GLCs TRANFORMATION PROGRAM, AUDIT COMMITTEE AND FINANCIAL REPORTING QUALITY:

EVIDENCE FROM MALAYSIA

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Abstract

Purpose : The main objective of this study is to investigate the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality.

Design/methodology/approach : The sample consists of 20 GLCs. A logistic regression analysis was performed to examine the association of between dependent variable, pre or post transformation program and the independent variables of audit committee characteristics (Discretionary accruals (DACC), AC independent, AC size, AC frequency meeting and AC expertise).

Findings : Results show that the GLCs for post transformation are likely to have higher number of AC independence in ensuring audit committee effectiveness as recommended by the Green Book to improve their financial reporting quality. However, no evidence was found to support the effect of audit committee meetings, audit committee size and audit committee expertise on the board effectiveness subsequent to post transformation program.

Research limitations/implications : Apart from contributing to the literature on the effectiveness of the audit committee on the financial reporting quality subsequent to the transformation program, this study provides valuable information in making recommendations for better corporate governance practices, especially to strengthen board effectiveness among GLCs.

Originality/value : The current study seeks to investigate the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality.

Keywords : Audit committees, GLCs Transformation Program, Financial Reporting Quality and Malaysia

Paper type : Research paper

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1.0 Introduction

Financial reporting quality has been under scrutiny especially after the collapse of major companies such as Enron, Maxwell, Worldcom (US) and Transmile (Malaysia).Various ideas and theories have surfaced, all trying to link the financial reporting quality to certain factors including corporate governance mechanism. In the wake of a series accounting collapsed, the board effectiveness in monitoring the financial reporting quality is one of the significant themes in corporate governance debates (Gendron and Bedard, 2006).Thus, the debates have led to the introduction of significant corporate governance reforms which focused on the audit committee effectiveness, so as to improve the quality of governance over financial reporting.

For emerging economy like Malaysia particularly, regulators are taking initiatives in enhancing the governance for public listed companies and Government Linked Companies (GLCs). Malaysian Code of Corporate Governance (2000, 2007) and Bursa Listing Requirement (2001); both are particularly voluntary and mandatory to public listed companies including GLCs introduced the best practice of corporate governance in aiming to be more transparent in their business activities. The progress of corporate governance in Malaysia is being strengthened when the government introduced the Green Book through GLC's transformation program in year 2004. The comprehensive guidelines on 'Green Book on Enhancing Board Effectiveness' was distributed to all GLCs by 31st December 2005 and they are required to follow these guidelines by 1st January 2007 (GLC Transformation Manual, 2005).

The Green Book's objective is to provide manual guideline to raise the overall effectiveness of boards in which consistent with Malaysia Code of Corporate Governance (MCCG), Bursa's Listing Requirements and all other rules and regulations. It is not intended to be a comprehensive restatement of best practices, but is designed to be a helpful 'stand-alone' document that deals with some key conformance aspects of Boards and their Directors. It is also intended to be a 'living document' and so will be amended and updated as needed. The Putrajaya Committee on GLC High Performance (PCG) expects all listed GLC Boards to assess their current level of Board effectiveness, and subsequently to develop and begin to implement an actionable improvement program following the requirements in the Green Book by December 2006.

Whilst the extant literatures based on western contexts demonstrates that having an effective board structure ensures better monitoring of management, however an emerging economy like Malaysia, there is limited number of evidence especially a longitudinal period in investigating the effectiveness of GLCs transformation and measuring earnings management as the proxy of financial reporting quality among GLCs companies. Therefore in light of this, the current study seeks to investigate the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality.

Literature review

Government-linked companies (GLCs) are defined as those companies in which some shares are owned by the government (Fang, Qian and Tong, 2004).In the case of Malaysian GLCs, its narrowest definition refers to companies directly held by the government through the Minister of Finance Incorporated (MoF Inc.) or 100 percent owned entities such as Khazanah Nasional and Employees Provident Fund, ("Complete Restructure of GLCs," 2004, July 26). In terms of market capitalization, GLCs account for approximately 40% of the Composite Index (CI) of Bursa Malaysia (Star, July 31, 2010). Government holds the stake in GLCs mostly through Minister of Finance Incorporated, Khazanah Nasional Berhad, Permodalan Nasional Berhad and

Employees Provident Fund (Cheong, 2004). GLCs spread across a wide spectrum of economic activities from infrastructure, telecommunications, agriculture as well as financial services (Liza, 2003). Due to the fact that Malaysian GLCs provide mission-critical services of the country, GLCs play a pivotal role in the operation of every commercial concern in Malaysia and contribute significantly towards improving the quality of life for the public (Abdullah, 2004).

