RESEARCH ARTICLE

The Effect of Risk Management Committee on Audit Fees: Malaysian Evidence

Masturah Malik and Rohami Shafie
Universiti Utara Malaysia, 06100 UUM Sintok,
Kedah Malaysia.
masturah_malek90@yahoo.com

The global financial crises that have occurred in the past have caused a growing number of firms to establish a risk management committee (RMC) at their board level. By adopting 208 nonfinancial listed firms in Bursa Malaysia for the year end 2014, our study explores whether the establishment of an RMC and its attributes (having independent members, experts and female members) affect the audit fees charged towards the firms. Apart from the demand perspective of an audit, the study reports that independent members of the RMC are associated with higher audit fees. The result is derived from the basis that independent RMC members usually appeal for high audit engagement, which leads to increased audit fees. However, the study fails to prove the significant effect of separate RMC, expertise, and female members of RMC on the audit fees. This result has implications for regulators as well as policy makers by suggesting that the formation of RMC as a new mechanism in corporate governance may influence the audit quality proxied by audit fees. The results therefore provide initial indications of the association between the establishment of RMC on the audit fees in the economic environment of Malaysia.

Keywords: audit pricing, audit work, corporate governance, risk management committee, risk management, Malaysia

JEL Classification: G30, M41, M42

The recurrence of multinational business collapse has greatly raised concerns on the credibility of the audit committee in controlling and enforcing a risk management scheme. Therefore, to solve and reduce these challenges, several measures have been initiated by the government. Corporate governance with substantial emphasis on risk management is among the strategies proposed. This is in accordance with the risk-based strategy, in which the board is required to execute a risk monitoring system through enhancing the firm's awareness on managing risks. As a result of this situation, several firms have begun to form a specialized committee to handle and monitor risks known primarily as the risk management committee (RMC).

However, until now, most countries have not imposed a mandatory requirement for firms to establish a RMC whether separate or combined, except for insurance and financial institutions (Aebi et al., 2012). This is because effective risk management is crucial for

finance and insurance firms compared to nonfinancial firms. As argued by Brown et al. (2009), the need for corporate governance such as RMC that places explicit emphasis on managing risk activities is due to the growth in market risk intensity that also often happens in the nonfinancial sector. For instance, firms under the petrochemical industry also faced diverse risk exposures that need to be monitored (Reddy & Basu, 2008). Due to this, many firms (especially nonfinancial firms) tend to form combined RMC together with the audit committee, and Malaysia is not an exception. Bugalla et al. (2012) argued that the level of independence of an audit committee can be preserved and fiduciary negligence can be prevented by isolating the role of risk management in the audit committee. This is in line with the requirement by the Institute of Internal Auditors that denotes that supervision of risk management must be distinguished from the internal audit process.

The main essence of the governance reforms is to improve the efficiency of reporting structures in firms, which may also impact the auditor's pricing behavior (Beasley et al., 2009; DeFond & Zhang, 2014). The theoretical underlying rationale is that in order to overcome the possibility of financial failure due to the risk in firms, board directors through its committee such as RMC will seek for a more thorough audit engagement (Zaman et al., 2011). Consequently, this will increase the audit price paid to the auditors by the firms. Based on the demand side of the audit viewpoint, RMCs may prescribe extensive services as a part of risk approach to their risk mitigation responsibilities, even if they do not purchase audit services directly (Knechel & Willekens, 2006).

Therefore, we seek to understand in this paper how the establishment of RMC could impact audit pricing charged over nonfinancial listed firms in Malaysia, especially in separate or stand-alone forms. Despite the increasing interest in the corporate governance role of RMCs, limited studies have examined the association between the existence of RMC in relation to audit fees such as Abdulmalik and Che-Ahmad (2015) in Nigeria, Hines et al. (2015) in the United States, and Larasati et al. (2019) in the Indonesian market. Hence, this study provides further insights on the association of audit services fees from the viewpoint of the RMC in the Malaysian market environment since no study (to date) has been conducted in Malaysia.

In many instances, our study extends and adds to previous auditing and corporate governance literature by suggesting that the formation of an RMC at the board level, especially in the stand-alone form, may affect the audit pricing of the firms. Besides solely examining the formation of a separate RMC, this study also examines the effect of RMC attributes such as having independent members, experts, and female members in the committee towards the audit pricing that is charged specifically in firms with separate RMCs. Although the implementation of a separate RMC is still optional, the results of this study could justify the possible value of setting up an RMC in organizations for future consideration by both practitioners and regulators as argued by Protiviti (2011), in which forming a separate RMC is not the best solution for all types of firms due to the existence of different risk preferences in the organization.

This paper is written as follows. The literature review and hypotheses of the study are discussed under Section 2. Section 3 outlines the method adopted in the study, followed by the discussions of the findings in Section 4. Finally, Section 5 explores the implications of the findings and conclusions of the study.

Empirical Literature and Development of the Hypotheses

The Risk Management Committee Separation

The role of the RMC is crucial in an organization that has a high risk. Therefore, it has specific responsibilities that are not limited to the supervision and approval of the enterprise risk management framework of the firm. According to the agency theory, it is claimed that with the formation of RMC in firms, it may be possible to safeguard the interests of investors or shareholders through the committee's supervisory duties in the form of detecting and evaluating management risks. As reported by Buckby et al. (2015), a separate RMC can exercise their duties independently from the audit committee in managing risks.

