


DOES QUALITY OF AUDIT COMMITTEE ENHANCE AUDIT QUALITY?

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 21 November 2022</p> <p>Accepted 09 February 2023</p>	<p>Purpose: This study investigates whether quality of audit committee affects audit quality of Korean listed firms using panel data during the period 2008 to 2018.</p> <p>Theoretical framework: Recent studies show that characteristics of audit committees such as size, activity, and expertise have a significant impact on the monitoring of the financial reporting process (He and Yang, 2014; Asiriwa et al. 2018). Therefore, it is necessary to carry out systematic empirical studies to understand the effectiveness of the audit committee from various perspectives.</p> <p>Design/methodology/approach: The quality of audit committee is classified into four categories: 1) activity, 2) independence, 3) expertise, and 4) the presence of female audit committee member. Audit quality is measured by auditor size and accruals quality.</p> <p>Findings: This study finds that activity and expertise of audit committee enhance audit quality whereas independence of audit committee does not affect audit quality. The female audit committee member partially enhances audit quality.</p> <p>Research, Practical & Social implications: This study suggests that the high quality of the audit committee enhances the audit quality and increases the accounting transparency of the firm.</p> <p>Originality/value: The empirical results of this study suggest that firm should concentrate the optimal composition of the audit committee, not simply the establishment of the audit committee.</p>
<p>Keywords:</p> <p>Quality of Audit Committee; Audit Quality; Female Director; Korea.</p> <div data-bbox="172 981 480 1227" style="text-align: center;">  </div>	<p>Doi: https://doi.org/10.26668/businessreview/2023.v8i2.1385</p>

A QUALIDADE DO COMITÊ DE AUDITORIA MELHORA A QUALIDADE DA AUDITORIA?

RESUMO

Objetivo: Este estudo investiga se a qualidade do comitê de auditoria afeta a qualidade de auditoria das empresas coreanas listadas usando dados de painel durante o período de 2008 a 2018.

Estrutura teórica: Estudos recentes mostram que as características dos comitês de auditoria, tais como tamanho, atividade e especialização, têm um impacto significativo no monitoramento do processo de relatórios financeiros (He e Yang, 2014; Asiriwa et al. 2018). Portanto, é necessário realizar estudos empíricos sistemáticos para compreender a eficácia do comitê de auditoria a partir de várias perspectivas.

Desenho/método/abordagem: A qualidade do comitê de auditoria é classificada em quatro categorias: 1) atividade, 2) independência, 3) perícia, e 4) presença de membro feminino do comitê de auditoria. A qualidade da auditoria é medida pelo tamanho do auditor e pela qualidade dos acréscimos.

Constatações: Este estudo conclui que a atividade e a experiência do comitê de auditoria melhoram a qualidade da auditoria, enquanto que a independência do comitê de auditoria não afeta a qualidade da auditoria. O membro feminino do comitê de auditoria melhora parcialmente a qualidade da auditoria.

Pesquisa, implicações práticas e sociais: Este estudo sugere que a alta qualidade do comitê de auditoria aumenta a qualidade da auditoria e aumenta a transparência contábil da empresa.

Originalidade/valor: Os resultados empíricos deste estudo sugerem que a firma deve concentrar a composição ideal do comitê de auditoria, e não simplesmente a criação do comitê de auditoria.

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Palavras-chave: Qualidade do Comitê de Auditoria, Qualidade da Auditoria, Diretora Feminina, Coreia.

¿LA CALIDAD DEL COMITÉ DE AUDITORÍA MEJORA LA CALIDAD DE LA AUDITORÍA?

RESUMEN

Propósito: Este estudio investiga si la calidad del comité de auditoría afecta a la calidad de la auditoría de las empresas coreanas que cotizan en bolsa utilizando datos de panel durante el período comprendido entre 2008 y 2018.

Marco teórico: Estudios recientes muestran que las características de los comités de auditoría, como el tamaño, la actividad y la experiencia, tienen un impacto significativo en la supervisión del proceso de información financiera (He y Yang, 2014; Asiriwu et al. 2018). Por lo tanto, es necesario realizar estudios empíricos sistemáticos para comprender la eficacia del comité de auditoría desde diversas perspectivas.

