

Corporate Influences and Financial Reporting Quality in Pre- and Post-Adoption of the Malaysian Financial Reporting Standards

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Abstract

In Malaysia, corporate influences on financial information have received a great attention by the stakeholders since it represents board of directors' accountability. Board of directors communicate the financial information through the corporate financial reports. However, the corporate influences on improving the financial reporting quality have been under investigated, particularly with the adoption of the Malaysian Financial Reporting Standards (MFRSs). This study examines the corporate influences on the financial reporting quality in pre- and post-adoption of the MFRSs. Specific corporate influences indicators examined in this study are board of directors' independence, board size, frequency of board meeting, financial literacy of board members, board directorship, board change, managerial ownership and directors' remuneration. Data were collected on 456 companies listed on the Bursa Malaysia. The results indicate that there is no significant difference in the means of financial reporting quality in the pre- and post-adoption periods of the MFRSs. In addition, it was found that only board of directors' independence has the significant effect on the financial reporting quality in the post-adoption period of the MFRSs. This study contributes to the financial reporting quality literature by means of examining the role of governance mechanism, in the pre- and post-adoption of the MFRS.

Keywords: Financial reporting quality; Corporate influences; Malaysian financial reporting standards; Agency theory.



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1. Introduction

In Malaysia, companies incorporated under the Companies Act 2016^a are required to prepare corporate reports known as financial statements. These reports are to be made available to the shareholders of the companies. Section 244(2) of the Companies Act 2016 requires the financial statements to be prepared in accordance to approved accounting standards ([Companies Act 2016 \(Act 777\), 2017](#)).

On 1st January 2012, Malaysia has converged its accounting standards with the International Financial Reporting Standards by enforcing the Malaysian Financial Reporting Standards (MFRSs). The move to global accounting standards is ultimately aiming to improve the quality of financial reporting ([Anonymous "Quest for Quality", 2012](#)).

MFRS 101 *Presentation of Financial Statements* indicates that the financial statements are a structured representation of the financial position and financial performance of an entity. Its purpose is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions ([Anonymous "Quest for Quality", 2012](#)).

In addition, these statements are not only presenting the results of management's stewardship of the resources entrusted to it, but also on the corporate influences on the quality of financial reporting. Undoubtedly, the corporate financial reports exhibit the corporate decisions and as such they should be presented in high quality.

^aformerly known as Companies Act 1965. Companies Act 2016 was enacted in 2016 and takes effect in January 2017

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Given that the corporate influences in adopting the MFRSs could improve the quality of corporate financial reporting, the question is; do corporate influences determine the quality of corporate financial reporting?

Corporate influences are investigated by several studies from the perspective of board structure and quality of corporate financial reporting (Hashim, 2012; Hassan, 2013; Juhl *et al.*, 2013). Board size, frequency of board meeting, financial expertise of board members board independence, managerial ownership and ethnicity of board members are found to be among the determinants of corporate financial reporting quality (Hashim, 2012; Juhl *et al.*, 2013), nonetheless, do they have the same effects on the financial reporting quality after the issuance of the new MFRSs?. Besides, a few board structure variables are untested and thus literature is not exhaustive to evidence the issue.

To motivate the board of directors, incentives are required since it would affect performance (Jaafar and James, 2013; Lazear, 2000). When directors are paid with a good remuneration, they may perform better by enhancing the quality of corporate financial reporting of their company.

Various factors had been examined in the financial reporting quality literature. In the context of this study, focus will be given on corporate governance, accounting standards and incentive within the area of financial reporting quality.

Specifically, this study (i) investigates the effects of the MFRS on the quality of financial reporting; (ii) examines the influence of board structure and directors' remuneration on the corporate financial reporting quality during pre- and post-adoption of the MFRS.

This study is significant in its contribution to offer a new theoretical perspective from governance mechanisms that are board structure and directors' remuneration in relation to corporate financial reporting quality in the pre- and post-adoption of the MFRS.

Finally, the findings also offer some insights whether the full adoption of the IFRS, to some extent, may improve the quality of corporate financial reporting.

