Riaz, H., & Khan, M. A. (2022). Audit Committee Independence and Auditor Reporting for Financially Distressed Companies: Evidence From an Emerging Economy. *SAGE Open*, *12*(2). https://doi.org/10.1177/21582440221089951

Saleem, F., Alifiah, M. N., & Tahir, M. S. (2016). The effectiveness of monitoring mechanisms for constraining earnings management: A literature survey for a conceptual framework. *International Journal of Economics and Financial Issues*, *6*(S3), 209–214.

Schipper, K. (1989). Commentary on earnings management. *Accounting Horizons*, 3(4), 91

Xu, R. Z., G. K Taylor, M. T. Dugan, (2007). Review of real earnings management. J*ournal of Accounting Literature* 26, 195 - 228.

Yasser, Q. R., & Al Mamun, A. (2016). Audit committee structure and earnings management in Asia Pacific 1. *Economics and Business Review*, *2*(1), 66–84. https://doi.org/http://dx.doi.org/10.18559/ebr.2016.1.5

APPENDIX

This study is conducted based on the criteria that are stated in PCG 2018 and also Khazanah Nasional. The list of GLCs used in this study is shown in Table 6 below:

Table 6: Lists of GLC

No.	Company	Government Linked Investment Companies (Holding Company)
1.	Astro Malaysia Holdings Berhad	Khazanah
2.	Axiata Group Berhad	Khazanah
3.	Bina Darulaman Berhad	Perbadanan Kemajuan Negeri Kedah
4.	Bintulu Port Holdings Berhad	Petronas
5.	Boustead Heavy Industries Corporation Berhad	Lembaga Tabung Angkatan Tentera
6.	Boustead Holdings Berhad	Lembaga Tabung Angkatan Tentera
7.	Boustead Plantations Berhad	Lembaga Tabung Angkatan Tentera
8.	CCM Duopharma Biotech Berhad	Permodalan Nasional Berhad
9.	Chemical Company of Malaysia Berhad	Permodalan Nasional Berhad
10.	Far East Holdings Berhad	Perbadanan Kemajuan Pertanian Negeri Pahang
11.	FGV Holdings Berhad	Federal Land Development Authority (FELDA)
12.	IHH Healthcare Berhad	Khazanah
13.	IJM Corporation Berhad	Permodalan Nasional Berhad
14.	KPJ Healthcare Berhad	Johor Corporation (JCorp)
15.	Kumpulan Perangsang Selangor Berhad	Kumpulan Darul Ehsan Berhad
16.	Majuperak Holdings Berhad	Perbadanan Kemajuan Negeri Perak
17.	Malaysia Airports Holdings Berhad	Khazanah
18.	Malaysian Resources Corporation Berhad	Employees Provident Fund
19.	MISC Berhad	Petronas
20.	MMC Corporation Berhad	Permodalan Nasional Berhad
21.	Pasdec Holdings Berhad	Perbadanan Kemajuan Negeri Pahang
22.	PBA Holdings Bhd	Perbadanan Bekalan Air Pulau Pinang
23.	Pelikan International Corporation Berhad	Lembaga Tabung Haji
24.	Perak Corporation Berhad	Perbadanan Kemajuan Negeri Perak
25.	Petronas Chemicals Group Berhad	Petronas
26.	Petronas Dagangan Bhd	Petronas
27.	Petronas Gas Berhad	Petronas
28.	Sarawak Plantation Berhad	State Financial Secretary Sarawak
29.	Sime Darby Berhad	Permodalan Nasional Berhad
30.	S P Setia Berhad	Permodalan Nasional Berhad

31.	TDM Berhad	Terengganu Incorporated Sdn Bhd
32.	Telekom Malaysia Berhad	Khazanah
33.	Tenaga Nasional Bhd	Khazanah
34.	TH Heavy Engineering Berhad	Lembaga Tabung Haji
35.	Theta Edge Berhad	Lembaga Tabung Haji
36.	UEM Sunrise Berhad	Khazanah
37.	UMW Holdings Berhad	Permodalan Nasional Berhad
38.	Velesto Energy Berhad (formerly known as UMW Oil & Gas)	Permodalan Nasional Berhad