Diseño/metodología/enfoque: La calidad del comité de auditoría se clasifica en cuatro categorías: 1) actividad, 2) independencia, 3) experiencia, y 4) presencia de una mujer miembro del comité de auditoría. La calidad de la auditoría se mide por el tamaño del auditor y la calidad del devengo.

Resultados: Este estudio concluye que la actividad y la experiencia del comité de auditoría mejoran la calidad de la auditoría, mientras que la independencia del comité de auditoría no afecta a la calidad de la auditoría. Las mujeres miembros del comité de auditoría mejoran parcialmente la calidad de la auditoría.

Implicaciones sociales, prácticas y de investigación: Este estudio sugiere que la alta calidad del comité de auditoría mejora la calidad de la auditoría y aumenta la transparencia contable de la empresa.

Originalidad/valor: Los resultados empíricos de este estudio sugieren que las empresas deberían concentrarse en la composición óptima del comité de auditoría y no simplemente en su creación.

Palabras clave: Calidad del Comité de Auditoría, Calidad de la Auditoría, Mujer Directiva, Corea.

INTRODUCTION

The function of accounting in the capital market contributes to the efficient allocation of economic resources by providing useful information on profitability and risk to investors when making investment decisions. In order to secure the credibility of accounting information, the management responsible for preparing financial statements must make transparent accounting process and honestly report it to accounting information users. In addition, an external auditor who audits the financial statements must perform the audit in good faith. However, as many accounting frauds have occurred not only in the United States but also in emerging countries, the importance of corporate governance and accounting transparency has emerged as a major issue. These accounting scandals have been attributed to inefficient monitoring activities of management and lack of financial reporting quality (Jiang et al., 2010).

Regulators and government authorities have introduced the audit committee to curb management's inappropriate accounting practices and ensure accounting transparency (Nguyen et al., 2015; Bajra and Cadez, 2018). In Korea, audit committees were first introduced in 1999 after the Asian financial crisis. The Korean Securities and Exchange Act requires firms with assets of 2 trillion KRW (US\$ 2 billion) or more to have an audit committee from. The audit committee, one of the committees under the board of directors, is a system introduced as a means to check the controlling shareholder by having the supervisory function of the

management under the delegation of the board of directors. The audit committee is in charge of appointing external auditors, determining audit fees, and conducting all internal and external audit-related supervisory tasks to ensure the reliability of financial reporting. In addition, the audit committee is responsible for efficient monitoring of the accounting process of the firm and plays a role of improving management transparency by increasing the reliability of accounting information (Zgarni et al., 2016). Thus, effective audit committee is expected to increase audit quality and earnings quality.

Recent studies show that characteristics of audit committees such as size, activity, and expertise have a significant impact on the monitoring of the financial reporting process (He and Yang, 2014; Asiriwa et al., 2018). Therefore, it is necessary to carry out systematic empirical studies to understand the effectiveness of the audit committee from various perspectives.

This study investigates how the quality of the audit committee affects the audit quality in Korean firms listed on Korea Stock Exchange (KSE) during the period 2008 to 2018. This study measures the quality of audit committee using audit committee member background, presence of female member and activity. As a substitute for audit quality, the size of auditors or whether they are industrial auditors is used, which is based on the logic that large auditors can gain higher independence and perform higher quality audit work with professional knowledge and experience (O'Keefe et al., 1994; Balsam et al., 2003). In this study, auditor size and accruals quality are adapted as proxies for audit quality (Simunic and Stein, 1996; Zureigat, 2011; Lawrence et al., 2011). The results of this study provide the implication whether the composition and operational characteristics of audit committee is a significant factor of audit committee effectiveness.

The rest of this study proceeds as follows. The next section reviews precedent literature and develops hypotheses. In section three, the research design is followed, and the empirical results are then presented. Final section ends with the summary and the implications of this study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Activity of audit committee and audit quality

The audit committee plays a role of supervising corporate governance, financial reporting process, internal control system and audit function (Blue Ribbon Committee, 1999). Thus, the audit committee is in charge of appointing external auditors, determining audit fees, and supervising all aspects of internal auditing in order to secure the reliability of financial reporting. DeZoort et al. (2002) suggest the characteristics of audit committee are classified

into composition, authority, resources and activity and these characteristics affect financial reporting quality (Grafran and O'Sullivan, 2013; Kusnandi et al., 2016) or audit quality (Sultana et al. 2019; Mustafa et al. 2018).