2. Literature Review

2.1. Corporate Governance and Financial Reporting Quality (FRQ)

2.1.1. The International Perspective

Studies in other countries show that the investigation on the issue of FRQ is focusing on the elements of corporate governance, however, mixed results are demonstrated (Goodwin and Seow, 2002; Jayaraman and Milbourn, 2015; Klai and Omri, 2011; Leong *et al.*, 2015; Singh and Larkin, 2015).

Studies on the effect of sound governance practices on FRQ, that mainly focus on the relation between audit committees and fraudulent financial reporting, have discovered negative relation between an active audit committee (AC) and the likelihood of a company being cited for fraudulent reporting (Abbott *et al.*, 2000; Beasley *et al.*, 2000; Beest *et al.*, 2009; McMullen, 1996).

Sound governance by boards of directors, strength of the audit committee, existence of an internal audit function and strength of a corporate code of conduct have some influence on financial reporting and audit quality as well as investor confidence (Goodwin and Seow, 2002; Levitt, 2000a).

2.1.2. The Malaysian Perspective

The early studies on FRQ in Malaysia focus on corporate governance, among others on the role of AC and external audit to vanguard corporate reporting (Ismail *et al.*, 2008). Independence of AC, frequency of AC meeting and financial literacy, are not significantly related to FRQ. However, multiple directorships of AC members and FRQ have a significantly relationship (Ismail *et al.*, 2008).

The characteristics of AC can contribute to the AC's effectiveness in ensuring the compliance of a company's financial reporting with the regulatory requirements and auditing standards (Song and Windram, 2004). Higher number of AC members and greater number of average directorship holdings in other companies are associated with FRQ³. However, the other study in year 2009 finds that the AC has no effect on the FRQ but financial distress has an association with FRQ (Wan-Hussin and Haji-Abdullah, 2010).

High quality financial reporting is imperative to developing countries, to attract global capital inflows (Md Salleh, 2009). As Malaysian companies are politically sensitive, proxied by the government ownership, it is interesting to note that the presence of politician/s on the board by having a golden share is not associated with FRQ (Md Salleh, 2009).

"Besides the conventional corporate governance mechanism of the BOD and substitute corporate governance mechanism of ownership structure; culture and religious traditions have been considered as having an important influence on corporate governance systems employed in any one country" (Hashim, 2012). Malaysia is known as a multiethnic society, having multi culture represented by different ethnics. The economics and politics in Malaysia are particularly dominated by Chinese and Malay ethnics. With its multicultural society, it is interesting to investigate the potential influence of culture on the FRQ in Malaysia.

A study explores the potential influence of culture, using ethnicity as surrogate for culture, discovers that companies with a majority of Malay directors influenced the FRQ, however, was not influenced by race of chairman, race of Chief Executive Officer (CEO) and culture elements (Hashim, 2012).

The Malaysian Code of Corporate Governance (MCCG), in its 2012 revision, emphasized on many internal audit reforms, signify the substantial interest and confidence placed on the internal control function in Malaysia to monitor and enhance FRQ (Juhl *et al.*, 2013; Malaysian Code of Corporate Governance, 2017). The internal audit

quality, internal audit quality and the interaction between board quality have positive influence on FRQ, however, it is contingent on whether the company has a political link and/ or their internal audit activities are outsourced⁴.

The demand for financial information with high quality has prompted authorities and scholars to find ways to encourage firms to prepare and disclose high quality financial information (Rad and Embong, 2013). The International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), requires substantial changes in accounting standards. Among others, the change results in the production of financial information of higher quality (Rad and Embong, 2013). Using the institutional theory, the financial information quality improves after IFRS adoption prevalently in a rules-based country compared to a principles-based country (Rad and Embong, 2013).

2.2. Accounting Standards and FRQ

Companies Act 2016 stated the responsibility of the management of the company to prepare the financial reports, complying with the approved accounting standards (Companies Act 2016 (Act 777), 2017). Companies use corporate reporting to disseminate information about their past, future and outcomes of activities (Crowther, 2000). Corporate reporting represents a measure of accountability on the part of the board of directors for the content of information, in that, elements of the prospects and boards' achievements throughout the reporting period (Abdul Rahman, 1999). In total, the content of annual reports should be of a quality that is useful to users of the reports and meets the information needs of those users (Ismail *et al.*, 2008).

