

# A STUDY ON HOW AUDIT COMMITTEES IN MALAYSIA AFFECT EXTERNAL AUDIT

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## ABSTRACT

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Audit committees have gained wide recognition in the UK and US. However, in Malaysia, it is a fairly new concept and is now a listing requirement for companies listed on the KLSE.

Theoretically, the audit committee has a lot of function that is very beneficial to both the company and to the auditors. The actual effectiveness of audit committees however, is still questionable.

Most of the companies in Malaysia establish audit committees merely for compliance purposes. Hence, most of the audit committees are not effective. However, there are still a few audit committees, which prove to be functioning well.

In light of this, the overall response on the effectiveness of audit committees in helping to improve the audit process is not good. On the other hand, there is positive feedback that audit committees have greatly enhanced the auditor-client relationship.

Audit committees have increased the time taken in audit work rather than helping to reduce it. Unawareness of internal controls system is the key factor to this problem.

To increase the effectiveness of these committees, several recommendations have been made. In order to increase the independence of audit committees, it is recommended that at least one MIA member be admitted into the committee and that the members should be rotated regularly. Training should also be provided to the members. Management should delegate more power to audit committees so that they can be more informative. Finally, audit committees should be included in the review of financial reporting process.