Auditing examines financial statements for internal or external purposes, signed by a reputable public accounting firm (Alimbudiono et al., 2022). Auditing reduces agency costs and contributes to efficient resource allocation by resolving information asymmetry between firms and investors. Therefore, the greater the information asymmetry, the greater the incentive to appoint an auditor with high audit quality. According to DeAngelo (1981), audit quality is defined as the probability of an auditor finding a fraud or error in a financial statement and the probability of reporting a found error, which is defined by the auditor's professional ability, audit effort, and auditor independence. More recently, Audit quality is defined as the technique used by auditors to detect false statements and improve the efficiency of the reporting system (Hubais et al., 2023).

Even if the members of the audit committee have independence and expertise, if their activities are not performed smoothly, the effectiveness of the audit committee may be low. Menon and Williams (1994) regard the meeting frequency as a signal for the diligence of the audit committee. According to the Blue Ribbon Committee (hereinafter BRC) report (1999), it is recommended that the audit committee hold at least four meetings every year, and the number of meetings is explained as an important variable for the effectiveness of the audit committee and a proxy for diligence. In Korea, it is stipulated that the activities of the audit committee should be disclosed in the business report. Beasley et al. (2000) find that the number of audit committee meetings of firms with financial statements fraud is lower than that of firms without financial statements fraud. Xie et al. (2003) suggest that the quality of accruals is high and earnings management is low in firms with active audit committees. In particular, firms that have an audit committee more than four times a year have fewer revised financial statements and higher audit quality (Abbott et al., 2003). Thus, the demand for high-quality external audits is expected to increase as the activities of the audit committee progress. This study addresses the following hypotheses in relation to the activity of the audit committee and audit quality.

H₁: The activity of audit committee is positively associated with higher audit quality

Independence of Audit Committee and audit quality

For the audit committee to perform its role as an effective supervisory body, the members of the audit committee must be independent of management or controlling shareholders. The audit committee should be composed of independent outside directors as a system to secure the

reliability and management transparency of accounting information by supervising the management from an independent standpoint. Previous studies (Abbott & Parker, 2002; Lee et al., 2004) report that the higher the ratio of outside directors within the audit committee, the higher the independence of the audit committee, and the effectiveness of the audit committee is improved when all members of the audit committee are composed of outside directors.

Beasley et al. (2000) find that the possibility of accounting fraud is reduced when the audit committee consists of independent outside directors. Abbott and Parker (2000) report that firms whose audit committee consists only of independent directors are more likely to appoint industry-specialized auditors. Klein (2002) also indicates that there is a negative relationship between the independence of the audit committee and the quality of accruals. In summary, the highly independent audit committee can freely make decisions free from the influence of controlling shareholders or management. In addition, it is expected that high quality audits will be required to reduce the risk of litigation for poor audits or to maintain one's reputation.

Thus, the following hypothesis H_2 is to be proposed based on previous research:

H_2 : The independence of audit committee is positively related to audit quality.

Expertise and female director within audit committee and audit quality

Audit committee members are responsible for management work, supervision of the financial reporting process, and appointment and remuneration of external auditors so that they must have accounting or financial knowledge. However, if members of the audit committee lack technical knowledge or insight on accounting or auditing, there is a limit to their ability to resolve disagreements between management and external auditors. DeZoort and Salterio (2001) assert that the higher the expertise of the audit committee members, the higher the likelihood of resolving conflicts between management and external auditors by understanding and reconciling them. The BRC report (1999) and the Korea's Securities and Exchange Act (2000) also stipulate that at least one member of the audit committee must appoint an accounting or finance expert.

When the audit committee includes accounting or finance experts, earnings management is reduced or the quality of accruals is improved (Kusnadi et al., 2016; Badolato et al., 2014). It is also reported that firms with at least one accounting or finance expert within the audit committee offer higher audit fees (Abbott et al., 2003). These positive effects of audit committee on accruals quality are also evident outside the U.S. For Australian firms, the audit committees having financial experts increase earnings quality proxied by conservatism and accruals (Sultana, 2015). In New Zealand and Singapore studies, financial experts and

experienced member of the audit committee improve earnings quality (Sharma and Kuang, 2014; Kusnadi et al., 2016).