Some studies tested the impact of IFRS adoption on FRQ and discovered a positive impact of IFRS adoption on FRQ (Agyei-Mensah, 2013; Dimitropoulos *et al.*, 2013; Lin *et al.*, 2012). Enforcement environment and legal system, company elements such as intellectual capital components, firm size and industry, capital employed efficiency as well as human capital efficiency also have influence on the FRQ (Beest *et al.*, 2009; Darabi and Salmani, 2012). Prior study measured FRQ by categorizing into 3 ways (i) use of disclosure quality as proxy; (ii) use of earnings quality as proxy; and (iii) use of certain characteristics or attributes (Ismail *et al.*, 2008).

BOD is an element of corporate governance and studies have tested some aspects related to BOD and the FRQ namely board independence, financial expertise of board members, board ethnicity, board size, managerial ownership and frequency of board meeting (Hashim, 2012; Hassan, 2013; Johl *et al.*, 2013). This study addresses the scarcity of research in this environment by exploring governance issues relating to the quality of financial reporting and accounting standards in Malaysia.

Review of prior studies, both in Malaysia and the other countries, reveals much empirical studies in FRQ are focusing on corporate governance. Nevertheless, prior studies discover mixed results.

2.3. Incentives and Behaviour

Investigations on incentives and managers' performance or behavior show that the long-term and structured compensation schemes and contracts have increased capital investment expenditures and risks decisions of the manager (Larcker, 1983; Orphanides, 1996; Schotter and Weigelt, 1992).

Incentive is a performance driver that helps to motivate non-executive directors to perform their roles and enhances the efficiency of boards undertaking their duties (Hahn and Lasfer, 2011). Directors' incentive affects the performance of the companies (Kubo, 2011). However, there are no conclusive results on the relationship between CEO equity incentives and accounting irregularities (Armstrong *et al.*, 2010; Harris and Bromiley, 2007; Jayaraman and Milbourn, 2015; Larcker, 1983).

The board of directors have a crucial duty in increasing in the companies' wealth by consuming its knowledge, skills and talent about the firm's objectives. Therefore, providing remuneration could motivate the board of directors⁶.

The Fifth Schedule of Companies Act 2016, under Section 253, paragraph 2 indicates that directors' remuneration includes all fees, percentages, bonuses, commissions, compensation for loss of office, pension or retirement benefits and commission paid or payable for subscribing or agreeing to subscribe,

procuring or agreeing to procure subscriptions of any shares in or debentures of the company or of its holding company or any subsidiary of the company (Companies Act 2016 (Act 777), 2017).

Directors will show better performance when they gain good remuneration, thus, they will strive to enhance the quality of corporate financial reporting of their company⁷. Providing an incentive may possibly affect performance. In the context of directors' remuneration within the context of FRQ, there are very limited studies.

Essentially, within the context of developing country, this study conceptually deliberates the potential influence of directors' remuneration on FRQ.

This study focuses the attention on seven aspects of board governance considering board structure namely, board of directors' independence, board size, frequency of board meeting, financial literacy of board members, board directorship, managerial ownership and board change.

In addition, one more essential factor that is directors' remuneration will be investigated also in the context of the quality of corporate financial reporting. No study explores on the relationship between corporate financial reporting quality, board structure and directors' remuneration.

Besides that, this study may also offer some insights whether the full adoption of the MFRS to some extent may improve the quality of corporate financial reporting.

Specifically, this study aims to answer the following research questions:

1. Does the quality of corporate financial reporting different between pre- and post-adoption of Malaysian Financial Reporting Standards?

2. Does board of directors' structure determine the quality of corporate financial reporting during pre(post) adoption of Malaysian Financial Reporting Standards?

3. Does directors' remuneration determines the quality of corporate financial reporting during pre(post) adoption of Malaysian Financial Reporting Standards?

3. Conceptual Framework and Hypotheses Development

3.1. Agency Theory and Hypothesis

The Agency Theory by Jensen and Meckling is used in this study to explain the relationship between board structure, directors' remuneration and FRQ (Jensen and Meckling, 1976). It explicates the association between the agent (BOD) and the principal (shareholders). Conflict exists in the relationship because both parties (the shareholders and the agents) are utility maximizers. Shareholders are interested to get the information about their investment outcomes.