The divergent views, as well as mixed empirical findings regarding the board effectiveness and financial reporting quality motivate the present study. Thus, the study is designed to analyze the governance mechanisms in Malaysian GLCs. Why GLCs? Malaysian's GLCs have been subject to criticisms concerning their role and performance in the Malaysian economy and have come under government scrutiny Aziz *et al.* (2007).The reason is that GLCs suffered recurring poor financial reporting quality and affect their performance. GLCs are chosen as the sample in the study due to the increasing attention given to them lately, as well as their unique characteristics such as having direct link to the government via shareholding plus the social and national obligations attached to them. Furthermore, the restructuring of GLCs, which was announced by the Malaysia Prime Minister in May 2004, also focuses on the corporate governance practices in GLCs (Toh, 2004, May). This triggers a question whether the existing mechanisms in GLCs are ineffective or inappropriate. Although this is not tested directly, the study might provide some indication to this question by linking the governance mechanisms in GLCs to their financial reporting quality. The study, on the other hand, may provide an alternative view that the underperformance may also be due to poor financial reporting quality.

In May 2004, the Malaysia Prime Minister, Datuk Seri Abdullah Ahmad Badawi announced restructuring of GLCs (Toh, 2004, May). Thus, the GLCs Transformation Program (GTP) was initiated in May 2004 and launched on 29 July 2005. GLC Transformation Manual has been released last July 2005, comprises of 10 year revamp programme (Tee and Nathan, 2005).This manual covers a broad spectrum of prescriptions from revamping boards to cutting procurement costs (Putrajaya Committee for GLC High Performance, 2005). The transformation program includes various strategies aimed at enhancing corporate governance, developing social leaders and clarifying social obligations to steer the GLCs, particularly in upgrading the effectiveness of GLCs Board through the guideline provided in the Green Book manual. One of the important thrusts in the Green Book is to upgrade the effectiveness of corporate governance of the GLCs through the improvement in certain board mechanisms such as audit committee that are suggested to have an impact on GLCs financial reporting quality. Globally, there are strong correlations between companies with effective audit committee structures and their financial reporting quality (Najid and Rahman, 2011).

The present study aims to investigate the effectiveness of GLCs transformation program through their financial reporting quality (DACC) and audit committee characteristics (independence, size. meeting and financial expertise).The audit committee is generally seen as an important component of a firm's overall corporate governance structure, particularly with regard to audit quality and oversight of financial reporting. Acting for the board of directors, the audit committee selects the external auditor (subject to shareholder approval) and meets separately with senior financial managers and auditors to review the firm's financial statements, audit process, and internal accounting controls. The audit committee has long been seen as monitoring mechanism and assistance of board of directors in overseeing the internal control structure to ensure operational effectiveness and protect company's assets from misappropriation and play its role in overseeing the transparency and integrity of the financial reporting quality (Klein, 2002).

The committee also challenges management, internal auditors, and external auditors to show that they are acting in the firm's best interests. Thus, audit committee play its role not only as monitoring device but somehow other responsibilities also included such as appointing external auditors and determination of audit fees, review the quarterly and year-end financial statements of the board and reviewing the firm's internal control (MCCG, 2007). According to the US *Blue Ribbon Committee Report* (BRC Report), the audit committee is "the ultimate monitor" of the financial accounting reporting system (Klein, 2002b).However, such a vital role has come under considerable scrutiny in the last few years due to various accounting scandals and frauds (Bryan *et al*. 2004;Lin *et al*.2006). Thus, it provides strong reasons why audit committees are chosen to represent board effectiveness in this study.