Ward and Forker (2017) emphasize the importance of board gender diversity since women have different experiences and perspectives than men. Nam and An (2021) propose that diversity on boards works well in uncertain situations, and female directors are more effective than male directors in expressing opinions in uncertain situations. Mustafa et al. (2017) finds that female directors increases internal control system and prefer to hire big audit firm to improve the quality of financial reporting quality.

Consequently, the audit committee with expertise and female director might more accurately recognize the accounting problems and risks faced by the firm and present expanded audit scope and opinions when contacting or negotiating with external auditors. Thus, the following two hypotheses are to be proposed based on previous research:

H_{3a}: The expertise of audit committee is positively related to audit quality

H_{3b}: The presence of female audit committee member is positively related to audit quality.

MATERIAL AND METHODOLOGY

Sample

The analysis period of this study is from 2008 to 2018. This study uses the December settlement firms listed on the Korean Stock Exchange (KSE) in order to secure the homogeneity of the sample and the firms establishing the audit. All financial institutions (e.g., commercial banks, insurance firms, security brokerage firms) are excluded.

Corporate governance data are all collected from business reports of each firm on DART system (<http://dart.fss.or.kr>) provided by Korean Financial Supervisory Commission. Financial statements data and stock data are obtained from database. The final sample consists of a total of 2,371 firm-year observations over the eleven years period.

The following empirical model is formulated to examine the relationship between the quality of audit committee and audit quality.

$$\begin{aligned} (AUDIT_{1,2}) = & \alpha + \beta_1(ACACT)_{i,t} + \beta_2(ACIND)_{i,t} + \beta_3(ACEXP)_{i,t} + \beta_4(ACFEM)_{i,t} \\ & + \gamma_1(FAM)_{i,t} + \gamma_2(SIZE)_{i,t} + \gamma_3(LEV)_{i,t} + \gamma_4(GRW)_{i,t} \\ & + \gamma_5(LOSS)_{i,t} + \sum_{t=1}^{2009-2018} \varphi(year)_t + \varepsilon_{i,t} \end{aligned}$$

Equation (1)

Measure of Audit Quality

This study uses large audit firm ($AUDIT_1$) and accruals quality ($AUDIT_2$) proposed as two proxies of audit quality. Many previous studies (DeAngelo 1981; Bartov, 2001; Zureigat, 2011; Sera et al., 2021) consistently report that there was a significant difference in the quality of audited accounting information among auditor size such as Big N versus non-Big N . Simunic and Stein (1996) argue that large accounting firms with high potential litigation costs have an incentive to perform higher quality audits. Lawrence et al. (2011) and Sultana et al. (2019) use accruals quality as a measure of audit quality because it reflects the auditor's enforcement of accounting standards. Kallapur et al. (2008) also argues that it is reasonable to measure audit quality using accrual quality because it focuses on a broad cross-section of a firm rather than its specific circumstances. Therefore, this study measures audit quality as Big N and accruals quality following previous researches.

Accruals quality is measured following Francis, LaFond, Olsson, and Schipper (2005).

$$TCA_{i,t} = \alpha + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta REV_{i,t} + \beta_5 PPE_{i,t} + \varepsilon_{i,t}$$

Equation (2)

where, for firm i and time t , and TCA is total current accruals; CFO is cash flow from operations, scaled by average total assets; ΔREV is change in revenue scaled by average total assets; PPE is gross property, plant, and equipment. Since the magnitude of accruals' components varies with firm size, each component is scaled by average total assets.

Accruals quality for each firm is measured as the absolute value of firm-level residuals ($|\varepsilon_{i,t}|$) from industry level pooled cross-sectional regression of total current accruals on lagged current, and future cash flows plus the change in revenue and gross property, plant, and equipment. Therefore, large (small) values of the absolute value of the firm-level residuals ($|\varepsilon_{i,t}|$) correspond to poor (good) accrual quality.

Measure of the quality of audit committee

The quality of audit committee variables consists of four variables: 1) activity of audit committee ($ACACT$), 2) independence of audit committee ($ACIND$), 3) the expertise of audit committee ($ACEXPT$) and 4) the presence of female audit committee member ($ACFEM$).