However, since they have no direct access to the company's financial information, the shareholders should rely on the BOD to furnish them such information. In contrast, the BOD may not always act in the best interest of the shareholders as they may manipulate the financial information to show that they are efficient in utilizing the resources entrusted to them by the shareholders. The Agency Theory accentuates that board characteristics are essential to manage the agency conflict and that it is not just that a board exercises governance but that specific board constituents are necessary to exercise governance (Jensen, 1993).

3.1.1. Accounting Standards and FRQ

Prior studies in other countries documented that the adoption of IFRS improved the FRQ (Agyei-Mensah, 2013; Dimitropoulos *et al.*, 2013; Lin *et al.*, 2012). This study predicts that FRQ after the adoption of MFRSs is higher than before the adoption of the MFRSs. The first hypothesis of this study is:

H1: There is a significant different in the quality of corporate financial reporting during the pre-adoption compared to the post adoption of MFRS.

3.1.2. Independent of Directors and FRQ

The Bursa Malaysia listing requirements stipulate that board should comprise of at least two independent directors or one third of the BOD (Bursa Malaysia, 2018). The MCGG requires the majority of the BOD should be independent directors (Malaysian Code of Corporate Governance, 2017). Agency Theory indicates, agent could manage the agency conflict by providing high quality information to the principal (Jensen and Meckling, 1976). It is predicted that independent directors are likely to be associated with high quality of financial reporting. Thus, the hypothesis is:

H2: There is a positive relationship between number of independent directors and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.3. Board Size and FRQ

The Bursa Malaysia listing requirements and MCGG did not require listed companies to have specific number of BOD. However, the number of BOD should be able to fulfil its oversight responsibilities (Bursa Malaysia, 2018; Malaysian Code of Corporate Governance, 2017). According to the Agency Theory, the right number of board size is essential to exercise governance³⁸. It is predicted that the larger the board size may make it more likely that potential issues in financial reporting will be resolved. Based on the above discussion the following hypothesis is proposed:

H3: There is a positive relationship between board size and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.4. Frequency of Board Meeting and FRQ

Independent boards and larger boards met more frequently and that boards responded to poor performance with more meetings in the following year, with subsequent firm value improvement following increased meeting frequency (Vafeas, 1999).

The Agency Theory claims that the BOD has the monitoring role to reduce agency problem (Jensen, 1993). The increased board meetings and firm performance are also linked with emphasis on the concept of increased meetings representing increased monitoring (as opposed to increased advisory activity) (Brick and Chidambaran, 2006). This study predicts that the more frequent the board meeting is the higher would be the FRQ. The next hypothesis of this study is as follows:

H4: There is a positive relationship between frequency of board meeting and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.5. Financial Literacy and FRQ

In respect of the financial literacy, the MCGG states that the board is effective if the members possess appropriate mix of skills, knowledge, experience which includes the financial literacy (Malaysian Code of Corporate Governance, 2017). Thus, this study predicts that the financial literacy of the board member likely to be associated with high quality of financial reporting. The hypothesis is:

H5: There is a positive relationship between financial literacy of board member and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.6 Board Directorship and FRQ

According to the Bursa Malaysia listing requirements, the number of members who hold directorship position in other company is not more than 5 members (Bursa Malaysia, 2018). Literatures on the directorship position contribute to mixed results on the impact of directorship position on FRQ (Ibrahim *et al.*, 2009).

It is predicted that number of members who hold directorship position in other company is likely to be associated with high quality of financial reporting. This lead to the following hypothesis:

H6: There is no significant relationship between board directorship and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.7 Managerial Ownership and FRQ

In this study, the managerial ownership is the percentage of equity owned by the director, reflecting the governance mechanism of the listed companies (Johl *et al.*, 2013). Agency Theory indicates that managerial ownership would contribute to agency conflicts among the boards. Therefore, this study hypothesized that managerial ownership is likely to be associated with high quality of financial reporting. The hypothesis is:

H7: There is a negative relationship between managerial ownership and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.8. Board Changes and FRQ

The MCG stipulates that the appointment of the member of BOD should not exceed a term limit of nine years and if any should be justified accordingly²². The control on the board change is to ensure that the member of BOD is not sympathetic when long relationship is established, thus, could avoid the agency conflict (Malaysian Code of Corporate Governance, 2017). It is predicted that board changes are likely to be negatively associated with high quality of financial reporting. The hypothesis is:

H8: There is a negative relationship between board change and quality of corporate financial reporting during the pre (post) adoption of MFRS.