Subramaniam et al. (2009) also argued that a separate RMC leads to a higher quality of risk reporting and thus lower organizational complexity. By having a separate RMC, the committee focuses more on detecting and managing the risks in order to improve the financial reporting quality. Based on this level of awareness, it is expected that a separate RMC will also emphasize on the audit quality performed by the

auditors in the firm. Hence, a stand-alone RMC will require auditors to perform more rigorous audits and demand a higher level of monitoring in the audit scope. In other words, external auditors are required to pay more attention towards the financial reports, and a longer time is consumed. Thus, higher audit fees may be charged.

Recently, research done by Larasati et al. (2019) has affirmed that 216 listed firms in the Indonesian market with separate or stand-alone RMCs had higher audit fees due to the demand on audit coverage and high audit quality. Similarly, both studies done by Hines et al. (2015) and Abdulmalik and Che-Ahmad (2015) also found that audit fees paid by the firms that established an RMC (whether separate or combined with the audit committee) were higher due to the increased scope of the auditor's work. Therefore, this study supports the idea that organizations with superior oversight in the context of risk management may probably increase monitoring of the external auditors, thereby leading to higher audit fees. Hence, the hypothesis developed is

H1: Firms with a separate risk management committee report higher audit fees.

Independence of the Risk Management Committee

The efficiency of the board committee is influenced by the selection of members who are more independent, diligent, and capable. In Malaysia's corporate context, the Central Bank of Malaysia requires the RMC for insurance and banking institutions to be composed entirely of nonexecutive directors or to have at least one independent director chairing the committee (Ng et al., 2013). This regulation was made mandatory in 2010.

It was claimed that the quality of oversight in the risk management activities of a firm was strengthened due to the percentage of independent directors on the board. Carcello and Neal (2003) concluded that the transparency of reporting may be enhanced through members who are independent since they tend to grasp the standard, policies, and regulation in the organization. This also aligns with the recent Malaysian Code on Corporate Governance (MCCG) 2017, which recommended that both the audit committee and RMC need to have a large number of independent members serving in the committee. It was even argued that an RMC may lack productivity without an adequate number of independent directors with profound

expertise and experience in coping with the sector and in being exposed to its significant risks (Bhuiyan et al., 2020). Hence, this study proposed that higher numbers of independent members in the RMC will lead to more comprehensive audits in order to detect greater amounts of uncertainty risks, thus resulting in higher audit fees charged. Upon this justification, the following hypothesis is formulated:

H2: Firms with independent risk management committee members report higher audit fees.

Financial Expertise of the Risk Management Committee

The Public Oversight Board (1993) stated that members in the committee with accounting, financial, and auditing expertise led to a higher performance and improved efficacy of the committee. This study indicated that committee members with expertise, especially in accounting and finance, contribute to a higher degree of audit efficiency and risk identification. This is because expertise, such as the knowledge, experience, and skills owned by the board, is important in governing the firm. In other words, the board members are well trained to explain the activities in risk management and are more active in the risk management processes. This is in line with a study conducted by Roberts et al. (2005), who found that if members have the qualifications and academic background from the area of accounting, finance, or other related professional qualifications, as well as specific knowledge in a particular industry, it enables them to get a clear view of the firm's issues and problems. This indicates that there is a significant link between the director's ability in managing a firm's risk and the level of the director's financial knowledge (Dionne & Triki, 2005). Having financial experts in the committee could thus improve the effectiveness of the committee in detecting and managing risks due to their qualifications, educational backgrounds, and knowledge. Zaman et al. (2011) also added that experts within the committee will demand more monitoring activities, which will result in rigorous audit work that will increase the audit quality as well as pricing. Therefore, the following hypothesis is

H3: Firms with accounting and financial experts in the risk management committee report higher audit fees.

Gender Diversity in the Risk Management Committee

Another characteristic of the committee that may affect the audit fee charged is gender diversity. This is because the efficiency and productivity of corporate boards and committees are influenced by gender diversity especially, the presence of female members with their high monitoring capabilities (Fondas & Sassalos, 2000). One research conducted by Adam and Ferreira (2009) using a survey among firms in the United States revealed that the participation of women on the board is expected to present a good attendance record and they are more likely to join the oversight committee. This is in line with a study done by Ararat and Alkan (2014), which also reported that the majority number of women on the boards have largely been appointed as members in the monitoring committee.

Burke and Mattis (2000) added that women who are on the board often come from various backgrounds, such as marketing, technology, human resources, and finance, which brings more diversified work and career experiences. Since men and women behave differently in terms of coordinating, judgement, and tolerance for risk, this may influence the level of audit work demanded from the auditors as well as the amount paid.

In addition, another study showed that women, especially in decision-making, are more risk averse and seek greater transparency, thereby requiring greater audit effort and complexity of auditing in order to safeguard firms from legal liability, particularly for risky firms (Brooks & Zank, 2005). Hence, it is assumed that an RMC with the presence of a female member will increase the extensive audit work required, thus resulting in a higher audit price being paid. Based on the argument, the subsequent hypothesis has been developed:

H4: Firms with female members in the risk management committee report higher audit fees.