Activity of audit committee ($ACACT$) are measured by the number of meeting of audit committee. Independence of audit committee ($ACIND$) is the ratio of outside directors to the

audit committee size (total number of audit committee members). The expertise of audit committee (*ACEXPT*) is the ratio of accounting or finance experts who have worked as a CPA (or equivalent license holder), government officer from Ministry of Finance, banker or finance and accounting professor in audit committee. The presence of female director (*ACFEM*) is the percentage of female director within the audit committee.

Control Variables

This study employs five control variables influencing quality of audit committee and audit. Almost Korean firms are highly affected by family ownership (An, 2015 and 2019). Thus, this study adopts family ownership (*FAM*) as a control variable measured by the percentage of equity shares held by all family shareholders as of the end of the year. The natural logarithm of the book value of total assets (*SIZE*) is included as a proxy of firm size to control size effects. Leverage (*LEV*) is the ratio of total debts to total assets in line with audit risk. Firm's sales growth (*GRW*) measured by annual percentage change of sales and firm with negative earnings (*LOSS*) as a dummy variable are also controlled for audit risk.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 shows the descriptive statistics for variables. As two proxies of audit quality, the mean value of Big *N* (*AUDQ₁*) is 0.837, while accruals quality has a mean value of 0.246, respectively. This indicates that the proportion of BIG *N* audits reaches 83.7%, which is considered as that the sample of this study consists of only large firms with audit committees. Accruals quality (*AUDQ₂*) has a mean (median) value of 0.246 (0.138), respectively.

The proxy of audit committee activity (*ACACT*) shows 6.368 mean value which indicates that average meeting frequency of audit committee is 6.4 times per year. As the mean value of audit committee independence (*ACIND*) is 0.914, it implies that most firms' audit committees are composed of outside directors. The mean value of *ACEXPT* is 0.413 which means that the proportion of finance and accounting experts among the members of the audit committee in the sample to be analyzed is 41.3%. The proportion of female directors within the audit committee (*ACFEM*) is 16.4%. The average of *FAM* is 0.336, indicating that 33.6% of the sample firms have a family business type ownership structure.

Table 1. Descriptive Statistics

	Mean	Median	Max	Min	Standard Deviation
<i>ACACT</i>	6.368	4.000	77.000	0.000	8.206
<i>ACIND</i>	0.914	1.000	1.000	0.667	0.143
<i>ACEXPT</i>	0.413	0.333	1.000	0.000	0.310
<i>ACFEM</i>	0.164	0.000	0.316	0.000	0.234
<i>FAM</i>	0.336	0.325	0.927	0.000	0.179
<i>SIZE</i>	21.550	21.754	24.392	17.734	1.344
<i>LEV</i>	0.598	0.607	1.826	0.152	0.177
<i>GRW</i>	2.627	0.528	107.20	0.001	11.221
<i>LOSS</i>	0.203	0.000	1.000	0.000	0.403
<i>AUDIT</i>	0.837	1.000	1.000	0.000	0.301
<i>AQ</i>	0.246	0.138	3.317	0.001	0.368

Source: Prepared by the author (2023)

Correlation

Table 2 presents Pearson correlation among variables. The activity of audit committee (*ACACT*) and the expertise of audit committee (*ACEXP*) are positively related to Big *N* (*AUDIT₁*) and negatively associated to accruals quality (*AUDIT₂*) at 0.05 and 0.01 levels. This implies that the activity and expertise of audit committee might increase audit quality. The independence of audit committee (*ACIDP*) is positively significant with the activity of audit committee (*ACACT*) and the presence of female director (*ACFEM*). Female director in audit committee (*ACFEM*) has positive with *AUDIT₁* and *ACACT* but has no significant to other audit committee variables. For control variables, family ownership (*FAM*) has negative relation with independence of audit committee (*ACIDP*) implying that the appointment of audit committee member might be influenced by family owner. Firm size (*SIZE*) is positively related to *AUDIT₁* and *AUDIT₂* at 0.01 levels, indicating that large firm is likely to select big audit firm but to have low accruals quality. Since univariate analysis is a simple correlation analysis, it is difficult to secure the validity of verification results because it does not control the effects of other variables that can affect audit quality. Therefore, multivariate analysis is performed for valid verification results.

