Impact of Board Characteristics, Audit Committee Characteristics
And External Auditor on Disclosure Quality of Financial Reporting

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Abstract

This study has been conducted to identify the factors that influence disclosure quality of financial reporting, it focuses on board characteristics, audit committee characteristics, and external audit to ensure financial reporting quality. Seven independent variables have been examined their significant relationships with the disclosure quality of financial reporting of companies in Malaysia. The independent variables are Board composition, Board size, Board expertise, Audit committee independence, Audit committee size, Audit committee expertise and External Auditor Characteristics. The study has taken a sample of 150 non-financial listed companies of Bursa Malaysia. It is across sectional study that use the data for companies’ annual report for 2014. The regression analysis SPSS is applied to examine the association between independent variables and dependent variable. The findings show that board characteristics, audit committee characteristics and Big Fours have all a significant and a positive impact over disclosure quality of financial reporting. This study besides contributed by supporting agency theory, provided a simplified framework that includes Big Fours as one of the determination of disclosure quality. Due to the time limitation, the data include only 150 companies listed in bursa Malaysia for year 2014. These results benefit internal users (such as managers, board of directors and shareholders. They can realize the characteristics of board of directors and audit committee that enhance the disclosure quality of financial reporting. This is important especially after the depreciation of the Malaysian currency, hence restore the investors’ trust. On the other side, external users such as investors, creditors, new established companies, tax authority also may get advantages of these results. It is clear that those users care about solid information with high quality to make their decisions after the first currency’s depreciation. This study differs than previous studies in many ways: first, it focuses on non-financial listed companies in Malaysia. Previous studies have concentrated on companies in the financial sector, such as banking and financial institutions or on industrial organizations. Second, this study analyzes the data in companies’ annual reports for a one-year period which is 2014. Staring from 2014, the economy in Malaysia was fluctuating due to currency
depreciation by more than 17.5% by the end of 2014. Third, this study measures financial reporting disclosure quality by using a disclosure index, which different than other previous measurements such as earnings response coefficients, bid ask spreads, and audit report lag. Last but not least, this study provides an empirical support evidence for two theories which are agency theory and resource dependency theory.

**Keywords:** Board of directors, Audit committee, Big Four Audit, Disclosure quality of financial reporting, and Malaysia.