RESEARCH DESIGN

Sample Selection

Our sample utilizes all nonfinancial firms listed in Bursa Malaysia for a one-year period ending in 2014, which totaled 810 firms. However, firms under insurance and financial institutions (39 firms) are eliminated due to variation in the form of regulations and nature of the firms as compared to nonfinancial firms (Abdulmalik & Che-Ahmad, 2015; Haniffa et al., 2006; Larasati et al., 2019). The year 2014 is chosen in order to comply with Bursa Malaysia's guidelines regarding the Statement on Risk Management and Internal Control that was issued in January 2013. The guidelines have been improved by emphasizing solely the internal control including the risk management practices (Securities Commission, 2012). The guidelines clarify the core elements that are necessary to be maintained for a sound risk management framework and further detailed the mechanism to be considered in enhancing the efficacy of a risk management structure. This is also consistent with the recommendation made in the earlier MCCG 2012 (see Recommendation 6.1). Hence, the one-year period of 2014 is most suited to provide preliminary insights into the adoption of the RMC within firms.

A total amount of 208 firms that had formed the RMC is the final sample of this study. Out of the 208 firms, 141 firms are found with separate RMCs, whilst 67 firms had formed a combined RMC. Table 1 presents the method of sample collection used in the study.

Table 1. *Sample Selection of Firms for the Year 2014*

	TOTAL
Total firms listed on Bursa Malaysia 2014	810
(–) Finance firms	(39)
(–) Firms with incomplete financial data and unavailable annual reports	(9)
(–) Firms which not stated whether it form separate or combined RMC	(554)
TOTAL SAMPLE	208
Firms with separate RMC	161
Firms with combined RMC	67
TOTAL SAMPLE	208

Dependent Variable

In testing the hypotheses, this study extends and replicates the well-established audit-pricing model from Simunic (1980) and other models in Malaysia. The Ordinary Least Square (OLS) regression is used to analyze the data since it is commonly used in the literature on audit pricing (Francis & Simon, 1987; Palmrose, 1986; Simunic, 1984). The dependent variable of audit fees (LOGFEE) used in this study is measured by the logarithmic transformation of Ringgit Malaysia value paid to its auditor. We have separated two models whereby Model 1 is used to test the main regression while Model 2 is used during the partition analysis. The research models are as follows:

Model 1

$$LOGFEE = \beta_0 + \beta_1 SEPRMC + \beta_2 AUDITOR + \beta_3 LOGNAS + \beta_4 LOGTA + \beta_5 LEV + \beta_6 INVREC + \beta_7 LOGSUB + \beta_8 ETHNIC + \beta_9 BINDE + \beta_{10} BEXPT + \beta_{11} INDSTRY + \beta_{12} ACSIZE + \beta_{13} ACINDE + \beta_{14} ACEXPT + \beta_{15} ACFEM + \beta_{16} ACMEET + e$$

Model 2

$$LOGFEE = \beta_0 + \beta_1 RMCINDE + \beta_2 RMCEXP + \beta_3 RMCGEN + \beta_4 AUDITOR + \beta_5 LOGNAS + \beta_6 LOGTA + \beta_7 LEV + \beta_8 INVREC + \beta_9 LOGSUB + \beta_{10} ETHNIC + \beta_{11} BINDE + \beta_{12} BEXPT + \beta_{13} INDSTRY + \beta_{14} ACSIZE + \beta_{15} ACINDE + \beta_{16} ACEXPT + \beta_{17} ACFEM + \beta_{18} ACMEET + e$$

Explanatory Variables

Our study tests four independent variables, which are the presence of separate RMC (SEPRMC) coded as 1 if it is a separate RMC and 0 if the firm has combined the RMC with another committee. For the RMC attributes, RMCINDE is calculated by the total independent members in the committee, where 1 is coded when a member of the RMC has financial expertise (RMCEXP) and 0 otherwise. A similar measurement is adopted to measure RMCGEN whereby the variable is coded 1 if there is a presence of female members in the RMC and 0 if there are no female members in the RMC.

Control Variables

Consistent with previous studies, we controlled the nonaudit services fee measured by the natural logarithm (LOGNAS), a dichotomous variable of Big Four auditor (AUDITOR) whereby the variable is coded 1 if the firm used a Big Four firm and 0 otherwise (Gul, 2006; Haniffa et al., 2006). Firm size effect uses the logarithm of total assets in thousands (LOGTA), firm risks use leverage (LEV) based on total debt to total assets, and the complexity of the firm (INVREC) through the sum of inventories and receivables divided by total assets and also the total subsidiaries in the firms are calculated by the natural logarithm of subsidiaries (LOGSUB). Further, this study also controls the type of industry whereby it is coded 1 if a firm is involved in consumer, construction, or high technology industries and 0 otherwise.