Table 2. Pearson Correlation

	AUDIT ₁	AUDIT ₂	ACACT	ACIDP	ACEXP	ACFEM	FAM	SIZE	LEV	GRW	LOSS
AUDIT ₁	1										
AUDIT ₂	-0.080**	1									
ACACT	0.001**	-0.056***	1								
ACIDP	0.076	0.159	0.162**	1							
ACEXP	0.092***	-0.012***	0.043***	0.109*	1						
ACFEM	0.005*	0.290	0.011*	-0.027	-0.066	1					
FAM	0.133	-0.248***	0.211	-0.220**	-0.003	0.078*	1				
SIZE	0.247***	0.485***	-0.072	0.406***	-0.064**	0.031	-0.378**	1			
LEV	0.097**	0.165***	-0.080	0.033**	-0.068**	0.188	0.096	0.109**	1		
GRW	0.025**	-0.056***	-0.070	-0.037**	-0.019	-0.011	0.095	0.033	-0.090*	1	
LOSS	0.054	0.115***	-0.064	-0.021	0.040***	0.094	-0.013	-0.005	0.362***	0.033*	1

Source: Prepared by the author (2023)

Empirical Results

Table 3 shows the results of the empirical analysis of the relationship between the quality of the audit committee and the audit quality linked to the research hypothesis using OLS and fixed-effect estimations.

For the first hypothesis (H₁), the activity of audit committee (*ACACT*) coefficients on *AUDQ₁* are 0.088 (0.097) at 0.10 and 0.05 levels and the impact of *ACACT* on *AUDQ₂* shows the coefficients of -0.130 (-0.131) at 0.10 levels for both OLS and fixed effect estimations, respectively. This result explains that highly active audit committees select high quality of audit consistent with previous researches (Sultana et al. 2019; Maraghni and Nekhili, 2014). Accordingly, H₁ is accepted but required more caution because of marginal statistical significance.

As a second hypothesis test, the impact of audit independence (*ACIND*) on audit quality (*AUDQ₁* and *AUDQ₂*) shows expected sign but not statistically significant. It shows that audit independence does not influence on high quality of audit. This result can be interpreted as follows that the appointment of audit committee member is highly influenced by family owner because most of Korean firms are dominated by large family ownership or controlling shareholders such as *Chaebol* (Kim and An, 2019; Kwon and Park, 2021). Therefore, H₂ is not accepted.

As suggested above, the expertise of audit committee member might positively affect audit quality. In Table 3, the impact of *AUDEXP* on audit quality is strongly positive on *AUDQ₁* (0.261 and 0.252) and negative *AUDQ₂* (-0.697 and -0.702) at 0.01 levels in both OLS and

fixed-effect estimations, respectively. The audit committee member having accounting or financial experts selects high quality of audit applying their strong accounting and finance skills, thus efficiently increase firm's management transparency consistent with previous studies (Abernathy et al. 2014; An, 2016). Thus, H_{3a} is accepted. However, the impact of female audit committee member (*ACFEM*) on audit quality is only statistically significant with *AUDQ₁* (0.190 and 0.169) at 0.10 levels. Namely, female audit committee member is more likely to select Big *N* but does not efficiently enhance accruals quality. The limited influence of female directors on audit quality can be interpreted as that female director with different experiences and perspectives express her opinion in a male-dominate audit committee (Nam and An, 2021) because the average female director in audit committee is only 16.4% presented in Table 1. Thus, H_{3b} is partially accepted. Consequently, this study finds that quality of audit committee is the important factor to impact audit quality. In order to increase audit quality, the composition of audit committee should carefully consider their quality.

Table 3. Empirical Results

$(AUDIT_{1,2}) = \alpha + \beta_1(ACACT)_{i,t} + \beta_2(ACIND)_{i,t} + \beta_3(ACEXP)_{i,t} + \beta_4(ACFEM)_{i,t} + \gamma_1(FAM)_{i,t}$ $+ \gamma_2(SIZE)_{i,t} + \gamma_3(LEV)_{i,t} + \gamma_4(GRW)_{i,t} + \gamma_5(LOSS)_{i,t} + \sum_{t=1}^{2009-2018} \varphi(year)_t + \varepsilon_{i,t}$					
		<i>AUDQ₁</i>		<i>AUDQ₂</i>	
		OLS	FE	OLS	FE
<i>Independent Variables</i>	<i>ACACT</i>	0.088* (1.918)	0.097** (2.139)	-0.130* (-1.880)	-0.131* (-1.860)
	<i>ACIND</i>	0.172 (1.398)	0.160 (1.388)	-0.125 (-0.739)	-0.148 (-0.824)
	<i>ACEXP</i>	0.261*** (3.095)	0.252*** (3.027)	-0.697*** (-5.199)	-0.702*** (-5.203)
	<i>ACFEM</i>	0.190* (1.798)	0.169* (1.856)	0.041 (0.563)	0.046 (0.621)
<i>Control Variables</i>	<i>FAM</i>	0.086 (0.923)	0.076 (0.818)	-0.302** (-2.208)	-0.305** (-2.209)
	<i>SIZE</i>	0.082*** (5.777)	0.081*** (5.935)	0.162*** (8.138)	0.164*** (7.831)
	<i>LEV</i>	-0.155* (-1.681)	-0.167* (-1.853)	0.144 (1.059)	0.143 (0.997)