According to Beasley *et al.* (2009) note that the bulk of past studies which examine the efficiency of the audit committee attributes as proposed by the regulators mainly focused on the association between certain audit committee inputs (e.g. audit committee member independence, expertise and diligence) and financial reporting outputs. They conclude that these quantitative studies generally find that a more independent, expert and diligent audit committee is associated with higher quality financial reporting and auditing. Previous Malaysian studies provide mixed results on the desirability of the audit committee attributes, as proposed by the regulators. For example, Bradbury, Mak, and Tan (2006) and Saleh, Iskandar and Rahmat (2007) document that independent audit committee enhances financial reporting quality, whereas Abdullah and Nasir (2004) and Rahman and Ali (2006) show otherwise. On the other hand, Rahman and Ali (2006) and Ismail, Iskandar and Rahmat (2008) do not find any evidence to indicate that audit committee activeness and financial literacy significantly impact financial reporting quality.

However, Ismail, Iskandar and Rahmat (2008) find that audit committee multiple directorship impacts corporate reporting quality.

The issue of audit committee's effectiveness in monitoring the financial reporting process had been the interest by many researchers among others, DeZoort *et al*. (2002), Klein (2002), Felo *et al*. (2003), Xie *et al*.(2003), Abbott *et al*. (2004), Bedard *et al.(* 2004), Persons (2005), Lin *et al.* (2006), Qin (2007) and Archambeault *et al*.(2008). These studies had investigated the association between audit committee characteristics and incidence of fraud or restatements, or extent of earnings management or disclosure quality. Thus, to help inform policy makers on the efficiency of their regulatory reforms, this study investigates on the audit committee characteristics such as independence of audit committee, size of audit committee, audit committee meeting frequency and financial expertise of audit committee in GLCs companies would affect the quality of financial reporting.

In overseeing the financial reporting, the audit committee is responsible, among others, in assessing the appropriateness of management's selection of accounting policies and disclosures in compliance with approved accounting standards, ensuring timely submission of financial statements by management, reviewing significant or unusual transactions and accounting estimates and assessing whether the financial report presents a true and fair view of the company's financial position and performance and complies with regulatory requirements (Bursa Malaysia Corporate Governance Guide, 2009, para 2.2.2).Thus, the present study uses a more direct measure of financial reporting quality which is earnings management as proxy of financial reporting quality. Klein (2002b), Yang and Krishnan (2005) and Rahman and Ali (2006) had implemented the level of accruals as a proxy for their financial reporting quality. The understanding of the measures can be explained by the higher magnitude of earnings management, the lower level of financial reporting quality and also vice versa. Hence, this study try to fill the gap in GLCs literature by examines the effectiveness of the GLCs transformation program through their financial reporting quality and audit committee.

2.0 Hypotheses Development

Corporate governance encompasses many different aspects like the contracting and monitoring roles of the board of directors (BOD), the role of independent external auditors to authenticate financial reports, monitoring presence of large and institutional shareholders and the role of audit committee who have direct access to the financial information. A measure of adequacy of these mechanisms is how effective the guideline provided in the Green Book on enhancing board effectiveness represented by GLCs's audit committee with the financial reporting quality. In this study, the audit committees are expecting to play significant role as monitoring device and intended to strengthen corporate governance functions in which, in turn, will likely improve financial reporting quality (Sivaramakrishnan and Yu, 2008).In response to improve the financial reporting quality of GLCs, the GLCs program is equipped with the Green Book manual to provide guideline in enhancing board effectiveness. The specific part of the Green Book contained audit committee charter for GLCs to adhere and its function as the recommendations made for improving audit committee effectiveness. Four of their recommendations are that (i) Audit committees should be majority are independent directors, (ii) Audit committees should comprise of at least three members, (iii) Audit committee at least one of the Directors must be a Malaysian Institute of Accountants (MIA) member or have three years working experience and

(iv) Audit committees should at least meet once in a year. These recommendations are consistent with Chapter 15 of Bursa Securities Listing Requirements.

The premise underlying the expertise recommendation is that the committee members must have the ability (expertise) to carry out their functions effectively. The audit committee charter in the Green Book defined financial expertise as "…past employment experience in finance or accounting, passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Acts 1967" (Green Book 2004,113).This type of knowledge may increase likelihood that the audit committee would be able to recognize potentially misleading transactions and contribute to high quality reporting.