In addition to the above, the study also controlled the corporate governance variables such as ETHNIC, which is measured by the total members of Chinese directors on the board; for BINDE, BEXPT, ACINDE, ACEXPT, and ACFEM, all the variables are measured using the proportion of independent members, experts (accounting and finance qualifications), and female members divided by total members in the committee, respectively. Lastly, the variable ACMEET is based on how frequently meetings are held by the audit committee.

FINDINGS AND DISCUSSION

Descriptive Statistics

The detailed statistics for the variables used in the models are listed in Table 2, which describes the variables' minimum, maximum, mean, and standard deviation. The amount of audit fees ranges from RM19,500 to RM6,600,000 with an average of RM479,287. This is found to be much higher than the amount claimed by Haniffa et al. (2006) with an aggregate fee of RM191,975. In addition to this, 174 firms (84%) purchased nonaudit services, whilst only 34 firms (16%) did not purchase any nonaudit services. The average nonaudit services fee amounts to RM212,125 with the highest nonaudit services fee recorded coming from Telekom Malaysia Berhad at RM5,000,000. The amount of total assets ranges from RM19,530,000 to RM110,665,400,000.

The mean asset size is RM3,377,078,000, with a standard deviation of RM101,321,185,000. The descriptive statistics of the sample firms also show that the mean value for the number of subsidiaries is 11.75, with the maximum number of 104 subsidiaries and a

Table 2. *Descriptive Statistics (N = 208)*

Variable	Minimum	Maximum	Mean	Std. Deviation
LOGFEE	4.290	6.820	5.401	0.437
LOGNAS	0.000	6.699	3.904	1.866
LOGTA	7.291	11.044	8.889	0.698
LEV	0.024	0.998	0.410	0.229
INVREC	0.001	0.958	0.290	0.196
LOGSUB	0.000	2.017	0.870	0.408
ETHNIC	0.000	12.000	4.000	2.592
BINDE	0.154	0.875	0.470	0.136
BEXPT	0.071	0.667	0.324	0.130
ACSIZE	3.000	6.000	3.413	0.631
ACINDE	0.670	1.000	0.968	0.086
ACEXPT	0.250	1.000	0.654	0.146
ACFEM	0.000	0.670	0.064	0.139
ACMEET	1.000	11.000	5.163	1.352
Audit Fees (RM)	19,500	6,600,000	479,286.93	861,999.70
Nonaudit Fees (RM)	0	5,000,000	212,125.66	641,729.54
Total Assets (RM'000)	19,530	110,665,400	3,377,078	101,321,185
Subsidiary (number)	1	104	11.75	14.474

Variable	Yes	Percent	No	Percent
Separate RMC	141	67.8	67	32.2
Big Four auditors (AUDITOR)	129	62	79	38
Industry (consumer, construction, and technology)	45	21.6	163	78.4

Note. LOGFEE = natural logarithm of audit fees; LOGNAS = natural logarithm nonaudit services fee; LOGTA = natural logarithm of total assets; LEVERAGE = total debt to total assets; INVREC = total inventories and account receivables to total assets; LOGSUB = natural logarithm of the number of subsidiaries; ETHNIC = total number of ethnic Chinese directors on the board; BINDE = proportion of independent directors to the total number of directors on the board; BEXPT = proportion of directors with financial expertise to the total number of directors; INDSTRY = a dummy variable coded 1 if company is involved in consumer, construction, or high technology and 0 otherwise; ACSIZE = total number of audit committee members; ACINDE = proportion of independent audit committee members to the total number of audit committee members; ACEXPT = proportion of expert audit committee members to the total number of audit committee members; ACFEM = proportion of female audit committee members to the total number of audit committee members; ACMEET = number of audit committee meetings; SEPRMC = a dummy variable coded 1 if separate RMC and 0 otherwise; AUDITORS = a dummy variable coded 1 if Big Four firm and 0 otherwise; INDSTRY = a dummy variable coded 1 if company is involved in consumer, construction, or high technology and 0 otherwise.

standard deviation of 14.474. Out of the 208 firms with an RMC, 67.8% have a separate RMC and 32.2% have a combined RMC. Also, 62% of the sample firms are audited by Big Four auditors, and 38% are not.

Several assumptions in regression analysis have been tested to ensure that there is no significant multicollinearity between the independent variables, a linear relationship exists between dependent and independent variables (linearity), no errors related to measurement and specification exist, and there is no heterogeneity problem.

Correlation Matrix

Table 3 focuses on the matrix of association of all research variables. Overall, as shown in the table, all the correlations are found to be less than 0.80, which indicates the regression is free from a multicollinearity problem. This aligns with Gujarati (2006), who used 0.8 as a threshold for possible multicollinearity. The variance inflation factors (VIF) of all regressions variables do not exceed 2.0 (a level of 10 indicates a significant problem), which implies that there is no serious multicollinearity issue in the regression (Sekaran & Bougie, 2010).