3.1.9. Directors Remuneration and FRQ

Shareholders are interested to know the outcome of their investment since they have allocated their resources into the company. Therefore, financial information will fulfil their interest. Nevertheless, due to the prohibition to directly acquire financial information from the company, they have to trust on the BOD to supply the financial information. In contrast, the performance of BOD performance might not be in the shareholders' best interest because they may furnish the financial information showing their capability in managing the resources that the shareholders have entrusted to them.

"The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring

monitoring costs designed to limit the aberrant activities of the

agent. In addition, in some situations it will pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions" (Jensen and Meckling, 1976).

In aligning the interest between the agent and principal, agency theory proposes several mechanisms that could resolve the conflicts, for instance incentive or remuneration. The financial reports will be prepared with highest quality when the directors are receiving reasonable remuneration "Theorists who believe that managerial behavior is motivated by the structure of incentives, specify the use of compensation contracts to align divergent interests"³¹.

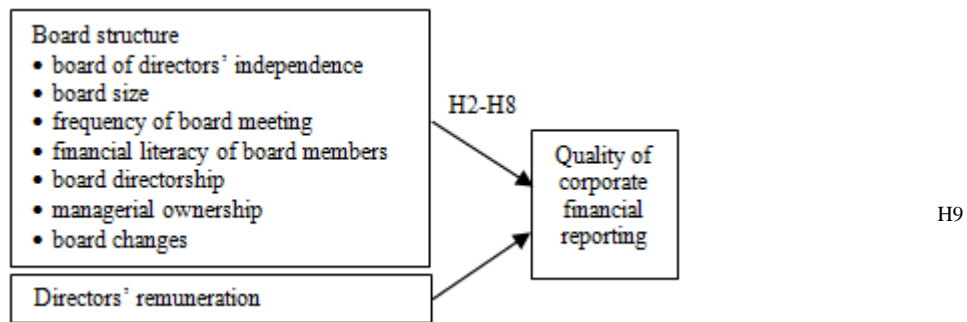
The change in the compensation policy has been positively related to the change in firm's performance (Kubo, 2011), thus, in line with principal-agent theory's proposition, pay-performance sensitivity and performance has a positive relationship. Higher performance and effort when there is higher incentive (Gneezy *et al.*, 2011).

Given that there is positive impact between remuneration and the performance, this paper hypothesizes that well-remunerated directors may prepare financial reporting by ensuring that the corporate financial reporting is of high quality. Particularly, the occurrence of reporting irregularities in the financial reports could be reduced by way of directors' remuneration and eliminate the agent's opportunistic conduct.

The quality of financial reporting is higher when there is reasonable directors' remuneration and act, thus, reducing the agency costs. Hence, the following relationship is hypothesized:

H9: There is a positive relationship between directors' remuneration and quality of corporate financial reporting during the pre (post) adoption of Malaysian Financial Reporting Standards.

The above relationships can be conceptually viewed in the diagram presented below.



4. Research Methodology

This study uses annual reports of all companies that are listed on the Main Market of Bursa Malaysia for the years 2007 and 2012. The 2007 annual reports are used as source of data for the pre-adoption of the MFRS while the 2012 annual reports are used to obtain data for the post-adoption of the MFRS.

Even though the mandatory adoption of MFRS was effective on 1 January 2012, however, the announcement for the convergence was made in 2008 and early adoption was encouraged. The IFRS 1 indicated that an entity is required to restate its previous year financial statements if its first IFRS financial statements are for a period beginning on or after 1 July 2009. Hence, this study uses the 2007 annual reports for pre-adoption period to avoid the inclusion of early adoption of the IFRS which may have been practiced by some companies as early as 2008.

However, this study excludes firms in financial industry because of the stringent regulatory oversight imposed on the industry. After excluding incomplete data, data from a total of 426 companies are used in the analysis.

4.1. Model of the study

Modified Jones Model is used to measure the FRQ. The first step is to determine the net operating accruals. Many studies have used the balance sheet to calculate total net accruals or net operating accruals, but due to non-articulation issues, the cash-flow approach is better suited to describing accruals in all situations (Lundholm and O'Keefe, 2001).