Therefore the existence audit committee in GLCs is expecting to reduce the magnitude of earnings management activities through its function as monitoring device and lead to high financial reporting quality. Thus, the hypotheses will be developed based on the audit committee characteristics which include its independence, size, frequency of meeting and financial expertise. While examining the effectiveness of Green Book through audit committee characteristics with the financial reporting quality, it is important to control for possible corporate that are likely to affect financial reporting quality such as firm size, leverage and return on asset (ROA). The variables used in this study are considered as relevant to earnings management as the proxy of financial reporting quality and some of prior research provides some strong support that the variables that has been tested provide significant result on the magnitude of earnings management. The higher magnitude of earnings management, thus the quality of financial reporting will be lower and vice versa. It is expecting that by the implementation of GLCs program, the audit committee structure will be more effective by following the recommendations provided in the Green Book. This study generally consist of four independent variables which relating to audit committee and three control variables which relating to corporate attributes that might have an effect on the financial reporting quality through the magnitude of earnings management.

3.1 Audit committee independence

The role of audit committee is to safeguard an organization through its authority to question top management regarding the way financial reporting responsibilities are handled, as well as to make sure that corrective actions are taken. Thus, for GLCs in Malaysia, the Green Book stipulates that all GLCs companies must have audit committees comprising three members of whom majority shall be independent. The committee oversees the reporting process as well as the internal control mechanism within an organization. As in the case of the board of directors, the monitoring function on behalf of shareholders is enhanced as the independence of the committee increases. Prior research suggests that financial statement frauds are more likely to occur in firms with less audit committee independence Bronson *et al*. (2009). Audit committee independence helps to ensure quality audits and contributes to financial statement user reliance on the financial reporting process. That is level of assurance provided by auditor independence links to the reporting quality. The higher level of audited financial statement assurance reliance based on higher auditor independence that its relation to the reporting quality. The independence of the members increases the probability of the committee better carrying out its tasks and procedures, internal controls and practicing good corporate governance without there being manipulation. In relation to the role of audit committees on the quality of financial reporting, Beasley *et al*. (1999) find that independent audit committees significantly reduce the likelihood of financial misstatement. All of the above studies collectively confirm the assertion that independent audit committees monitor client managers' accounting discretion and oversee independent auditors' participation in the financial reporting process. Thus, this relationship suggests independent audit committee members are effective to control earnings management practices subsequent to the transformation implementation. Hence, the first hypothesis is as follow:

H1: GLCs post transformation program are likely to have higher number of AC independence.

3.2 Audit committee size

As mentioned earlier, the Green Book recommend in the audit charter, that GLCs companies need to appoint the audit committee from amongst its directors which must be composed of not fewer than three members. A larger audit committee may result potential problems in the financial reporting process will be uncovered and resolved. This might be due to the fact that if a larger committee size increases the resources available to the audit committee and improves the quality of oversight. Dalton *et al.*(1999) found a positive relation between size and the monitoring function of the board that result in higher performance documented in prior studies. According to Felo *et al.*(2003) document a positive relationship between financial reporting quality and audit committee size in a univariate analysis but this relationship does not hold in the multivariate analysis. The Malaysian Code on Corporate Governance follows the Listing Requirement of Bursa Malaysia that audit committee shall comprise of at least three directors. However, there is a question whether larger audit committee size would lead to more effective monitoring. It is expected that the larger committee size increases the resources available to the audit committee and improves the quality of oversight which meant reducing the level of earnings management. In this study also use the same analogy to the function of audit committee since it is a subcommittee within the board. The intuition is that with more members, more diverse skills and knowledge are employed by the committee to enhance monitoring. Thus, second hypotheses will be as follows:

H2: GLCs post transformation program are likely to have higher number of AC size.

3.3 Audit committee frequency meeting

The audit committee, which intends to play a major role in oversight, would need to maintain a high level of activity. The audit committee requires meeting at least once in a year as recommended by the Green Book. The audit committee should meet regularly, with due notice of issues to be discussed and should record its conclusions in discharging its duties and responsibilities. The frequency of audit meetings is assumed to increase the effectiveness of monitoring (Collier and Gregory, 1999). In addition, Zhang *et al*.(2007) argue that the effectiveness of audit committee might increase the numbers of meeting when they are significant problems in internal control. This is consistent with Abbott *et al*.(2002) whom conducted a study to examine the impact of Blue Ribbon recommendations about audit committee on the likelihood of financial statement. The results indicated the committee that meets at least four times has negative relationship with the occurrence of misstatements. Here also expected that the more often an audit committee meets the more active it is being perceived, which leads to fewer financial reporting problems (Menon and William, 1994).On the other hand, audit committee that frequently meet or with high number of meetings is more likely to be a good monitor. Hence, the third hypothesis is as follows:

H3: GLCs post transformation program are likely to have higher number of AC meeting.