Table 3. *Correlation Matrix for Dependent and Independent Variables*

Pearson Correlation Coefficients of Variables (Sample = 208)

	LOGFEE	SEPRMC	AUDITOR	LOGNAS	LOGTA	LEV	INVREC	LOGSUB	ETHNIC	BINDE	BEXPT	INDUSTRY	ACSIZE	ACINDE	ACEXPT	ACFEM	ACMEET
LOGFEE	1.000																
SEPRMC	0.034	1.000															
AUDITOR	0.302	-0.094	1.000														
LOGNAS	0.382	0.040	0.197**	1.000													
LOGTA	0.081	0.030	0.330**	0.338**	1.000												
LEV	0.318	0.082	-0.009	0.083	0.341**	1.000											
INVREC	-0.213	-0.012	-0.156*	-0.161*	-0.322**	0.050	1.000										
LOGSUB	0.409*	0.177*	-0.007	0.223**	0.330**	0.046	-0.069	1.000									
ETHNIC	0.106	0.041	0.136*	0.017	0.072	0.004	0.124	0.113	1.000								
BINDE	0.034	-0.076	-0.003	0.011	-0.025	-0.047	-0.023	-0.094	-0.434**	1.000							
BEXPT	-0.061	-0.076	0.011	-0.170*	-0.119	-0.046	0.041	-0.043	-0.047	0.061	1.000						
INDSTRY	-0.036	0.062	-0.118	0.073	0.149*	-0.060	0.315**	0.134	0.044	-0.066	0.079	1.000					
ACSIZE	0.252	-0.070	0.168*	0.170*	0.228**	0.080	-0.164*	0.045	-0.134	0.118	-0.046	-0.122	1.000				
ACINDE	-0.088	-0.123	0.022	0.005	-0.107	-0.106	0.097	-0.149*	0.023	0.155*	0.034	-0.044	-0.235**	1.000			
ACEXPT	-0.188	0.071	-0.204**	-0.096	-0.133	0.119	0.156*	-0.097	0.108	-0.052	-0.008	0.123	-0.411**	0.170*	1.000		
ACFEM	0.118	0.067	0.093	0.076	0.127	-0.13*	-0.152	0.054	-0.108	-0.097	-0.099	0.034	-0.033	0.012	0.001	1.000	
ACMEET	0.185	0.053	0.021	0.169*	0.153*	0.047	-0.026	-0.014	-0.205**	0.036	-0.072	-0.072	0.175*	-0.012	-0.037	0.039	1.000

Note. *Correlation is significant at the 0.05 level (two tailed).*
**Correlation is significant at the 0.01 level (two tailed).

Table 4. *Standard Deviation of LOGFEE and Model Residual*

Variable	Standard Deviation
LOGFEE	0.4371
Model Residual	0.2279

To check the linearity between the dependent and independent variables in the model, the standard deviation of the dependent variable with the standard deviation of the residuals must be compared, where the standard deviation of the dependent variable should be more than the standard deviation of the residual (Hair et al., 2010). Table 4 shows that the standard deviation of the outcome variable was greater than the standard deviation of the model's residual. Thus, the study does not have a nonlinearity problem.

Ramsey's (1969) regression specification error test (RESET) was also conducted, and the results show that the p value (0.1041) is not significant, which indicate that the model is correctly specified and no specification bias. We also conducted Levene's test to determine the existence of homogeneity within the two groups, which are a separate RMC and a combined RMC. Based on the insignificant p value of the test, it indicates that the response bias is not considered a significant issue in this study. In addition, based on the Breusch–Pagan test, the p value is significant, and a heteroscedasticity problem exists. Therefore, robust standard errors are utilized to correct the problem.

Findings of the Study

Table 5 reports the results from the OLS regression in testing the first hypothesis. The model consists of the independent variable of SEPRMC and the control variables (AUDITOR, LOGNAS, LOGTA, LEVERAGE, INVREC, LOGSUB, ETHNIC, BINDE, BEXPT, INDSTRY, ACSIZE, ACINDE, ACEXPT, ACFEM, and ACMEET) with audit fees as the dependent variable. With an adjusted R^2 of 0.71, the model is significant at the 1% significance level, suggesting a strong predictive model of audit pricing activity for the Malaysian evidence. The R^2 is slightly higher as compared to Haniffa et al. (2006), who had 69%, and Larasati et al. (2019), who had 61%. However, the value is lower as compared to Hines et al. (2015), who had 89%; Bhuiyan et al. (2020), who

had 74%; and Abdulmalik and Che-Ahmad (2015), who had 73%.

The independent variable, SEPRMC, appears to be positive but not significant with audit pricing. Although insignificant, the positive direction shows that firms with separate RMCs will charge higher audit fees due to the demand for more extensive audit work compared to firms without separate RMCs. A similar result is also found in the recent study conducted by Larasati et al. (2019), which examined 216 firms in the Indonesia Stock Exchange from 2014 to 2016 and found a significant positive association of RMC and audit fees.

With respect to its control variables, LOGNAS, LOGTA, LOGSUB, LEV, and INDSTRY are found to be positively significant with audit pricing, which is comparable with prior literature conducted in Malaysia (Che-Ahmad, 2001; Che-Ahmad et al., 2006; Haniffa et al., 2006). Meanwhile, ACEXPT is significant but negatively associated with fees of the audit charged to the firms. The significant and positive coefficient of LOGNAS implies that an increase in the nonaudit services fee leads to an increase in the audit fees, which rejects the argument of knowledge spillover effects. In addition, the significant and positive coefficients of LOGTA, LOGSUB, LEV, and INDSTRY indicate that the higher the asset size, number of subsidiaries, and more complex firms, the more audit work is required, thus increasing the audit fees charged.