The net operating accruals is measured as follows:

Net Operating Accruals (NOA) = Net Income - Cash Flow from Operations

The second step is to obtain cross-sectional coefficients for β_1 , β_2 and β_3 using the formula below:

$$NOA / ATA = \beta_0 + \beta_1(1/ATA) + \beta_2(\Delta Sales - \Delta Rec / ATA) + \beta_3(GPPE / ATA) + \varepsilon$$

Where: NOA= Net operating accruals; ATA= Average total assets; Δ Sales= Change in sales; Δ Rec= Change in accounts receivable; GPPE= Gross PP&E

The third step is to use these cross-sectional coefficients along with a specific firm's data to estimate the individual firm's nondiscretionary accruals (NDA) for the period. After processing, the calculation results in an estimate for nondiscretionary accruals scaled by average total assets, represented by NDA / ATA below.

$NDA / ATA = \beta_0 + \beta_1(1/ATA) + \beta_2(\Delta Sales - \Delta Rec / ATA) + \beta_3(GPPE / ATA) + \varepsilon$ Operating discretionary accruals (ODA) are the difference between the individual firm's net operating accruals and its estimated total nondiscretionary accrual amount. Since NOA is used, thus the equations would yield an estimate for just the operating component of nondiscretionary accruals.

$$ODA = NOA / ATA - NDA / ATA$$

The ODA is a proxy for the quality of the firm's earnings, i.e. FRQ in the context of this study. It will then be regressed with the eight independent variables of the study as follows:

$$FRQ = \beta_0 + \beta_1 INDD + \beta_2 BSIZE + \beta_3 MEET + \beta_4 FINLIT + \beta_5 DIR + \beta_6 MO + \beta_7 BC + \beta_8 REMU + \beta_9 LOGTA + \beta_{10} COPRP + \beta_{11} LEV + \beta_{12} AUDBIG + e$$

Where:

FRQ=ODA; INDD=Independent directors; BSIZE=Board size; MEET= Board meeting; FINLIT=Financial literacy; DIR=Board directorship; MO=Managerial ownership; BC=Board Change; REMU=Directors' remuneration; LOGTA=Company size; COPRP=Profitability; LEV=Leverage ratio; AUDBIG=Audit firm

Two panel data, i.e. 2007 and 2012, were established and regressed and t-test was performed to determine whether there is change in the quality of corporate financial reporting after the adoption of the MFRS.

4.2. Measurement of Variables

4.2.1. Dependent Variable

Dependent variable of this study is FRQ measured by abnormal accruals which is computed using the cross-sectional m-Jones model. Abnormal accruals are the regression residual, which is estimated by year and industry.

4.2.2. Independent Variable

Independent variables of the study are measured as follows:

INDD=Percentage of independent directors on the board;

BSIZE=Number of directors on the board; MEET=Frequency number of meetings during a year for the board directors;

FINLIT =Percentage of the firm’s independent directors with an accounting (finance) background; DIR=Number of board members who hold directorship position in other company; MO=Percentage of equity owned by the directors; BC=Dummy variable I if the board has a new appointment during a year and 0 others; REMU=LOG of the annual directors’ remuneration (Cash compensation that includes salaries, bonuses and perquisites).

4.2.3. Control Variables

Four control variables are used in this study that are size of the company, profitability, leverage and audit firm size. These control variables are measured as follows:

Size (LOGTA)=LOG of the total assets; Profitability(COPRP)=Return on total assets; Leverage (LEV)=Ratio of total debt to total assets; Audit firm size (AUDBIG)=Dummy variable valued (1) if the auditor is one of the big 4 firms and valued (0) otherwise.