3.4 Audit committee expertise

Audit committee are responsible for numerous duties that require a high degree of accounting sophistication such as, understanding auditing issues and risks as well as the audit procedures proposed to address them and evaluating judgmental accounting area. Thus, it is consistent with the recommendation in the Green Book, audit committee in GLCs must at least one of the Directors must be a Malaysian Institute of Accountants (MIA) member or have three years working experience. To be effective in performing their role in oversight of the financial reporting quality, the audit committee should be composed of financial expertise Bedard *et al*.(2004).The audit committee evaluates financial reporting quality as part of its oversight responsibilities, therefore the members are required to be financially literate and at least one of them should have financial expertise as there different between both regarding the assessment and evaluating financial reporting quality due to the different backgrounds they have and their different sources of knowledge Baxter *et al*.(2009). Xie *et al*.(2003) reported that audit committee members with a financial or corporate background are also found to have a significant relationship with decreasing level of abnormal accruals. The study also expected that audit committee members with previous experience and knowledge in financial reporting and audit are more likely to make expert judgments than those without. Hence the fourth hypothesis is as follows:

H4: GLCs post transformation program are likely to have higher number of AC expertise.

3.0 Research design or Methodology

3.1 Sample

This study utilized secondary data as the main source of information. The information relating to the audit committee independence, size, frequency meeting, expertise, firm size, leverage and return on asset (ROA) are collected from company annual reports. As at 31 December 2009, there were 33 public listed companies that categorized as Government Linked Companies (GLC Transformation Policy, 2010). These GLCs were classified into six major industries including trading and services, plantation, finance, construction, consumer product, industrial product, infrastructure project companies (IPC), and technologies. For this study purposes, the availability of data for these 33 GLCs were examined to ensure the abnormal accrual in each industry from year 2003 to 2009 can be calculated. In addition, these accounting data are important to ensure each sector-year contain more than 10 observation.

The final sample is 20 companies from 33 GLCs. The total firm-year observations become 120 for six years (year 2003-2009). The companies selected are from four major sectors which are 12 from trading and services sector, 3 from consumer product, 3 from industrial product and each one from plantation sector and construction sector. The GLC from IPC and technologies sectors are excluded in the final sample due to less than 10 observations from each sector-year and non availability data. GLC in finance sector are not selected because of their financial statement's components that difference from non-finance sector. Other non selection companies were established after year 2004 for example Axiata, TH Plantation and UEM Land also excluded in this study.

Table 4.1

Sample selection

	COMPANIES
Listed GLC as at 31 December 2009 (Total population)	33
(less) incomplete data	6
(less) companies from finance industry	4
(less) companies from IPC	3
TOTAL SAMPLE	**20**

The data for this study are collected from Datastream database and hand-collected from the annual report of each GLC for six years from year 2003 to year 2009. Annual reports are downloaded from Bursa Malaysia's website and company's main portal. Content analysis technique was used to extract the data from the corporate governance statement and some data is in financial statement. The time period of six years are selected in this study since this study aim to look the impact of the GLC transformation policy or green book before and after the implementation.

4.2 *Research method*

The study adopts two steps research process. First step is in measuring the discretionary accruals which is the proxy of earnings management. Second step is logistic regression analysis to test the effectiveness of the Green Book in enhancing board effectiveness in GLCs subsequent to GTP's implementation.