The negative significance of ACEXPT indicates that accounting and financial expertise of audit committee members, as well as those with professional qualification, may decrease the risk assessments of auditors relevant to the financial reporting, which in turn will reduce the fees of the auditor to be charged to the firms. Empirical results support the idea that at least one member of the audit committee with an accounting and finance experience may have a greater understanding of audit and risk concerns, thus helping to minimize the risk of the audit, resulting

Table 5. *Multiple Regression Analysis for Audit Services Fee Model (N = 208)*

		Standardized Coefficients		
Variables	**Expected Sign**	**Beta**	**T**	**Sig.**
SEPRMC	+	0.011	0.30	0.381
AUDITORS	+	0.039	1.03	0.151
LOGNAS	+	0.019	1.92	0.028**
LOGTA	+	0.433	13.63	0.000***
LEV	+	0.226	2.06	0.020**
INVREC	+	0.093	0.96	0.168
LOGSUB	+	0.172	3.75	0.001***
ETHNIC	−	−0.004	−0.49	0.311
BINDE	+	0.165	1.19	0.118
BEXPT	+	0.162	1.23	0.110
INDSTRY	+	0.057	1.30	0.097*
ACSIZE	+	0.022	0.74	0.230
ACINDE	+	0.120	0.58	0.280
ACEXPT	+	−0.208	−1.61	0.054*
ACFEM	+	0.112	0.89	0.186
ACMEET	+	0.017	1.38	0.084*
Constant		0.922	2.89	0.000
Adjusted R2			0.71	

Note. SEPRMC = a dummy variable coded 1 if separate RMC and 0 otherwise; AUDITORS = a dummy variable coded 1 if Big Four firm and 0 otherwise; LOGNAS = natural logarithm nonaudit services fee; LOGTA = natural logarithm of total assets; LEVERAGE = total debt to total assets; INVREC = total inventories and account receivables to total assets; LOGSUB = natural logarithm of the number of subsidiaries; ETHNIC = total of ethnic Chinese directors on the board; BINDE = proportion of independent directors to the total number of directors on the board; BEXPT = proportion of directors with financial expertise to the total number of directors; INDSTRY = a dummy variable coded 1 if the company is involved in consumer, construction, or high technology and 0 otherwise; ACSIZE = total number of audit committee members; ACINDE= proportion of independent audit committee members to the total number of audit committee members; ACEXPT = proportion of expert audit committee members to the total number of audit committee members; ACFEM = proportion of female audit committee members to the total number of audit committee members; ACMEET= number of audit committee meetings.
*Significant at 0.10 (one tailed).
**Significant at 0.05 (one tailed).
***Significant at 0.01 (one-tailed).

in lower fees of an audit being charged (Kee, 2015). Contrarily, research conducted by Chatterjee (2011) using corporate governance in India found that many members of the audit committee are not financial experts and yet their not being so serves as a crucial weakness in the performance of their duties. The positive and significant ACMEET indicates that the audit committee that meets frequently is more effective in handling audit issues and indirectly leads to high audit fees charged to the firm.

Meanwhile, the negative insignificant ETHNIC suggests that many Chinese directors on the boards lead to lower audit fees, which supports the contention of the low agency problem within Chinese-controlled firms as proposed by Che-Ahmad (2001). However, for the control variable AUDITOR, it is found to be positive but not significant. This result is found to be contrary to other studies carried out on brand name auditors, such as Firth (2002), Ji-Hong (2007), and Che-Ahmad et al. (2006). This may be due to the small data set used in this study. Similarly, for other control variables, BINDE, BEXPT, ACSIZE, ACINDE, and ACFEM are also found to have positive but not significant relationships with audit fees.

Partition Analysis

In this partition analysis with the total sample of 208 firms, this study conducts a regression model separately on the firms with separate RMC (*N* = 141) and the firms with the combined RMC (*N* = 67). Thus, the regression analyses are carried out on these two sets of data, separately. Table 6 provides the regression results

Table 6. *Multiple Regression Analysis for Partition*

Variables	Expected Sign	Separate Risk Management Committee (N = 141)		Combine Risk Management Committee (N = 67)	
		Coefficient (*t* Value)	Sig.	Coefficient (*t* Value)	Sig.
(Constant)		0.695 (1.71)	0.000	0.645 (0.94)	0.000
RMCINDE	+	0.055 (0.023)	0.001***	0.023 (0.44)	0.331
RMCEXP	+	0.51 (0.49)	0.307	0.081 (0.82)	0.207
RMCGEN	+	0.051 (1.06)	0.145	0.043 (0.38)	0.352
AUDITORS	+	0.029 (0.67)	0.251	−0.014 (−0.09)	0.425
LOGNAS	+	0.015 (1.28)	0.100*	0.200 (0.335)	0.167
LOGTA	+	0.437 (11.86)	0.000***	0.458 (6.38)	0.000***
LEV	+	0.163 (1.34)	0.092*	0.205 (0.91)	0.183
INVREC	+	−0.094 (−0.90)	0.186	0.463 (1.92)	0.03**
LOGSUB	+	0.179 (3.38)	0.005***	0.173 (1.69)	0.048**
ETHNIC	−	−0.007 (−0.10)	0.461	−0.012 (−0.69)	0.246
BINDE	+	−0.124 (−0.72)	0.236	0.439 (1.34)	0.093*
BEXPT	+	0.241 (1.65)	0.051*	−0.123 (−0.37)	0.356
INDSTRY	+	0.108 (2.16)	0.016**	0.011 (0.11)	0.458
ACSIZE	+	0.043 (1.16)	0.125	0.005 (0.01)	0.496
ACINDE	+	0.352 (1.71)	0.044*	—	—
ACEXPT	+	0.219 (1.53)	0.064*	—	—
ACFEM	+	0.003 (0.02)	0.491	—	—
ACMEET	+	0.014 (1.02)	0.154	0.036 (1.19)	0.120
Adjusted R^2		0.787		0.491	

