

**AUDIT COMMITTEE COMPOSITION AND AUDITOR REPORTING
AMONG PN4 COMPANIES IN MALAYSIA**



**INSTITUT PENYELIDIKAN, PEMBANGUNAN DAN PENGKOMERSILAN
UNIVERSITI TEKNOLOGI MARA
40450 SHAH ALAM, SELANGOR
MALAYSIA**

BY:

**ROZIANI ALI
SYUHAILA RAZAK
SHAZALINA MOHAMED SHUHIDAN**

FEBRUARY 2008

ACKNOWLEDGEMENT

We would like to express the appreciation and dedication to those who have closely contributed their invaluable assistance, co-operation and support toward the completion of this study.

Among them:

Puan Norazamina Mohamed
(Ketua URDC, UiTM Terengganu)

En. Md Noh Abdul Majid
(Program Coordinator Diploma in Banking/ Diploma In Investment Analysis)

Dr. Faizah Mohamad
(Program Coordinator Master Education TESL)

Puan Tuan Syarifah Aini Syed Ahmad
(Program Coordinator Bachelor Education TESL)

and

Puan Ros Badariah Abdul Majid

ABSTRACT

In the wake of corporate failures following economic crisis starting in 1997, the role of audit committees as corporate governance mechanism has become more important to regulators, the accounting profession and the business community.

A research was conducted by Carcello and Neal (2000) to examine the relationship between the composition of audit committee in the financially distressed firm and the likelihood of receiving “going-concern” report for the year 1994. Hence, this study is conducted to examine the similar relationship in Malaysian environment by utilizing the published information for the year 2002.

Consistent with the study by Carcello and Neal (2000), this study also found an inverse relationship between the percentage of affiliated directors on audit committee and the likelihood of receiving modified going concern report. However, the relationship is not significant. The result of this study does not support the concerns of the shareholders and Kuala Lumpur Stock Exchange's in having an independent audit committee to ensure the transparency of the financial report. This study concludes that the likelihood of receiving a going concern report for financially distressed firms (PN4 companies) is not significantly affected by the audit committee composition.

TABLE OF CONTENTS

Title.....	i
Letter of Offer.....	ii
Letter of Submission.....	iii
Project Team Members.....	iv
Acknowledgment.....	v
Table of Content.....	vi
List of Figure and Tables.....	viii
Abstract.....	ix

1.0 INTRODUCTION

1. 1 Introduction	1
1.2 Problems Statements	2
1.3 A Brief History of Audit Committee in Malaysia.....	4
1.4 Qualified Audit Report.....	6
1.5 Motivation of Study	8
1.6 Significant of Study	8
1.7 Objective of Study.....	9
1.8 Structure of the Report	9

2.0 LITERATURE REVIEW

2.1 Introduction	10
2.2 Definition and Roles of Audit Committee	10
2.3 Effectiveness of Audit Committee	14
2.4 Independent of Audit Committee and Financial Distress Companies... ..	18

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction	26
3.2 Conceptual Framework	27
3.3 Sample Selection and Data Gathering	30
3.4 Data Collection	32
3.5 Research Design and Measurement Procedures.....	33

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction	42
4.2 Descriptive Statistics	42
4.3 Correlation Result	48
4.4 Regression Analysis	51
4.4.1 Main Analysis	51
4.4.2 Further Analysis	52
4.4.3 Partitioning Affiliated Directors into Inside and Gray Directors .	54

5.0 CONCLUSION

5.1 Summary and Implication of Study	56
5.2 Future Research	57

REFERENCES

APPENDIX A