4.2.1 Measuring Discretionary Accruals (DACC) as proxy of Financial Reporting Quality

In the present study, financial reporting quality is represented by the magnitude of earnings management. The discretionary accrual (DACC) is becoming a proxy of earnings management. Klein (2002b), Yang and Krishnan (2005) and Rahman and Ali (2006) had implemented the level of accruals as a proxy for their financial reporting quality. To measure discretionary accruals, this study applies Dechow and Dichev (2002) accrual quality model, which has recently been considered as a better proxy for earnings quality Jaggi *et al.* (2007). This measure is based on the observation that accruals map into cash flow realizations and regardless of managerial intent, accrual quality is affected by the measurement errors in accruals. The nature of accruals that are frequently based on the assumptions and estimates create estimation errors that need to be corrected in the future. The Dechow and Dichev (2002) model is measured by estimating the following regression (all variables are scaled by average assets):

$$\Delta TCAjt = \alpha 0j + \alpha 1j\ CFOjt\text{-}1 + \alpha 2j\ CFOjt + \alpha 3j\ CFOjt{+}1 + \nu t$$

Where:

$\Delta TCAjt$ = Firm *j*'s total current accruals in year *t*, = $(\Delta CAjt - \Delta CLjt - \Delta Cashjt + \Delta STDEBTjt)$
$\Delta CAjt$ = Firm *j*'s change in current assets between year *t-1* and year *t*;
$\Delta CLjt$ = Firm *j*'s change in current liabilities between year *t-1* and year *t*;
$\Delta Cashjt$ = Firm *j*'s change in cash between year *t-1* and year *t*;
$\Delta STDEBTjt$ = Firm *j*'s change in debt in current liabilities between year *t-1* and year *t*;
Assetsjt = Firm *j'*s average total assets in year *t* and *t-1*; and
CFOjt = Firm *j'*s net cash flow from operation in year *t.*

4.2.2 Logistic Regression Analysis

In addition, the study uses logistic regression analysis to answer the research objective of the study which is to investigate the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality. According to Maddala (1991) the logistic regression is appropriate where disproportionate sampling from two populations occurs which is in this study referring to the pre and post transformation period. Studies on the effectiveness of audit committee that have used logistic regression include and Felo *et al*. (2003), Abbott *et al.* (2004), Song and Windram (2004), Lin *et al*. (2006), Martinez and De Fuentez (2007) and Archambeault *et al*.(2008).If the listed GLCs companies exist during year (2003-2005) or pre transformation period, the dependent variable = 0.If the listed GLCs companies exist during year (2007-2009) or post transformation period, the dependent variable = 1.The independent variables associated with audit committee characteristics are as follows ; AC independent, AC size, AC frequency meeting and AC expertise. The discretionary accruals (DACC) model is as follows:

$$Pre/Post = \alpha + \beta_1 ACCINDEP + \beta_2 ACCSIZE + \beta_3 ACCMEET + \beta_4 ACCEXPERT + \beta_5 SIZE + \beta_6 LEVERAGE + \beta_7 ROA + \varepsilon$$

Variables	Operational Measures
Dependent Variable	
Pre/Post	0,if the listed GLCs exist during pre transformation period, and 1 if the listed GLCs exist during post transformation period
Independent Variables	
Audit committee independent (ACINDEP)	The proportion of audit committee being independent
Audit Committee Size (ACSIZE)	Total number of audit committee members
Audit Committee Meetings (ACMEET)	The number of audit committee meeting held during the financial year
Audit Committee Expert (ACEXPERT)	The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to total number of audit committee members
Control Variables	
Firm size (SIZE)	Firm size in natural log.
Leverage (LEV)	The ratio of total liabilities to total assets.
Return on Asset (ROA)	The ratio of net income to total assets.

5.0 Analysis of Results and Discussions

5.1 Descriptive Analysis

Table II shows the descriptive statistics of all variables investigated in this study. The table shows the descriptive of mean, standard deviation, minimum and maximum. The table shows the result from descriptive statistics of data where pre and post as dependent variable. Looking at the mean of earnings management for the sample is 0.053. This positive means supported based on findings by Dowdell and Krishnan (2004) with the means 0.209, Rahman and Ali (2006) with the means of 0.0132 and Atef (2009) with means, 0.1652.This positive means shows that most GLCs have the upward earnings manipulation. The range for earnings management in GLCs is between -0.6747 to 0.4873. Minimum of -0.6747 show there are some GLCs that manipulating the earnings management inward.