Note. RMCINDE = number of independent members in RMC; RMCEXP = a dummy variable coded 1 if there is an RMC member with financial expertise and 0 otherwise; RMCGEN = a dummy variable coded 1 if there are female members and 0 otherwise; AUDITORS = a dummy variable coded 1 if Big Four firm and 0 otherwise; LOGNAS = natural logarithm nonaudit services fee; LOGTA = natural logarithm of total assets; LEVERAGE = total debt to total assets; INVREC = total inventories and account receivables to total assets; LOGSUB = natural logarithm of the number of subsidiaries; ETHNIC = total of ethnic Chinese directors on the board; BINDE = proportion of independent directors to the total number of directors on the board; BEXPT = proportion of directors with financial expertise to the total number of directors; INDSTRY = a dummy variable coded 1 if company is involved in consumer, construction, or high technology and 0 otherwise; ACSIZE = total number of audit committee members; ACINDE = proportion of independent audit committee members to the total number of audit committee members; ACEXPT = proportion of expert audit committee members to the total number of audit committee members; ACFEM = proportion of female audit committee members to the total number of audit committee members; ACMEET = number of audit committee meetings.
*Significant at 0.10 (one tailed).
**Significant at 0.05 (one tailed).
***Significant at 0.01 (one-tailed).

Table 7. *Summary of Univariate Analysis*

Variables	Separate RMC		Nonseparate RMC		t Test	
	Mean	Std. Dev.	Mean	Std. Dev.	t Value	Sig.
RMCINDE	1.59	0.97	2.90	0.76	9.68	0.000***
RMCEXP	0.70	0.46	0.84	0.38	2.18	0.031**
RMCGEN	0.23	0.43	0.12	0.33	−1.95	0.052*
AUDITORS	0.59	0.49	0.69	0.47	1.36	0.176
LOGNAS	3.95	1.89	3.79	1.81	0.57	0.571
LOGTA	8.90	0.73	8.85	0.63	−0.43	0.665
LEV	0.22	0.17	0.19	0.18	−1.21	0.229
INVREC	0.28	0.20	0.29	0.18	0.17	0.859
LOGSUB	0.92	0.41	0.76	0.38	−2.58	0.010***
ETHNIC	4.08	2.75	3.85	2.23	−0.59	0.556
BINDE	0.46	0.13	0.48	0.14	1.09	0.275
BEXPT	0.32	0.13	0.33	0.11	1.09	0.277
INDUSTRY	0.23	0.43	0.18	0.39	−0.89	0.371
ACSIZE	3.38	0.58	3.48	0.73	1.01	0.313
ACINDE	0.96	0.09	0.98	0.06	1.78	0.077*
ACEXPT	0.66	0.15	0.64	0.15	1.01	0.311
ACFEM	0.07	0.15	0.05	0.12	0.95	0.344
ACMEET	5.21	1.41	5.06	1.22	0.76	0.447

Note. RMCINDE = number of independent members in RMC; RMCEXP = a dummy variable coded 1 if there are RMC members with financial expertise and 0 otherwise; RMCGEN = a dummy variable coded 1 if there are female members and 0 otherwise; AUDITORS = a dummy variable coded 1 if Big Four firm and 0 otherwise; LOGNAS = natural logarithm nonaudit services fee; LOGTA = natural logarithm of total assets; LEVERAGE = total debt to total assets; INVREC = total inventories and account receivables to total assets; LOGSUB = natural logarithm of the number of subsidiaries; ETHNIC = total of ethnic Chinese directors on the board; BINDE = proportion of independent directors to the total number of directors on the board; BEXPT = proportion of directors with financial expertise to the total number of directors; INDSTRY = a dummy variable coded 1 if the company is involved in consumer, construction, or high technology and 0 otherwise; ACSIZE = total number of audit committee members; ACINDE = proportion of independent audit committee members to the total number of audit committee members; ACEXPT = proportion of expert audit committee members to the total number of audit committee members; ACFEM = proportion of female audit committee members to the total number of audit committee members; ACMEET = number of audit committee meetings.
*Significant at 0.10 (one tailed).
**Significant at 0.05 (one tailed).
***Significant at 0.01 (one tailed).

from the partition analysis. The result shows that the model for the sample of separate RMC is found to be significant at 1% with an adjusted R^2 of 0.787.