Subscripts *i* denotes individual firms, *t* time period. The dependent variable *AUDQ₁* is a dummy variable that indicates the Big *N* (one) or Non-Big *N* (zero). *AUDQ₂* is the absolute value of firm-level residuals ($|\varepsilon_{i,t}|$) from equation (1). *ACACT* is the number of audit committee meeting. *ACIND* is the ratio of outside directors in audit committee *ACEXP* is the ratio of accounting or finance experts who have worked as a CPA (or equivalent license holder), government officer from Ministry of Finance, banker or finance and accounting professor in audit committee. *ACFEM* is the ratio of female director in the audit committee. *FAM* is the percentage of equity shares held by family owner including affiliated firms. Firm size (*SIZE*) is the natural log of the total assets. Leverage (*LEV*) is total debt scaled by total assets. Growth prospects (*GRW*) is market to book ratio of equity. Firm with negative earnings (*LOSS*) is a dummy variable that takes the value of one if firm's previous year's net income was negative, and zero otherwise. *YEAR* is a time dummy. Superscripts *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels, respectively. (*t*-statistics)

	<i>GRW</i>	0.001 (0.735)	0.001 (0.715)	-0.002 (-0.953)	-0.002 (-0.924)
	<i>LOSS</i>	0.029 (0.693)	0.027 (0.663)	0.099* (1.664)	0.109* (1.764)
	<i>YEAR</i>	Included	Included	Included	Included
<i>Constant</i>		-0.760** (-2.467)	-0.744** (-2.520)	-3.534*** (-7.977)	-3.557*** (7.838)
<i>Model Fits</i>	<i>Adj R²</i> (<i>F-Statistics</i>)	0.156*** (5.089)	0.173*** (9.091)	0.339*** (19.883)	0.343*** (12.825)
	<i>Hausman</i>	15.164**		26.805***	

Source: Prepared by the author (2023)

CONCLUSION

This study investigates how quality of audit committee affects audit quality. In this study, quality of audit committee classified into four categories; 1) activity 2) independence, 3) expertise and 4) the presence of female director. Audit quality is measured as two proxies; 1) audit firm size (*Big N*) and 2) accruals quality. This study finds that the activity and expertise of audit committee selects higher audit quality, while independence of audit committee does not affect audit quality. In relation to the presence of female director in audit committee, female director in Korean firms positively impacts audit quality but limited because of small portion within audit committee.

Overall, this study contributes to the literature on corporate governance in two ways. First, this study suggests that the high quality of the audit committee enhances the audit quality and increases the accounting transparency of the firm. In particular, this study strengthens the legitimacy of the conditions for increasing the efficiency of the audit committee such as holding audit committee meetings at least four times a year and appointing one or more accounting or financial experts to the audit committee. Second, the empirical results of this study suggest that firm should concentrate the optimal composition of the audit committee, not simply the establishment of the audit committee. Thus, this study expects to provide practical evidence that quality of audit committee plays on important factor to increase audit quality in composing the audit committee.

The limitations related to further research of this study are as follows. First, audit quality has various measures such as audit fee, audit input time, or auditor's industry expertise. Therefore, the results based on the relationship between audit committee and audit quality could be depend on how audit quality is defined. In advance, given that application of various audit quality definition, future research could present a deep understanding on the influence of audit committee quality on audit quality. Second, although this study attempts to audit committee quality affecting audit quality, there may still be some omitted variables that have not been

controlled. Thus, future studies could require various measurements related to the quality of the audit committee.

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