Table II. Descriptive Statistics (N=120)

Variables	Minimum	Maximum	Mean	Std. Deviation
DACC	-0.674	0.487	0.005	0.153
ACSIZE	3	9	4.34	0.983
ACMTG	3	21	5.98	2.724
ACINDEP	0.20	1	0.748	0.389
ACEXPERT	0.1250	1	0.297	0.139
SIZE (LOG 10)	8	10.6	9.379	0.570
LEVERAGE	0.000	0.910	0.401	0.234
ROA	-0.411	0.659	0.064	0.137

Note :**DACC=**Total accrual minus non discretionary accruals;**ACSIZE**=Number of AC member; **ACMEET**=The number of audit committee meeting held during the financial year; **ACEXPERT**=The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to total number of audit committee members; **ACINDEP**=The proportion of audit committee being independence.**SIZE**=Firm size in natural log;**LEV**=The ratio of total liabilities to total assets and **ROA**=The ratio of net income to total assets.

5.2 Correlation Analysis

The objective of the test is to see if there are any multicollinearity problems among the variables and association among variables. The problem exists if independent variables are highly correlated at each other with correlation values exceeding 0.9 according to Tabachnick and Fidell (2007). However, none of the variables found to be more than 0.5. The highest correlation is between the two control variables, namely, audit committee size and audit committee expertise, both at 0.333. Results show that DACC are negatively correlated with audit committee meeting and firm size, whilst DACC are positively correlated with audit committee size, independence, expertise, leverage and ROA. Results of regression suggest that the level of DACC will be lowered if the number of AC meeting is higher, suggesting that the more often AC meeting the more information will be disclosed and issue will be covered. The results consistent with the study done by Abbott *et al.(*2002) indicated the committee that meets at least four times has negative relationship with the occurrence of misstatements. The result supports H3 as the GLCs for post GTP are likely to have higher AC meeting as to improve the financial reporting quality.

Table III. Pool Pearson's Correlation (N=120)

	DACC	ACSIZE	ACMTG	ACINDEP	ACEXPERT	SIZE	LEV	ROA
DACC	1							
ACSIZE	0.101	1						
ACMTG	**-0.051**	0.028	1					
ACINDEP	0.129	0.017	-0.055	1				
ACEXPERT	0.093	**0.333****	-0.019	0.073	1			
SIZE	**-0.074**	0.110	-0.036	0.023	-0.048	1		
LEV	0.040	0.156	0.323**	-0.032	0.086	0.111	1	
ROA	0.103	0.022	-0.182*	0.013	0.007	-0.184	-0.167	1

,significant at 5% level (2-tailed and 1% level (2-tailed).*

Note :**DACC=**Total accrual minus non discretionary accruals;**ACSIZE**=Number of AC member; **ACMEET**=The number of audit committee meeting held during the financial year; **ACEXPERT**=The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to total number of audit committee members; **ACINDEP**=The proportion of audit committee being independence.**SIZE**=Firm size in natural log;**LEV**=The ratio of total liabilities to total assets and **ROA**=The ratio of net income to total assets.

5.3 Logistic regression Analysis (With DACC)

Table VI summarises the results for the pooled data for all six years from the logistic regression analysis linking audit committee characteristics measured by original Dechow and Dichev (2002) accrual quality model. Based on statistical analysis shown below, represented by Cox & Snell R^2 is 0.4 percent which meant referring to the probability of the transformation program is explained by the table. The accuracy of the model indicates that the percentage of correct classification is at 48.3 percent. The results show that audit committee independence is significant, hence are important determinants to the effectiveness of the GLCs transformation implementation. Hyphoteses (H1) proposed that GLCs post transformation program are likely to have higher number of AC independence. The p-value is indicating that since transformation implementation, GLCs's companies are likely to have higher number of AC independence in as the Green Book is effective to be employed in ensuring good financial reporting quality. The result support H1. However, Table VI shows that H2, H3 and H4 are not supported and not significant. The results imply that the number of audit committee size, meeting and expertise are not higher as expected subsequent to the transformation implementation. The negative coefficient of DACC predicts that subsequent to the transformation implementation, the magnitude of earnings management is lower. Based on the analysis, the study shows little evidence to support the proposed hypotheses. Only ACINDEP are likely to have increased their number of member following the transformation implementation. This finding is consistent with suggestions from prior studies (Wild 1996; Abbott and Parker 2000; Carcello and Neal 2000), indicating independent audit committee enhance corporate governance. Based on the results and discussion, the study concludes only H1 is supported while others are not and it is clearly shows that GLCs post transformation are likely to have higher number of ACINDEP.