The independent variable of RMCINDE appears to be positive and significant in relation to the audit pricing at the 1% level, hence supporting the agency theory, which indicates that independent directors will contribute more efficient oversight of the risk-taking activities of managers. The positive coefficient of 0.055 implies that many independent nonexecutive members in the RMC will increase the amount of audit fees by 5.5%. Thus, this result is supported by a prior study done by Hines et al. (2015), who argued that independent boards will be more concerned in terms of monitoring, thus enhancing the external audit function. This can likewise be enforced in the RMC, whereby the more independent the members are, the more concerned these members will be towards the risks that may occur in the firms since they are expected to have a wider scope in risk management structure in order to exercise their monitoring duties. Hence, an independent RMC will be more concerned

in the rigorous audit process in order to minimize the misconduct in managing risks, thus leading to higher audit fees. Meanwhile, the other hypotheses variables RMCEXPT and RMCGEN are found to be positive but insignificant.

For the combined RMC, none of the hypotheses variables (RMCINDE, RMCEXPT, and RMCGEN) are significantly associated with the audit fees. Under this partition, the control variables for ACINDE, ACEXPT, and ACFEM are not included in the model since no differentiation could be made between members who play the role of audit and RMC. Hence, in order to avoid bias, these three (3) variables are dropped from the sample. LOGTA and LOGSUBS are other control variables that are significant in both regressions at 1% and 5%, respectively, in the predicted directions.

In addition, an independent t test is performed to verify if there is a substantial difference between the two groups (separate and nonseparate RMCs), and the results are presented in Table 7. From the t test conducted, it is found that there is a significant variation found between the means of the hypotheses variables, namely, RMCINDE, RMCEXPT, and RMCGEN. RMCINDE is found to be significantly different at a 1% level of significance, whilst RMCEXPT is at a 5% level and RMCGEN is at a 10% significance level.

The finding reveals that the number of members who are independent in the nonseparate (combined) RMCs of firms is higher than in the firms with separate RMCs. This can be explained as being a result of the members of the combined RMCs also being members of the audit committees. Hence, due to the recommendation of the MCCG 2007, which states that the majority audit committee members must be independent nonexecutive directors, this explains why the number of the independent members of the combined RMCs is much higher compared to the number of independent members in separate RMCs. However, no mandatory provision occurs for the establishment of the RMC in Malaysian firms until the release of the new MCCG 2017 code. The new code states that an RMC consisting of a majority of independent directors shall be set up by the board to supervise the organization's process in managing risks and practices.

Similarly, the results also show that the number of expert members in a combined RMC is more than expert members in a separate RMC. This can be explained through the amendments made in Part 1, Principles of Corporate Governance, under the Accountability and Audit Section of the revised MCCG 2007 and the Bursa Listing Requirement, which supports the requirement of at least one audit committee member with professional qualification such as being a member of the Malaysian Institute of Accountants. Further findings found that the number of female members is higher in a separate RMC compared to the number of members in a combined RMC. This is because having female directors on the board makes it more probable for them to join the monitoring committee, such as the RMC, to seek greater clarity, especially in decision-making (Adam & Ferreira, 2009).

CONCLUSION

Due to the exposure of the adoption in risk governance activities, this study explores the association between the formation of the RMC and the audit fees in the context of the Malaysian business environment. The results showed that separation of the RMC and its attributes (having independent members, experts, and female members) are positively associated with audit pricing. However, only the independent member of the committee (RMCINDE) is significantly related with audit fees in the partition analysis under a separate RMC. This result indicates that RMCs with more independent members will lead to high audit pricing due to the demand of broader audit work done by the auditor. Meanwhile, for the combined RMC, none of the hypotheses variables, namely, RMCINDE, RMCEXPT, and RMCGEN, had a significant relationship with audit fees.

Overall, this indicates a strong basis to conclude that firms that form separate RMCs with many independent directors contribute toward higher audit fees. In particular, this study contributes to the growing literature on the RMC, characteristics of RMCs, and audit pricing. Evidence of the establishment of the RMC is also presented by illustrating the differences in the audit fees paid by the firms. In addition, the results may also be useful to the regulatory bodies in developing and evaluating relevant policies. This is because the formation of an RMC is still voluntary for public listed firms in the Malaysian context.

This study employs a cross-sectional data of the financial year 2014 and only focuses on 208 firms that have formed RMCs, whether they are a separate committee or combined. Hence, a major limitation of this study is the small sample size. The lack of

details disclosed in the annual reports on the function of the combined RMC and the audit committee is another drawback of this study; hence, it is difficult to differentiate between them.

It is probable that the constitution of RMCs by Malaysian listed firms will increase due to the issuance of the new MCCG 2017, which took effect on the 26th of April 2017. The recommendation for future studies is to consider other regulatory changes after 2017. Future studies can take into consideration the remaining 554 firms that have not formed any RMC as a sample and compare them with the firms that have formed RMCs to examine the effect on audit pricing. Lastly, since this study only uses secondary data as its main source, in the future, primary data could also be used in order to obtain more tacit knowledge that the auditors or other respondents may raise.

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