5. Results and Discussion

For hypotheses H1, using the paired samples t test, the results are shown as follows:

Table-1. Descriptive statistics on the pre- and post-adoption of MFRS

| | | Mean | N | Std. Deviation | Std. Error Mean |
|--------|-------------|-------|-----|----------------|-----------------|
| Pair 1 | FRQ DA 2012 | .1701 | 426 | 2.87634 | .13936 |
| | FRQ DA 2007 | .1456 | 426 | 2.37851 | .11524 |

Table-2. Outcome of the difference between pre- and post-adoption of MFRS

| | | Paired Differences | | | | |
|--------|---------------------------|--------------------|----------------|-----------------|-------|-----|
| | | Mean | Std. Deviation | Std. Error Mean | t | df |
| Pair 1 | FRQ DA 2012 - FRQ DA 2007 | .024 | .562 | .027 | 0.901 | 425 |

95% Confidence Interval of the Difference (Lower: -0.29, Upper:0.078);
Sig. (2-tailed) = 0.368

From the descriptive statistics in Table 1, on the distribution of dependent variable, it shows that the average score of financial reporting quality (FRQ) before and after the issuance of the MFRS are not so much different. The average scores are ranged between 0.145 to 0.170 whereas the average score of FRQ in 2012 is a bit higher than FRQ in 2007.

Table 2 indicates that there is no significant difference in the means of FRQ before and after the issuance of the MFRS; p-value=0.368 is larger than significance level 0.05. On average, FRQ score in 2012 is 0.024 points higher than FRQ in 2007.

The results indicate that, with respect to the adoption of MFRS in Malaysia, although other countries reported positive impact of IFRS adoption on FRQ (Agyei-Mensah, 2013; Dimitropoulos *et al.*, 2013; Lin *et al.*, 2012), it did not have a significant difference on the financial reporting quality.

The results for H2 until H9, using multiple linear regression, are presented in Table 3.

Table-3. The influence of board structure and director remuneration on financial reporting quality in pre- and post-adoption of MFRS

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|---------------------------------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3.509 | 1.895 | | 1.852 | .065 |
| | Total accruals 2007 | -.156 | .094 | -.081 | -1.664 | .097 |
| | Financial literacy 2007 | -.006 | .004 | -.070 | -1.443 | .150 |
| 2 | (Constant) | 4.843 | 1.971 | | 2.458 | .014 |
| | Total accruals 2012 | -.292 | .096 | -.145 | -3.031 | .003 |
| | Board of directors’ independence 2012 | -.026 | .010 | -.119 | 2.490 | .013 |

1. Dependent Variable: FRQ DA 2007
2. Dependent Variable: FRQ DA 2012

From the regression modelling, when the significance level is 0.05, there is no significant independent variable. However, at significance level of 0.10, only one independent variable shows significant association towards FRQ 2007 score. The significant independent variable is total accruals. The significance value is 0.097 less than 0.10. It showed that there is negative association between total accruals and FRQ score. On average, the FRQ score will decrease by 0.156 points when there is additional one unit score of total accruals.

Table 5 also presents two independent variables with significant association towards FRQ 2012 score, at significance level 0.05. The significant independent variables are total accruals and board of directors’ independence. The significance values are 0.003 and 0.013 respectively; which less than 0.05.

Similar to FRQ in 2007, there is negative association between total accruals and FRQ 2012 score. On average, the FRQ score will decrease by 0.292 points when there is additional one unit score of total accruals. Other than that, there is positive association between board of directors' independence and FRQ score. On average, the FRQ score will increase by 0.026 points when there is additional one independent director.

The findings strengthen the importance of board of directors' independence although other study in Malaysia discovered that the audit committee's independence was not significant on FRQ (Ismail *et al.*, 2008).

5. Conclusion

This study has provided insights into the perceived effectiveness of certain corporate governance mechanisms in enhancing both financial reporting and audit quality, particularly on the board of directors' independence. We have contributed to the literature in this area by focusing on mechanisms where prior research has been scarce and mixed findings. The results of the study have implications for regulators and others who are concerned with establishing guidelines and listing rules pertaining to corporate governance, especially in developing capital markets.

The findings may enhance public understanding on the issue of corporate financial reporting quality and corporate governance, particularly board structure and director remuneration.

From a theoretical perspective, the findings would provide a more comprehensive explanation on how corporate influences affect the quality of corporate financial reporting and whether the new MFRSs improve the quality of corporate financial reporting.

In practice, the findings are expected to provide further important information to regulators/managers to enhance the quality of corporate financial reporting and strengthen the Malaysian Code of Corporate Governance practices.

Future study may examine the influence of corporate influences and stringent regulatory requirements on financial industry to understand its effectiveness in enhancing financial reporting quality.

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