Table VI. Pool Logistic regression analysis

	Variable	*Coefficients(Wald)*	*Significant (p-value)*
Independent Variables	(constant)	0.035	0.851
	DACC	-0.020	0.888
	ACSIZE	0.000	0.998
	ACMTG	0.002	0.963
	ACINDEP	0.021	**0.085****
	ACEXPERT	0.279	0.597
Control Variables	FIRMSIZE	0.005	0.943
	LEVERAGE	0.006	0.938
	ROA	0.088	0.767
	N	120	
	Cox & Snell R^2	0.004	
	Nagelkerke R^2	0.005	
	Hosmer and Lemeshow	0.067	
	Correct prediction	48.3	

,significant at 5% level (2-tailed and 1% level (2-tailed).*

Note :The dependent variable**=0,if the listed GLCs exist during pre transformation period, and 1 if the listed GLCs exist during post transformation period.ACSIZE**=Number of AC member; **ACMEET**=The number of audit committee meeting held during the financial year; **ACEXPERT**=The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to total number of audit committee members; **ACINDEP**=The proportion of audit committee being independence, **ROA**=The ratio of net income to total assets.

6.0 Conclusion

Audit committee effectiveness remains one of the significant themes in corporate governance debates (Gendron and Bedard,2006).The present study examined the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality. Acknowledging that the environment within which GLCs Malaysian companies operating is different from other parts of the world justifies investigation into the issue in Malaysian context. The main evidence shows that the presence of independent audit committee possibly present the effectiveness GLCs transformation program in GLCs thus lead to higher financial reporting quality. This finding is consistent with suggestions from prior studies (Wild 1996, Abbott and Parker 2000,and Carcello and Neal 2000), indicating independent audit committees enhance corporate governance. However, the study fails to find any association of earnings management and higher number of audit committee size, audit committee expertise, frequency meeting, FIRMSIZE, LEVERAGE and ROA subsequent to the GTP's implementation. Thus, those hypotheses are not supported.

The results found in this study may serve as an input for the regulator to encourage higher number of AC size, meeting and expertise from the management to improve financial reporting quality specifically in GLCs companies. This result implies that the committee independence can only be preserved when all members are independent from the management (Deli and Gillian, 2000). Users of annual report information should also be informed that this characteristic of audit committee is important to achieve good governance that can reduce the magnitude earnings management among firms and result to improve the financial reporting quality. Besides, the regulator may find alternatives in improving the effectiveness of transformation as enhancing the board effectiveness to ensure the objective of transformation can be achieved. Despite the insignificant result show in this study, the gap is narrow on the post transformation program. The possible reason can be estimated, this is due to the continuous improvement made by the regulators with GLCs companies in enhancing and upgrading the board effectiveness through the GLCs transformation program. Thus, the study answered the research question on the effectiveness of the GLCs Transformation Program through their audit committee and financial reporting quality.

However, there are some limitations can be highlighted in this study. First, this study cannot be generalized to other countries (particularly developed countries) with high-investor protection, less family ownership, high reliance on public debt, less concentrated and no pyramidal ownerships, because GLCs in Malaysia maybe being defined differently from the other companies. In addition, this issue particularly important in developing countries where financial statement users are less likely to be able to see through the manipulated earnings, partly due to the financial statements, which are less transparent, and users, who are less sophisticated. However, managers developed countries may use different alternatives of techniques that are more opaque to investors, and less likely be captured using the accrual model used in this study. Secondly this study is limited to 120 Malaysian GLCs from various sector listed in Bursa Malaysia. Rather, the companies were selected based upon the data availability in of the data reported in the Bursa Malaysia. The number of GLCs companies in Malaysia is relatively low thus it gives no choice for the study to utilize them all as the sample taken in this study. Even though this study does not provide strong conclusive evidence, it is suggested to expand the population of the study to larger sampling size so that there would be recent evidence to support the results. The study expects to see more future research that recognizes the inter-play between audit committee characteristics and other corporate governance mechanisms.

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